Zooming in on Informal Savings Mechanisms in Zambia

Final report

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Abbreviations

ASCA	Accumulating Savings and Credit Association
FGD	Focus Group Discussion
FSDZ	Financial Sector Deepening Trust Zambia
FSNP	Forming – Storming – Norming – Performing
FSP	Financial Services Provider
IDI	In-Depth Individual Interview
ISM	Informal Savings Mechanism
KII	Key Informant Interview
MCF	Mastercard Foundation
MFI	MicroFinance Institutions
NGO	Non-Governmental Organisation
OPM	Oxford Policy Management
ROSCA	Rotating Savings and Credit Association
SatF	Savings at the Frontier
SG	Savings Group
SILC	Savings and Internal Lending Communities
VSLAs	Village Savings and Loans Associations
ZMW	Zambian Kwacha

Executive summary

This study of informal savings mechanisms (ISMs) and their users was conducted in three provinces of Zambia in 2019. Commissioned by the Savings at the Frontier (SatF) programme (a partnership between Mastercard Foundation and Oxford Policy Management) and Financial Sector Deepening Zambia (FSDZ) it was conducted by Oxford Policy Management in collaboration with Paul Rippey and IPSOS Zambia. This report is primarily intended for Financial Service Providers, though the authors expect it to be of interest and use to a wider audience, including donors, and regulatory and facilitating agencies.

Our intention was to provide the reader with new insights regarding users of ISMs, how they perceive their groups and formal financial service providers (FSPs), and what drives their decisions to use one service rather than another. The study is qualitative rather than quantitative – that is, it was not designed to answer questions of *how many* or *how much*, but rather *why*. Key findings from the report include:

1. **Anyone approaching ISMs should expect a variety of groups.** After coming together and learning a set of procedures, groups frequently go through a turbulent period, changing memberships and modifying procedures to their own needs, before they settle down. This evolution is generally positive; ISMs introduce innovations to their procedures, many of which seem to be smart adjustments that help the groups better serve their members. The study included both facilitated and non-facilitated ISMs. In the case of facilitated groups, once the founding NGO moved on, the groups modified procedures as they saw fit. However, many ISMs are formed not by NGOs, but by people who have learned the approach and gone on to form groups on their own. Notably, we did not find any tight correlation between group quality and NGO facilitation.
2. **ISM members also vary greatly**. They include the very poor, as well as the not-poor-at-all. They may come to save only, or to borrow for emergencies, consumption, or investment. Some are concerned about their immediate survival; paying school fees, fixing a damaged roof, or even finding enough to eat; others appreciate the mutual support and feelings of belonging and solidarity at least as much as the financial aspects. Others are more secure in their lives and use ISMs along with other financial services to reach long-term goals, from starting or expanding a business, to buying a house or means of transportation. The value of ISMs to their users might be surprising to outsiders, because of the mix of social and financial elements.
3. **ISM users are intelligent consumers who mix and match products from different providers to meet their needs,** and an increasing number of Zambians use both formal and informal financial products. The ISM users we interviewed were generally happy with most aspects of their groups; however, they are always in the market for other services.
4. **ISMs offer a strong value proposition**. ISMs provide commitment savings with an annual payback to the saver, quick access to loans, flexibility in repayment, transparency, social support, a feeling of community, networking opportunities, esteem within the community, and – hugely important - proximity. Users also appreciate that ISMs allow them to save and borrow against the backdrop of previous achievements and success. At their best, ISMs create a virtuous circle in which good behaviour in using financial services not only serves the member, but serves the group, which in turn encourages members to behave even better.
5. **While users appreciate their ISMs, it is rare for ISMs to meet every need of all their users, and they do not find ISMs perfect.** One of the greatest unmet needs of many groups is better security; groups also mention the bookkeeping challenge; some members say they feel limited by caps on borrowing and saving amounts; and delays in annual share-outs due to loans in arrears frustrate members who count on receiving their funds in a timely fashion.
6. **Perceptions and reputation matter significantly.** Many of the ISM users we encountered have a high opinion of mobile money agents and banking agents because of their proximity, transparency, and the fact that they are local people who understand them and speak their language. Many ISM users also carry around unfavourable attitudes about FSPs, especially concerning FSP transparency, social distance, the ways fees are charged (not necessarily the amount of fees) and paperwork requirements. We note that some of the remarks we encountered do not reflect present reality, but since they do reflect present *perceptions*, we have placed quotations from ISM users throughout the report to give a window into the way they see the world. We think these quotations are an important part of this document.

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1. Who should read this study, and why?

Offering the right product to the right market segment is the key to the commercial viability of financial products. The right product provides value to its users by meeting their needs, being consistent with their beliefs and values, and fitting in with their habits and behaviours, while being viable for the Financial Services Provider (FSP). This research was designed to help FSPs (banks, microfinance institutions, mobile money providers and fintechs and insurance companies) and other stakeholders in Zambia get a better understanding of what constitutes the right product for users of Informal Savings Mechanisms (ISMs). Through this study, as is the case with all Savings at the Frontier (SatF) initiatives, we are committed to triple-win outcomes in which FSPs, ISMs, and the users all benefit.

Informal Savings Mechanism is a term capturing a range of collective savings and lending mechanisms, including those referred to as savings groups, VSLAs, village banks, SILC groups, or Chilimbas, and their members. While we use "ISM" throughout this paper, in fact all the groups we visited were accumulating savings and credit associations, or ASCAs. Chilimbas are not included in the sample, although some of the ASCAs we visited also ran Chilimbas. (We will describe the sample in more detail in section 1.3).

