Savings Groups and Self-Help Groups

Two savings-led group models have emerged over the past decade as a means of reaching poor households that are largely neglected by current financial service providers: Savings Groups (SGs), primarily in Africa, and Self-Help Groups (SHGs), predominantly in India. This case study explores the similarities and differences of these two models. While SGs and SHGs differ in approach and purpose, in practice both function in similar capacities.

Learning Initiative Objectives

This research study is one of a series of studies sponsored by the Aga Khan Foundation’s Savings Groups Learning Initiative funded by AKF and The MasterCard Foundation. The Initiative examines how SGs are used as a platform for development activities and how linkages to other services take place and with what benefits to group members. It considers how financial services combined with other development activities add value for individual members of the groups, for the groups as entities in themselves, for the agencies facilitating SG development and offering the linked activities, and for the wider community. The Initiative also explores the sustainability and replicability of SGs, thus examining long-term access to financial services for the poor.

Savings Groups (SGs)

SGs refer to self-managed community-based groups that provide their members access to basic financial services. SGs are composed of 15 to 25 self-selected individuals who meet regularly (usually weekly or fortnightly) to save and, if desired, borrow for short periods, paying monthly interest at a rate set by the group. After approximately 12 months, all savings and earnings are distributed back to group members (often referred to as a share-out). The earnings usually are distributed in proportion to their savings. SGs respond directly to the unmet financial services needs of the remote and rural poor by providing: i) a secure place to save; ii) the opportunity to borrow in small amounts and on flexible terms; and iii) affordable basic insurance services. SGs aim to increase household financial assets and to decrease household vulnerability to financial and other shocks.

SGs are a simple, transparent, cost-effective and sustainable means of providing entry-level financial services to people who are too poor or isolated to be served by other financial service providers. For this reason, they are being actively promoted by leading international development agencies including CARE, Catholic Relief Services, Oxfam America, the Aga Khan Foundation (AKF), PLAN International, and others including national and local partners. The number of SG members has grown rapidly to about three million people at the end of 2009, mostly in Africa, but with increasing numbers in Asia, including Central Asia, and a few

Shared Learning

SHGs can learn from SGs how to maintain a strong savings-orientation, to ensure the balance of internal to external funds, and to simplify recordkeeping. As SGs begin to build up balances and expand external relationships, they can learn from both the successes and the challenges of SHGs, including how to negotiate appropriate linkage and platform relationships. In Kenya and Namibia, for example, high-performing post office banks are being considered as financial partners for SGs. The bank and savings group linkage experience also presents some cautionary lessons. Increasingly credit-focused, some SHGs have become over-leveraged and suffer from limited savings, over-indebtedness, poor repayment and loan default.

Sustainability and Scale

Financial sustainability at the group level seems easily attainable for both SGs and SHGs. Although the simpler SG systems have a more limited range of products, they are more easily managed by the members themselves. The more complex the system becomes, the greater the groups’ dependency on external support.

SHGs have achieved large scale through linkages with financial institutions and viability has been demonstrated at both group and bank levels. SGs expand through replication which is increasingly facilitated by community based ‘agents’ who, when paid by the groups they train, can achieve scale sustainably.

improvements in federation governance, staffing and organizational processes.

The Aga Khan Development Network (AKDN) is a group of private development agencies working to empower communities and individuals, often in disadvantaged circumstances, to improve living conditions and opportunities, especially in Africa and Asia. Its agencies work in over 30 countries for the common good of all citizens, regardless of their gender, origin or religion. Its underlying impulse is the ethic of compassion for the vulnerable in society.

For further Information:
Aga Khan Development Network (AKDN)
1-3 Avenue de la Paix
1202 Geneva
Switzerland
Tel: +41 22 909 7200
Fax: +41 22 909 7291
E-mail: info@akdn.org
Website: www.akdn.org

The Learning Initiative is generously co-funded by:

The MasterCard Foundation

AKF SAVINGS GROUPS LEARNING INITIATIVE

October 2010. Information contained in this brief can be reproduced with acknowledgment to AKDN. Photo credit: AKDN / Hugh Alex Sommervoldpaday, Jean-Luc Rey
The vast majority of SHGs in India are linked to banks; after a group saves in a deposit account for a designated period, it can access a bank loan which it then on-lends to its members. Bank loans require ledgers to be kept, often necessitating ongoing external support.

The SHG model is a financial systems approach to expanding outreach of the Indian financial sector, already a relatively inclusive sector. The SG model, in contrast, was initiated as a poverty alleviation approach to ensure access in rural contexts of Africa, where few options for financial services exist.

