ECONOMIC STRENGTHENING FOR VULNERABLE POPULATIONS

Protection: Savings Groups

KEY POINTS

- Savings groups (SGs), also called Village Savings and Loan Associations, provide cash-scarce households with a secure place to save and the opportunity to borrow small amounts of money on flexible terms.
- Members of SGs gain hands-on financial literacy knowledge through participation in group meetings.
- Many SGs elect to create a social fund to respond to emergencies amongst members and in their community.
- SGs have been introduced successfully in many different contexts across the world, with reported effects ranging from increased social capital, to improved gender relations, to promotion of women's leadership.
- Emerging evidence shows that households participating in SGs see impact in the following areas: savings creation, asset accumulation, consumption smoothing, and working capital expansion.
- The evidence base for SGs has thus far demonstrated increased household expenditures with improved timeliness on education and health with positive impacts on resilience and food security.

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For more information on LIFT II, please visit our website: www.theliftproject.org

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INTRODUCTION

From remote rural areas to urban slums, saving groups (SGs) provide cash-scarce households with a secure place to save and the opportunity to borrow small amounts on flexible terms, while earning a return on their deposits. Many studies have shown that low income households rely on SGs to accumulate usefully large lump sums of money for a variety of reasons, from gathering sufficient cash for school fees to meeting family emergencies such as illnesses, both of which often cost more than the household's monthly income could cover.

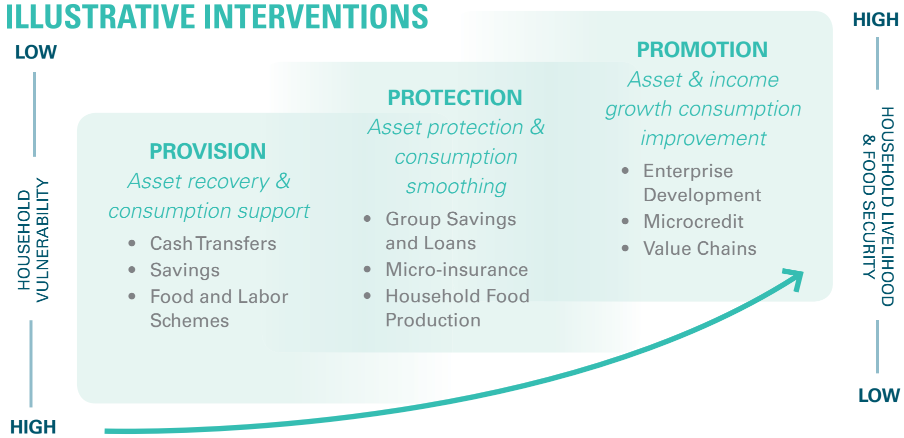
For the more than 7 million people in 300,000 SGs across the world, SGs have become an important vehicle not only to gain access to financial services but also to learn and apply concepts of financial literacy.[1] Core financial literacy principles such as saving regularly, borrowing within one's means, understanding interest costs and return on investment, and planning for loan repayments are reinforced on a regular basis. In addition, SG members report that their groups have increased social capital, improved gender relations, and promoted women's leadership.

WHAT ARE SAVINGS GROUPS?

SGs are informal, member-owned, community-based groups providing financial services. They are composed of 15-30 self-selected members who agree to save together and use their pooled savings as an interest-bearing loan fund from which to borrow. Many groups elect to create a social fund to help members respond to emergencies within their households and the community. Groups set their own terms and rules that govern members' savings and borrowing, which occurs over the course of a 4-12 month cycle. At the end of each cycle, groups divide or "share-out" their funds to members. After share-out, the group typically starts another lending and saving cycle and new people can join at that time. In sum, SGs allow members to:

- Accumulate meaningful lump sums by the end of the 4 -12 month cycle.
- Have convenient and quick access to small loans for investment or consumption.
- Access grants or no-interest loans from the social fund to help respond to emergencies.
- Increase their financial discipline and literacy.
- Benefit from group solidarity and social capital that grows as members successfully save together and build trust.

LIVELIHOOD STRATEGIES & ILLUSTRATIVE INTERVENTIONS



[1] Data from SAVIX database at http://www.savingsgroups.com/.

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MAIN FEATURES OF SAVINGS GROUP PROGRAMS

TARGETING: Ensure that savings group participants self-select and are allowed to include members of the broader community.

GROUP SIZE: Consider limiting the size of the groups to between 15 and 30 members. In larger groups, it is harder to maintain trust and transparency. Smaller groups are challenged to accumulate capital.

CYCLE LENGTH/FREQUENCY OF MEETING: Ideal cycle length is 9-12 months. Encourage meeting weekly or bi-weekly; discourage monthly.