Much of this study focuses on the perceptions and expectations of ISM users; these are like spectacles that change the colour and clarity of the world to us and affect decision-making. We often see what we expect to see, and our expectations are a result of what we learned or experienced. The researchers tried to understand how the financial world looks through the lenses of ISM users. An example: one might expect that users of ISMs perceive banks as a secure place to keep their money; some users, however, experienced or have heard of bank failures in the past, and this cultural memory is disproportionately important in forming the perception that banks may not be secure.[1]

Just as physical eyeglasses vary, the metaphorical glasses of ISM users also vary. It will not surprise any reader of this report that the civil servant professional in Lusaka sees the world differently from the farmer in rural Luapula; it may not be so obvious, however, that perceptions vary deeply within the same region or even the same group. In the study, we will point to variations in needs, personal financial strategies, attitudes towards security and risk, appreciation of ISMs more for social or more for financial reasons, and orientation of goals and aspirations towards consumption or investment. This study is intended to help FSPs approach this diverse market and identify the products and services that are likely to be good entry points.

1.1. What we knew already

Several research studies have been conducted to estimate the size of the ISM market and to understand and measure the financial services used by the lower-income population in Zambia. These include standardised international and regional surveys[2], national surveys conducted by financial sector catalysts[3], and databases of facilitating organisations, which capture basic socio-economic data of the groups they work with and their members.[4] A review of this existing data revealed the following:

- **Informal savings mechanisms remain relevant even as access to formal financial services increases.** People choose to remain active ISM members, or join a group, even when they have a bank account or a mobile money wallet. ISM members pick and choose among products and services to find the ones that best suit their needs, and ISMs meet many of their needs. The use of ISMs increased from 7 percent to 24 percent in five years (2011 to 2017). However, it is important to note the remarkable degree to which Zambians have access to more and better financial services in general, and mix and match them to suit their needs; during the same period there was a nine-fold increase in people who make use of both formal and informal savings services (2 percent to 20 percent from 2011 to 2017);

- **The link of ISMs to the formal financial sector is still mostly confined to the use of mobile wallets and bank accounts of individual members.** Only a small fraction of ISMs used bank

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[1] Additional material: IFC's Ethnographic Framework (2019): dfsafrica.ifc.org/growingtrust/ on historical roots in decision making: https://vimeo.com/316641541
[2] Additional reading: FinScope 2015, Findex 2017, Financial Diaries
[3] Additional reading: RUFEP study 2016, FSD Zambia GIS mapping Round 1 2015/Round 2 2017
[4] www.savenet.org.zm/

accounts (440 of 4390) or mobile wallets (29 of 4390) to store value and transact with members in 2017. However, in the three years since these data were collected, the situation has almost certainly changed significantly. (FSDZ GIS, 2017)

- **Most ISM members are young.** More than 80 percent of members of ISMs are reported to be between 16 and 45 years old (Finscope, 2015); this is an even greater percentage than the 65% of the working age population that is aged 15 to 45[5]. The Zambian age pyramid is quite broad at its base – for instance, one quarter of the population is aged 10 to 19, compared to 7.2% aged 40-49[6]. Youth participate disproportionately in the digital revolution, embracing mobile money and services (Findex, 2017). As the larger younger age cohorts move into the financially active age groups, mobile literacy and expectations of connectivity can be expected to increase rapidly among the ISM population.

- **Banks are concentrated in population centres and along major roads.** Perhaps surprisingly, the same is true for MFIs, which largely overlap with banks in location and even in clientele. Mobile money agents and emerging bank agents are reaching somewhat into less populated areas but households in rural areas and smaller towns remain under-served for both credit and savings, but particularly for the former. The share of people with proximate access (living within a 5km radius of a *credit* access points) rose by no more than one percentage point from 2015 to 2017. *Savings* access points have done better, with a 57 percent increase in the number of tracked and active mobile money agents and bank agents. Nonetheless rural households still largely rely on informal finance (FSDZ GIS, 2017; Savings at the Frontier, 2019)

  Although access within 5 km radius is used to define proximity, other factors can play a big role in take-up of a product including accessibility by road and public transport and in general the amount of time, hassle and costs to the consumer. Also, what consumers will bear for an occasional US$100 (or more) remittance collection can be very different from what they are willing to do for regular savings of US$1 or US$5.

- **ISMs are also located predominantly along major roads and in more populated areas** but do a much better job than FSPs in reaching less serviced rural areas. (Finscope 2015). Urban dwellers in Lusaka, Central, Copperbelt and Muchinga have an appetite for both Chilimbas and ASCAs, despite their proximity to formal financial services. Note that the location of the growth in the number of facilitated groups still largely depends on the choices made by international NGOs, who may already be located in certain areas, or move into new areas, to form new groups. However, large numbers of groups are formed by users themselves or by previously trained NGO trainers who are no longer working with NGOs and so the approach is continuing to spread into areas that NGOs have not reached, and to intensify in areas that NGOs have abandoned.

Annex A Categorising and Measuring ISMs provides more information on what we knew already. It is necessary to make a general caveat about the survey data contained there. In addition to the challenges of rural data collection in a number of different languages, local concepts and terminology for ISMs are plentiful and nuanced and survey questions may not always have captured the nuances fully. Finally, with the introduction of mobile money and agency banking models, the financial offering is changing rapidly, and reported preferences and practices have likely changed significantly since 2017.

