Savings Groups' Linkages Toolkit

A guide for financial service providers in the Era of Digitisation

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LUXEMBOURG AID & DEVELOPMENT
MSC MicroSave Consulting
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Unlocking Public and Private Finance for the Poor

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Finally, we thank all reviewers and note that your inputs have equally enriched this toolkit. We expect that this toolkit will complement available resources on savings groups' linkages and enable FSPs to sustainably provide appropriate financial services to savings groups and their members in developing countries.

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Acronyms

ASCA	Accumulating Savings and Credit Association
CBO	Community-based organization
CBT	Community-based trainers
CPP	Client Protection Principles*
CGAP	Consultative Group to Alleviate Poverty
FSD	Financial Sector Deepening
FSP	Financial service provider
GPRS	General Packet Radio Service
KYC	Know-your-customer
KPOSB	Kenya Post Office Savings Bank
PoS	Point-of-sales (device)
MFI	Microfinance institution
MNO	Mobile network operator
NGO	Non-governmental organization
ROSCA	Rotating Savings and Credit Associations
SILC	Savings and Internal Lending Communities
SGs	Savings Groups
SMS	Short Message Service
STK	SIM Tool Kit
UNCDF	United Nations Capital Development Fund
USSD	Unstructured supplementary service data
VSLA	Village Savings and Loans Association
WSBI	World Savings and Retail Banking Institute

* Client Protection Principles aim to promote responsible financial inclusion. For more information on CPPs, see Smart Campaign.

Chapter 1:
INTRODUCTION TO THE SAVINGS GROUPS' LINKAGES TOOLKIT

Introduction

This chapter provides a background on the savings groups' linkages toolkit. It focuses on the need for such a toolkit, the conceptual framework used to develop the toolkit, as well as the target audience. The key highlights of this chapter are as follows:

- The toolkit provides practical hands-on guidance to FSPs that are already providing or intend to provide formal financial services to savings groups (SG).
- The toolkit is organized into chapters and based on the following themes:
    - Business opportunities and savings groups linkage models
    - Leveraging digital financial services to drive efficiency in savings groups linkage
    - Savings groups' linkages: Business case parameters and analysis
    - Step-by-step guide for financial services providers engaging in savings groups linkage projects or initiatives

The primary target audience for this toolkit is FSPs' Directors, Managers and Officers. Savings group-facilitating non-governmental organizations (NGOs), fintechs, governments, and donors can also benefit from this toolkit to understand the factors that FSPs should consider as they build their savings groups' linkages.

Rationale and organization of the toolkit

This toolkit is a guide for FSPs[1] that are either providing or intend to provide financial services to savings groups. The lessons and examples should enable FSPs to effectively provide formal financial services to savings groups in developing countries. The insights and lessons provided in this toolkit are based on the experiences of selected FSPs already providing services to savings groups. These were six UNCDF MicroLead partners in five countries in Africa – Benin, Burkina Faso, Ghana, Malawi, and Tanzania. In addition, the team worked with two of WSBI's Scale2Save[2] program partners in Kenya and Uganda.

A broad range of FSPs including banks, microfinance institutions (MFIs) and financial technology companies (fintechs) are testing savings groups' linkages to identify evidence, lessons, and insights that would enable FSPs to effectively serve the savings groups market. This toolkit provides insights from selected FSPs in Africa and aims to complement available publications on savings groups' linkages. Some of the organizations that have been involved in savings groups facilitation and linkages include the SEEP Network[3], CARE International[4], Financial Sector Deepening Africa, Plan International and Danish Forum for Microfinance[5], among others. These organizations have published reports, guidelines, and manuals on savings groups that may be of interest to the users of this manual. For more information on savings groups in general, see www.mangotree.org.

[1] FSPs include retail commercial banks, microfinance institutions, savings and loan companies, Saving and Credit Cooperatives Organization (SACCOs) and Financial Technology companies (FinTechs).
[2] Scale2Save is a Mastercard Foundation-funded program implemented by WSBI to establish the viability of small balance savings. See details of WSBI savings groups work with Post Bank Uganda and Kenya Post Office Savings Bank at https://www.wsbi-esbg.org/KnowledgeSharing/scale2save
[3] Rippey, P. (2017). A Typology of Relationships between Savings Groups and Financial Service Providers. FSD Zambia and SEEP Network https://seepnetwork.org/files/galleries/0_LB8_7-NOV2017_FINAL_NEW_LOGO.pdf
[4] SEEP Network, Master Card Foundation and CARE International (2016). Delivering Formal Financial Services to Savings Groups: A Handbook for Financial Service Providers
[5] Severson, R. (2012). Linking Savings and Loans Associations to External Financing: A Guide for Practitioners. Danish Forum for Microfinance

Many savings groups members are low-income earners living in rural or peri-urban areas, often at a considerable distance from bank branches. To better serve this market segment, FSPs need to adjust their business models, operational processes, and products and services to become more accessible and convenient. This toolkit discusses factors that FSP managers should consider before making the strategic decision *"to initiate and develop"* savings groups' linkages business.

The toolkit is organized into five sections as outlined:

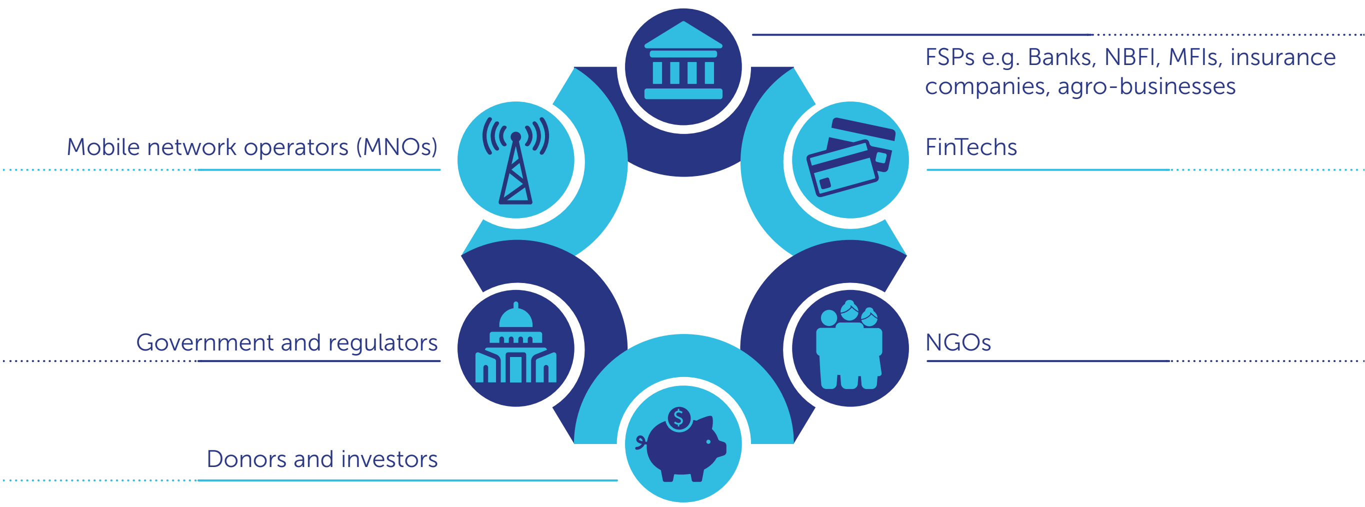
- **Business opportunities:** This section provides a brief background of the savings groups sector. It discusses types of groups, linkage models, and how FSPs can effectively serve savings groups. In addition, this section provides a general overview of the savings groups market and provides guidance for FSPs to estimate the savings groups market size and identify opportunities for savings groups' linkages.
- **Digital financial services and savings groups linkage:** This section discusses the role of digital financial services and how FSPs can leverage on these technologies to reach scale. DFS presents an important opportunity to FSPs to on-board savings groups members and efficiently delivery services. It further presents experiences of FSPs using digital financial services and solutions to enable efficient and effective savings groups' linkages operations.
- **Business case analysis:** Using anonymized data from six FSPs, this section highlights an analysis of the business case, costs and benefits of providing financial services to savings groups.
- **A step-by-step guide to savings groups linkage:** This section provides a six-step process for FSPs that are new to savings groups' linkages. The six steps include understanding the savings groups market, designing savings groups' linkages business strategy, building and testing products and processes, aligning staff skills and institutional capacities, rolling out and mainstreaming savings groups operations into the core FSP business.
- **Annexures:** The case studies summarize experiences of selected FSPs that are implementing savings groups' linkages in selected countries in Africa. These case studies have been written in close collaboration with the FSPs. In addition, the annex contains tools and guides to help FSPs assess the potential and opportunities for savings groups' linkages business. Specific tools include market assessment questionnaire, FSP readiness assessment, and financial analysis templates.

Target audience

The toolkit targets a broad audience in the financial inclusion industry including banks, microfinance institutions, fintechs, regulators, and policymakers. Specifically, Directors, Senior Managers, and staff members of FSPs, NGOs facilitating savings groups, mobile network operators (MNOs) and fintechs will find the toolkit a valuable resource. The lessons and case studies will inform their decisions on how best to engage with savings groups in various markets as well as inform any ongoing savings groups' linkages projects. Overall, the toolkit espouses market systems approach as expounded by key savings groups promoters.

The Figure 1 below provides a summary of the stakeholders in savings groups market.

Figure 1: Stakeholders involved in the savings groups' linkages sector



How to use the toolkit

The toolkit is designed as an easy read and an adaptable resource for stakeholders and service providers working or intending to work with savings group. The content sequentially builds from a general background of savings groups to specific savings groups' linkages business models, a business case analysis framework, and a step-by-step guide to implementing savings groups' linkages. Case studies of selected institutions implementing savings groups' linkages are included to showcase practical experiences.

Lessons to expect from this toolkit

FSP managers and officers will benefit from insights about types of savings groups' linkages models and how to implement savings groups' linkages business. In particular, the reader will be exposed to the following aspects of savings groups' linkages business:

- Savings groups' linkages models
- Pitfalls and challenges of linking savings groups to formal financial services
- Opportunities in savings groups' linkages space for FSPs
- Business models and tools to assess the market segment and opportunities
- Business case (costs and benefits) of linking savings groups to formal financial services
- Additional sources of information to fully understand the savings groups market.

Chapter 2: BUSINESS OPPORTUNITIES AND SAVINGS GROUPS' LINKAGES MODELS

Introduction

This chapter focuses on savings groups as an important underserved market segment. It discusses types of groups and business opportunities for FSPs. The chapter concludes with a stakeholder mapping for effective partnerships. The key highlights include:

- Savings groups are self-selected and managed associations of people, usually within a community that pool their own money and then lend to one another at agreed-upon terms.
- Facilitating NGOs such as CARE International, Catholic Relief Services, Aga Khan Foundation, Plan International, Oxfam, among others, have mobilized more than 700,000 groups in marginalized communities across 75 countries worldwide over the past 25 years.
- FSPs can provide formal financial services to savings groups or individual group members or both and significantly contribute to financial inclusion.

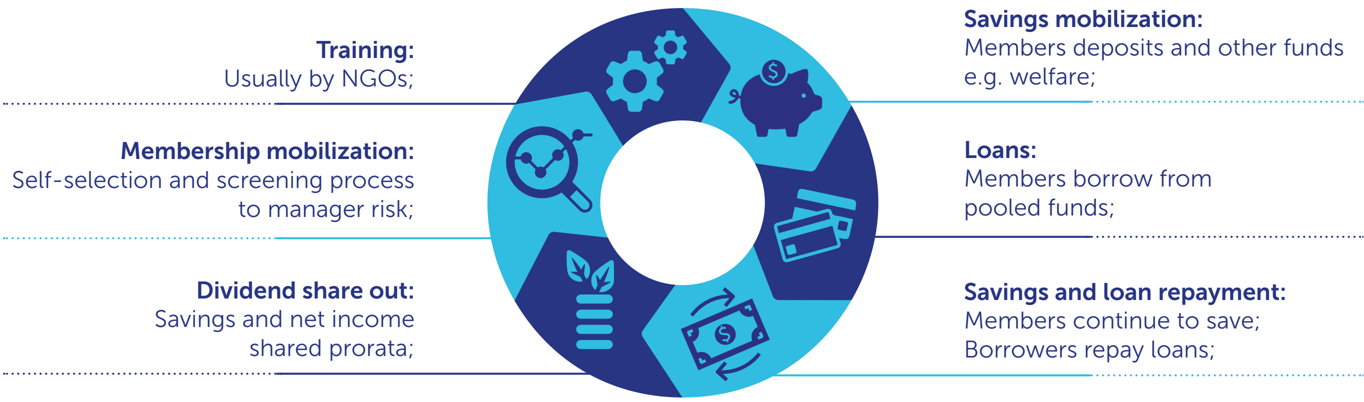
Types of savings groups

There are three types of savings groups prevalent in Asia and Africa. These include:

- Rotating Savings and Credit Associations (ROSCAs), also known as "merry-go-rounds", also known as Self-Help Groups[6] in India, South-East and South Asia.
- Accumulating Savings and Credit Associations (ASCAs).
- Facilitated groups mobilized and trained by NGOs, banks and other non-banking financial institutions.

Figure 2 below shows the typical life cycle of savings groups. The key group activities usually include membership mobilization, training, savings mobilization, credit management, and dividends or profit share-out.

Figure 2: Savings groups lifecycle and key activities



[6] A self-help group (SHG) is a financial intermediary committee usually composed of 25 to 40 local women or men. Members make small regular savings contributions over a few months until there is enough money in the group to begin lending. Funds may then be lent back to the members or to others in the village for any purpose. In India, many SHGs are 'linked' to banks for the delivery of micro-credit.

Figure 3: Characteristics of savings groups

Characteristics of savings groups
Self-selection of members
Trust and mutual respect for one another
Common goals, such as harness financial and non-financial benefits, "supporting one another, lending to one another" and "being there for one another" among others.
Mutually agreed rules that govern all members
Self-regulation with minimal external interference or financing

Rotating Savings and Credit Association (ROSCA)

Is an association of self-selected people (usually women) in a community who pool an agreed amount of savings and then give this pool of funds to one member in turns (i.e. rotation) over a pre-determined period of time e.g. within a week or one month. The concept of rotation is at the core of ROSCAs and therefore such groups are commonly referred to as "merry-go-rounds". There are various local names used across the African continent e.g. *Chama* in Kenya, *Upatu* in Tanzania, *Susu* in Ghana, *Alajo* in Nigeria, *tontines* infrancophone Africa and *Stokvel* in South Africa.

After the last members receive their pot of money, the cycle is repeated with the same members or the group re-structures by changing the membership, the amount of contribution, or the frequency of contribution. Alternatively, the group may simply disband. See detailed ROSCA case studies from Cameroon, The Caribbean, Ethiopia, India, Kenya, Oxford, UK, South Africa in *Money go Around* byArdener and Burman (1996)[7].

Accumulating Savings and Credit Associations (ASCAs)

Unlike the ROSCA where a member, and often two, receives the collection at pre-defined intervals, ASCA members save an agreed amount of money at regular intervals, for instance, weekly, bi- weekly, or monthly, which is then pooled into a loan fund from which members borrow.

ASCAs can be formed by virtually anyone in the community. But they typically include family members, community members, traders and workers. ASCAs provide loans principally to members. Some ASCAs are known to lend to non-members but upon members' recommendation and provide guarantees or pledged collateral or both. The association pays dividends to members based on income from fines, interest on loans, and investments. For an example, some groups place part of their funds with local FSPs as term deposits from which they earn interest. In some few cases the association retains a portion of the funds at the end of a cycle (usually 12 months) to continue operations in the subsequent cycles or seasons. There are publicly available reports on ASCAs operations and benefits to members. For example, see publications by Jazayeri[8] and Johnson[9] among others. Further, the Self-Help Groups in India can be categorized as ASCAs. The National Bank for Agriculture and Rural Development (NABARD) in India promotes the SHG-Bank linkage program that is most likely the largest microfinance program with savings groups' linkages at its core. See details on the website, www.nabard.org.

Facilitated savings groups

Facilitated savings groups refer to a specific type of association of local people mobilized and trained by NGOs to save and pool funds for on-lending to members. CARE International pioneered the Village Savings and Loans Associations (VSLAs) methodology in the 1990s, starting in Niger. CARE promoted the VSLA methodology as an economic empowerment mechanism. The savings groups methodology is based on local and traditional savings practices among local communities. Many other NGOs have refined the VSLA methodology and used these groups to implement development programs. For example, Catholic Relief Services promotes Savings and Internal Lending Communities (SILC), Aga Khan Foundation refers to these groups as Community-Based Savings Groups (CBSG) while Grameen Foundation refer to them as Savings Groups. However, across the board, these groups require a start-up kit comprising a lockbox (to safely store cash) and stationeries (to record transactions) usually worth about USD 25, training on group formation, leadership, and record keeping. The group of 15-30 members, usually women, start to save an agreed amount (by purchasing shares) and build a loan fund over a predetermined period of time that can be within weeks or months. Members then borrow from the loan fund on terms agreed upon by the members themselves.

[7] Ardener, S., & Sandra, B. (1996). Money-Go-Rounds: The Importance of ROSCAs for Women: Cross-Cultural Perspectives on Women. Bloomsbury Academic, London
[8] Jazayeri, A. (2019), The Intricacies of ROSCAs and ASCAs: Should donors promote them? http://www.ruralfinanceandinvestment.org/sites/default/files/The__Intricacies__of__ROSCAs__and__ASCAs_pdf.pdf
[9] Johnson, S., Nino-Zarazua, M., and Markku, M. 2009. The Role of Informal Groups in Extending Access to Finance in Kenya. Financial Sector Deepening Kenya, https://fsdkenya.org/publication/the-role-of-informal-financial-groups-in-extending-access-in-kenya/Deepening Kenya

Facilitating NGOs, such as CARE International, Catholic Relief Services, Plan International, and Aga Khan Foundation have documented manuals on savings groups mobilization, training, operations, experiences, share-out (payout of members savings and dividends) procedures, and impacts. FSPs intending to work with savings groups can access detailed information on savings groups from VSLA Associates and SEEP Network.

In total, over the past 25 years, development organizations have mobilized about 700,000 savings groups in marginalized communities in 75 countries. A recent review of evidence concludes that savings groups have a positive impact on household savings, access to credit, asset accumulation, consumption, business investment and social capital[10]. CARE International programming has helped 7.6 million members to form more than 357,000 VSLAs in 51 countries. The CARE VSLAs collectively save and invest about more than half a billion dollars per year. The majority (89%) of the 7.6 million CARE VSLA group members are located in Africa[11,12].

Table 1 provides key features of the three types of savings groups commonly formed by low-income people. When viewed in light of business opportunities for FSPs, it appears that there are opportunities with better organized ASCAs and NGO-facilitated savings groups. ROSCAs appear to present limited opportunities for FSPs since members give all the pooled funds to one member in turns. However, there are some RoSCA linkage programs. For example, WSBI is working with COFINA and MaTontine, a fintech company in Senegal. This project aims to facilitate access to financial services by at least 50,000 customers through a digital platform. The project has mobilized around USD 0.5 million in savings by the end of 2019. See www.wsbi.org[13].