Depth of outreach of SHGs is mixed in terms of wealth categories. A study, jointly commissioned by CARE, CRS, USAID and GTZ, of 2,968 members across India found that 51 percent of SHG members are poor, including 15 percent very poor; another 32 percent borderline (or vulnerable non-poor), and 17 percent non-poor. The study makes the important point that India’s banking sector excludes more than just the poor, so reaching a wide range of wealth levels is warranted.

Cover Photo: Each SG typically has a box with three locks and three keys held by different members. In addition to keeping the savings of the group safe, the box also holds the member passbooks as well as a calculator to verify interest earned and total savings. Some groups open bank accounts for excess liquidity.

Self-Help Groups (SHGs)

A predominately Indian phenomenon, SHGs consist of 20 to 30 people, usually women, whose objective is to save, borrow and invest funds. NGOs, government agencies and banks organize and support SHGs, training their members to manage savings and credit activities. The vast majority of SHGs are linked to banks.

The process for the bank-SHG relationship involves an initiatory period, during which a group deposits savings with the bank for a designated period, usually a minimum of six months, after which it can access a bank loan. The SHG then “on-lends” the loan amount to its members. Depending on the policies of the partner bank, SHGs are able to borrow between three and 10 times their savings, and terms can include both short-term and long-term loans. The group makes a financial spread by charging members a higher interest rate than it pays to the bank. This “profit” is distributed to members, or is added to member savings and used for lending or investment.

SHG members may choose to distribute dividends, but SHGs generally do not “cash out” (distribute all savings and earnings) on a periodic basis. Groups can have loan terms as long as 60 months. Some SHGs allow voluntary withdrawal of savings, but many do not as these funds are used as a guarantee for bank loans.

The Indian government actively promotes the growth of SHGs, mandating that banks dedicate a certain portion of their portfolios to SHG loans. The outreach of SHGs has expanded significantly since the SHG-bank linkage programme was promoted by the National Bank for Agriculture and Rural Development (NABARD), a government agency, as well as other Indian financial institutions.

Their investment strategies, and generally more independent, SGs rely less on written records and use strategies such as oral recitation, recall, simple record keeping and regular “share-outs” that result in an “action audit” where the routine balancing of books eliminates the need for ongoing recordkeeping.

Given the requirements of their external lenders, SHGs maintain ledgers and have more sophisticated risk management strategies, such as maintaining reserve funds and monitoring arrears and portfolios at risk. SHG liquidity management makes records complex and difficult for members to oversee on their own, leaving them dependent on outside technical assistance longer than SGs.

While the general methodologies for SGs and SHGs are distinct in theory, in practice the operations of SGs and SHGs often overlap. For example, Pact/WORTH SGs in Africa and Asia do not “cash out” savings and earnings but roll them over like SHGs. Some SGs in Kenya act more like SHGs with retained savings and longer term loans (up to two years). Furthermore, large numbers of SHGs have not taken external loans because they have limited capacity to absorb credit or are not prepared to take on the costs of managing a bank relationship.

Bank Linkages

Linking SHGs with banks to provide wholesale loans (then managed by the SHGs) reduces transaction costs of providing credit to underserved clients, extending financial service outreach. Particularly in the initial stages, linkages can provide groups a safe place to save and can play an important part in bringing these groups into the formal financial system. Lending to SHGs is profitable for banks because often the costs of group formation are borne by facilitating agencies and the members themselves. Some banks have internalized these costs but in turn must charge higher interest rates on their loans to SHGs in order to make a profit.

Regarding SGs and linkages to external capital, practitioners debate two issues: whether member demand for loans exceeds the group’s supply of capital (generated by internal savings and interest income) and whether groups have the capacity to carry more debt. Many SGs have not maximized the savings and debt capacity within the group. A key debate on SGs is waged between those who believe that external capital provides disincentives for saving versus others who contend that SG demand for larger loans and a wider range of services is not being met. Beyond the oft-debated capacity of individual SGs to expand and link to external capital, the fact remains that many countries lack the financial infrastructure and political will to orchestrate a connection between the two

Federations

While SGs generally remain independent, many SHGs form federations to realize economies of scale and access a wider range of services, such as money transfers, larger and longer term loans, demand deposits and mobile banking. In practice, it is not easy to find well-governed, viable federations of SHGs. Federations can dramatically increase costs and their operational self-sufficiency has yet to be demonstrated. Organizational sustainability of SHG federations is dependent on...

Latin America. SGs are complementary to other financial services; some SG members also use financial services from other providers.

SGs and SHGs: Similarities

Both SGs and SHGs are self-governed, member-based groups. Members determine the majority of the group’s policies (vis-a-vis membership, savings and loans, distribution of earnings, and other issues). Members pool individual savings and rotate an internal fund that provides the basis for loans and an emergency fund (insurance mechanism). NGOs or village agents facilitate SGs and SHGs and work to build capacity, increase outreach and ensure long-term local ownership.