[5] 2017 Labour Force Survey Report, Central Statistical Office, Zambian Ministry of Labour and Social Security.

[6] 2017 Labour Force Survey Report, Central Statistical Office, Zambian Ministry of Labour and Social Security

1.2. What we wanted to find out

With this study we wanted to achieve three objectives:

- **Concerning the sector**: Understand the scope and characteristics of ISMs and their members by reviewing earlier studies and reports, and available data;

- **Concerning ISMs**: Gain a better understanding of the financial products and non-financial services they offer, their needs and challenges, their experiences, attitudes, and perceptions towards FSPs, and their formation, membership, governance, management, and decision-making processes; and

- **Concerning ISM users**: Deepen our understanding of ISM users, the financial products, and services they want and need and the challenges they face in meeting those needs, and their experiences, attitudes and perceptions towards FSPs.

To achieve these goals, we drafted a set of research questions which appear in Annex B.

1.3. What we did and how we did it

There exist a number of quantitative studies of the ISM sector in Zambia, which are referenced and quickly summarised in Annex A. This, however, is a qualitative study. Qualitative research can illuminate how people think, the categories they use to structure their experience, the reasons they act as they do, and the metaphors, symbols and language they use to describe their world. Qualitative research does not count and measure things; rather, it attempts to explore and explain why things are the way they are.

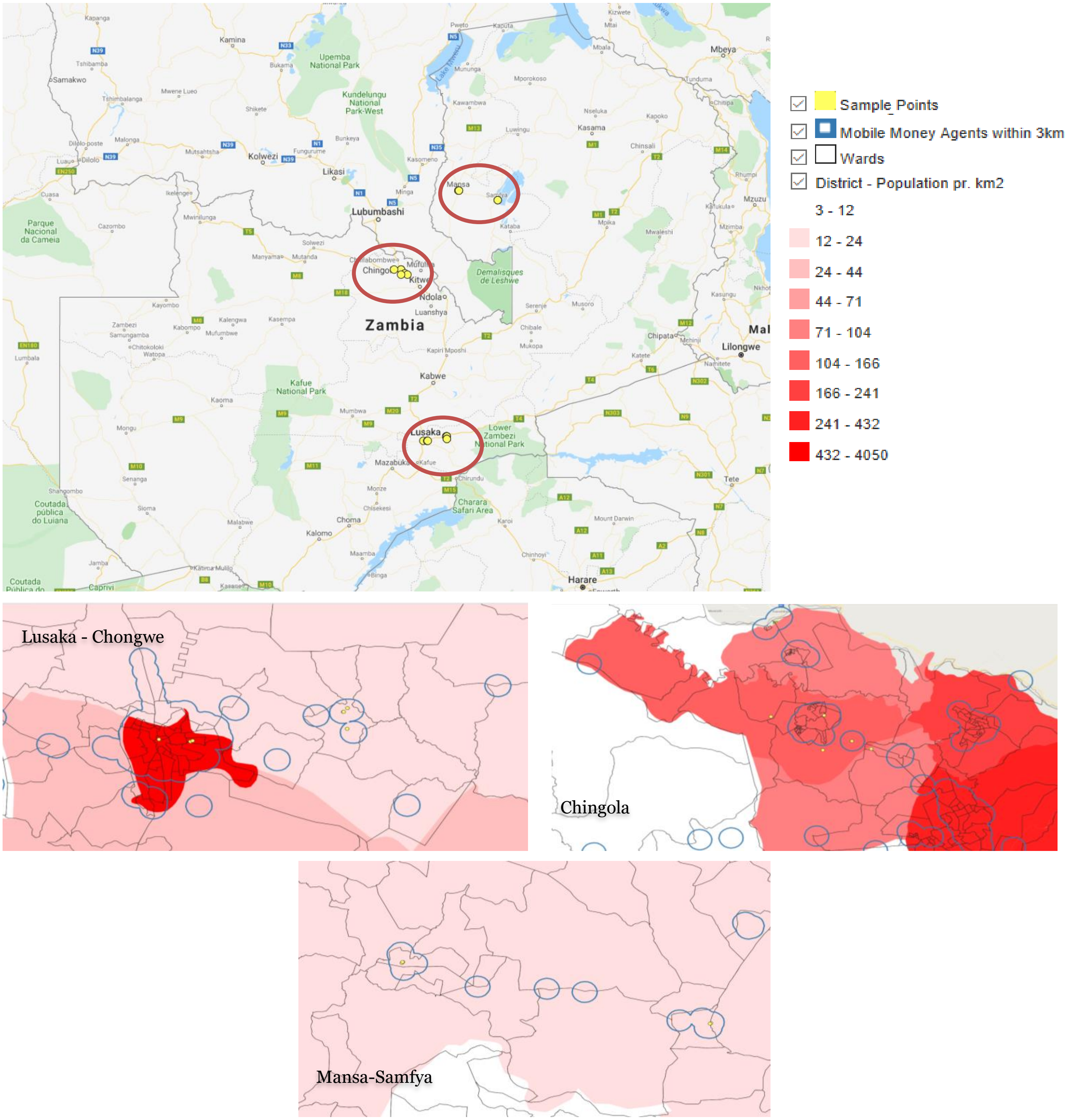
We recognise that Chilimbas are widespread in Zambia, and that they are potentially of interest to the readers of this report. The research team chose to focus the study on Accumulating Savings and Credit Associations (ASCAs) because they are numerous, growing in number, and collectively accumulate a significant volume of savings that has drawn the interest of FSPs; however, much of the information in this report applies to Chilimbas also. The research design relied on two levels of stratification: we first chose three provinces, and within each, we selected approximately equal numbers of rural, peri-urban, and urban areas. Within each of those areas, we selected communities at random, and began making contact with the community by simply asking community members and leaders to identify active ISMs, and then "snowballing", or asking people we contacted to identify other potential participants. As we assembled the list of groups to visit, we screened to arrive at a 50:50 ratio of facilitated and non-facilitated groups. We avoided focusing on the groups of any particular facilitating agency, although in some areas most groups trace their lineage to a single NGO.