Table 1: Savings group features and opportunities for FSPs

Type of group	Key feature	Weaknesses	Opportunities for FSPs
ROSCAs	• Total contribution paid to one member at a time • Members have discretion on how to spend the funds • Instils savings discipline among members	• Few trusted members • A loosely-defined group with no proper legal status • Frequent change of membership and unstable funding (members don't get money when they need it – either for investment or to meet household needs; instead they may get money at a time when they can't invest it, and then have no access when they do have an opportunity • Lack of apex-type organization makes it difficult to reach each group on a cost-effective basis	• Individual members depositing funds in FSPs • Micro-Insurance scheme • Otherwise, there are few opportunities for FSPs
ASCAs	• Funds accumulate over time • Loans to members and sometimes to non-members • Dividends paid out at the end of a pre-determined cycle • Instils savings discipline among members	• Broad membership prone to weak cohesion within the group • Weak legal status • Credit rationing, particularly when all members are engaged in similar activities - i.e. all group members farm the same crop and therefore plant at the same time • Lack of apex-type organization makes it difficult to reach each group on a cost-effective basis	• Deposit mobilization through group savings accounts for safe-keeping of group funds, that is, current accounts • Deposit mobilization through term deposits or investments, that is, term accounts • Cross-selling of other services, for instance, credit, payments, transfers, insurance and pension • Loan portfolio growth through credit to the group or to individual members
Facilitated SG	• Mobilized and trained by external parties, usually NGOs • Trained on the operational processes by NGO staff or contracted community agents • Dividends distributed at the end of an agreed cycle, for instance, 6 – 12 months	• Small group size • Experience with free support or help from NGOs • Credit rationing, particularly when all members are engaged in similar activities - i.e. all group members farm the same crop and therefore plant at the same time • Lack of apex-type organization makes it difficult to reach each group on a cost-effective basis	

[10] SEEP Network, CRS, FSD Africa, UKAid (2018). State of Practice: Savings Groups and the Dynamics of Inclusion. http://www.mangotree.org/files/gallaries/SEEP State-of-Practice Savings-Groups-and-the-Dynamics-of-Inclusion 20180925.pdf
[11] CARE (2019). Unlocking Access, Unleashing Potential, CARE International, https://www.care.org/sites/default/files/documents/vsla_unlocking_access.pdf
[12] FinMark Trust (2018). The impact of savings groups and Stokvels in South Africa: The Economic and Social value of group based financial inclusion. http://finmark.org.za/wp-content/uploads/2018/11/FMT-Impact-Evaluation-of-Savings-Groups-and-Stokvels-in-South-Africa-24-October-2018.pdf
[13] COFINA Senegal Signs MoU with WSBI. [online] https://www.wsbi-esbg.org/press/latest-news/Pages/COFINA-Senegal-signs-MoU-with-WSBI-.aspx

As shown in Table 1, there are opportunities to provide savings and credit services, as well as other services such as insurance, payments, transfer and pensions, to groups and members of these informal groups. Secondly, working with savings groups enables FSPs to not only enhance financial inclusion but also bridge an important gender gap since the majority of savings groups members are women.

As noted by the Global Findex 2017[14], about 190 million women in Sub-Saharan Africa are excluded from financial services. Linking savings groups, whose members are predominantly women, significantly closes the gender gap in access to formal financial services in Africa. The extent to which FSPs engage with these informal groups depend on a range of factors, including, ease of accessing formal services, the service delivery model and channels designed for this market segment and the business case for the FSPs.

Business opportunities for FSPs

There are business opportunities to form a mutually beneficial partnership between FSPs and savings groups. As shown in the business case analysis section and annexed cases, FSPs involved in savings groups' linkages have seen that both groups and individual group members need a broad range of financial and non-financial services. For example,

- Security of cash
- Interest-bearing deposit accounts
- Funds transfers
- Loans
- Microinsurance
- Payments of social remittances
- Micro-housing and mortgage finance
- Micro-pensions

Non-financial services may include the following:

- Record keeping
- Account statements for monitoring and trust building
- Financial literacy
- Digital literacy
- Financial identity[15]

FSPs that shared their experiences for the development of this toolkit specifically identified the following key opportunities:

- Source of low-cost deposits
- Revenues from transaction fees
- Deeper outreach and customer growth through referrals
- Cross-sale of products and other financial services (i.e., revenues from on-lending to groups).

Savings group linkage models

Savings group linkage refers to the process and activities involved that enable a regulated FSP to provide formal financial services either to savings groups or directly to the members or both. Broadly, FSPs currently involved in linking groups have adopted one of these two savings groups' linkages models:

- **Direct linkage model:** This model involves FSPs (bank, non-bank and fintechs) using their banking and technological systems, structures, and staff to mobilize, acquire, and provide formal financial services sustainably to groups or individual members of savings groups. This model allows FSPs to track transaction data of groups and group members.
- **Indirect linkage model:** An FSP works with a facilitating agency to form groups, train leaders, train members on group dynamics and savings groups operations. Facilitating agencies can include an NGO, a credit-only MFI, an MNO, a fintech among others. Typically, the FSP enters an MoU with such agencies to collaborate and facilitate access to formal services to the savings groups.

Table 2 below provides a mapping of the broad FSP-SG linkage models adopted by the FSPs interviewed to inform the development of this Toolkit. Note that some linkage models may have evolved along the Direct-Indirect continuum. For example, Sinapi Aba Trust, a Deposit Taking MFI in Ghana, and Mwanga Community Bank in Tanzania started the savings groups linkage process with groups facilitated by CARE International, then later went on to form new savings groups. It is noted that having FSPs directly form savings groups may carry with it risks that client protection may not be prioritized. It could also affect savings groups members' ability to freely choose the best service provider since the group may feel obligated to work with the FSP that formed it. Similarly, KPOSB program started as an indirect model where KPOSB partnered with CARE International.

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[14] Demirguc-Kunt, Asli; Klapper, Leora; Singer, Dorothe; Ansar, Saniya; Hess, Jake. 2018. Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution. Washington, DC: World Bank. © World Bank. https://openknowledge.worldbank.org/handle/10986/29510

[15] Olivia, W et al. (2019). Digital Identification: A key to Inclusive Growth. McKinsey and Company. San Francisco. https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/digital-identification-a-key-to-inclusive-growth Olivia et al note that digital ID is foundational set of enabling technologies that can be pivotal in a wide range of digital interactions between individuals and institutions. It refers to "unique, high-assurance, consent-based, digitally variable ident cation, with a range of possible credentials (e.g. biometrics, passwords, smart devices).

Table 2: A sample of FSPs by savings groups' linkages model

Savings Groups Linkage FSP type model		Country						
		Benin	Burkina Faso	Ghana	Kenya	Malawi	Tanzania	Uganda
Direct	Bank	-	-	Fidelity Bank	Kenya Post Office Savings Bank[17]	-	-	-
	Non-Bank	Alidé	SOFIPE[17]	Sinapi Aba	-	-	-	-
			RCPB	-	-	-	-	-
Indirect	Bank	-	-	-	-	NBS Bank	Mwanga Community Bank	Post Bank, Uganda
	Non-Bank	-	-	-	-	-	-	-

Phased savings groups' linkages process

The FSPs interviewed for this toolkit have adopted a phased approach to linking with savings groups. There are four phases that the FSPs go through as they develop their savings groups' linkages businesses. These are described in Table 3 below:

Table 3: Savings group linkage business development phases

Phase	Description
Pilot testing	• FSPs partner with NGOs to experiment and test how to provide formal financial services to savings groups, noting that FSPs interviewed started with partnership with NGOs • FSPs typically have limited understanding of this market segment • FSPs typically provide existing products, for instance, savings accounts to groups already formed by facilitating NGOs • This is a learning phase as the FSPs test systems, processes, products and services and begin to understand savings groups customer needs and preferences • Products and services are limited, for instance, the FSP only provides group savings accounts
Market entry	• FSP provides formal services either to many savings groups (beyond the test sample) or to members or both • FSPs tested willing-to-provide services to the groups, for instance, individual member accounts, credit to the group etc. • FSPs develop and refine the business cases for the savings groups' linkages business to determine if the engagement is profitable
Expansion	• At this stage, FSPs are confident the pilot test appears to be viable and expand the linkage program to other regions in the country • FSPs may continue working with the same partners or form additional partnerships to better serve the other regions
Scale-up	• FSPs are ready to expand the services to as many savings groups available in the country • FSPs have firmed up a business model and business case for the savings groups' linkages business • FSPs, at this stage of the savings groups' linkages process, provide a broad range of products and services and use diverse delivery channels to leverage digital financial services channels

[16] KPOSB started as an indirect model in partnership with CARE and in some cases CBTs/CARE trainers remain involved.
[17] SOFIPE has now been rebranded as Pan African Microfinance Burkina Faso but for the purpose of the toolkit, SOFIPE is used.

In Table 4 below, there are details of activities undertaken by the FSP at each phase of the savings groups' linkages business development. For example, in the pilot test stage, there are many FSPs partner with NGOs to enable the FSPs to reach the savings groups. The FSPs target mature groups and provide services using existing products in selected branches. At this stage, some FSPs may face challenges around limited capacity to effectively engage with informal groups, e.g. FSP staff may need to attend group meetings to explain its services directly to group members and this will involve time and expense. Secondly, there is need for wider acceptance and buy in within the FSP (i.e. business case) to target this market segment.

Table 4: Highlights of savings groups' linkages business development phases

<table>
<tr><th>Parameters</th><th>Pilot</th><th>Market entry</th><th>Expansion</th><th>Scale-up</th></tr>
<tr><td>Target customer needs and preferences</td><td>• Mature groups with stable savings history
• Groups that need a safe and secure place to keep cash
• Active and entrepreneurial group leaders</td><td>• Mature groups in neighboring villages and districts
• Active leadership
• Groups that need a safe and secure place to keep cash
• Groups in need of additional financing</td><td colspan="2">• Mature groups in other regions of the country
• Active leadership
• Groups that need a safe and secure place to keep cash
• Groups in need of additional financing, for instance, credit
• Group members in need of personal banking services</td></tr>
<tr><td>Products</td><td>• Test with existing products or services especially savings accounts
• Commence the design of suitable products or services</td><td>• Test new products focusing on deposit mobilization
• Test additional services and delivery channels, for instance, credit, with agents, mobile channels, and payments</td><td>• Diversified product offerings
• Enriched value- added service delivery</td><td>• Differentiated customer segments
• Cross-selling standard bank products to individuals and groups</td></tr>
<tr><td>Service points</td><td>• Pilot branches</td><td>• Pilot branches
• Additional branches and bank or MNO</td><td>• Branches
• Agents e.g. bank agents, MNO agents</td><td>• Branches
• Agents e.g. Bank, MNO or correspondents</td></tr>
<tr><td>Delivery channels</td><td>• Branches: There is still the need for human contact to build trust with group leaders and members</td><td>• Branches
• Agency banking
• Test digital channels, for instance, digital on-boarding, mobile banking, mobile money wallets</td><td colspan="2">• Agency banking
• Digital channels, for instance, mobile banking, leveraging mobile money services</td></tr>
<tr><td>Partnerships</td><td>• Savings groups referred to the FSPs by facilitating NGOs
• The FSPs experiment with a mix of products to meet group members' needs</td><td>• Savings groups referred by NGO or trusted non-deposit taking FI partner
• Leverage community and extension workers to reach many groups</td><td colspan="2">• Market-based partnerships
• Apex bodies e.g. SILC Agents association and informal group networks like VICOBA in Tanzania[18]
• Close collaboration with local government departments to facilitate groups identification and mobilization</td></tr>
</table>

[18] VICOBA refers to Village and Community Banks Association.

Table 4: Highlights of savings groups' linkages business development phases *(continued)*

Parameters	Pilot	Market entry	Expansion	Scale-up
Key barriers to savings group-linkage business	• Limited support by senior management • Lack of human resources to effectively engage with groups • Limited understanding of savings groups dynamics • Operational cost • Manual process	• Lack of human resources to effectively engage with additional savings groups as the FSP makes market entry • Lack of sufficient service delivery channels • Inadequate client on-boarding systems • Manual process	• Systems integration issues especially when offering digital services and linking to core banking system • Staff capacity: There is a need to train additional staff to serve this market segment • Marketing: use appropriate marketing channels e.g. bank or MNO agents, village-based facilitators etc. to acquire new groups	
Funding sources	• Grants from donors or public organizations • FSPs' internal funds • In-kind support from facilitating NGOs		• Internal funding • Market-based revenues • Joint ventures with facilitating organizations, for instance, NGOs, MNOs, FinTechs etc.	

Savings group market size estimation

FSPs need to understand the savings groups market size to develop appropriate business cases and relevant services for this market segment. Market size estimation requires reliable data and an understanding of the financial inclusion agenda in the country. FSPs can refer to available data and reports from central banks, network organizations, savings groups facilitating organizations and other sector stakeholders.

Globally, financial inclusion is on the rise. The widespread deployment of mobile money and digital financial services has contributed significantly to increased access to financial services. According to the FINDEX 2017 survey, 1.2 billion people have been enabled to access formal financial services since 2011. (The World Bank, 2017[19]). CARE's "State of Linkage" report found that two-thirds (65%) of savings groups were in Africa and comprise of an estimated 18 million people. Group membership ranged from 15 to 23 members and 60% were women with 73% rate of group meeting attendance (CARE International, 2016). Specific country-level surveys will inform FSPs of their respective country contexts. For instance, in Tanzania, the FinScope 2017 survey found that 16% of adults (4.4 million) in Tanzania were members of savings groups (Financial Sector Deepening Tanzania, 2017). FSPs apply different approaches to market size estimation. There are two approaches that an FSP can use to estimate the size of the savings groups market in a country. These two approaches are not exclusive but can be considered complementary depending on the context and the time and resource constraints.

Market data analysis: This approach involves computing available quantitative data to estimate the market size of a given segment. For example, to estimate the savings groups market in a country, one can analyze the data from national surveys to identify the population of unbanked adults in that country and the proportion of the unbanked adults who use informal financial services such as savings groups. Comparing the data from different sources, one is able to disaggregate the data further to estimate the number of groups and / or members in different regions of the country. This method, which is referred to as extrapolation has its main limitation of requiring accurate data from multiple sources to reasonably estimate the market size and be able to develop the savings groups' linkages business case.

[19] Demirguc-Kunt, Asli; Klapper, Leora; Singer, Dorothe; Ansar, Saniya; Hess, Jake. 2018. Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution. Washington, DC: World Bank. © World Bank. https://openknowledge.worldbank.org/handle/10986/29510 License: CC BY 3.0 IGO.

Table 5 below shows an example of such a calculation whereby data from different sources have been used to estimate the proportion of unbanked people and those using informal groups in selected countries.

Table 5: Quantitative estimation of the savings groups market

Country	Population (Mn)	*% of unbanked adults	% of adults using informal services	Adults using in- formal services
Benin	11	35%	75%***	8,250,000
Burkina Faso	19	31%	35%**	6,650,000
Ghana	30	24%	15.3%**	1,095,000
Kenya	50	11%	7.2%**	381,600
Malawi	19	35%	13%**	871,000

Source:
*Computed from the Global Findex Database, 2017
**FinScope Surveys (but proportion here include those using savings groups)
***Financial Inclusion Insights by Intermedia

After estimating the number of people who use such informal groups, an FSP needs to estimate the value of the market. The FSP may do this as follows:

- Estimate the amount of savings each group member may manage in a year.
- Multiply the estimate amount of savings per member per year with the number of people who use such informal groups.
- The results of such calculation will help an FSP to determine the overall value of the market.
- An FSP may further disaggregate the data to estimate the value of the market across gender or urban-rural locations.

The data extrapolation approach provides indicative estimates. FSPs should complement their analysis with data and qualitative information from other international, national and local sources e.g. the SAVIX[20] data base, and local savings groups practitioners and NGO agents.

Savings group mapping: This approach involves FSPs working with local savings group-facilitating organizations to identify the number of groups and membership in specific districts or regions of a country. To estimate the market size, the facilitating agencies would provide the actual deposit and loan amounts transacted by these groups. FSPs can then extrapolate using this data for a region and / or the whole country. This approach requires close collaboration between the FSPs and the facilitating agency. In Tanzania and Ghana, FSPs and local NGOs worked together to identify groups and conducted some level of market size estimation. The same applies to the savings groups mapping[21] work done by AFR in Rwanda.

Similarly, this approach to market size estimation also has some limitations. For example, the approach would work well where the FSP is targeting facilitated groups only and only works with facilitating NGOs. There are many other savings-led groups in existence around the world, such as clan burial associations and investment clubs that do not necessarily work with NGOs. Therefore, FSPs should be open to identifying and working with other informal groups beyond the traditional NGO-facilitated groups.

[20] SAVIX refers to the Savings Groups Management Information System (MIS). It enables implementers of Savings Group Projects to monitor and assess the performance of Groups in developing countries. See http://mis.thesavix.org/login
[21] BNR (2018). Savings Group Map in Rwanda, https://sg.bnr.rw

Stakeholders identification and roles

There are different types of stakeholders in the savings groups market segment. FSPs intending to work with savings groups should identify and map relevant stakeholders in their markets. Stakeholder mapping enables FSPs to develop effective engagement strategies and appropriate partnerships. Table 6 provides an example of a stakeholder map.

Table 6: Stakeholders and roles mapping

Stakeholders	Current and potential roles			
	Mobilization	Training	Financing	Rules and regulations
Community members	✔	✕	✕	✕
Community leaders	✔	✕	✕	✔
Facilitating INGOs	✔	✔	✕	✕
Implementing NGOs	✕	✔	✕	✕
FSPs	✕	✔ [22]	✔	✕
Donors	✕	✕	✔	✕
Government	✕	✕	✔	✔
FinTechs	✔	✔	✕	✕

Note:
✕ means the stakeholder does not undertake this activity
✔ means the stakeholder undertakes this activity

[22] Some FSPs have hired staff familiar with savings groups, e.g. NGO field agents, to mobilize and train savings groups. Adherence to Client Protection Principles is highly recommended.

Chapter 3:
DIGITAL FINANCIAL SERVICES AND SAVINGS GROUPS' LINKAGES

Introduction

In this chapter, the role of financial technology, especially digital financial services, digital credit, digital channels, digitally-enabled financial education and digital identification in enabling savings groups' linkages is discussed. The key questions this chapter attempts to answer are:

- How can new technologies support FSPs to better serve savings groups?
- What are the challenges and opportunities related to digitally linking savings groups?

The key highlights of this chapter include:

- Technological solutions being used for savings groups' linkages such as biometric readers, mobile banking, POS or card services, mobile money services and digitizing internal savings groups transactions to create a digital trail.
- The use of technology is a key efficiency driver for the savings groups' linkages business.
- The use of technology has the potential to reduce the costs of providing formal financial services to savings groups.
- FSPs should form a broad range of partners to deploy the technological solutions to better serve savings groups.

Financial technology solutions to support savings groups linkage

FSPs are already linking savings groups using a range of digital technologies to better serve savings groups and their members. The most common technologies being deployed include:

- Digitally enabled financial education such as training apps
- Customer on-boarding systems
- Mobile banking
- PoS or card services
- Mobile money services
- Financial technologies, for instance operation automation and e-recording
- Digital identification based on biometrics, etc.

Technology plays an important role in effective FSP-SG linkages. Technological solutions can enable FSPs to deepen outreach and provide better customer experience and maximize revenues. However, initial investment cost and low usage can be barriers to deployment of financial technologies e.g. digital channels.

Digitally enabled empowerment or education: consumer empowerment constitutes a key component of the savings groups methodology and has been traditionally completed through manual means. The opportunities offered by digital to accelerate and reduce the costs of this activity include leveraging on applications including short videos, audio messages, radio messages, SMS, IVR, call centers that can support the financial education, standardize the messages and the handling of savings members concerns. Such technologies are increasingly used by a fraction of FSP that were interviewed during the design of the toolkit and since then there is a growing adoption of such tools.

Digital customer on-boarding systems: Customer on-boarding systems are enabling FSPs to reach customers beyond banking branches. Fidelity Bank in Ghana and KPOSB in Kenya deployed digital customer on-boarding systems. These systems involve a team of sales staff recruiting new customers with digital cameras and scanners that are integrated with the core banking system. The system captures Know your Customer (KYC) documents (i.e. national identification documents, voters' card or local residence letter), customer thumb print and assigns the new accounts. The information is uploaded to the bank systems where officers in the back office authenticate the entries in the banking system. According to Fidelity Bank, their retail customer on-boarding system reduced processing time by 60% by significantly reducing the paperwork and documents required from the customers to open new bank accounts. But this is a case of individual customers. The case of on-boarding savings groups may be different due to other external factors such as absence of some group members at the time of on-boarding or lack of basic identification document e.g. national identity card, voters' card, or letter from local leaders.

