

ECONOMIC STRENGTHENING FOR VULNERABLE POPULATIONS

# Protection: Savings Groups



## KEY POINTS

- Savings groups (SGs) are stable and are increasingly seen as permanent institutions in their communities.
- SG governance structure promotes democratic and disciplined cohesive groups. With these embedded practices, members may apply discipline, democratic decision-making and accountability to other activities, fostering socioeconomic improvement at the individual and community levels.
- Women make up the majority of SG members, and they are more likely to invest resources in their families and to maximize benefits for their children.
- SGs are an efficient platform upon which to implement other development interventions.

## INTRODUCTION

Savings groups have earned recognition and, increasingly, respect for their appeal and relevance to those who have limited access to formal financial services. Savings groups are cost-effective and simple—and they follow a set of procedures for saving and lending that are easily taught and hence are widely replicated. As an economic strengthening strategy, SGs attract participation from diverse segments of the population including vulnerable households and more economically stable women, families and youth. SGs have demonstrated positive outcomes for beneficiaries, and the model has taken on new functions and become a platform to deliver other services that benefit members, their households and the broader community. These diverse combinations of financial services and other development activities are grouped under the label *Savings Group Plus* (SG+) and include add-on activities in health, HIV and AIDS, nutrition, education, enterprise development, etc.

## UNDERSTANDING THE CONTEXT FOR SAVINGS GROUPS

SG programs have been introduced successfully in many different contexts around the world. In fact, cycle-to-cycle member retention across five years has been observed as high as 99%.<sup>1</sup> It is critical to understand the operating environment and community contexts when designing and implementing SG programs—populations with ready access to formal savings and lending services may not find SGs relevant. However, specific target groups—such as the very poor, populations living with HIV and AIDS, or orphans and vulnerable children and their caregivers—may face barriers to accessing these services, such as time and transactional-cost constraints; therefore, these groups will likely place a high value on participation. Where SG programs aim to serve a particular population, implementers must find a balance between deliberate inclusion of target individuals and the core self-selection principle of SG methodology. This is an inherent challenge, but more successful efforts generally promote mixed membership with both target and non-target populations in the same groups. These programs typically link SG formation to other programs serving the target population, with community mobilizers or facilitators providing socially appropriate encouragement of target inclusivity while not intruding on the group’s self-selection for its remaining members.

Location and time of group meetings need to respond to potential limitations on the movement of women in public or on safe and appropriate places for young people. In Muslim communities with restrictions on charging interest, programs have sought leaders’ permission to operate and have adopted Islamic-friendly lending practices. Additionally, common literacy levels among group members allows for greater parity. If all members are illiterate the record-keeping can be more complicated, but innovative solutions make this possible.

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For more information on LIFT II, please visit our website: [www.theliftproject.org](http://www.theliftproject.org)

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## LIVELIHOOD STRATEGIES & ILLUSTRATIVE INTERVENTIONS



<sup>1</sup> <http://thesavix.org/research/ratios>



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## SAVINGS GROUPS DO'S & DON'TS

### DO

- ✓ Always let members self-select for group formation.
- ✓ Maintain low barriers to entry.
- ✓ Ensure that procedures are simple enough for all members understand and for groups to manage independently.
- ✓ Invest in developing the field agent's facilitation and problem-solving skills.
- ✓ Adjust field agents' caseload to reflect all responsibilities assigned.

### DON'T

- ✗ Distribute free goods to/through SGs.
- ✗ Provide monetary incentive to boost members' savings or try to "buy" engagement in add-on activities.
- ✗ Require SG members to pay for program activities with their SG loans or share-out.
- ✗ Expect field agents to be experts in too many different content areas, in terms of both SG management and add-on implementation.

## IS YOUR ORGANIZATION READY TO IMPLEMENT A SAVINGS GROUPS PROGRAM?

The simple methodology and low-cost of promoting savings groups makes it an appropriate intervention for non-financial organizations to lead. Nevertheless, sufficient funding to cover specialized staff, outreach, training and monitoring is necessary for a successful program. An organization may be ready to implement an SG program when:

- It has a **mission** that supports long-term community development and a **commitment** to community-led initiatives.
- Its **culture and policies** allow for discussing money with clients and for applying financial charges in the form of loan fees or interest.
- It can gather **experienced community mobilizers** with the ability to manage field agents in each locale.
- It either has or can access a **robust management information system** with personnel to enter and analyze data on savings and lending activity.

## MANAGING RISK

There are risks in running SGs, particularly since money is being exchanged among members. Common risks and mitigation methods include:

RISK	ACTION
<b>Financial service providers/external agencies</b> As SGs form and establish positive savings and credit practices, they become a more attractive market to financial institutions seeking new clients.	Members must develop capacity to decide which opportunities to accept; increased financial literacy capacities should be built for informed group decisions in this area. <sup>2</sup>
<b>Security</b> A significant amount of money in one place during this short period can pose a security risk.	SGs may choose to open a bank account to hold excess savings. In times of high liquidity, members may divide up cash for safekeeping until share-out, with non-disclosure of funds and their location.
<b>Add-on activities</b> Add-on activities are likely to be more complicated. If the time commitment required for the additional activity increases the opportunity costs beyond perceived and/or real benefit, the add-on is likely to destabilize group cohesion and lead to its failure.	Anticipate complexity and required commitment, and plan for the time and resources necessary. Assess members' limits to absorb and manage additional activities—add-on activities must be demand-driven and deliver true value to SGs.

## COST CONSIDERATIONS

SG programs are not expensive on a per member basis, with staff and transport being main cost considerations. Costs vary across organizations but typical projects have an average cost per member of USD 22.2,<sup>3</sup> with economies of scale only having an initial impact—costs are primarily driven by the group outreach targets. As the number of SGs increases, so will the recurring costs. Most organizations set targets to realistically reflect the quality and number of staff, the population density and travel distances, anticipated demand, and the number of groups at different stages—formation, training, monitoring, graduated—that a single agent can manage at any given time. Specific budget items include:

- A **demand/formative study**
- **Staff** (manager, field supervisors, field agents/trainers, data entry staff)
- **Transport costs** for staff group supervision: foot, bus, bicycle, motorcycle, etc.
- **Training** for staff, including community volunteers or fee-for-service agents
- **Material toolkits** for each group (calculator, passbooks, pens, notepad, ruler, tokens—depending on literacy level, group model and groups paying for their lock boxes)
- Specialized **technical assistance** (TA) to help plan implementation, growth and efficiency metrics, and staff training and supervision needs on the SG methodology and M&E as well as additional TA to support add-on activities

## EXIT STRATEGY AND SUSTAINABILITY

A program's ultimate goal is to create SGs that eventually operate independently. After initial formation, training, and monitoring, SGs typically mature to function independently, and even replicate. Thousands of autonomous groups managing their own financial services without external subsidies justify initial investments. However, investment 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 increases the likelihood of achieving this goal. While SGs often self-replicate, add-on services seldom do so without external continued assistance—groups with additional services and add-on programs may require ongoing external assistance with accompanying costs. Finally, group needs evolve over time, potentially requiring renewed external assistance to connect with banks or other entities to manage excess liquidity or access larger loans.

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 briefs address overarching program elements and M&E. LIFT II matches beneficiaries with appropriate household economic strengthening (HES) activities based on three categories of vulnerability.

<sup>2</sup> In the case of loan offers from banks and microfinance institutions, members must evaluate the financial risks and weigh costs and returns. SG facilitating agencies can act as intermediaries between financial institutions and SGs as well as ensure the financial literacy of members.

<sup>3</sup> <http://vsla.net/home>, accessed July 14, 2014.