Based on preliminary stakeholder interviews and secondary data analysis, the research team selected three provinces: Copperbelt (Chingola district); Luapula (Mansa and Samfya districts); and Lusaka (Lusaka and Chongwe districts). The three provinces differ in levels of population density and urbanisation from Lusaka the most urban to Luapula the most rural. Within each zone, we further stratified the sample by looking at an urban, a peri-urban and a rural area, noting of course that, for instance, an urban area in Luapula might have fewer services and other urban characteristics than a peri-urban or even a rural area in Lusaka. Figure 1 shows the locations of the interviewed groups overlaid with population density at ward level (www.citypopulation.de) and mobile money agents' coverage (FSDZ GIS 2017).

We conducted 30 Focus Group Discussions (FGDs) and 160 individual interviews, all of which relied on participatory activities to engage respondents and reveal information that might not surface from a simple list of questions. For each ISM, researchers conducted an FGD with six to eight members, interviewed an individual holding a management position, interviewed selected members individually, and finally interviewed a former member or "never-member" in the same community.

The FDGs and interviews were recorded and later translated into English. These transcripts were then coded, so that the research team could review the comments of ISM members about such things as particular financial products, or their aspirations, concerns or constraints, or the history of how their ISM came together. Out of this mass of qualitative data, the research team developed hypotheses about the world of the respondents, which they continually tested against the data.

Figure 1: Study locations



1.4. How to use this report

This rest of this report is structured in three additional parts:

1. *Forming, Storming, Norming and Performing* outlines how ISMs come together and especially how they evolve over time.
2. *Financial services, as seen by users* provides information on the needs of members and how these needs are addressed by ISMs and FSPs, and
3. *Insights and Conclusions* contains what we consider key insights and conclusions from this research.

Throughout the report, we include direct quotations from the people we spoke with in the field in orange boxes. Green boxes call attention to key points from the surrounding text.

2. Forming, Storming, Norming and Performing

2.1. What is the life cycle of an ISM?

The research team thought that the group development model called **Forming – Storming – Norming - Performing**[7] (FSNP) fit the developmental trajectory of ISMs and was a useful way to describe Zambian ISMs. FSNP postulates that successful ISMs generally go through four stages: (1) *forming*, or coming together and deciding to be in an ISM; (2) *storming*, or having inevitable disagreements about the direction of the group, responses to problems, and the adoption of innovations; this phase may involve failed experiments, members leaving the group, and new members joining; (3) *norming*, or arriving at a consensus about membership, goals and objectives, leadership and procedures; and (4) *performing*, or consistently providing the products and services that members want to achieve individual and group goals. While not all ISMs will fit precisely into this model, many do, and we think it is a useful tool for thinking about classifying ISMs as potential partners to FSPs.

ISMs will go through these stages at different paces and levels of intensity. For example, an ISM formed by wage-earners at a hospital to save money for the festive season might not face a turbulent storming stage, while an ISM that supports users to save for agricultural inputs relies on timely loan repayments for a successful share out and might experience a painful storming phase. Financially literate members might be able to pass through norming very quickly, relying on generally accepted principles of money management and meeting behaviour, whereas less experienced members might develop their norms through years of trial and error.

In our field experience, the FSNP model applied equally to facilitated and non-facilitated ISMs. Facilitated groups usually follow the procedures they are trained in[8], and more or less strictly adhere to these at the start. However, once the training is over and the relationship with the NGO ends, or diminishes, facilitated groups go through the remaining steps of FSNP.

In fact, rather than a clear distinction between facilitated and non-facilitated groups, we found a continuum: some groups were clearly under the wing of an NGO trainer, and some had clearly developed spontaneously, with members using general knowledge about group procedures. In other cases, however, a former member or an individual who heard about groups from friends or relatives had organised a new group but called for the assistance of a trainer to help the group learn procedures or oversee it during its start-up phase. In other cases, members of the community took on the task of forming new groups without the help of a facilitator: they knew enough to form a group, or they may have been involved in a group in the past, and decided to discuss among themselves to find procedures they all trust. ISMs evolve, rename themselves, change their membership substantially, or break into new groups. These other groups did not fit neatly into either category, facilitated or non-facilitated.

When designing this research, our assumption was that facilitated groups would be more stable and organised thanks to the trainers' support and guidance. However, in the field we found that facilitated groups do not always perform better than non-facilitated groups, whether in terms of respect for procedures, group cohesion, savings mobilisation, or security.

We met very well organised and cohesive non-facilitated groups that operated democratically, resolved conflicts and were passing smoothly through FSNP. We also met facilitated groups that were struggling to operate smoothly despite having a constitution and a well-defined leadership structure. In both facilitated and non-facilitated groups, we found examples of power dynamics that hindered group members from making their own

[7] Developed by Dr Bruce Tuckman in 1965.