KPOSB on the other hand, while linking groups is testing "a bank in a bag" concept in partnership with the World Savings and Retail Banking Institute (WSBI) Scale2Save Program, where an officer can travel with a biometric and scanning machine to a village to on-board group members. Group members present basic national identity card and have their photos taken at the time of registration. The Officer registers group members using tablets with scanning capabilities and uploads the information to the banking system. Once the on-boarding system is connected to Internet, the new accounts are authorized in the back office and enabled for transactions within a few minutes.

For the savings groups on-boarding system to be effective, FSPs need to ensure:

- Alignment of the remote client recruitment drive with bank back office systems.
- Seamless technological integration.
- Great customer experience.
- Compliance with KYC requirements.

Availability of digital identification could facilitate the digital on-boarding process by FSP during the SG linkage process.

Mobile banking services: Many commercial banks today provide their customers with mobile banking services. Mobile banking services enable FSP customers to link their accounts to their mobile phone numbers. Customers using mobile banking services can access account transaction information including account balance and transaction alerts, as well as transfer money from their accounts to other accounts or e-wallets. However, majority of unbanked people, many of whom are savings groups members, require a significant amount of financial literacy and digital literacy to use mobile banking services.

Groups can use mobile banking services offered by the FSP to disburse loans to their members and transfer member share-outs at the end of a cycle. However, the uptake of mobile banking services by groups can be limited by price sensitivity among group members, i.e. perceived high transaction fee, group members' perception of the security of each transaction and their cash as well as agent availability and adequate e-float for consistent transactions – cash in and cash out. FSPs should promote the value addition that such services provide to savings groups e.g. convenient access to services through agents, access to timely account information, quick loan disbursements and accurate transaction records through short message service (SMS).

Open USSD streamline the integration of bank and mobile money accounts thereby reducing the last mile access through MNO agents; further, open APIs offered by MNOs could facilitate the development of innovative fintech-based solutions for SG linkage.

PoS and card devices: Agency banking has enabled FSPs to set up service points in remote locations and deepen their outreach. Agents use POS, card readers and mobile banking to serve FSP customers. Savings groups conveniently transact through such agents to access formal financial services. NBS Bank in Malawi partnered with CUMO Microfinance (a credit-only MFI that focuses on deep rural customers) to serve the savings groups' desires to save formally. The bank serves CUMO's groups through its proprietary bank agents. Similarly, Fidelity Bank has a network of Fidelity Smart Agents who serve savings groups and unbanked clientele conveniently.

A network of agents is important to effectively provide formal financial services to savings groups especially in remote locations. However, agents tend to provide limited services. For example, in many countries in Africa, bank agents only provide cash-in and cash-out services. Few banks have enabled their agents to undertake other services such as opening bank accounts, resolving customer complaints, etc. FSPs should, where regulations permit, enable agents to provide additional services such as KYC verifications and receipt of deposits into term accounts to effectively serve savings groups. All such services would be predicated on the local banking and agent banking rules and regulations in a given country. In many markets, services at the agents or correspondents are limited to cash in and cash out. Some FSPs mandate their agents to collect account opening documentation and verify KYC requirements including taking pictures, but submit these to the nearest branch for actual account opening. Where such rules are restrictive, FSPs and local NGOs may need to lobby regulators for appropriate changes.

The value proposition of using digital technologies to enable savings groups' linkages

DFS technology and distribution channels offer a powerful combination that creates value for the FSPs and savings groups. The following three areas are key value propositions for the FSPs:

Revenue optimization

Digital technologies bridge the physical distance between FSPs and savings groups to enable convenient access to formal financial services. With these technologies, FSPs can reach many customers and contribute to deeper market penetration at relatively low operational costs. The Digital Banking Report by Marous found that the average cost of mobile transactions is minimal compared to in-person transactions (Marous, 2016[23]).

Cost of mobile transactions

The average cost of a mobile transaction is 98% lower than an in-person transaction. While mobile transaction costs USD 0.10, an in- person transaction costs USD 4.25.

Source: Digital Banking Report, 2016

Smooth customer on-boarding and consumer empowerment

Digitization of on-boarding process enables FSPs to offer a seamless customer registration process. Through digital on-boarding systems, FSPs are able to:

- Access detailed data to better understand client's needs and preferences.
- Lower operational costs due to efficient customer acquisition and back office operations.
- Improve compliance with regulatory requirements.
- Improve customer satisfaction through efficient service delivery.

Smooth on-boarding is critical for savings groups' linkages with formal FSP. It provides a positive customer experience that helps to build trust and confidence in banking services. Furthermore, FSP staff easily leverage the positive experience to cross-sell other services.

Well-thought-out savings groups on-boarding processes has enabled RCPB in Burkina Faso and NBS Bank in Malawi to conduct better customer engagement and empowerment. These FSPs leveraged timely communication via SMS and video clips to complement field officers' interactions with groups. For example, RCPB officers use video clips to train savings groups members. The video clips in the form of animations are shown to the group members. Then this triggers discussions among members and the officer responds to questions and requests for clarification.

Enriched customer service

Digital technologies enable FSPs to provide savings groups with ease of access to services - *"anywhere, anytime"* – a proposition that has high potential to drive enriched customer service to groups and group members. For example, training apps can support a group training while group data including the records of members deposits, loans and pay-outs can be secured by e-recording applications. Some examples of digital savings groups applications are CARE's Chomoka, DreamStart's DreamSave, Exuus' SAVE, mVend's Gwiza, and Grameen Foundation's LedgerLinks.

The e-recording applications are designed to improve group transaction records and enhance transparency and security though backing up the data on a portal. Such applications and solutions enhance use experience, increase trust in digital technology and are likely to deepen outreach to savings groups and enhance FSP-SG linkages.

Services that may be digitized and key considerations

Digital technology can enhance the group's engagement with FSPs and improve group-level operations by enhancing transparency and improving group records. However, not all interactions with the groups can be digitized. There remains an element of human interaction that will be required to effectively engage with savings groups. For example, FSP officers need to train groups leaders and members on how to use the products and services on offer, their rights and obligations and how to resolve sub-optimal services.

[23] Marous, J. Digital Banking Report: 2017 Retail Banking Trends and Predictions. Issue 245 December 2016. DBR Media LLC.

Table 7 below outlines some of the services that FSPs should digitize as well as highlights examples of on-going practices, processes and some factors to consider.

Table 7: User interfaces that FSPs can digitize to enhance the user experience

Services	Current activities	Considerations
Customer on-boarding	• Devices include a digital camera (with scanning capabilities) or scanners, tablets and mobile phones • RCPB in Burkina Faso uses Intercaisse – a customer on-boarding system • KPOSB uses the "bank in a bag" solution to register groups to the M-Chama savings account • KPOSB officers capture customer profiles, biometric data e.g. thumb print, KYC documents and provide real-time (or near real-time) group registration (when in locations where they have internet connection).	• Correct and verifiable customer identification process e.g. pictures, thumbprints, scanned documents • Provision of proof of account for the savings groups or individual member e.g. account number, physical account card, a printout of the first transaction, etc. • Seamless integration with the banking system, e.g. savings groups would test the system within a short time of on-boarding • The range of data required, e.g. group leaders, share-out cycle, group savings
Group transaction records	• FSPs are using special digital applications to capture group transaction records and data using Android phones and / or tablets, for instance, the e-recording software developed by FSDK[24] • KPOSB has adopted an e-recording application while Aga Khan Foundation is pilot testing a digital savings groups concept where all groups' records are captured on smartphones. • CARE has developed its Chomoka app, Grameen Foundation has updated its open source app (LedgerLinks), and the private sector has also entered the market (ex., DreamStart's DreamSave and Exuus' Save). • Data is locally stored by the FSP or partner FinTechs, usually cloud-based. • Some of the e-recording applications are open source from platforms such as Google Play or via a portal link.	• Cost and security of the record keeping digital solution including data for credit scoring. • FSP need to discuss with groups and/or facilitating NGOs on data ownership and usage. Adhere to country data privacy laws is important. • Backup system. Some of the FSPs use cloud back- up rather than physical servers. • Use applications from well-established providers e.g. Google Play store • Sharing as service. FSPs may consider storing group data on a shared service, for instance, SAVIX data base.
Financial transactions • Depositing savings • Withdrawal of savings • Loan application and processing • Loan disbursement • Loan repayments	• Group leaders deposit collection at a bank branch or agent payment aggregator or mobile money agent • FSP officers or agents use tablets • or mobile phones to enter data and capture and scan the group loan application details. • Group leaders validate the transaction through entering different PINs held by authorized group signatories, usually group leaders. • FSPs disburse loan into group accounts. • Groups or members repay loans through e-wallet transfer through USSD or a nested / drop down menu.	• Data security to ensure group or member data integrity • Transparency to maintain the groups co-guarantee mechanism • Robust technology to ensure the convenience that savings groups and members experience, for instance, timely information, feedback, and immediate access to money. • Cost of setting up agents to deepen outreach to savings groups. Partnership with MNOs, merchants and FinTechs can reduce operations costs.

[24] E-recording software by FSD Kenya, See: https://mangotree.org/Technology-Post/E-recording

Table 7: User interfaces that FSPs can digitize to enhance the user experience *(continued)*

Services	Current activities	Considerations
Account Information • SMS reminders • Balance enquiry • Account statement • Utility payment • Payment of school fees • Automated accounting	• Dependent on the technology interfaces e.g. SMS[25], USSD[26] Menu, STK[27] etc. • These protocols are available in many markets and require partnership with MNOs.	• Set up the cost for inter phasing and linking with the banking system • Mutually beneficial partnerships with MNOs, aggregators, banks with mobile banking systems, etc. • Appropriate middleware to interface with savings groups applications such as e-recording app.
Consumer empowerment • Application leveraging on video, audio, SMS, IVR, radio messaging	• FSP use video for training of SG facilitators • SG members access training materials directly from a web interface, an application by Bluetooth for discussion, standardization of activities • FSP rely on local radio for consumer empowerment • Call center and IVR are leveraged for better handling concerns and complaints	• FSP should consider the cost of developing such applications, their customization in local dialects • Connectivity in rural areas and lack of power to charge devices could limit the reliance on such applications; however, the latter could also open up opportunities to develop solar based businesses in rural areas for phone recharge

[25] SMS refers to the Short Message service. This is a text messaging service provided by most mobile phone companies. Mobile phone users type and exchange short text messages (usually at a fee) over their mobile phone devices using in-built digital communication protocol.
[26] USSD refers to Unstructured Supplementary Service Data. These are quick or feature codes that mobile phone uses to communicate to the mobile network operator signals.
[27] STK refers to Subscriber Identity Module (SIM) Toolkit. The toolkit enables the module to initiate commands to the mobile phone handset.

Chapter 4:
SAVINGS GROUPS' LINKAGES — BUSINESS CASE PARAMETERS AND ANALYSIS

Introduction

This chapter elaborates the business case for savings groups' linkages using data from selected FSPs involved in linking savings groups in East and West Africa.

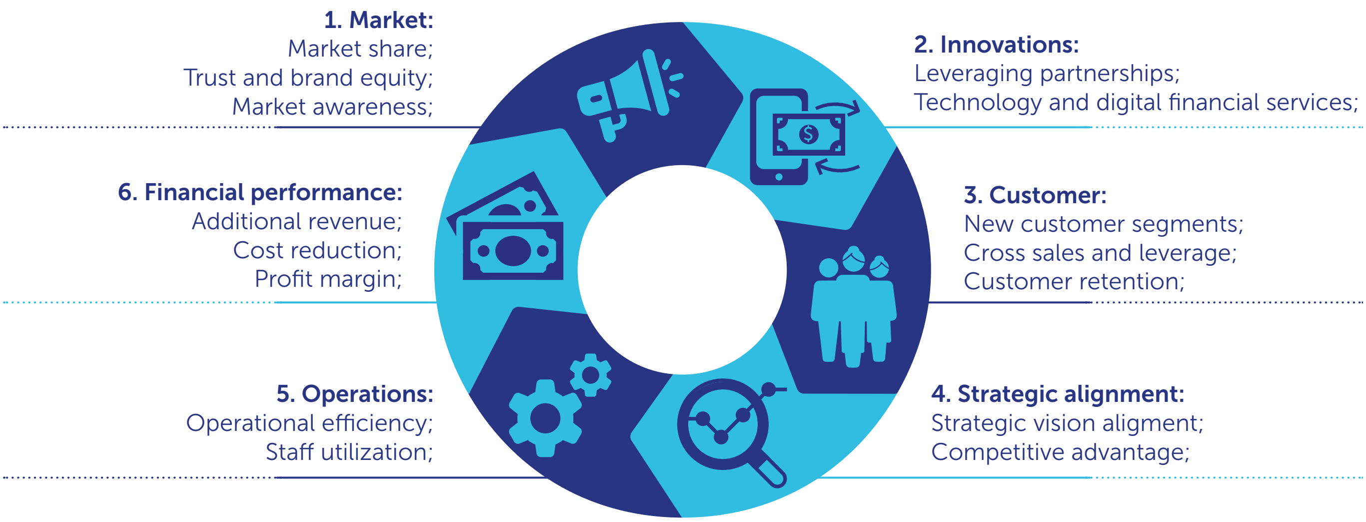
The business case analysis used outreach, value of deposits, nominal acquisition cost, revenues from transactions or income from investing deposits, among other indicators. The analysis presented in this chapter is indicative. FSPs are encouraged to undertake an in-depth business case analysis to inform their decision to provide savings groups' linkages services.

Business case analysis framework

To effectively link savings groups, there is a need to assess the value proposition and business case for the FSP and the savings group.

This section of the toolkit discusses the business case for the FSP. The business case analysis is based on the illustrated framework. To develop a robust business case, the FSP needs to consider the six factors as highlighted in Figure 4 and discussed in detail in the next sub-sections. These have been illustrated with the results of data from on-going savings groups' linkages by selected FSPs supported by the MicroLead program. The institutions have been anonymized and therefore, the institutions are represented using alphabetical letters as A, B, C, D, E, and F.

Figure 4: Business case analysis framework



Market share analysis

From 2016 to 2018, FSPs recorded positive growth in recruiting savings groups and providing formal financial services. The FSPs recruited and linked, on average, 500 groups per year. Graph 1 shows the proportion of savings groups the FSPs had linked by the end of 2017. The estimation shown is a comparison between groups linked and the estimated number of savings groups in the country. This estimation shows a possible market share size the FSP has linked in the country. Graph 1 presents the proportion of the savings groups for the four FSPs with detailed information linked in selected countries.

To calculate the market share, identify the estimated number of groups in the country and compare this with the number of savings groups the FSP has linked. As shown in Graph 1, it was estimated that FSP D had about 11% of the market of savings groups in its country while FSP A had linked only about 2% of the savings groups market in its country.

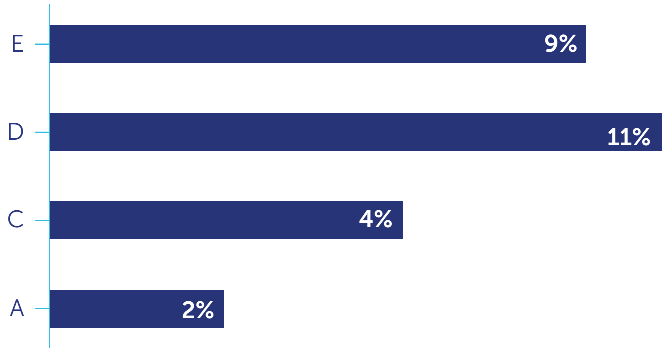
Graph 2 shows the absolute number of savings groups linked over the period. FSP B had the highest number of groups linked (1,702) followed by FSP C. To expand outreach, FSPs need to analyze their savings groups markets and target specific regions and districts within their countries to link more savings groups. See the discussions on market size estimation in Chapter 2.

Further, the FSPs should track the growth rate of the linkage business. For example, the FSP may analyze the annual growth rate of the groups and individual members accessing FSP's services. The results of such analysis inform the FSP on how to re-focus outreach and marketing efforts.

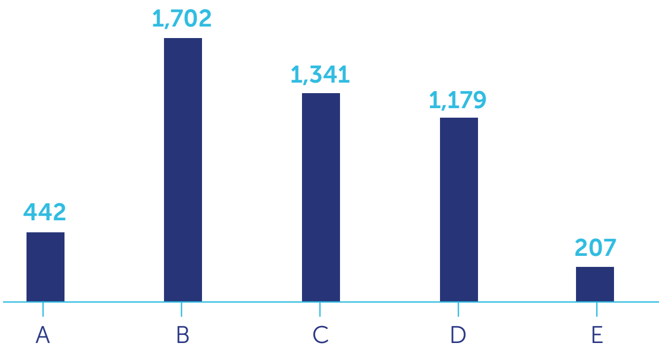
Graph 3 shows an overall growth of the number of savings groups linked by the FSPs over a three-year period. As shown, all five FSPs reported a positive growth rate. The FSPs recruited additional groups over the three-year period on linking savings groups. As shown, the average annual rate of groups the FSPs linked ranged from 26.5% to 125%.

FSP D achieved the highest average annual growth rate (125%) in number of savings groups linked during the three-year period. One important success factor was aggressive marketing and management support. The FSP also targeted both men and women and recruited groups referred by the partner NGO as well as formed new groups. And as a result of FSP D's success, the management of the FSP authorized the branches to scale up recruitment of savings groups as well as open accounts for individual group members.

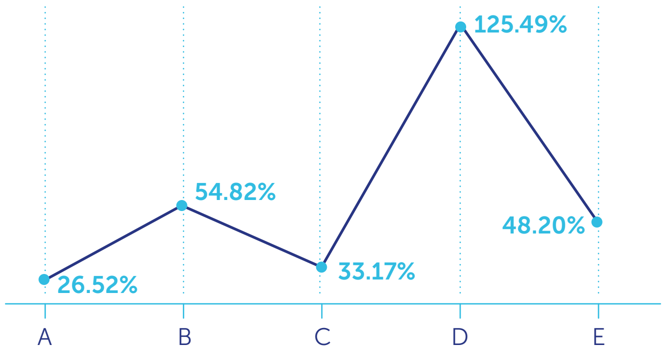
Graph 1: Estimated proportion of SGs in a country linked by FSP



Graph 2: Number of SGs linked by FSP as at the end of 2017



Graph 3: Average annual growth rate in number of SGs linked (3-year period)



Innovative partnerships

In the savings groups' linkages business context, innovation refers to how the FSP leverages partnerships and technological solutions to enter a market segment and achieve scale. Innovative partnerships are critical to enable each party to achieve their business goals. For example, while FSPs desire to mobilize deposits, the savings groups need security for their cash and appreciate earning interest on their deposits. Further, facilitating NGOs desire that groups access better services without compromising the social dynamics and benefits of the group.

The FSPs identified the following as potential partners to consider when starting the FSP-savings groups' linkages business:

- NGOs e.g. international or local implementers
- Local government officials e.g. municipality or village level officials
- Agents including bank agents, merchants or correspondents
- MNOs that provide mobile money services
- Financial technology service providers

As discussed in Chapter 3, technology and specifically digital financial services are important efficiency drivers for savings groups' linkages business. FSPs need to be innovative to provide savings groups and their members with highly convenient and flexible products and services. Some of the challenges experienced in the partnerships include:

- Lack of tightly-defined roles and financial stake of the parties: It is important to clearly define the roles of the partners and business case for their involvement.
- Partners' attitudes and views of one another, for example some facilitative NGOs may consider FSPs to be too commercial and profit oriented while FSPs may perceive NGOs as more altruistic.
- Software-related challenges such as compatibility between banking and mobile money applications, lack of open API and limited access to USSD.
- FSPs required additional staff to work with savings groups especially in rural locations. Some of the FSPs hired field agents trained by the facilitating NGOs.
- FSPs without agents required savings groups to access services at the branches. This was not convenient for savings groups and therefore limited the extent to which the FSPs linked savings groups to formal services.

