A Guide for Practitioners to the

Typology of Savings Group-Financial Service Provider Relationships

Relations between Savings Groups (SGs) and Financial Service Providers (FSPs) have received a great deal of attention and considerable funding; in the process, they have elicited both enthusiastic support and considerable reservations. Supporters are likely to acknowledge certain risks, while putting the accent on benefits such as safer savings and easier access of poor people to formal financial products; detractors are likely to acknowledge certain benefits, while putting the accent on risks such as changes in the social dynamics of the group, and the problems inherent in risk-benefit mismatches.

One reason for the divergent responses to SG-FSP relations is the widespread use of the word “linkage” to refer to *any* *contractual arrangement between an SG and an FSP*, of whatever variety, and that is a very broad category containing diverse sorts of relationships that vary considerably in the benefits to be gained; the risks incurred by group members; the costs of establishing relations; the incentives that lead INGOs, local NGOs, SGs and FSPs to participate; the market readiness for different products; and qualities of the FSP necessary to have relations that are successful for all parties. In fact, discussions about linkages often involve practitioners struggling to make further finer distinctions within the broad category of SG-FSP relations. The term “linkage” is often simply too broad to be useful.

This situation makes the field of SG-FSP linkages ripe for a typology, which this paper purports to provide.

# Typologies and their use

Typologies are human constructs used to classify items that are related in some way but which also are different in other important ways. Typologies classify these items into discrete categories or types. Typologies are created to aid in analysis, discussion, study, understanding, contracting and in fact any treatment of the diverse elements within a category. It is important to understand that typologies are artificial; they are created by people and do not exist in the world until we give them existence through defining and naming things.

Typologies are not intended to provide information, only to provide a useful way of organizing information. The essential criterion for determining whether a typology is useful is *whether it makes it easier for people to communicate and understand each other*. A typology does not contain any assessment of the merits of different types, although it should facilitate people in making clear assessments. It does not provide any information, although it should make it easier for stakeholders to exchange information. It does not depend on research, although it should make it easier for researchers to design studies and communicate results. The use of a typology does not create any obligations, although a typology can help make contracts and agreements clearer.

The creation of a typology involves two steps: first, deciding which variables will produce a useful categorization; and second, deciding on break-points and measurement criteria for placing items within appropriate categories.

For instance, the familiar Myers-Briggs personality test created 16 categories of people, which the creators of the test believed would be predictive of job-performance, preferences, and reaction to different sorts of situation. They initially chose four categories with two types within each category: extraversion/introversion, sensing/intuition, thinking/feeling, and judgment/perception. Then, they developed tests – usually self-administered – which placed people in one or the other category for each of the continua.

Medical protocols also rely on typologies, with typically three types in a category: low, normal and high ranges for dozens of physiological conditions, from blood pressure to enzyme concentrations[[1]](#footnote-1).

We create typologies to organize our thinking and our research. This organization will only occur if a sufficient number of people agree to use the typology. A widely-accepted typology of linkages will have clear benefits:

1. Reduce confusion and ease discussion, by providing a consistent and relevant set of subcategories of SG-FSP relationships.
2. Facilitate research, by making it easier to define and target specific types of SG-FSP relationship.
3. Make it easier to compare studies, if it is found that they are addressing the same type of SG-FSP relationships; or, make it evident that studies are not comparable, because they are addressing different types.
4. Provide a clearly understood and unambiguous language about SG-FSP relationships to use in contracts, grant agreements, reports, studies and other documents.

**Description of the SG-FSP typology**

Following common practice, as described above, this SG-FSP typology includes two variables, each of which has two possible values, making a total of four possible types of SG-FSP relationship.

The variables and values, and a description of each, are:

Table 1: Variables and values

| Variable | Possible values | Discussion |
| --- | --- | --- |
| Direction of liability | Savings, Loans | Savings is a financial arrangement in which the FSP builds up a financial liability towards the SG or its members, and thus the direction of the liability is from the FSP to the SG. A Loan is a financial arrangement in which the SG or its members take on a financial liability towards the FSP. Note that insurance policies and payment mechanisms are forms of savings under this definition; in insurance, the FSP has a promise to pay the SG or its member if certain conditions (death, certain weather conditions, illness, etc.) arrive, and in payments, the FSP has an obligation to pay a sum to the SG or the member, or to pay a third party in their name.  |
| Parties engaged | Individual engagement, Group engagement | In an individual engagement, the funds transferred do not create either an asset or liability for the SG, nor does the SG carry any reputational or other risk. In a group engagement, the SG assumes an asset or liability with its corporate personhood, whether or not the SG is formally recognized, OR, the SG assumes a reputational or other risk that could affect the well-being of the members who are not directly engaged.  |