[8] The group is trained in meeting procedures, obligations and rights of members, bookkeeping, and financial procedures, for saving, borrowing, the annual share-out when savings are returned to members, and in most groups a social fund which is used to meet the needs of members with emergencies.

decision, such as overbearing or protective facilitators or influential community members, which made decisions on behalf of the group, or did not approve of external contacts.

Beware of binary thinking. Facilitation does not guarantee good performance from ISMs, and limiting the route to market to facilitated groups through partnership with NGOs will miss many excellent member-formed groups.

The following four sections look at the development of ISMs using the FSNP model.

2.2. Forming

We used to get Kaloba [money lender] loans from individuals in the past. And it used to be hard to pay back this loan. But now we are relieved to have the group that lends us money at a low interest rate.

People form and join ISMs for both financial and social reasons. ISMs provide a *commitment savings* mechanism: peer pressure from other members helps ISM users save even in the face of numerous family and social demands. Once a group is functioning, members can borrow, and once a year, members of distributing ASCAs receive a non-reimbursable lump sum at the share-out. Interviewees talked about how the groups helped them in completing their education, educating their children, boosting their business, or farming activities, building a house, diversifying their sources of income, helping and empowering their communities. They take pride in being good members, they gain esteem in their community through group membership, and they manage to accomplish life objectives through savings, borrowing and share out that they feel they would be unable to do without the financial and social support of the ISM.

I was in another savings group. We saved a lot of money in that group. We used most of the money that I had to save with the group. I did this because I knew that things would be better upon sharing out the money. But then, there were others who failed to make contributions to the group. […] So, it seemed like I was working at a loss. That was when decided to make our own group.

Yet, while ISM users appreciate the peer pressure to save, they equally appreciate the relative ease with which they can access money when they need it. The anthropologist Parker Shipton was among the first to point out that people in the informal economy have a need for both illiquidity, which they get through commitment savings, and liquidity, which they get through loans and social funds. In fact, much of the norming process consists of adjustments to procedures so that the ISM can meet these two contradictory needs.

Finally, ISM users often deeply appreciate the social bond and the safety net provided by the group. Cooperation, support, and understanding were mentioned across the board and helped ISM users get through difficult times.

However, a group needs to be the "right group". Members want an ISM where their savings capacity, frequency, and schedule are roughly compatible with those of other members. They look for similarities in occupation, gender and neighbourhood or work area, wealth and lifestyle, and family connections, which allow for the growth first of mutual understanding, and then trust. Having similar backgrounds also facilitates decision-making. For instance, if ISMs consist of people who work in the same market, go to the same church, work for the same employer, or live in the same neighbourhood, members observe each other's business and personal behaviour, and are able to assess the character and viability of other members, and so can judge credit risk and reliability. Homogenous membership also facilitates information sharing, as other users with similar backgrounds are most likely to know about business or other opportunities that would be suitable for their peers.

This group is like a sisterhood group. It is more like scratch my back, whatever you go through, we have your back as group. We don't just save, get loans and lend money, no, we also help each other like we act as back bones of each member.

It is easy to find an ISM in a rural area where all members are farmers, or a group close to a market where all members are marketeers. Groups usually have a weekly saving range (e.g. between ZMW 20 and ZMW 200[9]) and people usually join groups where they are comfortable with the minimum required

[9] There are approximately 15 Zambian Kwacha to a dollar, so that two kwacha, the smallest banknote, is equal to about one and a third US cents. Such conversions often understate the perceived value and purchasing power of local currency, however.

Usually we assess what kind of problem does this person have and how can we help. We tell members, Okay, this month you have failed to pay but make sure you pay next month.

savings amount. Individuals with higher savings capacity join groups with higher weekly savings, which can provide correspondingly larger loan amounts. In some cases, people join more than one group so they can save as much as they like; being in multiple groups also has the advantage of providing multiple share-outs in a year, and of increasing the amount of networking available (although multiple membership also can lead to debt traps, where members borrow from one ISM to pay their debts in another).

Salaried people find it difficult to join groups of business owners, such as marketeers, since their work hours prevent them from attending the mandatory weekly meetings at the same time and place. Salaried people typically organise ISMs at their place of work among colleagues (e.g. groups of teachers, nurses, or bank workers). This said, in more residential neighbourhoods, we found mixed groups consisting of salaried and self-employed individuals kept together by familiarity, convenience and physical proximity.

2.3. Storming

The initial group composition and procedures may not fit the needs of all the members. Perhaps the only available group is too far, they save too little or too much, they do not agree with the rules, or they may have different ideas about how strictly procedures should be observed. Perhaps the meeting day is not convenient. Some members may be unable to meet group standards around saving or loan repayment. Some may cause offense to other members, or simply not fit in because of age, occupation, gender, religion, temperament, family connections, or other characteristics. All these things can lead to conflicts.

If a member has borrowed ZMW 1000 and was supposed to pay back ZMW 1200 in a week, but on share-out day the person doesn't have money, the group will lend another ZMW 1200 to the same person who will have to pay ZMW 1450. This will continue until the person has not finished to pay the loan amount, but at the end of the cycle, the loan will grow a lot, say ZMW 3500, and this would cause confusion because the person will not understand or remember how he reached that amount! The coordinator told us that if one has saved ZMW 1000, she can borrow up to ZMW 2000. But some borrow ZMW 3000. That is a recipe for trouble!

Other disadvantages in the savings groups are that they destroy one's plans. When we agreed that we will share in May, I saved K4000 with the group anticipating that I would have my money back in May so that I go to Luwingu to purchase beans. But then the group changes and moves the share out day to August. With that I would make a loss. Because had I invested that money in business, I could have made profit.