Deposit mobilization

FSPs should analyze the financial performance of the savings groups to inform the business case of savings groups linkage. Typically, savings groups savings mobilization continues throughout the cycle. But the groups (especially ASCAs) that are linked to FSPs do not bank all the cash since part of the money is lent out to members. Secondly, the groups withdraw most of the money deposited with an FSP at the end of the cycle for share out. Therefore, the FSPs need to consider carefully the cash flows of the groups linked.

The following parameters (among others) are important to assess the financial performance of the FSP-SG linkage business:

- Deposits from savings groups
- Value of loans to savings groups relative to the overall loan portfolio, that is, contribution to the loan portfolio
- Potential to cross-sell products (payments, insurance, pensions)

Growth in deposits: As shown in Table 8, six FSPs mobilized cumulative deposits of USD 2.4 million over two to three-year period. Two FSPs (one in East Africa and one in West Africa) that had been linking savings groups between 2014 and 2017 had mobilized deposits cumulatively worth USD 1.02 million and USD 1.22 million respectively, recording average annual deposits mobilized from savings groups at USD 255,182 and USD 304,188 respectively. The longer FSPs were conducting savings groups' linkages, the larger the amount of savings mobilized.

Table 8: Deposits mobilized by selected FSPs over a 3-year period

FSPs	Period (years)	Cumulative deposits by savings groups linked (USD)	Annual average for all groups linked (USD)
A	4	1,020,727	255,182
B	4	1,221,953	304,188
C	3	49,824	16,608
D	2	204,235	102,117
E	3	131,847	43,950
F	1	8,344	8,344
Total		USD 2,636,930	-

Five FSPs with comparable data showed that savings groups deposits had a positive average annual growth rate, ranging from 21% to 711% over a four-year period. FSP D recorded the highest annual growth rate over the two-year period of undertaking savings groups linkage. As stated earlier, this FSP adopted a direct linkage model, forming new savings groups over and above the savings groups on-boarded from the NGOs. The annual growth rate of deposits may taper off as an FSP expands to other geographies (in the same country) or markets (other countries).

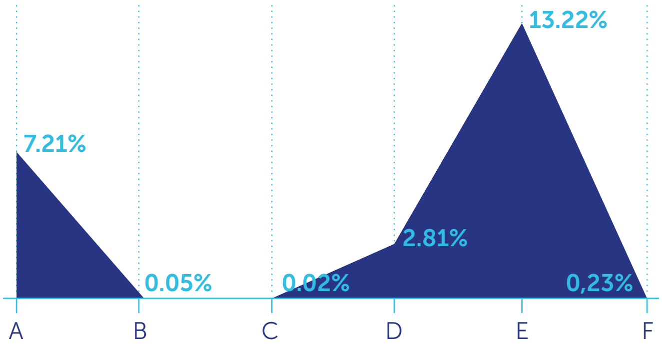
Savings group contribution to overall deposit portfolio: Savings group deposits, as shown on Graph 4, accounted for an average of 4% of the total deposits mobilized by the FSPs. The proportion of deposits mobilized through savings groups ranged from 0.02% to 13.22%.

Graph 5 shows the average annual growth rate of deposits mobilized from savings groups. The deposits annual growth rate was determined to range from 21% to 711%.

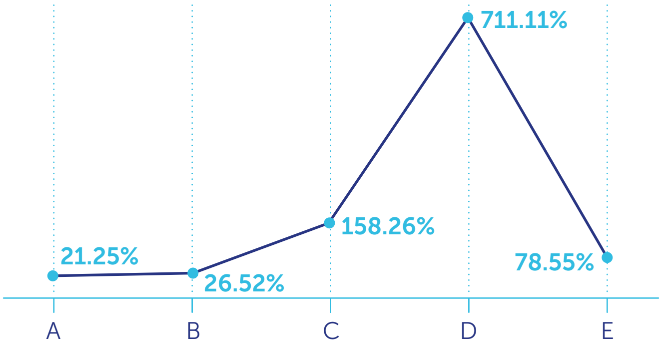
Additional benefits: Besides savings mobilization, FSPs involved in savings groups' linkages have experienced additional benefits. For example,

- Increase in customer base through registering savings groups and savings groups members or both
- Brand visibility and loyalty among the low-end market
- Opportunity to cross-sell other products and services to savings groups and savings groups members
- Net positive revenue from sales of other products or services (insurance, payments, transfers, pensions, etc.).

Graph 4: SGs contribution to FSP deposits



Graph 5: Average annual growth rate in SG deposits (3-year period)



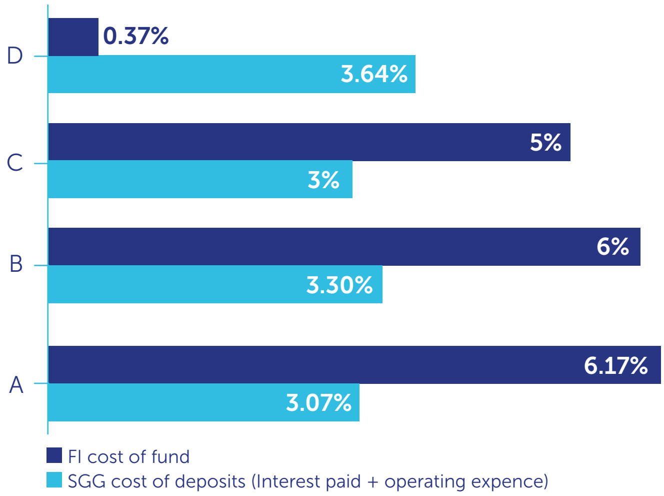
Operational efficiency

To analyze operational efficiency of linking savings groups, the three parameters to consider include:

- Cost of deposits
- Contribution to assets and
- Revenue gain

Cost[28] of mobilizing all deposits by FSPs: As shown in Graph 6, the cost of mobilizing deposits through savings groups was lower than the cost of mobilizing deposits from other customer segments. The cost of mobilizing deposits through savings groups was between 2% and 3.3% among four FSPs analyzed. The cost included interest paid on deposits, marketing and human resources costs.

Graph 6: Average cost of mobilizing deposits from SGs



[28] Activity Based Costing exercise provides more details and an accurate picture of the costs of FSP services. The FSPs have limited information on their services to savings groups. See more information on costing from www.cgap.org/publication /microfinance-product-costing-tool. And also http://www.microsave.net/files/pdf/Product_Costing_in_Practice_The_Experience_of%C2%A0MicroSave.pdf

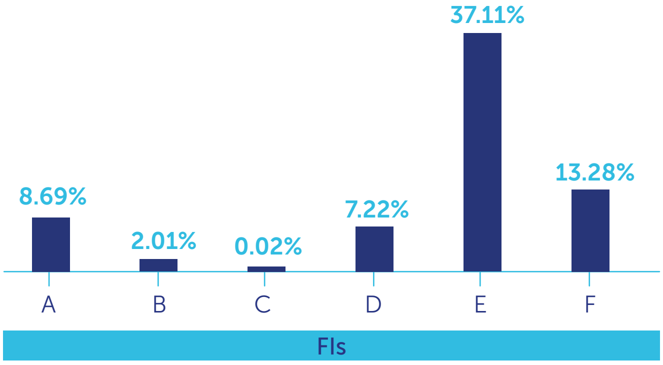
Savings groups contribution to the FSP's loan portfolio

All six FSPs had disbursed some loans to the linked savings groups. Savings groups were contributing to the FSP's loan portfolio. As shown on Graph 7, FSPs extending loans to savings groups indicated that on average loans to savings groups represented 11% of the overall loan portfolio. FSP E estimated that loans to savings groups have grown over the three-year period of implementing linkages and stood at 37% at the time of interview. FSP A and B reported that there was high demand for credit among savings groups, but they could not service all the requests due to liquidity challenges. This analysis considered headline financial performance using available data. FSPs should undertake detailed analysis of the performance of the savings groups' linkages business including for example loan losses among savings groups.

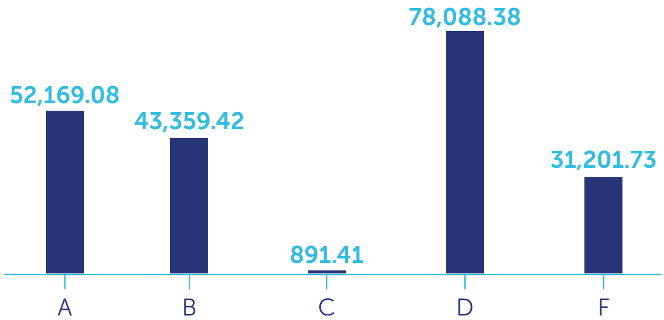
Revenue gains: FSPs recorded revenue gains from the savings groups' linkages business through intermediating the deposits mobilized from the groups and loans advanced to the groups. The revenue gains were analyzed by prorating the revenue and operational expenses allocated by deposit portfolio10. The net revenue from savings groups business was derived by computing the revenue allocated to savings groups' linkages less the cost of mobilizing savings groups deposits and operational expenses allocated to the savings groups' linkages portfolio.

As shown in Graph 8, five of the six FSPs had revenue gains from the savings groups' linkages business. This is an indication that the FSP-SG business had potential to be profitable. The FSPs that made significant revenue gains, FSP A and D, earned income from loans to groups.

Graph 7: Loans to SGs as a percentage of FSPs loan portfolio



Graph 8: Average income from SG linkage business over a 3-year period (USD)



Linkage models' comparison

Four of the six FSPs analyzed implemented a direct linkage model, while two were implementing the indirect model at the time of interviews for this Toolkit. Table 9 below shows a comparison of the performance of the FSPs by models. As shown, FSPs that implemented the direct linkage model had a relatively high annual rate of growth in savings groups linked and deposits mobilized. Loans to savings groups also represented a relatively higher proportion of the loan book of the FSPs that implemented the direct linkage model compared to those that implemented the indirect model.

Table 9: Comparison of FSPs performance by FSP-SG linkage models

Parameters	A	B	C	D	E	F
Linkage model	Indirect	Direct	Indirect	Direct	Direct	Direct
Savings group growth rate[29]	26.52%	54.82%	33.17%	125.49%	48.20%	N/A
Savings group deposits growth rate[30]	21.25%	26.52%	158.26%	711.11%	78.55%	N/A
Savings group contribution to deposit portfolio[31]	32.92%	-	0.02%	0.02%	58.32%	10.80%
Savings group contribution to loan portfolio[32]	8.69%	2.01%	0.02%	7.22%	37.11%	13.28%
Savings group loan balance growth rate[33]	12.92%	26.52%	52.55%	158.90%	60.26%	38.57%

[29] Savings groups growth rate: The rate of groups acquisition and linked over the pilot project period (1 – 4 years). This was calculated by identifying additional groups recruited in a year as a percentage proportion of the groups recruited in the previous year. Say (x-y)/x multiplied by 100%, where x = the total number of groups recruited in one year and y = the total number of groups recruited in the following year.
[30] Savings groups deposits growth rate: The annualized rate of change in the total deposits mobilize from savings groups.
[31] Savings groups contribution to the total deposits: This is the proportion of the total deposits mobilized from savings groups as a percentage of the total deposits mobilized by the FSP.
[32] Savings group contribution to the loan portfolio: The proportion of loans disbursed to savings groups as a percentage of the total loans disbursed by the FSP in a year.
[33] Savings groups loan balance growth rate: The change in annual loans to savings groups from one year to the next.

The data used indicates that direct linkage model performs better than the indirect model. It should be noted however that this analysis was based on a few partners with limited data. A more detailed activity-based costing can provide a better picture on the performance of the FSP-SG linkage model. The costing exercise should also consider how the partner expensed any external grants received to test the FSP-SG linkage business.

Lessons and levers for successful FSP-SG linkage business

FSP managers interviewed for this Toolkit identified the following key lessons from piloting their FSP-SG linkage projects. It was noted that FSPs should pilot test the FSP-SG linkage business to understand the savings groups types and dynamics in a specific market. Second, the FSPs should endeavor to deploy multiple delivery channels e.g. branches, corresponding banking agents or mobile banking services, account to mobile money integration and reliance on third party MNO agents. All of these channels should enhance service adoption by savings groups. However, as noted in the section on digital financial services, the FSP should impart digital literacy through carefully designed tactical promotion and below the line activities that not only creates awareness but also guides the savings groups leaders and / or members on how to navigate the digital channel. Third, FSPs should form partnerships with other services providers e.g. NGOs, FinTechs to effectively serve the savings groups. Finally, FSPs must monitor and analyze the business performance data in order to determine whether an FSP-SG business case exists for its particular circumstances and under which of the different implementation models.

To enhance the FSP-SG linkage business performance, FSP managers identified the following key levers. See case studies in the annex for additional insights.

The role of savings groups facilitators: FSPs require dedicated human resources (staff or partners) to mobilize new groups and promote formal financial services by savings groups through training and building of trust among group leaders and members. However, the costs related to working with external savings groups facilitators such as NGOs[34] can be prohibitive. The costs are related to group mobilization, group formation, training and time required for regular partnership meetings and engagements. Therefore, FSPs are increasingly inclined to undertake direct linkages through their own staff.

Nonetheless, NGOs could still play a role in catalyzing savings groups' linkages and supporting groups to engage with FSPs because they have a comparative advantage in building trust from SG members and could also leverage the financial linkage as part of their broader development agenda and integrated programming. Therefore, FSPs should still consider developing strategic partnerships with local NGOs that promote the development of savings groups. The partnership may seek to mobilize additional resources to mobilize groups and community members to form groups for the linkage business or to build on existing savings groups already formed by the NGOs.

Group versus individual members services: The FSP needs to define the level of engagement with the targeted savings group, that is, serving the group, individual members or both groups and members. The approaches require different levels of management support and interfaces. For example, it is much easier to serve groups only as the FSPs interface with the group leaders. The group leaders deposit the group's collection or collect a large loan amount for re-distribution at the group level. Serving both the group and individual members results in many accounts, but also requires additional staffing to deal with the increased number of customers.

However, the FSPs provided the savings groups with group savings accounts first and later moved to engaging with group members, as well. This gradual engagement process enabled the FSPs to understand the group members' risk profiles before dealing with individual savings groups members. This also enables savings groups to understand the operations of the FSPs. FSPs with robust core banking and customer on-boarding systems and equipment were able to on-board and serve both the savings groups and individual members.

Digital linkage or alternative delivery channels: To reach the savings groups, especially in remote locations, FSPs should deploy digital channels, for instance, mobile money agents, bank agents with PoS devices, etc. While these channels require infrastructure to relay information back to the FSP's nearest branches, they are convenient and easily enable savings groups leaders and members to access formal services close to home. Savings group leaders will however require guidance on how to navigate the digital services to conduct self-initiated transactions. But given the ubiquity of mobile phones and digital services through mobile money, such guidance and education can be provided at the point of service by the agents[35].

The FSPs interviewed for this toolkit used different delivery channels including branch, agency, and mobile banking. Digitization drives revenue while reducing operational costs. For example, MCB Tanzania, from its initial stages of savings groups linkage, collaborated with Vodacom to provide groups with mobile banking services. The groups opened bank accounts with MCB then acquired the special Vodaphone SIM card that required three PINs to authenticate transactions. The three PINs allowed the

[34] Facilitating NGOs include: CARE International, Plan International, Aga Khan Foundation among others.
[35] For additional information on digital financial services see UNCDF MicroLead's six steps DFS Business Model Framework. "How to Succeed in Your Digital Journey: A Series of Toolkits for Financial Service Providers" https://www.uncdf.org/microlead/download-the-dfs-toolkits-frommicrolead

elected group leaders to transact on behalf of the group whilst maintaining established controls. As a result of this service, groups did not need to travel to MCB's branch to deposit members' contributions or repay loans to MCB. Group leaders were able to deposit funds at the MCB agents nearest to them. Further, MCB Tanzania provided the depositing service for free to enhance its value proposition to groups.

Partnerships: While FSPs conducting savings groups' linkages mostly leverage relationships formed by NGOs, there exist other FSPs which work with savings groups and do not offer a full range of financial services. For example, non-deposit taking microfinance institutions and Savings and Credit Co-operatives (SACCOs), to some extent, work around the group lending model, but do not offer a majority of financial services. FSPs looking to serve this segment can partner with such institutions and avail more financial services for the groups. NBS Bank, Malawi has implemented savings groups' linkages by collaborating with a credit-only MFI, CUMO, by providing savings accounts to the groups as well as an agent network that can accept loan repayments on behalf of CUMO.

Enabling regulatory environment: Governments can drive financial inclusion and specifically savings groups' linkages by endorsing activities that facilitate savings groups linkage. For example, in India since 1980, the government, through the Self-Help Group (SHG)-Bank Linkage Program, has worked with different FSPs to increase access to financial services for SHGs. In addition, it has mandated banks to dedicate a certain portion of their credit portfolio to SHGs.

Financial literacy training

During the formation of savings groups, group members are trained in various aspects such as the importance of savings and business management skills. However, groups consistently require training and refreshers on how best to carry out their businesses to ensure members are able to increase income to save with the groups. For successful savings groups linkage, FSPs should consider providing non-financial services such as financial literacy to the group members so that the groups can gradually manage to expend to individual savers and borrowers and gain experience on formal services, for instance, self-guarantees, cash flow or asset-based financing. For example, MCB Tanzania provides financial literacy training to savings groups acquired from CARE International. The bank reported that they were considering advancing credit to selected group members. SOFIPE and RCPB in Burkina Faso also provide financial education to savings groups members. Digitally-enabled financial literacy and education programs have also been successfully implemented in Benin and Burkina Faso through the MicroLead program.

Chapter 5:
SAVINGS GROUPS' LINKAGES - A STEP-BY-STEP GUIDE FOR FINANCIAL SERVICES PROVIDERS

Introduction

This chapter provides a step-by-step guide to developing the savings groups' linkages business. FSPs should consider their contextual factors as they apply these steps. The key highlights of this chapter include:

- Savings groups' linkages are time- and resource-intensive.
- The FSP must determine where, when and how to provide formal services to savings groups to ensure a viable business and gain a competitive advantage.
- The six steps provided in the implementation framework guide FSPs in developing viable savings groups' linkages starting with a clear understanding of this market segment.

FSP-SG linkage framework

FSPs must adopt a demand-driven and customer-centric approach in developing their strategy, placing the savings groups and their members at the center of designing linkages, products, and services and appropriate delivery channels. There are six steps that FSPs can take to develop a viable savings groups' linkages business as outlined in Figure 5.

Figure 5: FSP-SG linkage business framework

The proposed FSP-SG linkage framework aims at addressing key strategic questions and choices for FSPs. FSPs that are new to savings groups' linkages business need to consider the following questions:

- What linkage model should the FSP adopt?
- Who is the primary customer? The group, its members, or both?
- What point in the savings groups cycle does the FSP intend to provide services to the group?
- How can the FSP develop a competitive advantage in the savings groups market?

Step-by-step guide for FSPs new to savings groups linkage

Step 1: Understand the savings groups market in the country

Understand the market

First, FSPs need to consider savings groups and their members as a distinct market segment. This, then, requires a market analysis that the FSP would do for any other market segment it intends to target. The market information or intelligence needs to be translated into business strategy and plans. FSPs can easily rush to develop systems, processes, and products for a segment without adequate knowledge of the dynamics of the market segment. Such decisions can only lead to ineffective experimentation and service failures. FSPs that are new to the savings groups' linkages market need to undertake basic market assessments before proceeding. See selected factors to consider in the Table 10 below.