Two variables, each with two possible values, produce four possible types SG-FSP relationship:

Types of relationship

|  |  |
| --- | --- |
| Variable | Value |
| Direction of liability | Savings |
| Direction of liability | Credit |
| Parties engaged | Individual engagement |
| Parties engaged | Group engagement |

The two variables and four types can be represented by the diamond in the diagram. A discussion of each type and various nuances concerning it follows:

Individual savings

SGs members frequently open accounts with SACCOs or banks and less commonly with MFIs.

Individual savings would only fall into this typology if the availability or conditions of the savings facility were somehow changed or adapted because of the individual’s membership in the SG. That is, if an SG member has a savings account that would be available to him or her in exactly the same way and with the same conditions if he or she were not a member, then this should not be considered an example of an SG-FSP relationship. Examples of individual savings accounts that would qualify include the following:

* Special facilities in opening or operating the account are provided by the FSP to all SG members
* Special facilities in opening or operating the account are provided by the FSP to any SGs which use other services, such as group savings or loans, from the FSP.
* FSP representatives visit the group periodically to collect savings, easing transacting.

Group savings

Group savings occur in accounts that are issued in the name of the SG, and allow the SG to save as a single entity. SGs might open such accounts for several reasons:

* To protect excess liquidity, particularly towards the end of a cycle when assets are at their greatest, and the group typically makes no new loans;
* To provide a means of long-term saving, which is not readily available in most SGs, so that the SG can build up assets over time.
* As a condition imposed by an FSP for future borrowing – that is, an FSP might require a certain amount of savings in a blocked account before it will lend to the group.
* As a civic duty, such as in Rwanda, where the government encourages all groups and citizens to open bank accounts, or in Kenya, where registration of the group provides the group with a letter of introduction to banks.
* As a means of acquiring a modern formal status, perhaps for reasons that are not yet fully formed in the groups intention.

Some group savings accounts may have sub-accounts for each member; these sub-accounts should be considered *Individual savings* if each sub-account is truly independent, and they should be considered *Group savings* if funds can be moved among sub-accounts by the SG or by the FSP.

Savings often accompany credit; it is useful to note if the relations are primarily targeting credit, or primarily targeting savings. Note that if the purpose of the savings account is to guarantee loans to the group, then the account involves liabilities in both senses – SG to FSP, to pay the FSP in case of default, and FSP to SG, to pay the SG the amount saved if the funds are unencumbered, that is, if the loan is paid back.

Individual Loans

In credit relationships, an FSP accords a loan to a group or its members. Note that sometimes individual members of groups have loans from FSPs that are completely independent of their membership in the SG, and in fact SG members might be unaware of bank loans of some of their members; these cases do not concern this discussion. Rather, this discussion is concerned with cases which is some way are dependent on the borrower’s group membership.

Examples of individual loans that would be relevant here include the following:

* Special conditions for obtaining the loan are provided by the FSP to all SG members
* Special conditions for obtaining the loan are provided by the FSP to any SGs which use other services, such as group savings or loans, from the FSP.
* The FSP uses the financial history of the group member as part of its loan assessment criteria.
* FSP representatives visit the group periodically to collect loan applications or to collect repayments, easing transacting.

However, note that loans to individual members that are guaranteed by group funds, or by the signatures of the other group members, or which carry a legal guarantee or strong moral guarantee from the group are considered group loans.

Group Loans

Group loans are loans that are made to the group, or are made to individual members of the group but are guaranteed by group funds, or by the signatures of the other group members, or which carry a legal guarantee or strong moral guarantee from the group.

These could include the following types of loans:

* Loans made to the SG, and intended to be merged with the SG’s existing loan fund, and managed according to the SG’s existing procedures.
* Loans made to the SG, and intended to be managed separately from the SG’s existing loan fund.
* Loans made to individual members, and guaranteed by the group’s assets.
* Loans made to individual members, and guaranteed by the group, with the group offering a joint and several guarantee.

Evolution of relationship

Use of the typology should not presuppose that the relationship between SG and FSP will be static. In fact, it is likely to evolve over time. Some of the ways this can happen are:

* The SG can seek additional products. For instance, an SG might seek a group loan.
* Some SG members might seek additional products, such as individual loans using the group’s assets as a guarantee for their personal loan.
* FSPs may seek to move the group from savings to credit; in the case, savings may be introduced either to allow the group to build up a financial history with the FSP, or to acquire sufficient funds to serve as collateral for a loan to the group.
* An FSP might pull back from offering products, if it had encountered problems or if the offer of the products depended on a subsidy that ended.