What happened in our saving group, everyone who was in the group left and that's how the group stopped saving together. The treasurer ran away with the box. There was money in the box and the group records were there too. He broke the locks to the box and got everything that was there.

Resolving these conflicts constitutes what is called storming. Members who are not trusted or disagree with the group get eased out. A group cannot perform until the issues are resolved. Occasionally, ISMs decide to restart from scratch. In other cases, some members leave to look for a group that fits their needs or break away to create their own groups. At the end of the process, the group is more homogeneous and cohesive, with trust increased among members.

The most common reasons for conflict and storming are around financial management. Delays with loan repayments and defaults are a major issue. If members do not repay their loans on time, money is not available for other members to borrow and late repayments may delay the share-out date. That is why delays are sometimes punished with fines or additional interest charges. Groups usually distinguish between late repayment due to hard luck, and to wilful refusal, and treat the latter case more harshly; however, anyone who fails to repay creates a problem for the other members that will be resolved, whether kindly or harshly, eventually.

Non-respect of procedures is another cause of storming. The gap between written procedure and practices often grows and creates tension between those members that want to adhere strictly to their constitution and others who are content with less rigidity or want to change procedures in practice without changing the written procedures. Interviewees talked about disputes around contributions to the social fund or other kinds of contributions and charges that the group might have agreed to, but members then refuse to pay. They also mentioned group leaders that abuse their authority, sometimes in favour of members from the same family. Leaders might take larger loans than they are entitled to, and perhaps deliberately not pay back, or look the other way when some members break rules.

Theft is yet another cause of storming. The practice of putting group savings in a cash box with three keys provides assurance that the records have not been tampered with, and that no one has taken money out of the box between meetings. Unfortunately, it does not protect groups from theft of the box itself, especially when non-members learn that ISMs have a lot of ready money. In fact, during our field work, some groups were extremely secretive about the way they keep their money and about their total amount of savings. So, any compromise with practices around security, such as revealing too much information about group assets to outsiders, is likely to lead to conflict in the group.

The storming phase often involves departures. Some of the people who had participated in failed groups or had left after becoming disenchanted with their group said they had no intention of joining an ISM again, while others saw the failure as an isolated event, and not one that invalidated the concept at all.

2.4. Norming

After a period of storming, most groups go forward, often with changes in membership, and, depending on their preferences, members agree on revisions to rules and norms. These include processes and structures to **mitigate credit risk, to maximise share out and member savings, and to foster group cohesion.**

There are other groups that have challenges when it comes to share-out because others have not repaid their loans. This causes a lot of confusion and disagreement. To avoid this in our group we only allow people to borrow up to what they have saved and not get into other people's money, just in case one fails to pay back

For instance, to mitigate risks linked to delayed loan repayments and defaults, some groups decide to increase the interest rate; others decide to limit the loan size and allow members to borrow only the amount that they have already saved; others introduce grace periods or allow their members to repay in smaller instalments. If they are worried about security, they may require that members borrow all the money available at every meeting, or simply share it among members for safekeeping to reduce cash risk. Some of these innovations may be invented by the ISM members themselves, and others are common enough, such as distributing liquidity among members to reduce risk that it appears that groups are borrowing ideas from each other.

Norming means finding acceptable compromises. Some groups had decided to invest in collective business activities - poultry farming or buying a mill – and while the majority supported the initiative, some members were notably more risk averse and less enthusiastic. We also met a group who decided to wait for everyone to reach a target they had set for themselves for the total group savings, before they would share out. At the time of our visit, members had been waiting for about three years for a share-out. In such cases, time will tell if the group has really agreed on group norms, or simply postponed another round of storming.

Some groups set rules and limits around the use of the social fund. Others have created other dedicated funds, including an educational fund to pay for the support of a facilitator whilst some have opted to have no social fund and instead let members voluntarily contribute for emergencies as they arise. A group stated that they constantly had issues with members questioning the records in their books, so they requested that members memorise the amount they saved, and if their recollection did not match the records, they would be fined two Kwacha.

By the time they reach the norming stage, ISMs and their members have been through a process of balancing their policies and procedures against the needs and capabilities of their members. This process has involved negotiation, compromise, and trial and error, as they have tweaked their procedures often in quite sophisticated ways to meet their conflicting desires for liquidity and illiquidity. They are often sophisticated consumers with a grasp of the nuances of financial products.

2.5. Performing

After the group has agreed to procedures that all members can accept, membership changes have occurred, and the group has acceptable norms in place, it is ready to grow and often will remain for many years.

In this group we want to see every woman empowered financially especially and we also act as a social group to help us as women. As she has said that, we open up a company and we want to see independence for every woman. By the end of next year, whenever we have a meeting, we want to see a car for every member.

Performing groups that we encountered in the field had **competent and transparent leadership, good record-keeping, committed and sometimes passionate members.** Facilitated performing groups often continued to have frequent support from the trainer, belying the notion that a group after one year of training will be mature and able to continue unchanged with no further support. Wide acceptance of group norms and its constitution appears to be the key for the group to be cohesive and run smoothly. Interviewees used words like “discipline”, “serious group” and “uniform mind” to describe the essence of the phase we are calling Performing.