Table 10: Key factors to consider when assessing the savings groups' linkages market

Factors	Highlights
Customer behavior	• Group leadership, rules and compliance • Group procedures and processes e.g. meeting times, duration of meetings, processes and governance • Views and perceptions of savings groups members towards FSPs e.g. does the group view FSP as potential partner or as unfair and exploitative?
Financial services and performance	• Key transactions: deposits, withdrawals, welfare funds, embedded merry-go-round contributions, etc. • Value of deposits, disbursements, cash on hand (in the box) etc. • Financial records and accounting processes • Share out cycles and procedures • Trends in share out values
Competition	• Potential FSPs serving the savings groups in an area • Participation in other informal savings mechanisms e.g. a RoSCA within an ASCA i.e. all or some members have smaller merry-go-rounds in the groups. Secondly, whether a group is a member of community wide association or bigger group. Any other such activities that are usually not apparent to an outsider during fieldwork.
Risk factors and risk management	• How do the groups maintain records and keep the collections? • Security of cash and members during dividend pay-out • Elite capture: evidence of the group being led by a few strong members • Level of demand for loans e.g. if members appear to be more interested in getting loans in the first engagements. Typical savings groups tend to save and want to use their funds. The demand for loans grows gradually as the cycle progresses and that is when they may exhaust their internally-generated pool of funds.
Regulations	• Government requirements around KYC documents and whether savings groups or their members meet these conditions. • Government directives around provision of financial services to groups in local communities e.g. Policy declarations by the central bank or government with regards to financial inclusion in the country.
Customer protection	• FSPs should uphold customer protection principles including transparent pricing of services, ethical staff behavior, establishing mechanisms for complaints and redress, privacy of data, avoidance of indebtedness, appropriate collection practices. For more details see Smart Campaign https://www.smartcampaign.org/ • Savings group members must make the internal lending decisions; the group must not become a guarantee mechanism for an FSP to make individual loans

Savings groups linkage success is dependent on the FSPs' ability to manage the expectations of the savings groups members. FSPs need to fully understand the needs of savings groups and their members, their preferences and attitudes. Regular engagement through dedicated resources / field staff is important to manage relationships and expectations and to ensure high service quality levels.

Step 2: Prepare savings groups' linkages business strategy, business case and go-to-market strategy

Design business strategy

The next step is to convert market intelligence and insights into a winning business strategy, business case, products and services portfolio performance indicators and go-to-market strategy. This needs to be done by a savings groups' linkages business team. The strategies enable the team to assess the savings groups' linkages pilot and determine the timing for market roll out. Table 11 below indicates key strategic questions for FSPs intending to link savings groups.

Table 11: Key strategic questions for FSPs intending to link savings groups

Parameters	Selected strategic questions
Linkage model	• What is the FSP's overall business strategy? • Does the savings groups linkage model chosen align with the FSP's business strategy? • Does the FSP intend to serve the group, group members or both the group and its members?

Delivery channel	• What is the location of savings groups the FSP plans to target?
	• What delivery channels does the FSP have at its disposal to serve this market segment?
	• To what extent does the FSP want to:
	    • Grow its savings groups market size
	    • Optimize the cost and revenue
	    • Enrich customer experience

Product and service alignment	• What are the group's specific needs and preferences?
	• What products does the FSP plan to offer savings groups?
	• How can the FSP optimize and align its services to savings groups' needs?
	    • An FSP may consider developing a special account for savings groups to replicate group processes and cycles rather than offering existing accounts.
	    • The FSP could provide either a special customer care desk or a telephone line, or both, for savings groups leaders and members.
	    • Products or services should offer convenience, security, and simplicity.
	• What features can be added to protect savings groups functioning, i.e., not usurp group decision making?

Partnerships	• What partners should the FSP engage to serve the savings groups? • What is the rational for partnerships? • The choice of linkage model and delivery channels will determine the type of partners to approach. • Partners may include NGOs, MNOs, MFIs, and FinTechs, etc. • The FSP needs to consider the cost of the partnership and how this impacts the business case. • Costs may include fees, time to maintain the partnership and brand value[36].
Resource allocation	• What resources have been allocated for the new business segment? • How can the FSP optimize available resources? • The resources include financial, human and systems. • The partnership may include sharing some resources e.g. digital platforms and personnel.

[36] Brand value: Whether or not the FSP's brand gains value by being associated with partner's brand in the market.

FSPs intending to link savings groups need to develop a robust business strategy and customer engagement plan:

Business model or strategy: The business model comprises the key costs and revenue drivers and choice of the sustainable and efficient approach that optimizes revenue for the FSP. A flexible business model will enable the FSP to adapt to unforeseen market changes including savings groups replication, demand for credit and other services and technological advancements. The model should be robust to respond to the savings groups' life cycle needs and provide a broad range of services, for instance, savings accounts, interest-bearing accounts, term deposits, and credit to enable savings groups to on-lend to members at the beginning of new cycles.

Customer engagement strategies: As savings groups members increasingly interact with formal financial services, the quality of consumer service and responsiveness to customer needs will be an important differentiator. The business strategy needs to focus on user experience through refining customer on-boarding processes, promoting customer engagement, and providing robust recourse channels.

Competition plan: The savings groups' linkages business is an emerging area. However, it is to be expected that with time many FSPs will move to this segment and there will be strong competition for deposits from these groups. At such a point of the savings groups market development, savings groups will have a range of choices and may become multi-banked and will be in a position to demand high quality services. Therefore, it is noted that FSPs should prepare for competition for this market segment. The FSP should develop a robust competition plan as early as possible in anticipation of competition from other FSPs that will be interested in the savings groups market. Such a plan should include innovative services to savings groups and their members, appropriate delivery channels and great customer experience. This dynamic will also necessitate the need to promote Client Protection Principles (CPP) so that FSPs do not use group formation to hold groups "captive" or avoid FSP competition; client loyalty needs to come from good product development, not from which organization created the savings group.

Step 3: Build and test the savings groups' linkages business

Build and test products and process

Now that the strategy is ready, it is time for the FSP to build and test the products targeting the savings groups. FSPs normally go through the following five phases when linking savings groups:

- Product ideation
- Pilot test
- Market entry
- Expand linkage
- Market scale up

The FSPs must adopt an iterative and flexible approach to develop and test appropriate products or services to meet the needs and preferences of savings groups. They should aim to provide groups with a strong value proposition relative to the groups' internal operations e.g. convenience, simple processes and ease of access, among others.

Rippey (2017), in a study on typologies of linkages, identified four types of relationships that FSPs may establish with savings groups. These are:

- Savings services to the individual members
- Savings services to the savings groups
- Loans to individual members
- Loans to the savings groups

However, as the FSP masters the savings groups market segment and the channels to support savings groups, FSPs will provide a broad range of services including payments, funds transfers, and insurance.

Step 4: Align staff and institutional capabilities to meet savings groups needs and preferences

Align staff and institutional capabilities

Serving the low-income segment requires a culture and skill set change among employees of many FSPs. Savings group members often have literacy and numeracy challenges. They dislike long processes and formal communications. FSP staff need to accommodate these characteristics in the design of their operational and business strategy to win the trust of savings groups members. FSPs may also need to review internal processes, controls and operations to accommodate SG linkage specificities especially the small size and large number of transactions; this could be further complicated depending on the degree of leverage on alternative delivery channels, technology and product cross-sale.

The facilitating NGOs and field agents have traditionally trained savings groups members on group operations and general financial management matters. In some of these training sessions, FSPs have been vilified and cast as expensive service providers. However, few FSPs have trained their staff on how to serve savings groups. FSPs wishing to serve this market will need to develop appropriate training approaches to serve the savings groups market segment. FSPs should consider collaborating with facilitating NGOs to orient the FSP staff on savings groups characteristics and operations. In some situations, FSPs hire from facilitating NGOs to mobilize groups and create awareness of FSP products and services.

Step 5: Rollout and scale up the savings groups' linkages business

Roll out and scale

At this stage, the FSP is scaling up its services to the savings groups over a wider geographical space across a wide range of groups with different levels of maturity, financial performance, and needs. Before rolling out the services, the FSP management needs to reflect on the savings groups' linkages journey taken so far. It needs to identify lessons learned, review its systems and its performance to date and use this knowledge to review the business models, strategies and plans.

The FSP needs to ensure all the systems, processes, branch/field staff and delivery channels are ready for roll out and scale up of the linkage business.

Table 12 below provides a summary of key areas that will need to be re-assessed by the FSPs.

Table 12: Key considerations before roll out and scaling up of savings groups' linkages business

Staffing and staff capacities
• Are the staff trained sufficiently to serve the new market segment? • Does the FSP have a well-defined performance measurement mechanism? For example, does the FSP have pre-determined performance parameters and levels of deposits, loan portfolio performance, profitability etc. • What procedures are in place to effectively integrate non-bank / non-technical staff (e.g. field agents) with the rest of the staff?
Financial and liquidity position
• Is the budget sufficient for the savings groups' linkages service program? • To what extent is the scale-up strategy aligned with the overall FSP business strategy for the current period? • What is the FSP's financial capability to meet increased demand for services e.g. bulk deposits, demand for investments, loans, etc.?
Regulatory and competitive environment
• Is the FSP meeting the regulatory requirements to target this market segment? • What regulatory levers such as waivers, grants, subsidies, etc. can the FSP use to enhance the savings groups' linkages business?

Table 12: Key considerations before roll out and scaling up of savings groups' linkages business *(continued)*

Product and services range
• Is the product tailor-made to match consumer lifecycle and demand? • Are products and services adequate to address both financial and non-financial needs of the customer?
Business viability
• How commercially viable is the savings groups' linkages business? • To what extent is the business model customer-centric? • How responsive is the model for long-term market changes?
Expansion strategy
• Is the savings groups' linkages business expansion anchored to the FSP's strategy? • How adequate are the resource requirements for the expansion?

Step 6: Refinement and mainstreaming the new business line into the core business

Refine and mainstream

At this stage, the FSP has come a long way in the savings groups' linkages journey. The savings groups' linkages team needs to make the final refinements of all systems, services and channels before proposing to the management and board to integrate the new business that they have successfully tested into the main business. The team should prepare to respond to the following key management considerations:

- How well does the savings groups' linkages business align with the long-term FSP business strategy?
- What is the likely cost of adopting this new business line?
- What contribution does the savings groups' linkages business make to the overall FSP business results?
- What non-financial goals does the savings groups' linkages business enable the FSP to achieve?

The savings groups' linkages team should ensure that the senior management and the Board of Directors have adequate buy-in for successful mainstreaming of the new business line into the core FSP business. In many cases, this process will require a systematic change management process that goes beyond staff training and the marketing of new products.

CONCLUSION

Savings groups are an important tool to achieve financial inclusion among the unbanked in developing countries. This Toolkit, commissioned by UNCDF MicroLead Program, aims to build the capacity of FSPs that intend to or have already started providing financial services to savings groups. Traditionally, NGOs have facilitated the formation and training of savings groups in peri-urban and rural areas as part of livelihoods improvement interventions. Increasingly people in such communities replicate these groups in different forms. Some groups have approached formal financial service providers e.g. banks, cooperatives or mobile money service providers for financial services. However, few FSPs have actively sought to capture this market.

FSPs are realizing the potential business case to provide formal financial services to savings groups. This process, referred to in this Toolkit as savings groups' linkages, is at a nascent stage of development. The few FSPs involved have provided secure deposit services to groups and on the other hand mobilized sufficient deposits to intermediate. A few FSPs are carefully conducting appraisals and provide credit to selected group members. There is great potential to provide savings groups with other services including credit, long term deposits and insurance. FSPs have demonstrated that digitalizing products and services for savings groups enables them to achieve efficiency and scale to remote locations.

From interactions with selected FSPs already linking savings groups, there are six steps to follow to successfully provide services to savings groups. There could be additional steps depending on the linkage approach, linkage model and business strategy of a particular FSP.

From our analysis, the steps to follow to link savings groups to formal financial services include:

- Market assessment
- Design of the savings groups' linkages business strategy and business case
- Develop and test appropriate products and processes
- Align staff capabilities
- Roll out and scale services
- Refine and mainstream the service as part of the core FSP service offering.

Savings groups and their members most likely will be interacting with formal financial services for the first time. Therefore, it is important for FSPs to take precaution on how their staff or those of external service providers (partners) engage with savings groups. FSPs sustain a positive experience for sustainable business relationships. As indicated in some sections of this Toolkit, FSPs can enhance customer experience through deployment of appropriate channels, provision of guidance on how to navigate transactions especially through digital channels and finally provide human resource contacts for consultations
and/or complaints.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ANNEXURES

Annex 1 Additional information

A1. FSPs interviewed for this toolkit

Sample FSPs	Savings group linkage business since...	Country	Region
Mwanga Community Bank	April 2010	Tanzania	East Africa
Kenya Post Office Savings Bank	2014	Kenya	
Uganda Post Bank	2015		
NBS Bank	July 2014	Malawi	South Eastern Africa
Fidelity Bank	April 2014	Ghana	West Africa
SOFIPE	April 2015	Burkina Faso	
RCPB	April 2015		
Alidé	April 2016	Benin	

A2. Stakeholders' roles in savings groups linkage

Audience	Role in savings groups linkage	Agency
NGOs and CBOs	• Mobilization of savings groups • Training and capacity building	• Development NGOs • CBOs contracted by the NGOs
Financial service providers	• Provide savings accounts • Loans, funds transfer • Awareness creation of services	• Operations department • Marketing department
Mobile network operators	• Mobile money services • Additional digital financial services • Agent services to facilitate cash-in and cash-out services	• Operations • Agent management
Financial technology companies	• Development of applications and software to facilitate linkages • Payment aggregation	• Application developers • Partnership management
Donors and investors	• Financing initiatives • Supporting scale up	• Investment units
Government	• Financial inclusion policy making • Regulation of formal financial service providers	• Central banks • Ministry of Finance • Ministry of Social Services

Annex 2 Case studies

A case study of savings groups' linkages through direct linkage model using agency banking. *Fidelity Bank – Accra, Ghana*

Country overview

Ghana has a population of 29.8 million (World Bank, 2018) and a GDP of USD 65.6 billion (2018). The United Nations predicts that by 2100, Ghana's population will reach 73 million. The majority of Ghanaians live in urban areas. The rural population was reported at 45.7% in 2017 (World Bank). The population of Ghana is relatively young. Fifty-eight per cent of Ghanaians were reported to be under the age of 25. One in every two adults in Ghana is employed in the agriculture sector. According to the SAVIX MIS platform, there are about 12,200 groups in Ghana with a total membership of over 300,000 members.

Institutional profile

Fidelity Bank is one of the top ten performing commercial banks in Ghana. Incorporated in 1996, it is locally owned and has recorded impressive financial performance above the regulator's core benchmarks. As at the end of September 2017, its total assets were reported at USD 1.1 billion with a deposit base from customers valued at USD 0.7 billion. Its third-quarter 2017 report reported a net interest income of USD 61.3 million with loans and advances valued at USD 300 million. In 2016, compared to other commercial banks, Fidelity Bank was ranked seventh in terms of operating assets and fifth in terms of the deposit base. Its advances accounted for 5% of the overall banking industry portfolio in 2016-17. A comparative assessment of its performance and market position for the period 2012 to 2016 is detailed below in the Table 13.

The bank's success is attributed to its organic growth strategy underpinned by provision of innovative services e.g. lending against cash flows, maintaining strict market service standards and pursuing financial discipline regime that adheres to market expectations. The bank has shown a high level of adaptability and innovation making it a brand of many firsts in Ghana. The bank was the first to introduce a suite of mobile banking applications. It was the first to use e-mails, chats and voice-over-internet protocol (VoIP) into the cloud using Google cloud and Microsoft cloud. It was the first bank to introduce card-less withdrawals on its ATMs and was the first bank in Ghana to receive ISO 27001 certification.

Popular in the market for its integrated wholesale and consumer banking solutions, Fidelity Bank's financial services are dominated by offerings in retail, corporate and investment banking. In 2013, the bank started a downscaling strategy that focused the bank into the low-and moderate-income retail market segment which had remained largely untapped.

Table 13: Fidelity Bank's performance and market position for the period 2012 to 2016

Market share indicators	2016	2015	2014	2013	2012
Market share by deposits	6.60%	7.90%	6.90%	6.10%	6.10%
Market share by advances	5.50%	6.40%	8.40%	6.20%	6.30%
Operating assets	6.20%	7.90%	7.20%	5.40%	5.60%
Market share – PBIT	4.00%	37.30%	32.80%	31.80%	36.90%
Ranking by market share indicator	**2016**	**2015**	**2014**	**2013**	**2012**
Deposits	5	5	6	6	6
Advances	8	7	3	8	7
Operating assets	7	4	6	7	4
PBIT	19	11	13	13	11

Direct linkage model

In September 2014, Fidelity acquired Procredit, a leading savings and loans company in Ghana. The full acquisition was part of a larger corporate strategy to diversify into the mass retail market at the bottom of the pyramid. In line with this overall strategy, Fidelity piloted a bank agent service to serve low-income people and savings groups sector. Fidelity partnered with UNCDF and CARE International under UNCDF's MicroLead program to provide formal financial services to the low-income market in Northern Ghana.

The model deployed aimed to test innovation, value addition, and social transformation. Fidelity was informed by the need to use digital channels to reach remote locations and also provide high quality services to the low-income market segment. A strong value proposition was necessary to unlock the potential in this segment. The bank has a deep interest in transforming the lives of its clients through the provision of responsible financial, banking, and related services.

The model deployed was a combination of agency and mobile banking services. Fidelity built from scratch and rolled out an agency network. The agency network was supported by a team of Smart Field Agents (SFAs). The SFAs provided human interface between Fidelity and clients including individuals and groups. Fidelity SFAs profiled savings groups leveraging the historical information provided by CARE. Fidelity team recruited savings groups recommended by CARE upon conducting a readiness assessment.

Equipped with mobile devices, SFAs recruited both individuals and groups recommended by CARE. Agents relayed savings groups data digitally to a dedicated back office server at the branch at the close of the day. The system generated identification numbers to individual group members and these served as account numbers. Savings groups deposited funds with a bank agent but only withdrew at the nearest Fidelity branch. Each savings group received a card to enable savings groups leaders to transact at an agent location. Other banks had not yet rolled out agency banking services in Ghana at the time and therefore Fidelity had the first-mover advantage in the market. They had recruited more than 1,000 agents and opened 300,000 new smart accounts in 2018.

Challenges

- The dedicated MIS to serve the linkage portfolio did not work as expected. The system ran into challenges attributed to its technical architecture and failed to seamlessly interface with the core banking system. This resulted in delays and wrongful charges to savings groups and caused dissatisfaction amongst the group members.
- Lack of investment to sustain rolling out a new agency network and field sales teams led to scaling down on the agency banking activities.
- Savings groups linkage, i.e. market diversification, was not a high priority at the time, relative to for example market consolidation through acquisition of Procredit that happened around the same time.
- Limited understanding of the savings groups' customers and deployment of new delivery channels meant that the bank required to develop its capabilities in multiple areas e.g. agency, digital banking and savings groups market segment. The increase in the level of sophistication required the bank (or bank divisions) to develop capabilities across board to better serve the savings groups market and this required extended time.

Lessons

- There is need for efficient interface between new on-boarding applications with the core banking system to effectively support digital, mobile and agency banking for savings groups' linkages. FSPs should take care not to disrupt services since this sends wrong signals to the market and undermines market entry and penetration.
- In an environment where major strategy changes and alignments are happening, it may be prudent to conduct pilot of savings groups' linkages post-restructuring.
- In markets where savings groups' linkages have not yet occurred at scale, it makes business sense to consider being the first mover. While this comes with a heavy capital investment, the FSP is likely to benefit from a niche segment and use the linkage as a market differentiator from the competition who more often flood the middle-and upper-income retail and corporate market segments.