Often SGs and SHGs are linked to wider development programmes. In addition to financial services, both types of group serve as platforms from which members become active in village affairs, stand for local election or take action to address social issues. Examples of activities that they conduct in addition to saving and lending include: bulk purchasing, cereal storage, collective investment and linkages with external service providers for social benefits such as health services, literacy training, or agricultural extension.

SGs and SHGs: Differences

There are two main distinctions observed between SGs and SHGs: i) SGs are time bound. SGs are not; and ii) SGs do not normally link to banks, whereas the majority of SHGs do. As a result, SGs are more informal, less complex in...
The vast majority of SHGs in India are linked to banks; after a group saves in a deposit account for a designated period, it can access a bank loan which it then on-lends to its members. Bank loans require ledgers to be kept, often necessitating ongoing external support.

Depth of outreach of SHGs is mixed in terms of wealth categories. A study, jointly commissioned by CARE, CRS, USAID and GTZ, of 2,968 members across India found that 51 percent of SHG members are poor, including 15 percent very poor; another 32 percent borderline (or vulnerable non-poor); and 17 percent non-poor. The study makes the important point that India’s banking sector excludes more than just the poor, so reaching a wide range of wealth levels is warranted.

Self-Help Groups (SHGs)

A predominately Indian phenomenon, SHGs consist of 20 to 30 people, usually women, whose objective is to save, borrow and invest funds. NGOs, government agencies and banks organize and support SHGs, training their members to manage savings and credit activities. The vast majority of SHGs are linked to banks.

The process for the bank-SHG relationship involves an initiatory period, during which a group deposits savings with the bank for a designated period, usually a minimum of six months, after which it can access a bank loan. The SHG then “on-lends” the loan amount to its members. Depending on the policies of the partner bank, SHGs are able to borrow between three and 10 times their deposits, and terms can include both short-term and long-term loans. The group makes a financial spread by charging members a higher interest rate than it pays to the bank. This “profit” is distributed to members, or is added to member savings and used for lending or investment.

SHG members may choose to distribute dividends, but SHGs generally do not “cash out” (distribute all savings and dividends) on a periodic basis. Groups can have loan terms as long as 60 months. Some SHGs allow voluntary withdrawal of savings, but many do not as these funds are used as a guarantee for bank loans.

The Indian government actively promotes the growth of SHGs, mandating that banks dedicate a certain portion of their portfolios to SHG loans. The outreach of SHGs has expanded significantly since the SHG-bank linkage programme was promoted by the National Bank for Agriculture and Rural Development (NABARD), a government agency, as well as other Indian financial institutions.

SGs and SHGs: Similarities

Both SGs and SHGs are self-governed, member-based groups. Members determine the majority of the group’s policies (vis-à-vis membership, savings and loans, distribution of earnings, and other issues). Members pool individual savings and rotate an internal fund that provides the basis for loans and an emergency fund (insurance mechanism). NGOs or village agents facilitate SGs and SHGs and work to build capacity, increase outreach and ensure long-term local ownership.

Often SGs and SHGs are linked to wider development programmes. In addition to financial services, both types of group serve as platforms from which members become active in village affairs, stand for local election or take action to address social issues. Examples of activities that they conduct in addition to saving and lending include: bulk purchasing, cereal storage, collective investment and linkages with external service providers for social benefits such as health services, literacy training, or agricultural extension.

SGs and SHGs: Differences

There are two main distinctions observed between SGs and SHGs: i) SGs are time-bound. SHGs are not; and ii) SHGs do not normally link to banks, whereas the majority of SGs do. As a result, SGs are more informal, less complex in their investment strategies, and generally more independent. SGs rely less on written records and use strategies such as oral recitation, recall, simple record keeping and regular “share-outs” that result in an “action” audit where the routine balancing of books eliminates the need for ongoing recordkeeping.

Given the requirements of their external lenders, SHGs maintain ledgers and have more sophisticated risk management strategies, such as maintaining reserve funds and monitoring arrears and portfolios at risk. SHG liquidity management makes records complex and difficult for members to oversee on their own, leaving them dependent on outside technical assistance rather than SGs.

While the general methodologies for SGs and SHGs are distinct in theory, in practice the operations of SGs and SHGs often overlap. For example, PactWORTH SGs in Africa and Asia do not “cash out” savings and earnings but roll them over like SHGs. Some SGs in Kenya act more like SHGs with retained savings and longer term loans (up to two years). Furthermore, large numbers of SHGs have not taken external loans because they have limited capacity to absorb credit or are not prepared to take on the costs of managing a bank relationship.