Performing groups are goal-oriented, meaning that they have aspirations and work together to achieve them. During data collection, we met several groups that are making common investments or have plans to do so. For instance, a group in Copperbelt was motivated by another group that bought a car used to provide taxi services. The money made by the taxi is added to the social fund to be used by members in case of emergencies, and any additional funds are added to the share-out at the end of the cycle. Another group, in Luapula, increased their savings by ten times due to a new leadership team that started emphasising the importance of saving more, borrowing, and repaying on time. The group reported that owing to the encouragement of their leaders they have improved significantly. Other groups have plans to invest in common activities, such as chicken rearing, food processing, building churches or community facilities. Some groups set external social goals and gain esteem by supporting members of the community using their social fund to help non-members.

The appearance of stability in a young ISM, especially one still being trained, does not guarantee stability in the long term. ISMs whose members carry the psychic scars of battle with other members, and who can tell stories of the hard times the group has endured, may have the best long-term prospects.

3. Financial Services, as seen by users

ISM users are discerning consumers who are strongly motivated to manage their resources to their advantage and the group’s advantage. They are not married to particular products but are always looking for the best solutions, and are quite willing to **mix and match products and services of ISMs and FSPs in whatever proportion they think best meets their needs**, including long and short term savings, commitment savings devices, long and short term loans or overdraft facilities, mobile banking, periodic share-outs, social insurance, transfers, and funding of group income generating activities and businesses.

The products, services, and terms and conditions of ISMs are chosen through a collaborative process, sometimes chaotic and sometimes orderly and democratic.

In this Chapter, we look at the value proposition of the ISMs as described by the interviewees. Not surprisingly, our respondents were generally positive about ISM products and services, because – except for a handful of interviewees – they were people who had chosen to join ISMs. The interviews frequently elicited comparisons between ISMs and FSPs, and we have included many of these comparisons as they reveal the perceptions of ISM users.

The ISM value proposition will be analysed across four dimensions:

1. Product features, including pricing, transparency, commitment, flexibility, and accessibility;
2. Security;
3. Customer engagement; and,
4. Proximity.

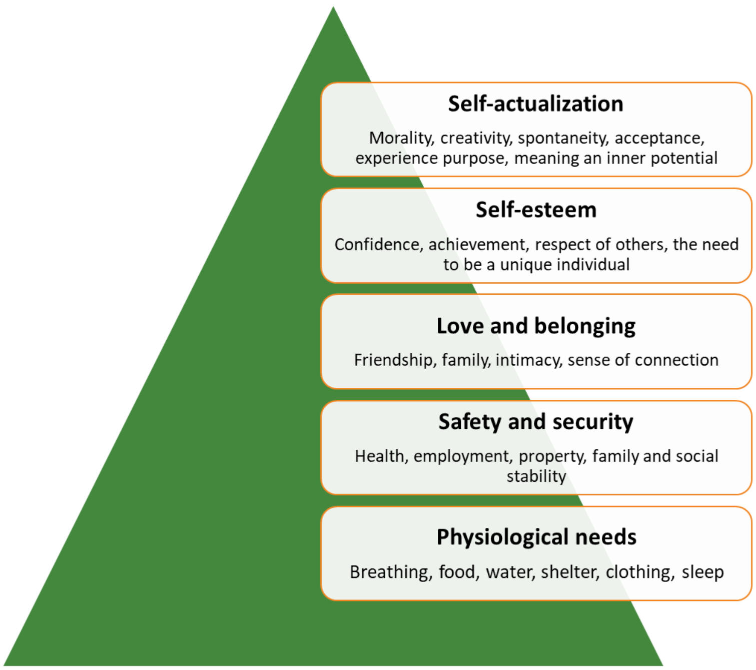
The same dimensions will then be used to compare the experience of ISM users with FSPs (banks, MFIs, and mobile money providers). This comparison may suggest entry points and opportunities for serving the ISM population.

3.1. A wide range of needs

The key to marketing financial products and services – or anything else – is knowing and satisfying customer needs. The challenge in working with ISM members is that they do not form a homogenous group. In fact, their needs vary widely (across groups and over time).

Readers of this study may be familiar with the work of American psychologist Abraham Maslow, who advanced a hierarchy of human needs in 1943. While behavioural psychology has produced new useful metaphors since then, Maslow's work remains widely respected. Maslow represented his theory by a pyramid of needs, which constitute a hierarchy, because people must have their needs at the lowest levels of the triangle met, before they have the bandwidth to address higher levels.

Figure 2: Maslow's pyramid of needs



The levels of the hierarchy correspond to needs for services offered by ISMs and FSPs, and a quick review of Maslow's hierarchy shows that the ISM population has members at every level of the pyramid of needs.

The bottom level consists of physiological or survival needs – food, water, sex, sleep – and there are Zambians who are concerned with these basic survival needs. If a person or their children are gravely hungry, their immediate and overwhelming concern is finding something to eat, and this need for food pushes other concerns out of the way.

The next level is security or safety. This issue manifests itself in ISMs and among the users of ISMs in different ways, including the urgent issue in many groups of security of funds: those ISMs which deal only in cash sometimes accumulate large sums which can become a target of thieves, and can also put the people charged with keeping the funds at risk. Again, while this level might be an issue for people dealing with basic needs, questions of survival take precedence.

The third level, for people whose attention is not focussed on survival or security, is a need for community. Community is normally provided by friends, neighbours, and family, but remarkably some ISMs play an important role in meeting needs at this level, and various members reported the feelings of love and support within their groups.

The fourth level of human need is that of esteem within the community. Of course, as with the need for community, many people find standing elsewhere; through family connections, church, or social activities. But some ISMs also contribute strongly to feelings of respect, and their members adopt outward displays showing pride in their groups, such as with wearing group uniforms.