A case study on savings groups' linkages through a direct linkage model using digital and agency channels. *SOFIPE – Ouagadougou, Burkina Faso*

Country profile

Attributes	Value
Population	20.3 million (2019)
GDP	USD 35.68 bn. (2017)
Gross national saving	9.2% of GDP (2017)
Labor force	58.15 mn. (2017)
Population below poverty line	40% (2014, World Bank)

Burkina Faso is a West African country with a gross domestic product (GDP) of about USD 36 billion and a population of 20.3 million people (United Nations Population Fund (UNPF), 2019). The country's real gross domestic product (GDP) was estimated at 6% for 2019 (6.8% in 2018), driven primarily by a dynamic secondary sector (8.3% growth) and services (6.6%), as well as by sustained growth in private consumption (7.5%) and public consumption (6%)[38]. Agriculture represents 32% of its GDP and occupies 80% of the working population. Only 2% of its land is arable, and 0.26% has permanent crops. Especially in the south and southwest, the people grow crops of sorghum, pearl millet, maize (corn), peanuts, rice, and cotton, with surpluses to be sold. Only 15% of the Burkinabe population has a formal account and far fewer use their accounts on a regular basis. Burkina Faso is part of the West African Monetary and Economic Union (UMEOA).

> "In recent times, however, MFIs have been retreating to the rural areas in search lower-cost business opportunities. This presents an opportunity to deepen the reach of financial inclusion through linkages with informal groups and leveraging technology."

Burkina Faso's financial system is still nascent and growing. Low financial inclusion is a key challenge to the system and constrains the growth of the private sector. Less than 25% of Burkinabes have an account with a financial institution (FI). On access to credit, only 10% have been able to borrow from FIs[39]. Access to finance is particularly constrained for those in rural areas, women, and lower-income individuals. Microfinance is growing but remains underdeveloped and critically inadequate. This is driving the financially excluded populations to rely mainly on informal mechanisms such as savings groups. The World Bank estimates that as of January of 2017, the sector represented six percent of the country's total financial sector credit portfolio and 7 percent of total savings. In recent times, however, MFIs have been retreating to the rural areas in search of lower-cost business opportunities. This presents an opportunity to deepen the reach of financial inclusion.

The Small Business Financing Company, known in French as La Société de financement de la petite enterprise (SOFIPE), is a microfinance subsidiary of the Ecobank Group. It was incorporated in 2008 and licensed in 2010. The savings activities of the company commenced in 2010 whereas that of credit facilitation commenced in 2011. The business is headquartered in Ouagadougou, the capital of Burkina Faso.

The company supports the development of economic initiatives of the low-income population including micro and small entrepreneurs in rural, peri-urban and urban areas of Burkina Faso. SOFIPE offers its clients, individually or in groups, cost-effective financial products, and services adapted to their needs together with accompanying non-financial services. SOFIPE has outreach branches and agencies in the Eastern, Central and Western parts of Burkina Faso. As of December 2017, SOFIPE had 47,813 customers, savings deposits of USD 3.6 million, 17,470 borrowers and outstanding loans of USD 6.0 million.

SOFIPE's digital linkage model

SOFIPE operates a direct linkage model that leverages on digital channels and village community agents to link the groups. The digital component is operationalized by third-party mobile money agents. The agents are part of the mobile money network of a leading mobile network operator, Airtel. SOFIPE has therefore directly partnered with Airtel to use Airtel's mobile network infrastructure and distribution network that spreads to remote villages to reach underserved people.

The village agents facilitate the creation, monitoring, and training of the savings groups. They help the groups to form, provide technical support to set up the groups to digitally link, and evaluate the readiness of the groups to link. The community agents are recruited by SOFIPE facilitators and trained on the model. The community agents catalyze the formation of groups in the villages.

Trained by the facilitators, the village agents, in turn, train group members on how to organize themselves and start saving and internal lending. Note that the village agents are not staff of SOFIPE. The groups raise some small contributions to pay the community agents. After the training, members

[37] Africa Development Bank Group (2020). Burkina Faso economic outlook. Retrieved from https://www.afdb.org/en/countries/westafrica/burkina-faso/burkina-faso-economic-outlook
[38] 2019 World Bank's Doing Business Report.

start to collect savings and grant one another small loan. As the groups mature, their needs evolve and the village agents train the members on the opportunity to link with SOFIPE for additional financial services. Quite often the groups require to link to an external financial service provider (FSP) due to two main reasons:

- Inability to service larger member loan requests due to low capital
- Security vulnerability due to surplus cash in the lockbox

Groups use a mobile phone to access digital financial services from SOFIPE. The group members are however not necessarily required to have mobile phones to access the digital linkage channel. The model is designed to operate at the group level without the group members having to own a mobile phone. The savings groups must, however, purchase a group mobile phone with a linked phone number which is then registered to the group's e-wallet account. Each group elects two members - who are usually the leaders – that are each given a unique personal identification number (PIN). Each of the two leaders is required to memorize and recall when needed their half of the PIN. When the group needs to deposit or withdraw cash from the agents or the branch, the two leaders are required to input their half of the PIN to complete the transaction. The PIN is held in trust and as a secret code.

The groups open two accounts, a group savings account with SOFIPE and an Airtel mobile money e-wallet. Groups first deposit money into the group Airtel money e-wallet then request to transfer some value to the SOFIPE group account at SOFIPE. Through a seamless interface, Airtel money e-wallet is linked to the group account at SOFIPE. The group could, however, decide to keep their funds in the e-wallet or transfer it to the savings groups account. The groups can withdraw cash from either of the accounts.

A typical transaction is initiated by the mobile money agent at the request of the group. The group leaders authorize the transaction through their PIN. Usually, the group elects three account holders (President, Secretary, and Treasurer). However, the model only allows two leaders to hold the 4-digit pin code. At the transaction, five members are required to be physically present. These are the two PIN holders, two management committee members, and the group president. The five must also be present at account opening with copies of their national identification cards and duly completed bank forms. This is done at either the nearest SOFIPE branch or Ecobank's offices. Once the transaction occurs, an SMS alert is sent to the group phone. The SMS provides a summary of the transaction. The transactions are facilitated over a 3G internet connection.

Airtel's mobile money agents are managed by the MNO through a well-defined structure. The MNO contracts super-agents who guarantee liquidity due to their large financial capacity. The super agents buy in bulk and distribute float to numerous sub-agents. These sub-agents are typically small businesses that manage their float allocation through accepting deposits, giving out withdrawals and replenishing their used allocations through either physical deposit at a bank or electronic transfers.

There is a strong value proposition to the groups with some transactions being free. At account opening, the group purchases, a mobile phone, and SIM card, costing between USD 20 and USD 150 depending on the type of phone the group members choose. The SIM card costs less than a US dollar. There is no minimum deposit required, but the group must maintain USD 5 as a minimum account balance. The group savings account at SOFIPE earns interest at a rate of 3.5% per annum on the account balance. Account opening and depositing cash are free. However, groups are charged some fees for cash withdrawals.

Challenges

- While digital channels enhance linkage with groups and customers in remote locations, the financial service provider faces a number of challenges to effectively deploy digital channels. The groups have reported challenges with network downtime. Network downtime is often the result of network saturation, technical failure, or network outage. This remains the biggest single risk to the continued uptake of SOFIPE's linkage services and saving products.
- The need for targeted rather than a general financial education to group members to enable high-level adoption and service usage especially in the context of high levels of illiteracy among savings groups leaders and members.
- Airtel uses an interactive voice response in addition to a toll-free customer line. There have been reports of delays to address complaints of low service quality. SOFIPE does not have a mechanism to receive customer complaints in real-time.
- Many people do not have a national identification card. Since this is a primary KYC document for the mobile services registration, some group leaders are not able to register on behalf of their groups.

Lessons

- There is a need to improve customer grievance redressal mechanisms and raise the level of awareness among savings groups leaders and members on how to channel complaints. Simplification of customer redress procedures and automation of complaint resolution mechanisms for frequent challenges can greatly improve customer experience and lead to a high rate of service adoption.
- Experience from this example and other markets suggest that increasing the number of savings groups leaders holding the e-wallet or account PIN code to three individuals lowers the risk of fraud.
- Village agents should be equipped to provide real-time feedback on complaints and be empowered to help solve basic problems.
- Collaborating with dominant MNO player can considerably weaken the bargaining power of the FSP. FSPs should consider including other market players e.g. regulatory authority and apex bodies to lobby for favorable terms for both FSP and the savings groups.

A case study on savings groups' linkages through indirect linkage model using agency banking. *NBS Bank – Lilongwe, Malawi*

Country profile

Malawi has a population of about 18 million[39] people of which 51.5% are below the poverty line[40]. According to the 2018's Population and Housing Census (PHC), Malawi's population is expected to double in the next two decades[41]. Majority of Malawians (83%) live in rural areas[42] and around half of this population are children under 18 years. Farming is the main economic activity with 85% of the population living on subsistence farming and contributing to a third to the gross national product (GNP). In 2019, the country ranked as the fourth poorest nation in the world (based on population against the country's GDP)[43]. The United Nations Educational, Scientific and Cultural Organization (UNESCO) indicates that a majority of the population (62.14%) aged 15 years and above are literate[44].

Table 14: Select financial inclusion indicators for Malawi

Attributes	Parameter	December 2015	March 2017	June 2018	Data source
Access points (per 100,000 adults)	Bank branches	0.61	2.44	0.92	Reserve Bank of Malawi
	Mobile money agents	3.76	185.77	413.71	Reserve Bank of Malawi
	Banking agencies	0.65	3.47	1.66	Reserve Bank of Malawi
	ATMs	2.34	13.13	5.51	Reserve Bank of Malawi
	POS	7.94	18.46	18.74	Reserve Bank of Malawi
Adults with mobile money accounts and 90 day active	% with mobile money accounts	8.4%	42.8%	53.64%	Reserve Bank of Malawi
	% of adults with 90-day active mobile money accounts	4.24%	14.93%	20.49%	Reserve Bank of Malawi
Interoperability	Bank-to-wallet; Wallet-to-wallet; Wallet – cash out at ATMs				Reserve Bank of Malawi
Savings groups	Facilitated groups	Not available	Not available	13,000+ with only 2% linked	SAVIX

In the last decade, various actors in Malawi have undertaken reforms to deepen financial inclusion in the country. Close to 60% of Malawians are financially included. This is driven mainly by the increase in adoption of mobile money across the country. The majority of those financially excluded are in the rural areas and depend on informal mechanisms such as savings groups to access financial services. Savings groups linkages to formal institutions, however, is still nascent in Malawi with only very few financial service providers foraying into the linkages' business. SAVIX, for an instance, observes that while NGOs have facilitated the formation of about 13,000 groups in the country, only about 2% of these are linked to formal financial services. FSPs are however making attempts at linking with the popular informal savings systems. NBS Bank in partnership with CUMO (a local MFI) pilot tested an indirect savings groups linkage model to tap into the latent linkage demand. This case study assesses the model and insights emerging from such a model.

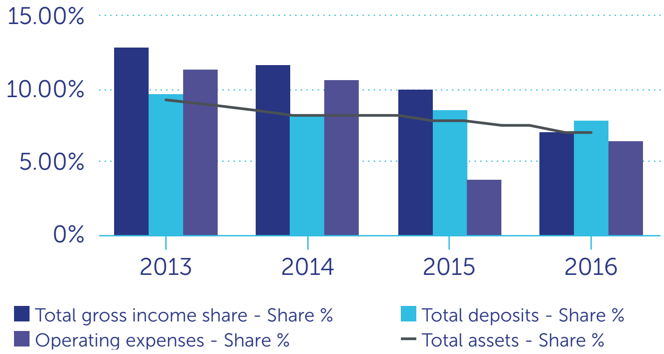
[39] Malawi National statistical office. 2018 Malawi population and housing census. Retrieved from https://unstats.un.org/unsd/statcom/50th-session/side-events/documents/20190306-1L-Mercy-Kanyuka.pdf
[40] World Bank, 2016. See https://data.worldbank.org/country/malawi
[41] World Bank, 2019. See https://www.worldbank.org/en/country/malawi/overview
[42] World Bank, 2018. See https://data.worldbank.org/indicator/SP.RUR.TOTL.ZS
[43] Tom Sangala. The Times. Malawi ranked as the fourth poorest. Retrieved from https://times.mw/malawi-ranked-fourth-poorest/
[44] UNESCO, 2020. See http://uis.unesco.org/en/country/mw

Institutional profile

NBS, formerly known as New Building Society, has been in operation in Malawi for the last 14 years. The bank was registered under Malawi's Banking Act on 1st March 2004. It has been a listed member of the Malawi Stock Exchange since 2007. The bank has a market share by asset capitalization of 7.6%.

NBS operates 13 branches, 21 agencies, 86 ATMs and over 400 'Pafupi' agents across the country. Its Pafupi agent network is complemented by an increasingly popular mobile banking solution that has further deepened outreach of the bank to the remote locations. NBS also provides services through merchant points equipped with POS terminals and utilizes cards for payments transactions (mainly for ATM withdrawals and P2B merchant payments). The bank operates the second largest branch and ATM network in Malawi and is among the top 5 banks by capitalization operating as a commercial bank.

Graph 9: Market share analysis of NBS



Linkage model

NBS pilot tested an indirect savings groups linkage model where it has partnered with a local MFI (CUMO) to provide savings accounts to the groups as well as the individual group members under its flagship Pafupi programme. The word Pafupi is a local term meaning "close". A Pafupi Savings Account is a special account targeting individual women in rural areas. Account opening has relatively fewer KYC requirements. Customers access the bank's services at the nearest Pafupi agent or NBS branch. While Pafupi accounts are offered to individual customers, groups open a *Tidalilane* account. A group may hold a bank account with a joint mandate of three signatories from the group. The three signatories must consent to any transaction.

In 2016, NBS piloted savings groups linkages in partnership with CUMO, a non-deposit taking microfinance institution in Malawi. In March, 2018 a total of 537 groups comprising 7,000 members had opened a Tidalilane Account representing about 13% of approximately 4,000 credit groups comprising 63,000 clients accessing services from CUMO. NBS provides a broad range of financial services to the groups. However, the groups require demand stimulation, training and capacity building to deepen the NBS Bank-CUMO-savings groups linkage. Such interventions will enable the savings groups to be able to use a broader range of financial services than they currently use.

NBS Bank has leveraged the Pafupi account infrastructure that had dedicated Field Sales Ambassadors (FSAs) based at the branches and mobile agents providing agency services. The Field Sales Ambassadors (FSAs) are temporary hires who reach out on a commission-based reward model to low-income market segment through door-to-door marketing. The FSAs are assigned a 20-30-kilometer radius of operation from a bank branch. Typically, branches hire two to four FSAs. The FSAs work in tandem with CUMO's Field Officers (FOs) which are the equivalent of area managers for the microfinance institution. The FOs liaise closely with the NBS branch managers who are responsible for the overall savings groups' linkage business performance. The branch managers also double up as compliance and quality control officers responsible for ensuring better service delivery and high portfolio quality.

Savings groups interviewed noted that the current demand stimulation and capacity building strategies by NBS and CUMO had positively impacted their demand for formal financial services. NBS, for an instance, uses a location-based approach to reach out to the groups at their nearest respective rural centers. Services offered to the groups by NBS include deposits, savings, credit, insurance and non-financial services. The Pafupi agents located at the rural centers bridge the distance between the branches (locally referred to as service centers) and the groups. Linked savings groups can access cash-in and cash-out services through the Pafupi agents. Occasionally the bank agents make visits to the groups further strengthening the trust between the bank, CUMO and the groups. CUMO also deploys full-time credit officers and an area supervisor in each of the areas covered by the linkage enhancing the service experience.

Awareness & demand stimulation: Village/Location based. CUMO and NBS collectively conduct awareness and demand stimulation campaigns. NBS, however, leverages on CUMO's established rural network to enter new markets.

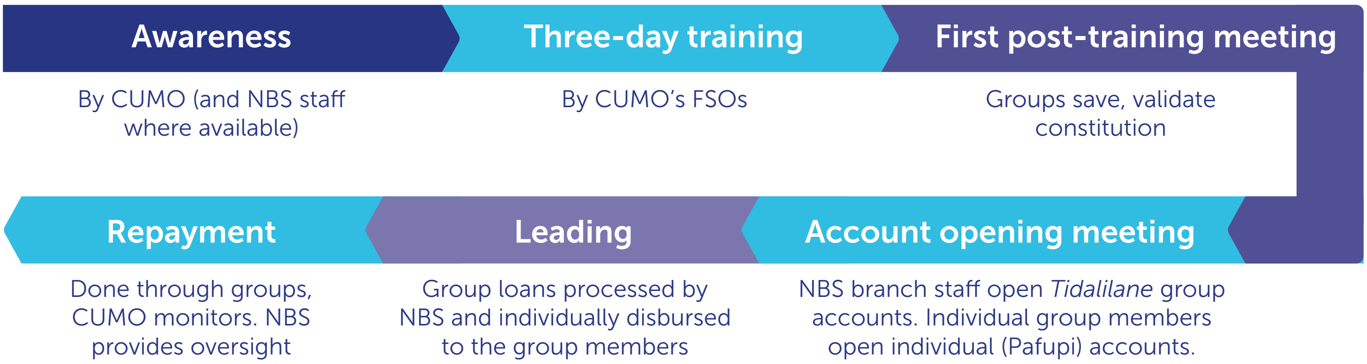
Range of financial services offered: These are broad and include deposits, Savings, Credit and Insurance. NBS operates as a wholesale lender to CUMO's Tidalilane groups. CUMO on-lends to the groups at a profit.

Non-financial services offered: These include training and advisory services which together deepen the institutional and financial capacity of the groups to adopt and use CUMO's credit and services CUMO is responsible for onboarding and training the groups.

Formal Linkage: Occurs through CUMO + NBS branch-based field partnership. NBS also uses the Pafupi bank agents to serve the Tidalilane groups.

NBS plans to leverage the partnership, currently in the pilot stage to design and deliver more tailored financial services to the savings groups. In the collaboration model, CUMO provides capacity building and training to the groups. NBS's FSAs work together with CUMO's Area Supervisors and Field Sales Officers (FSOs) to mobilize and recommend groups to open Tidalilane accounts at NBS. CUMO trains the groups for three days on group management, leadership, record keeping and NBS services and related transactions.

Figure 6: Illustration of the key linkage activities for onboarding and credit services



Insights

The following insights were identified from the usage of savings groups linkages:

- Trust: Groups preferred using branches compared to agents. Groups deposit cash themselves at the NBS branch, in some cases incurring transport costs to reach the closest branch. Group members would raise cash for transport for the group leaders (or selected members) to travel to the branch – typically 20 kilometers or more away.
- Gender dynamics: Majority (80%) of the groups linked to NBS comprise women. Groups formed by women were willing to test the new services. This enabled NBS to reach more women and achieve an important strategic goal of the bank. Pafupi accounts (accounts targeting individual low-income customers) initially attracted more men than women. The group account, called Tidalilane[45] helped solve the challenge of reaching women customers.
- Seasonality cycles: Account usage appears to follow a seasonal pattern. There are more and larger size deposits between March and June and larger withdrawals between September and December. These periods correspond to the post-harvest season and the start of the new school term. There is a notable increased in balance and information enquiries at the branch during the September–December. This is attributed to the need for groups and individual customers to make inquiries prior to making withdrawals at the respective NBS branches and / or plan to make loan applications at CUMO.
- Pricing: Many groups are sensitive to the pricing of the services. For example, NBS experienced low activity of some of the group accounts when, inadvertently, the banking system reclassified these accounts as regular bank products which resulted in higher fees being charged than was initially communicated to the groups. The groups complained but also some of them reduced account balances.
- Financial education: NBS provides financial education to groups with messages delivered in Chichewa, a widely spoken local language in Malawi. The messages were in the form of illustrations and picture images tailored for clients with limited literacy and numeracy capability. The marketing collateral were highly graphic and placed emphasis on the key product benefits such as convenience, "no amount too small", and affordability. Clients received starter packs at account opening, including an ATM card and PIN code, which showed clients how to transact. Mass marketing strategies augmented these approaches.
- Proximity of bank agents: In locations where the NBS bank agents are present, groups find access to cash-in and cash-out services conveniently available. It has been noted that dormancy and inactivity in the model increases with the increase in the distance to the nearest service point. Deploying sufficient number of agents is a key success driver for the linkage model.