Insurance, payments

For the purposes of the typology, insurance and payment systems should both be considered forms of savings, since they are based on the creation of liabilities for the FSP.

**Use of the SG-FSP typology**

It is here recalled that typologies can make discussion among practitioners easier, facilitate research, allow for greater comparability among studies, and provide a standardized language for contracts and other formal documents. Here are some suggestions about specific applications that can be made of the typology. The list is given only as a suggestion, and the SG community should not hesitate to look beyond this list.

* Facilitating Agencies, in their strategic statements, can use the typology to make it clear what sort of relationships they want to promote. If there are some types that do not interest them, they can use the typology to make that clear also. This will provide guidance for field staff, for project managers who negotiate with FSPs, and for donors.
* FSPs can use the typology to help them be explicit about what their interests are, in particular if they intend to introduce new financial products of different types to SGs over time.
* Donors can refer to the typology in drafting requests for proposals, and in writing contracts with service providers.
* Since it is likely that the different types of SG-FSP relations will have different outcomes, researchers can use the typology to narrow down their research to specific types.

**Other relevant factors that should be considered**

The typology addresses two issues that loom large in the consideration of linkages. It does not however include all the concerns of practitioners. In fact, SG practitioners point to[[2]](#footnote-2) a number of other variables as being important in influencing the outcomes of linkages. The following is the list of the variables frequently cited, and for each, some representative examples of remarks and other discussion.

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| Table 3: Seven additional variables  |
|  | Variable | Discussion |
| 1 | The education that the group receives about linkages  | The principle is widely though not universally accepted that SGs need education about formal sector products, rights and responsibilities, and benefits and risks, before they are encouraged to contract with financial institutions, and some FAs include financial education as a step in their linkage program, and that this information should neutral and objective, coming from sources that do not have a stake in the number of accounts opened or similar indicators.  |
| 2 | Group chooses freely | Some practitioners are concerned about groups being pressured into commercial relationships, and make a distinction between SG-FSP relationships that are the result of pressure, and those which are freely chosen; also, some practitioners note that some of their groups and members have opened bank accounts themselves without the implication of their institutional partner. It is generally thought that what the group decides itself is fine, although some agencies do not fully trust groups to avoid risky behaviors.  |
| 3 | Interest within group is widespread and consistent | There is some evidence from field research in Kenya and Niger[[3]](#footnote-3) that group membership changes when outside funds are introduced into an informal group. Much more research needs to be done in this area but there are indications that the interest in external relations with FSPs often varies considerably among the members of a group.  |
| 4 | Orientation of the FSP | Several practitioners believe that the orientation of the partnering FSP – in particular, whether it is essentially developmental or essentially profit maximizing - is a key element in determining outcomes.  |
| 5 | Age of group | Most Facilitating Agencies that are promoting SG-FSP relationships use the age of the group as a criterion for selecting groups to promote the relationship with. Presumably, groups in their first year are still being trained in SG methodology, and thus are not ready to take on additional risk or complexity. However, age is much more of a factor for credit linkages than for savings if the FSP wants to use the accumulated savings to guarantee loans; some NGOs encourage groups to open external savings accounts as soon as they start saving in their group, but few if any promote credit in the first cycle. |
| 6 | Other risks | SG-FSP relationships involve potential risks, which should be assessed by the group and its partners:Proximity of the FSP: transport of funds to and from the FSP may in some cases increase the risk of hold-ups and other losses en route Partnerships with FSPs may be avoided by some SGs because they think they make them visible to local authorities, tax collectors, and crooksBenefit-risk mismatch: In Class 4 relationships (loan guaranteed by the group), the use of group assets to guarantee loans to only some members may produce stress within the group, or be rejected by members who do not want additional creditComplexity: FSPs may require the group to keep additional records, that in some cases may stress the ability of the group.Preference given to outside obligations: In Class 4 relationships, the FSP will usually have stricter requirements for repayments than the group itself. As a result, the group will favor its obligations to the FSP, perhaps decapitalizing its internal funds.  |
| 7 | Other advantages | SG-FSP relationships promise a list of potential benefits, which should be assessed by the group and its partners:Members may be happy with or proud of the sense of inclusion and modernity that comes with dealing with an FSP.Savings accounts can provide security for group or member funds, particularly group funds before share-out when there is the greatest liquidity.Savings accounts can encourage savings by keeping cash out of members’ hands.Savings accounts extend the time horizon of savers, allowing them to save for long term investments or needs beyond the annual cycle of most groups.Loans greater than those offered by the group can be important to some members with exceptional needs for investment, debt consolidation, ceremonies, or consumption. Some FSPs may require SGs to improve their bookkeeping, or respect for other procedures, as a condition for providing a desired service, thereby increasing the rigor of the group. |