Bank Linkages

Linking SHGs with banks to provide wholesale loans (then managed by the SHGs) reduces transaction costs of delinquency credit to underserved clients, extending financial service outreach. Particularly in the initial stages, linkages can provide groups a safe place to save and can play an important part in bringing these groups into the formal financial system. Lending to SHGs is profitable for banks because often the costs of group formation are borne by facilitating agencies and the members themselves. Some banks have internalized these costs but in turn must charge higher interest rates on their loans to SHGs in order to make a profit.

Regarding SGs and linkages to external capital, practitioners debate two issues: whether member demand for loans exceeds the group’s supply of capital (generated by internal savings and interest income) and whether groups have the capacity to carry more debt. Many SGs have not maximized the savings and debt capacity within the group. A key debate on SGs is waged between those who believe that external capital provides disincentives for saving versus others who contend that SG demand for larger loans and a wider range of services is not being met. Beyond the oft-debated capacity of individual SGs to expand and link to external capital, the fact remains that many countries lack the financial infrastructure and political will to orchestrate a connection between the two

Federations

While SGs generally remain independent, many SHGs form federations to realize economies of scale and access a wider range of services, such as money transfers, larger and longer term loans, demand deposits and mobile banking. In practice, it is not easy to find well-governed, viable federations of SHGs. Federations can dramatically increase costs and their operational self-sufficiency has yet to be demonstrated. Organizational sustainability of SHG federations is dependent on

SGs, as opposed to most SHGs, are time bound. SGs rely on regular “share-outs” that result in an action audit where the books are closed and funds are disbursed back to members, eliminating the need for ongoing records and ensuring transparency.
improvements in federation governance, staffing and organizational processes.

Sustainability and Scale
Financial sustainability at the group level seems easily attainable for both SGs and SHGs. Although the simpler SG systems have a more limited range of products, they are more easily managed by the members themselves. The more complex the system becomes, the greater the groups’ dependency on external support.

SHGs have achieved large scale through linkages with financial institutions and viability has been demonstrated at both group and bank levels. SGs expand through replication which is increasingly facilitated by community based ‘agents’ who, when paid by the groups they train, can achieve scale sustainably.

Shared Learning
SHGs can learn from SGs how to maintain a strong savings-orientation, to ensure the balance of internal to external funds, and to simplify recordkeeping.

As SGs begin to build up balances and expand external relationships, they can learn from both the successes and the challenges of SHGs, including how to negotiate appropriate linkage and platform relationships. In Kenya and Namibia, for example, high-performing post office banks are being considered as financial partners for SGs. The bank and savings and credit group linkage experience also presents some cautionary lessons.

Increasingly credit-focused, some SHGs have become over-leveraged and suffer from limited savings, over-indebtedness, poor repayment and loan default.

Each model presents a critical solution to providing financial services to the excluded demographic in their context. Combined, they represent the fastest-growing, most cost-effective and decentralized model of financial services available today.

Learning Initiative Objectives
This research study is one of a series of studies sponsored by the Aga Khan Foundation’s Savings Groups Learning Initiative funded by AKF and the MasterCard Foundation. The Initiative examines how SGs are used as a platform for development activities and how linkages to other services take place and with what benefits to group members. It considers how financial services combined with other development activities add value for individual members of the groups, for the groups as entities in themselves, for the agencies facilitating SG development and offering the linked activities, and for the wider community. The Initiative also explores the sustainability and replicability of SGs, thus examining long-term access to financial services for the poor.

Savings Groups (SGs)
SGs refer to self-managed community-based groups that provide their members access to basic financial services. SGs are composed of 15 to 25 self-selected individuals who meet regularly (usually weekly or fortnightly) to save and, if desired, borrow for short periods, paying monthly interest at a rate set by the group. After approximately 12 months, all savings and earnings are distributed back to group members (often referred to as a share-out). The earnings usually are distributed in proportion to their savings. SGs respond directly to the unmet financial services needs of the remote and rural poor by providing: i) a secure place to save; ii) the opportunity to borrow in small amounts and on flexible terms; and iii) affordable basic insurance services.

SGs are a simple, transparent, cost-effective and sustainable means of providing entry-level financial services to people who are too poor or isolated to be served by other financial service providers. For this reason, they are being actively promoted by leading international development agencies including CARE, Catholic Relief Services, Oxfam America, the Aga Khan Foundation (AKF), PLAN International, and others including national and local partners. The number of SG members has grown rapidly to about three million people at the end of 2009, mostly in Africa, but with increasing numbers in Asia, including Central Asia, and a few in other parts of the world.