Challenges

- Developing and bringing a proposition like the Tidalilane group account to the Malawian market requires vision and capacity building. Serving this new market requires training and orientation to branches, managers, and front-line staff. Investing in making the bank staff and partners' readiness for the new linkage market segments goes a long way in ensuring a positive first experience for the new clients. The level of delight at first touch point for the new clients affects loyalty and level of subsequent engagements.

[45] It appeared that challenges with the core banking system led to the back office to assign individual group members individual accounts i.e. Pafupi account. Therefore, members of one group had the same prefix to allow for analysis of the group transactions. The situation may have been resolved since the time of interview for this toolkit.

- Effective linkage requires a change of mind-set and culture for traditional banks, from waiting for customers in branches to seeking them in the field.
- Offering instant account opening outside of bank branches through technology and a mobile sales team requires the business, operations, compliance, and technology teams to work closely together. Integrating these aspects are both costly and time-consuming.
- Overall, women tend to take more time when adopting both new financial services and new technologies due to a variety of factors. These include lower literacy levels, informal or irregular sources of income, lack of legal identification documents or formal collateral, time constraints, as well as legal and mobility constraints in many cultural contexts. Though the features of Tidalilane account address many of these barriers, educating potential women clients on these features is an ongoing process.

Lessons

The following factors are important for the success of agency banking to support group linkage:

- Agency banking can support linking savings groups far away from the bank branch. However, the agents should be active and digitally connected to the main branches to provide seamless services.
- Utilizing digital delivery channels helps lower the cost of operation and drives revenue.
- Secure the buy-in of regulators when testing new unregulated delivery channels.
- Using agents in remote locations requires dedicated field staff to support the agents and ensure customers receive services.
- NBS has realized the need to invest in alternative channels, staff training, and market research if it is to optimize returns from the new business frontier.
- Savings groups linkage may require adjustments to the operational structure and suite of products offered to better serve this new market segment. For an example, NBS hired a dedicated team of staff but due to budgetary and geographical constraints were unable to keep them on a full-time basis and/or onboard enough agents in the deep rural areas.

A case study of savings groups' linkages through indirect linkage model.

Mwanga Community Bank – Mwanga, Tanzania

Country profile

Tanzania is an East African country with a population of 56.3 million (World Bank, 2018). Its population which is growing at an annual rate of 3% is mainly rural and youthful. Youth aged 15–34 years account for two-thirds of the population with only a third (34%) living in urban areas. A majority in the country depend exclusively on farming for their livelihoods.

Mobile money and services largest driver to inclusion

In terms of financial services, there is an increase in demand for credit. According to FinScope survey by Financial Sector Deepening Tanzania (FSDT, 2017), about two thirds (65%) of Tanzanian adults are financially included. The robust mobile money services sector in Tanzania has significantly contributed to increased access to financial services.

Savings groups are popular in Tanzania. According to the SAVIX MIS platform, there are more than 750,000 savings group members in Tanzania (SAVIX, 2018). Many people also belong to informal groups such as village community banks (VICOBA). There have been a couple of FSP-SG linkage projects tested in Tanzania. Mwanga Community Bank, with support from UNCDF's MicroLead program and in partnership with CARE International, tested a linkage project with positive results.

Mwanga Community Bank

Licensed as a regional bank:	2009
Incorporated:	2000

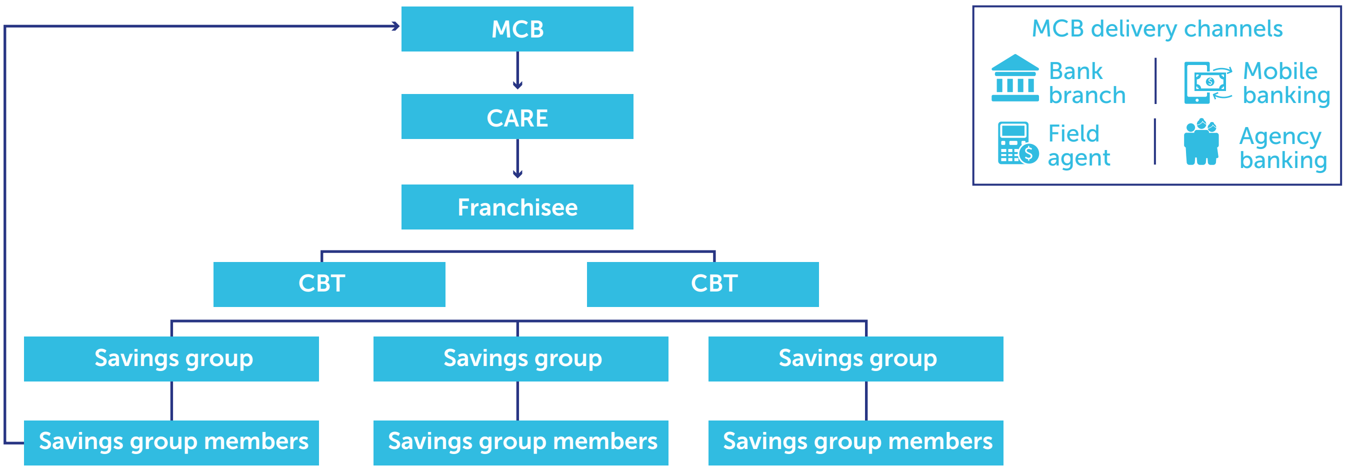
Mwanga Community Bank (MCB) is a licensed microfinance community bank and regulated by the Bank of Tanzania. As of 2016, MCB had USD 6 million in assets and USD 3.4 million in deposits. MCB operates in Mwanga district, one of the seven districts in the Kilimanjaro region of Northern Tanzania. The district has a population of about 150,000 people while the regions have 1.6 million people.

Since its formation in 2000, MCB aims to serve low-income market segments including savings groups and women. In 2012, it partnered with UNCDF MicroLead Program to enhance SG-MCB linkage. The project was delivered in collaboration with CARE and targeted to link 2,000 savings groups to MCB in the Kilimanjaro region of Northern Tanzania. By the end of the project in March 2017, the project had linked 24,000 savings groups members, achieving 50% of the outreach objective.

Savings groups linkages model

MCB serves about 1,700 savings groups in Mwanga district and neighboring Moshi and Same districts. Most (78%) of these groups are Village Savings and Lending Association (VSLA) groups, formed primarily by CARE International, Tanzania. MCB also worked with village community bank (VICOBA) groups. VICOBA is a variant of CARE's VSLAs groups, but are savings groups federated by a local NGO. Unlike VSLAs, VICOBAs do not share-out all the savings and dividends at the end of a cycle. They are also known to have multiple internal funds for a range of welfare needs e.g. education, health, etc. and do receive external funding from the supporting NGOs or local government funds. In its savings groups' linkages process, MCB targeted savings groups with basic account services to enable savings groups members to safely store their collections.

Figure 7: MCB's savings groups' linkages mode



This model provides a convenient mechanism to help the group overcome challenges related to group record keeping and accounting. MCB provides groups with statements of accounts and a real-time account balance service.

MCB then expanded its service offerings to the linked groups by providing financial literacy, credit (to groups and individuals), and insurance for lifecycle events.

Figure 7 above shows the key partners and service providers involved in MCB's SG linkage model. As shown, MCB worked with CARE International through its franchisees and community-based trainers (CBT). The franchisees and CBTs were established by CARE International through its own VSLA program. The franchisee is appointed by CARE International to mobilize and train VSLAs at an agreed fee with the VSLAs in a given district. The franchisee recruits, trains, deploys and pays CBTs to support VSLAs in a smaller location. MCB works with franchisees and CBTs in different locations to provide VSLAs with an interest-bearing group account. MCB selected bank field agents and mobile money agents with permanent locations and adequate liquidity to better serve groups and deployed these agents to serve groups wishing to deposit cash into their accounts (cash-in). Groups make withdrawals (cash out) at MCB branches to ensure the security of the group's cash and ease of verification of group leaders' ID and signatures. The bank's field agents work closely with local authorities and community-based trainers to ensure high service quality, due diligence, and risk monitoring.

Table 15 provides an overview of the steps taken by MCB to link savings groups.

Table 15: Steps taken by MCB to link savings groups

Step 1: *Group mobilization*	Step 2: *Awareness creation*	Step 3: *Account opening*	Step 4: *Deposit mobilization*	Step 5: *Provision of credit & other services*
• CBTs identify a potential group for linkage • CBTs collaborate with local village executive officers (VEOs) to register group; VEOs provide the group with letter of recognition • Some groups register with the ministry of social services	• CBTs create awareness on SG-MCB linkage • CBTs and Bank field agents build a business case for group linkage from a user perspective to group members • Bank field agents conduct due diligence for account opening	• Bank field agent captures duly filled in documents for data entry at a bank • The group pays requisite fees and charges at registration and provides KYC documentation • Bank's field agents provide group leaders with three to four bank identification cards. The group operates an account & e-wallet (MPESA) using the 3 PIN SIM	• USD 6.75 as the minimum amount to deposit • MCB bank agents and mobile money agents (MPESA) provide cash-in services to groups only • Field officers go out twice a week to mobilize deposits • Group leaders make inquiries, withdraw or seek statements at the bank branch	• Groups targeted for credit facility after share-outs / start of new cycle based on account savings balance and credit history • Non-financial services e.g. business and personal finance advisory, business networking, training & mentorship is provided to the groups by CBT and the bank field officer

Results (May 2018)

- **About 3,000 groups linked since 2010**
- **Groups provide mobile phones that are then linked to mobile money wallet using three PIN SIM**
- **For every three groups mobilized, two were linked to MCB services**
- **1,702 active groups in May 2018**

Success factors

The MCB linkage model integrates five key factors to effectively provide linkage services to savings groups.

- **Technology:** MCB links a group savings account to a mobile wallet that offers cash-in services. MCB also has other electronic payment services including ATMs, mobile banking, point-of-sale (POS) and mobile transfer services that the groups may use in the future as the linkage evolves. For mobile money service, MCB partnered with Vodacom, one of the leading MNOs in Tanzania.
- **Collaboration:** MCB staff work very closely with agents. Secondly, field officers at the branches work with CBTs in the villages to identify, mobilize, train, link, and server groups at their place of meeting.
- **Partnerships:** MCB uses partnerships to enhance its competency and capacity to serve savings groups. The bank works with MNO (Vodacom) and NGOs (We Effect and CARE International) to carry out the linkage with savings groups.
- **Delivery channels:** Groups used a few channels in spite of MCB deploying multiple channels. Groups use one channel at the beginning and only gradually progress to other channels as the group gets used to the banking services. Table 16 below shows that most of the groups transacted at the MCB bank branches and/or agents.

Table 16: Services and level of use of delivery channels

MCB bank agents	Mobile money agents	Branch
• Six MCB bank agencies • Bank agents provide cash-in and cash-out services • Customers can also get Account mini-statements	• Tigo and MPESA agents are located at every branch • Agents provide cash-in services for groups and individual account holders	• 4 branches • 1 Field Agent per branch to serve savings groups • 2 ATMs at the branch • Provide other financial services e.g. overdrafts, insurance
Usage: 97%	Usage: 2.5%	Usage: 0.5%

MCB has made significant progress with its savings groups' linkage program. Savings group members account for approximately one-half of the total client base and savings groups deposits represent 15% of the bank's deposits. The bank, however, faced some challenges as outlined below:

Challenges

- **Inadequate personnel:** The savings groups require regular training e.g. once every two months. Training to groups mainly covers account opening procedure, transaction process at different service delivery points and fees and charges. The cost of such training, especially with regards to the human resources required, increases as the bank hires additional savings groups.
- **Collaboration to effectively engage groups:** CARE introduced the franchisees to oversee savings groups mobilization and group training, initially undertaken by CBTs. Conflicts between the franchisees and CBTs impacted group mobilization and training. This challenge is now resolved and going forward CBTs in specific locations operate under the franchisees.
- **Network coverage:** Mobile banking and mobile money services sometimes do not function due to signal variability. MCB plans to use POS machines that can operate with different network providers at the agent level and also have different Internet Service Providers (ISP) to decrease network downtime.
- **Technical/operational:** ATM card processing takes 14-30 days. The bank intends to buy a card printing machine to issue ATM cards within a shorter period of time.
- **Agent liquidity management:** MCB agents experience liquidity problems. To solve this problem, the bank offers its agents an overdraft facility. However, not all agents utilize this facility hence the challenge persists.
- **Trust on the digital channels:** Due to some of the downtime and liquidity challenges mentioned above, some group members have less trust in the digital channels. Some of them reportedly cash-in at an agent then call the bank branch to re-confirm if the transaction went through.

Lessons

MCB noted a few lessons from the linkage program:

- Partnership with other service providers is important e.g. agent banking and mobile money services enabled the bank to reach many savings groups and focus on its core banking business.
- Using multiple delivery channels has provided convenience to the savings groups and their members. However, there is a need to analyze usage and find ways to encourage customers to use all the delivery channels.
- The use of local languages enhances communication with savings groups and their members.

A case study of savings groups' linkages through direct linkage model.

Kenya Post Office Savings Bank – Nairobi, Kenya

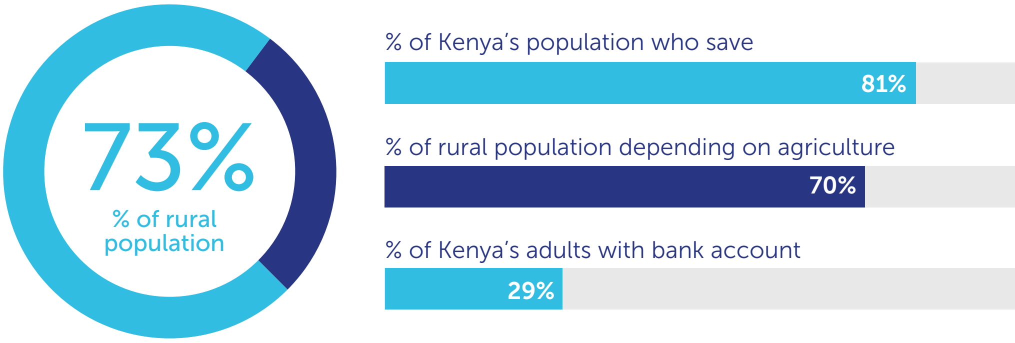
Country profile

Kenya has a population of approximately 47.6 million people, (Kenya National Bureau of Statistics (KNBS), 2019). About three quarters (73%) of the population live in the rural areas and largely depend on agricultural activities[46]. The country's economy is stable and growing despite political and economic challenges. The Gross Domestic Product (GDP)[47] was estimated at USD 88.6 billion as the end of the fourth quarter of 2019 (KNBS). The annual GDP growth rate by the end of 2019 levelled at 5.1% down from 6.4% in 2018[48]. In the last decade, Kenya's real GDP has grown at an average of 5.1%. This GDP growth has been driven primarily by services (66%) and manufacturing (19%) (KNBS, 2018).

Kenya's manufacturing products target domestic market and export to the neighboring East African countries. Kenya has a well-developed financial sector including banking, insurance, microfinance and digital financial services. At the same time, there is a strong member-based financial services sub-sector comprising of savings and credit cooperative societies (SACCOs) and informal savings groups (chamas).

46 The World Bank (2020). Rural population (% of total population). Retrieved from https://data.worldbank.org/indicator/SP.RUR.TOTL.ZS
447 GDP calculated at current market prices as at 31st December, 2019
48 Kenya National Bureau of Statistics (2019). Quarterly Gross Domestic Product Report Third Quarter, 2019. Retrieved from https://www.knbs.or.ke/?p=690

Figure 8: Financial access in Kenya

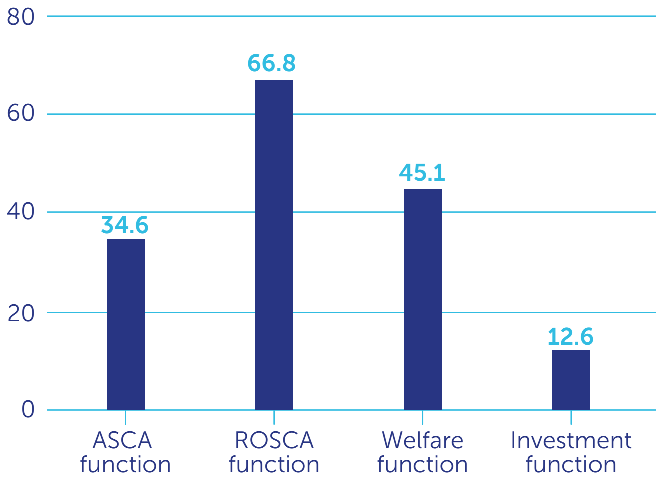


Financial inclusion

Seventy-three per cent (73%) of Kenyan adults are currently financially included with the number having increased by 50% since 2010[49]. A similar number was reported in the FinAccess 2019 survey to use mobile money. The rapid deepening of financial inclusivity has been driven by the adoption of mobile money and mobile banking. The increased downscaling by scheduled banks to low-income segments and the use of alternative banking channels (agency banking, in particular) has also significantly contributed to the exponential growth in financial inclusion in Kenya. Demographically elderly, youth, and women remain the most excluded sub-segments despite this growth.

In Kenya, savings groups are very popular and are found across all socio-economic classes. According to FinScope survey, about ten million Kenyans regularly use informal savings groups. As shown in the Graph 10, more than two thirds (66%) of the ten million adults are members of at least one rotating savings and credit associations (RoSCA), (FSDK, 2017). 37% of these informal groups have accounts at a formal financial service provider.

Graph 10: Proportion of people in informal groups in Kenya



Institutional profile

Kenya Post Office Savings Bank (KPOSB), established by an Act of Parliament, is a wholly-owned entity by the Government of Kenya. Its mandate is to mobilize deposits and create a savings culture in the country. The bank has 99 branches and 1,000 bank agents across the country. Further, it also has a mobile banking service and a customer base of approximately 1.4 million savers by mid-2018. It operates as a savings bank and therefore does not provide credit. By end of 2016, KPOSB had a deposit and asset base of USD 123 million and deposits worth USD 159 million mobilized through ten savings and two term deposit accounts. Table 17 below provides an overview of the bank performance in between 2010 and 2016.

Table 17: KPOSB's performance between 2010 and 2019

Performance between 2010 and 2019								
Attributes	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2019
# of branches	92	100	102	103	104	104	104	98
Personnel	786	795	798	810	794	765	686	764
Deposits (USD) m	173.49	208.88	231.23	156.9	144.91	151.4	159.4	187.0
Number of Depositors (m)	0.87	1.2	1.8	1.4	1.15	1.24	1.31	1.60

[49] FinAccess. 2019 FinAccess Household Survey. Retrieved from: https://s3-eu-central-1.amazonaws.com/fsd-circle/wp-content/uploads/2020/02/06095110/2019-FinAccess_Household_SurveyReport_FIN_Web.pdf

As a savings bank, KPOSB has been actively banking savings groups in Kenya. The bank provides services to savings groups through its m-Chama account. The m-Chama account has digitized the group's cash box and enabled savings groups and their members to save at the bank through a mobile banking application. As at January 2020, the m-Chama[50] group account had mobilized deposits worth USD 2 million.