CONSTITUTION/BY-LAWS: The rules and regulations of SGs should be included in a written document that outlines the roles and responsibilities of the management committee, frequency with which the committee will be re-elected, how the emergency fund will be used, and share purchase/savings and loan policies.

SG KIT: Every group should have access to a kit of equipment that includes at a minimum a cash box, padlocks, each with two keys, passbooks, and member cards. The box keeper holds the cash box and safeguards it between meetings. The box should be locked at the end of the meeting and keys held by different members as a security measure.

SAVING AMOUNTS: Support groups to set a share value that all members can afford. Encourage flexibility in required weekly saving amounts, though it is advisable to impose limits on missed deposits. Do not provide "matching funds" to as it undermines the fundamental autonomy and sustainability of the approach.

LOAN TERMS: Promote short loan terms (1-3 months) in the first cycle and no more than 6 months in later cycles. SGs should review loan policies each new cycle, and should consider setting interest rates at or above market rates. Loan amounts should also be pegged to amounts saved by each member.

SOCIAL FUND: Encourage establishment of a social fund within SGs and set contribution amounts. Help members determine criteria for accessing the social fund.

TRANSPARENCY: Insist on rigorous record keeping and carry out all transactions in front of members.

SHARE-OUT: Ensure all loans are repaid in full before share-out. Groups must decide whether remaining money in their social fund should be distributed equally among members or carried over to the next cycles.

EXIT STRATEGY: A program's ultimate goal is to create SGs that eventually operate independently. Invest in local, community-based SG volunteers or fee-for-service agents who can continue to form SGs, help older groups as needed, and contribute to the ongoing presence of sustainable groups over time.

WHO CAN BENEFIT MOST FROM SAVINGS GROUPS?

The flexibility of the SG model makes it appealing to a wide range of individuals. While a very poor group of people can and do save together successfully, SGs are not recommended for the destitute. SGs are most appropriate for households and individuals who are:

- Engaged in an economic activity (or receive temporary cash transfers or food vouchers) that enables them to save, even if amounts are small.
- Satisfied with slow accumulation of capital, and better at using small amounts of capital effectively.
- Rural or urban poor with a heavy emphasis on women, youth, and socially excluded populations.

CHARACTERISTICS OF SAVINGS GROUPS PROGRAMS

Successful SGs include the following:

Autonomous: Members establish rules governing their group: meeting frequency, savings amount, loan terms, and social fund policies. The group functions with its own capital only—from savings, loan interest, and fees.

Transparent: Only elected officers handle money: all transactions are done in front of members at the group meetings. All surplus cash (cash not issued as loans) and member financial records are kept in a lock box between meetings, with access to the box shared among group members holding several keys.

Time Bound: At the end of the cycle, groups share out all their money to participants, in proportion to the amount each saved, commonly with the expectation that shared funds will be mobilized for investment or consumption. Most members then start saving over again in a new 4-12 month cycle.

Cost Effective: SGs avoid most of the transportation, communications, infrastructure and personnel costs incurred by MFIs or banks, thus reducing the costs to deliver financial services. MasterCard Foundation estimates that the cost per member for the startup of SG's ranges from $20-$60 in Africa and $10-$20 in Asia.[2]

Sustainable: Part of the promise of SGs is they can and do operate independently. But to achieve that goal, groups need training and ongoing supervision. The Field Agent is a trainer and supervisor. Field Agents should fully understand the model and give SGs time to master their own operations—to develop trust in the process and confidence in themselves.

SGs work because the model acknowledges the value of a group while respecting the individual's need to understand and trust what happens in the group. SGs are built on the very important premise that poor people can save, especially when they have the option to deposit (and thus put out of reach) small amounts safely and securely. Emerging evidence, through a synthesis of seven prominent randomized control trial (RCT) evaluations, shows that SGs are reaching the very poor with 34-81 percent of SG participants living below the $1.25 poverty line. The evidence base for SGs has thus far demonstrated significant impacts on food security and household resilience with weaker evidence of increased education and health spending.[3]

[2] Jennifer Singer. Briefing Note: Backgrounder on VSLA's. The MasterCard Foundation. http://www.mastercardfdn.org/pdfs/VSLA_Website_Brief.pdf

[3] Meaghan Gash and Kathleen Odell (2013). The Evidence Based Story of Savings Groups: A synthesis of Seven Randomized Control Trials. SEEP Research. http://www.seepnetwork.org/the-evidence-based-story-of-savings-groups--a-synthesis-of-seven-randomized-control-trials-resources-1206.php.

This publication is part of a practitioner oriented technical note series featuring economic strengthening interventions. It provides an overview of savings groups for consumption smoothing in the household vulnerability continuum of provision-protection-promotion. Additional savings groups briefs address program elements, implementation, and M&E. LIFT II matches beneficiaries with appropriate household economic strengthening (HES) activities based on three categories of vulnerability.