# Prior work

A non-exhaustive review of the literature revealed one previous effort to create a typology of linkages. **Maria Pagura and Marié Kirsten** investigated[[4]](#footnote-4) financial linkages with FSPs and a variety of institutional types, including credit unions and other member-owned and managed institutions, not simply SGs. They made the following major division of institutions:

* ***Direct financial linkages*** refers to linkages between financial institutions in which the main purpose of the linkage is to help less formal institutions *diversify* their sources of funding, *expand* their loanable funds and/or *balance* liquidity shortages and excesses. A typical example of this type of linkage is a bank or apex organization offering bulk loans to MFIs for on-lending to clients.
* ***Facilitating linkages*** refers to linkages between institutions in which the formal institution “hires” the less formal institutions to act on its behalf. In these types of linkages the less formal institution has two ‘constituencies’ caring about his behaviour (Conning, 2002). On the one side are the rural clients who enter into contracts with the institution via the local, less formal agent. On the other side is the formal institution itself that the less formal institution is representing. In these cases, funds flow from the clients through the partners, or the other way round, to facilitate remittances, payment of utilities, and mobilization of deposits or even facilitating loans. Typically for these types of linkages, fees are paid by one partner to the other for the service rendered. Facilitating linkages are more recent and innovative ways of extending services beyond traditional micro and rural finance savings and loan products. An example from this category is a private insurance company linking with MFIs to extend life insurance products to rural clients.

The majority of SG linkages fall in the first category, although there are almost certainly rare cases in which an SG has on-lent the bank’s money to non-members, effectively becoming an agent of the bank. Pagura and Kirsten limit themselves to credit linkages.

However, other studies *rely implicitly* on typologies, even if they do not explicitly create one. In one prominent example, CGAP studied[[5]](#footnote-5) sixty *Community Managed Loan Funds*, a category including but not limited to SGs. To do this, it placed them into three categories:

Externally funded groups, that is groups financed by an early injection of external funds from donors or governments.

Savings-based groups, or groups which receive either no external funding, or such funding arrives in modest amounts after the group has a solid track record of lending and recovering its own savings.

Self-help groups, which the authors defined as groups that start by collecting and then lending members’ own savings, but subsequently receive large loans from a bank “that is serious about collection”.

1. As one of hundreds of possible examples: Thyroid-Stimulating Hormone (TSH) is a hormone released by the pituitary gland, which in turn regulates the production of hormones by the thyroid gland. Measurement of TSH is an indicator of Thyroid health, and many hospitals and physicians consider the normal range for TSH to be 0.4-4.2 microunits per milliliter. Values higher than 4.2 may correlate with problems of hyperthyroidism, and values below 0.4 may correlate with problems of hypothyroidism. However, the limits of “normal” are arbitrary, and the health outcomes of people with 4.1 microunits per milliliter will likely be only very marginally better than those with 4.3. In fact, there is considerable debate within the health community about where the limits should be placed. [↑](#footnote-ref-1)
2. This list was extracted from notes from 19 interviews with SG practitioners conducted as part of the research for the Program Quality Guidelines developed by SEEP, and from other conversations and reflections. [↑](#footnote-ref-2)
3. For Kenya: Gugerty, Mary Kay and Kremer, Michael: *Outside Funding and the Dynamics of Participation in Community Associations*. American Journal of Political Science, Vol. 52, No. 3 (Jul., 2008). For Niger: Rippey, Paul, *Etude sur l’impact des crédits extérieurs sur les groupements et réseaux MMD et les mesures de minimisation des risques*. Report carried out for CARE Niger, January 2008. [↑](#footnote-ref-3)
4. Pagura, Maria and Kirsten, Marié *Formal-informal financial linkages: Lessons from developing countries*. Reference pending. [↑](#footnote-ref-4)
5. Murray, Jessica and Rosenberg, Richard, Community Managed Loan Funds: Which ones work? CGAP. May, 2006. [↑](#footnote-ref-5)