MCHAMA SUCCESS
*6,300 groups
*USD 2m in deposits

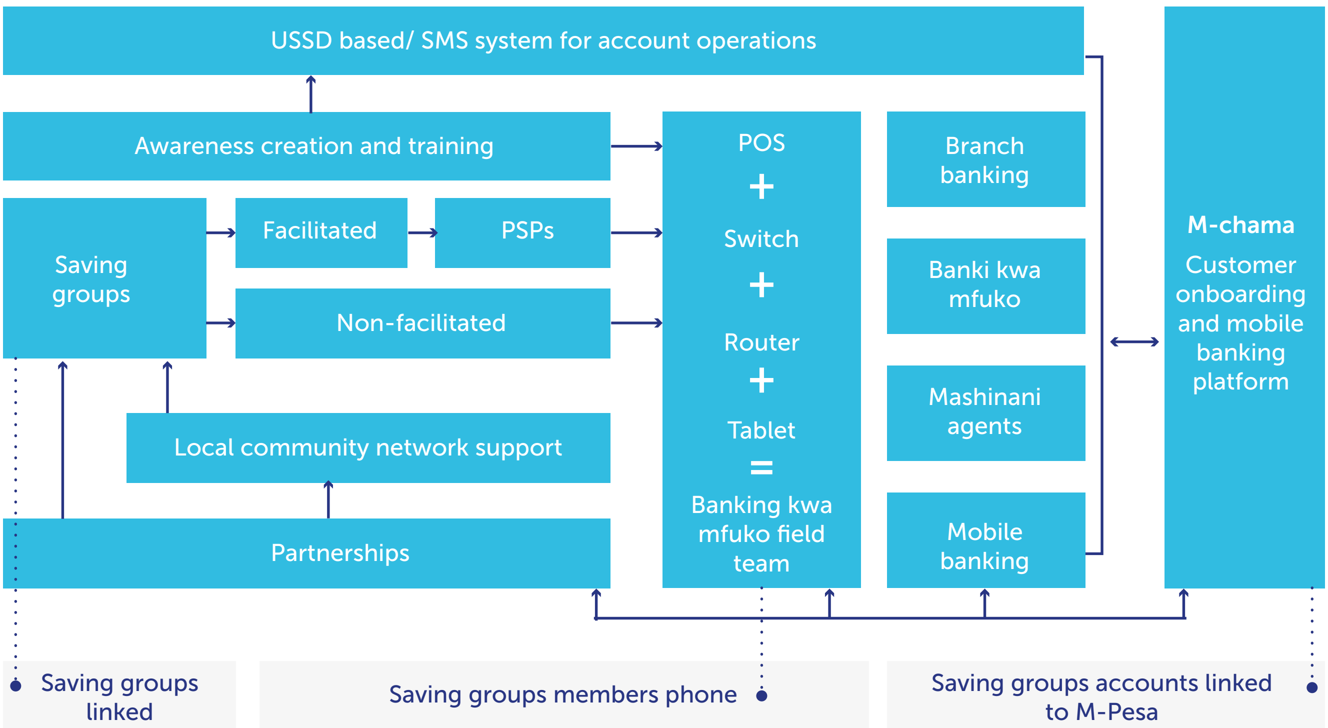
Savings group linkage model

KPOSB started savings groups' linkages in partnership with a local NGO. However, the bank then adopted a direct linkage model where the bank staff members go out to create awareness and on-board existing groups in the targeted communities. The bank uses its mobile banking service to link savings groups far from its branches. The bank deploys its staff to the rural and remote areas to meet the groups "where the groups meet" to create awareness about the group accounts, then registers the groups and group members using hand-held tablets.

KPOSB has been deliberate in leveraging digital technology to deepen its linkage and outreach. Automation of key customer journey points of engagement e.g. customer onboarding has enabled the bank make services available to client on-demand. Under its "Bank in a Bag" initiative, the bank's field team trains and opens accounts for groups using Android-based applications on a tablet, laptop, and mobile phones that are linked to the banking system. Record keeping materials and other information and communication technology equipment such as point-of-sale (POS) terminals, switch and router are used by the field officers to ensure a real-time provision of services (particularly account opening) in the field. Other than technology, the linkage portfolio is supported by a team of 800 Postbank agents, 764 branch staff and 236 community-based trainers/sales ambassadors. The returns from the bank's investment in the highly integrated delivery and distribution channel and systems are now apparent. The bank now has 6,300 M-Chama group accounts and 116,302 individual group member accounts having been opened between January 2016 to date (January, 2020).

The scheme below represents a representation of how KPOSB groups savings account operation. As shown, the initiative comprises, awareness creation and training to groups.

Figure 9: Schematic representation of KPOSB operations with savings groups



• "Banki kwa mfuko" is phrase in Kiswahili that means "bank in a pocket" referring to banking through the mobile phone.
• Mashinani means at the local level e.g. village level

[50] Chama is a Swahili word that means a group or association of people that have pooled together to better their welfare. M-chama refers to mobile group account offered by Kenya Post Office and Savings Bank.

For the model to hold, the number of savings accounts, volume of transactions and the value of deposit balances are key to maximizing marginal revenue. Operational costs (staff, marketing & maintenance) are the main cost drivers.

Success factors

Four areas that underpin the success of KPOSB's savings groups' linkages service are:

- **Strategic partnerships:** The bank partnered with a local NGO before deploying its own staff to open accounts for existing groups. The bank also worked with other market development partners like FSD Kenya to test digital solutions for savings groups.
- **Pricing strategy:** Being a public bank, KPOSB is known for its fair pricing strategy. The group accounts are therefore priced fairly compared to competitors.
- **Leveraging on legacy technology and new digital rails:** The bank's digital transformation is guided by a corporate digitalization strategy that ensures a seamless integration between legacy and new innovative systems. Through leveraging existing systems and effecting incremental innovations, KPOSB has proved -through its m-chama innovation, that successful linkage does not always need to be driven by breakthrough innovations. The bank, for instance, uses tablets and scanners to open accounts off-line and provides mobile banking services to savings groups to enable groups to transact through agents.
- **Customizing customer training:** This was a critical component especially when linking informal groups in remote locations.

Challenges faced

- **Costs:** The bank indicated that it required external funds to purchase the equipment and banking system necessary to effectively serve savings groups, especially those in remote locations. While it was not possible to access the exact cost structure, there were indications that the bank purchased additional tablets, scanning machines and installed software to enable online registration and account opening for informal groups.
- **Human resources:** Savings groups are located in rural areas and widely dispersed. Staff travel far from branches to reach the groups for awareness creation, training groups on bank products and services and account opening. To effectively reach a wide area requires adequate, trained and dedicated human resources. It is challenging to dedicate staff on a pilot initiative given other competing demands for human resources.

Lessons

- Reducing hassle factors that inhibit access and improving quality of field team touchpoint experience increases the overall quality of the savings deposit portfolio.
- Integrating conventional and alternative channels is critical to maintaining a seamless service strategy for the linkage. The model still relies on a branch-based marketing and savings mobilization mechanism to stimulate demand. Agency and mobile banking are deployed as a complementary resource to optimize this approach.
- The savings groups primarily use bank accounts to safely store value of their collections. Savings groups therefore have higher deposits than withdrawals. Ensuring better cash deposit services and processes is therefore very important to effectively serve savings groups.
- Research on the needs of savings groups is important. The bank undertakes a number of small-scale and targeted research to understand the needs of different types of savings groups. This provides the bank with insights to be more customer-centric and develop value-added services e.g. term deposits where the group can lock some of its deposits for higher interest income.
- Customer segmentation ensures that the bank develops appropriate strategies and marketing tactics. For example, KPOSB required additional information and communication technology equipment to better serve groups in remote rural locations.

LIST OF TOOLS

Tool 1 Savings groups market assessment tool

Customer behavior assessment:	What is the nature of savings groups customer behavior and demand for formal financial services?
Tool objective:	Market appraisal
Source of information:	Saving groups members
Key questions to explore:	• How widespread are savings groups in this market? (e.g. location/region/country) • What is the nature of savings groups in this area? e.g. purpose, group size, cycles, contributions, etc. • What are the needs and demand for formal financial services among savings groups and their members? e.g. savings, credit services • What are the group members' views on formal financial service providers? • To what extent do existing savings groups use mobile banking and mobile money? • What is the level of financial literacy among the groups' leaders or members? • What are the behavioral constraints that may need unlocking to tap into existing customer demand?
Source of data	• Central Bank reports • FinScope surveys • Financial diaries reports • SAVIX platform data • Facilitating NGOs program or project data and reports • Reports by UNCDF, CGAP, INGOs, FSD Africa, MicroSave etc.
Market assessment methods	• Interviews with key informants • Focused Group Discussions with savings groups members • Quantitative data analysis • Mystery shopping/participant observations about processes, service quality levels and group leadership and management
Tools	• Simple assessment matrix i.e. a simple table on MS Word or Excel spreadsheet that summarizes the market context in terms of (among others) • Estimated number of savings groups • Summary of nature of groups • Savings groups' views and perception of FSPs • Use of financial technology e.g. digital financial services • Level of financial and digital literacy • Challenges and risks

Tool 2 Savings groups market analysis

Market analysis:	What is the nature of competition and partnership opportunities in the savings groups market?
Tool objective:	Competition or partnership assessment or both
Source of information:	Implementing NGOs, Savings groups leaders, Apex bodies, FSPs etc.
Source to SGs	**Key areas to explore:** • Which institutions facilitate identification, formation, training and technical support to savings groups? • Which apex institutions that support savings groups exist? • What is the role of the Apex institutions with regards to savings groups? • How can your FSP partner with these institutions e.g. strategic, operations funding?
Competition for the SGs segment	• Which FSPs are already providing services to savings groups? • What linkage model have the FSPs adopted? • Which locations, regions of the country are the FSPs operating in? • How long have the FSPs been serving savings groups? • What is the FSPs performance in this segment?
Services offerings & delivery channels	• What product and services do other FSPs offer savings groups/members? • What delivery channels are they using e.g. branches, agents, digital platforms etc.? • What is their staff compliment serving the savings groups segment?

Tool 3 Savings groups linkage environmental scan

Environmental analysis:	What are the regulatory and ecosystem factors to consider before linking with savings groups?
Tool objective:	Assess regulatory requirements
Source of information:	FSPs Apex / Network organizations, Central Bank, Government Ministries etc.
Regulation	• What are government requirements on savings groups to operate in an area? • What are the regulatory requirements? For example, the requirements by the central bank to introduce a new product / service? • What compliance requirements should the FSP focus on e.g. capital adequacy ratios, fiscal and legal requirements? • What engagement with regulators, apex bodies, etc. are required to enable efficient implementation of the savings groups' linkages business strategy? • What risks will the FSP likely face when they serve the savings groups market segment? • How does the FSP intend to mitigate the identified risks?
Ecosystem factors	• What technical assistance service providers exist to support the FSP? • What partnerships can the FSP develop with apex bodies, NGOs etc.? • What formal financial services can be refined to serve savings groups?

Tool 4 List of indicators for business case analysis

Attributes	Indicators
Background information	• Country • Financial service provider • Linkage model • Facilitating agency • Other partners (mobile money agency) • Linkage since
Outreach and growth	• Number of savings groups members • Number of savings groups • Total savings groups in the country (Facilitated and Unfacilitated) • Total number of depositors for the FSP[51] • Total number of borrowers for the FSP • Growth of savings groups members • Growth of savings groups • Saving groups contribution to deposits • Saving groups contribution of borrowers • Market share of the financial service provider in savings groups' linkages
Savings and loans	• Total deposits mobilized from savings groups • Total outstanding loans to savings groups (and / or their members) • Aggregate deposits mobilized by the FSP • Aggregate loans and advances by the FSP • Portfolio quality (30 days) for outstanding loans to savings groups (or their members) • Portfolio quality (30 days) for all loans and advances for the financial service provider • Growth of savings groups deposits • Growth of savings groups (and their members) loans • Saving groups deposit contribution to overall FSP deposits • Savings group contribution to loans and advances
Financial analysis	• Interest income • Other operating income (transaction fees and commissions, non-funded income) • Interest expenses • Operating expenses • Total assets • Total liabilities • Rate of interest paid to savings group • Cost of funds for savings groups deposits • Cost of funds for the financial service provider • Interest earned from savings groups loans • Non-funded income • Aggregate gains from financial intermediation to savings groups

[51] There should be a distinction between groups and individual members where the FSP provides accounts and other services to both the savings groups (as an entity) and individual group members.

Tool 5 Business case study data sheet

- Thank you for your accepting to discuss with us the savings groups' linkages program.
- My name is ____________ (and my colleague is ____________). I am/we are from MSC, a financial services consulting firm with offices in Kenya, Uganda, Senegal and India.
- UNCDF MicroLead Program has contracted MSC to design a Toolkit to help financial institutions to implement savings groups' linkages. Your bank/MFI has been selected to contribute to the development of this Toolkit. Your contribution will help other institutions and savings groups across Africa.
- Any information and data you provide will be kept confidential. Your experience will help UNCDF to develop the Toolkit to enable other institutions to effectively serve savings groups in other countries.
- Once again thank you for your support with this work.

Warm up questions	
Institutional profile	**General questions:** • Institution name • Type of institution • Number of staff members • Number of branches • Deposits (2017, 2018 & 2019) • Loan Book: (2017, 2018 & 2019) • Savings groups Accounts (2017, 2018, 2019)
Core questions	

Strategy	• What is the current strategic direction of the FSP? e.g. focus on the mass market or corporate, digital transformation, downscaling etc.
	    • xx
	    • xx
	• What is the expected contribution of savings groups to overall business? For example,
	    • Deposits
	    • Loans
	    • Profits
	    • Others
	• What is the vision of the FSP about the savings groups?
	• What are the strategies to scale up FSP-SG linkage business? (Probes: Linkage model, partnerships, products, etc.)
	• How does the FSP intend to leverage on partners like UNCDF to FSP-SG linkage business goals?

Savings group linkage model	• How would you describe the savings groups' linkages model your institution has implemented? What have been the challenges you have experienced? • What have been the lessons learnt so far? • What are the business opportunities you see in the savings groups segment? How does your institution plan to seize these opportunities?
Delivery channels	• What delivery channels have you adopted to serve savings groups? What challenges have you faced with the delivery channels? • How do you manage your agents? Are they registered? Probe: if uses agents: - incentive scheme, liquidity management and cash security.

Consumer Protection and Financial Education	• What are the KYC requirements for savings groups or individual savings groups members to get services from FSP? What of savings groups members? What complaints do you hear from the savings groups (leaders or members)? • How easy is it for a group to make a complaint? • How are complaints resolved? • What are the specific challenges with digital channels? • How do you address these digital related challenges? • Does your institution provide direct financial education or digital literacy to savings groups? • If yes, who is responsible for this? • What (human)resources does the FSP have to undertake the literacy activities? • If no, with whom do you partner to provide financial education or digital literacy to savings groups? • What is your budget for the literacy activity?
Competition	• Which other banks or MFIs in this region are involved in savings groups' linkages? • How do you relate to such institutions involved in savings groups' linkages in your areas of operation? • How has such competition affected your services to savings groups?
Financial performance	• How many deposits have you mobilized from savings groups? e.g. 2018 and 2019? How many loans have you disbursed to the savings groups? What is the repayment rate of loans to savings group? • How does your FSP consider that level of loan repayment by savings groups (Bad /Good/Excellent) • What is the repayment rate of loans to individual savings groups members? • How does your FSP consider that level of loan repayment by individual savings groups members? (Bad /Good/Excellent)

Tool 6 Sample Financial Data Sheet (for manual data collection)

Attributes	Parameters[52]	FY 2019	FY 2020	FY 2021	FY 2022
Outreach & growth	Total number of savings groups				
	Total number of savings groups members				
	Total number of depositors				
	Growth of savings groups members				
Savings and loans	Savings groups' contribution to deposits				
	Total deposit mobilized				
	Total outstanding loans				
	Aggregate deposits				
	Saving groups' contribution to loan portfolio				
Financial analysis	Interest income				
	Other operating income				
	Operating expenses				

[52] There should be a distinction between groups and individual members where the FSP provides accounts and other services to both the savings groups (as an entity) and individual group members.

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ABOUT **UNCDF**

The UN Capital Development Fund (UNCDF) makes public and private finance work for the poor in the world's 47 least developed countries (LDCs). With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. This last mile is where available resources for development are scarcest; where market failures are most pronounced; and where benefits from national growth tend to leave people excluded. UNCDF's financing models work through three channels: (1) inclusive digital economies, which connects individuals, households, and small businesses with financial eco-systems that catalyze participation in the local economy, and provide tools to climb out of poverty and manage financial lives; (2) local development finance, which capacitates localities through fiscal decentralization, innovative municipal finance, and structured project finance to drive local economic expansion and sustainable development; and (3) investment finance, which provides catalytic financial structuring, de-risking, and capital deployment to drive SDG impact and domestic resource mobilization. By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty with a focus on reaching the last mile and addressing exclusion and inequalities of access. At the same time, UNCDF deploys its capital finance mandate in line with SDG 17 on the means of implementation, to unlock public and private finance for the poor at the local level. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile, UNCDF contributes to a number of different SDGs and currently to 28 of 169 targets. For more information, please visit www.uncdf.org. Follow UNCDF at @UNCDF on Twitter.

ABOUT **MICROLEAD PROGRAM**

The MicroLead Expansion (MLE) program (2011-2018) aimed to increase access to formal financial services, particularly savings services, to the low-income people (particularly women) in Sub-Saharan Africa and Asia. The MLE program supported FSPs and Technical Service Providers (TSPs) with savings-led methodologies to expand operations to new, underserved rural markets. It works with 21 partners in 11 countries (Benin, Burkina Faso, Burundi, Cameroon, Malawi, Ghana, Liberia, Tanzania, Rwanda, Uganda, and Myanmar) to strengthen knowledge around the development of savings products, alternative delivery channels, behavioral economics, marketing and sharing best practices among financial services communities and beyond.

ABOUT **MSC**

MSC (MicroSave Consulting) is a boutique consulting firm that has, for 20 years, pushed the world towards meaningful financial, social, and economic inclusion. With 11 offices around the globe, about 190 staff of different nationalities and varied expertise, we are proud to be working in over 50 developing countries. We partner with participants in financial services ecosystems to achieve sustainable performance improvements and unlock enduring value. Our clients include governments, donors, private sector corporations, and local businesses. We help institutions seize the digital opportunity, address the mass market, and future-proof their operations. For more information, please visit www.microsave.net. Follow MSC at @MicroSave on Twitter.

ABOUT **MASTERCARD FOUNDATION**

Mastercard Foundation works with visionary organizations to provide greater access to education, skills training and financial services for people living in poverty, primarily in Africa. As one of the largest private foundations its work is guided by its mission to advance learning and promote financial inclusion to create an inclusive and equitable world. Based in Toronto, Canada, its independence was established by MasterCard when the Foundation was created in 2006.

For more information and to sign up for the Foundation's newsletter, please visit www.mastercardfdn.org. Follow the Foundation at @MastercardFdn on Twitter.

ABOUT **LUXEMBOURG COOPERATION**

Burkina Faso became a partner country of Luxembourg Cooperation in 1996. The two countries signed a general cooperation agreement on October 27, 1999. In November 2006, a Luxembourg Cooperation Office was set up in Ouagadougou to join the Office of the Luxembourg Agency for Development Cooperation, Lux-Development, present since 2003. In 2013, this office was transformed into an embassy. The first Indicative Cooperation Program (ICP), a document determining Luxembourg's multi-annual cooperation strategy in Burkina Faso, was signed in 2003. Currently, the third ICP covering the period 2016-2021 focuses on the sectors of sustainable management of natural resources, education and vocational training as well as new communication technologies.

Since the early 1990s, Luxembourg cooperation has supported the development of microfinance and inclusive finance as instruments for promoting development and eradicating poverty. Luxembourg's objective is to give disadvantaged populations access to basic financial services such as borrowing, savings, money transfer and microfinance while investing above all in inclusive finance programs focused on women and rural finance.

ABOUT **PARI**

The Program to Assist the Resilience of populations in Burkina Faso through financial and digital Innovations (PARI) covers a period of 36 months with funding from Luxembourg. Its ultimate goal is to contribute to improving the economic and climatic resilience of populations in Burkina Faso through the development of a more innovative, inclusive and sustainable economy, creating stable and decent jobs for women, young people, farmers and micro, small and medium-sized enterprises (MSMEs). The overall objective of the Program is to: Contribute in a sustainable way to increasing productivity and income by taking advantage of the potential of digital innovations - financial and non-financial - for improving access to finance and opportunities economic benefits for women, young people, farmers and MSMEs.

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