Finally, the highest level of the pyramid is self-actualisation or achievement, available to those whose needs at lower levels are sufficiently met to allow them the peace of mind to focus on setting life goals and attaining them. These goals might concern a new house, better schools, a motorcycle or car, or starting a new business or agricultural endeavour. Meeting these goals usually has a financial component, though planning, knowledge, information, networking, and connections also contribute.

It is important to note that Maslow did not consider the hierarchy to be like a ladder that one climbed: we will continue to have physiological needs, and security needs, and so on. Rather, it is a question of priority: one will always prioritise the lowest level where the needs are unmet. Also, Maslow made no claim that everyone would climb to the top of the pyramid, and recognised that some people might spend their entire lives at the lowest level.

Maslow's hierarchy provides a way to categorise, examine, and understand the needs of the participants, and most importantly, it can help FSPs understand what the ISMs know instinctively about people's needs: the right product depends on the person's immediate need. While there is a market for FSPs to aid people in meeting their needs of life-goals at the highest level, FSPs need to know the priority that is placed on survival first, and security second, by ISM members.

3.2. ISMs as Financial Intermediaries

The ISMs studied here offer four main financial services to their users: savings, credit, share-out, and a social fund. We will discuss the products in detail and show how each one brings value to the users. To be clear, none of the individuals we interviewed had experience with wholesale loans to their group, and in every case, we are discussing experience with individual loans, whether from ISM or FSP. The ISM value proposition is summarised in Table 1 below.

3.2.1. Savings

[A fellow member] encouraged me by saying that the group would give me the discipline to save money beside the banks. When you save money at the bank you know that you have money and you will not always be forced to make withdrawals, unlike the group. With the group whenever you make a withdraw you must agree as a group when you will return the money. It's more like when you get credit. In the group you will have to agree on when you have to return the money. So, I would say there is a bit more financial discipline compared to keeping money in the bank even good to people that do businesses.

Just because I want people to know that am saving, I will go and borrow money from outside at a higher interest just so I can have something to bring to the savings

An essential feature of most ISMs is *commitment savings*, a term which refers to any mechanism which makes it easier to save than to withdraw money; and by that definition, a piggy bank qualifies as a commitment savings device. ISM members are usually expected to save a minimum amount each week; in principle, these amounts vary from one group to another according to the income levels of group members, although often groups in an area will standardise on a minimum amount, regardless of the wealth of members. In other words, the ISM is perceived as valuable not only because it *permits* members to save, but because it requires them to do so.

In the groups interviewed; contributions varied from ZMW 3 per week to ZMW 500 per week. Groups usually the maximum amount that can be saved to a multiple of five or ten times the minimum savings amount, and these multiples are called *shares*. Not being able to save the minimum amount is a principal reason people leave groups. Those who drop out join existing groups, or form new groups, or they simply continue without belonging to an ISM.

Peer pressure to save can lead to members borrowing elsewhere to meet their savings requirement; the practice of borrowing to save is widespread in informal groups, and simply shows the importance of commitment savings. However, in several instances, respondents reported that they had to borrow from one group to pay back their loans in another leading them to be caught in a circle of never-ending debt.

Each week, members must attend meetings during which they save and repay loans. Meetings allow members to stay in close communication, learn from each other, engage in group management and decision making, and ensure transparency and accountability. Missing a meeting or arriving late is often punished with a small fine (e.g. ZMW 2). In other cases, members might need to miss meetings and their groups modify procedures to facilitate this. For instance, we met a group of employed people who worked shifts, and therefore several members needed to miss meetings regularly. The group agreed not to fine absent members and to send detailed information about the meeting to all members by WhatsApp. If a member does not attend a meeting, they must send their contribution or loan repayments through fellow members or mobile money.

The savings group is secure but there are all those insecurities that is why you have to trust each other, the insecurities come in when people don't come for meetings and people don't pay when they are supposed to pay up so you have those insecurities and you know that your money is going into people's pockets because at the savings group we do not keep the money in the box.

ISM transactions are usually made in cash and in front of the group. Traditionally, in facilitated groups, the collected liquid savings are present at each meeting, which means that the amount of cash can be quite significant. Seeing the cash increases trust and motivation among members. All transactions are recorded in a group ledger or individual passbooks or both, and each member can clearly see how the group and individual members are progressing towards their goals and can be motivated by their success. People take pride in being a reliable member, supporting the other members, and making the group stronger. however, as stated previously, large amounts of assets risk theft.

At the end of each meeting, groups are expected to keep money and financial records in boxes. The boxes typically have three locks with the keys held by three members, to ensure that records are not tampered with between meetings, and that the closing balances at the end of the previous meeting are the opening balances at the next. Boxes fulfil these functions well, but they still present a significant risk, as the boxes are typically compact, often have a handle, are recognisable, and easy to open.

In some areas, box thefts are reported to be on the rise; at least in some neighbouring countries. While the theft of the box is a real risk, the safety of group members entrusted with the box poses an even bigger risk. Therefore, members have created other strategies to keep their money safe. A common strategy in Zambia is sharing the money among members for safekeeping or requiring members to empty the box by borrowing all the available funds at each meeting. In fact, credit allocation is often not guided by expected credit performance but rather driven by strategies to encourage risk-diversification. Boxes are still used to keep financial records from being tampered with between meetings.

The ISM value proposition: Saving

- **Customer engagement:** frequent person to person meetings where a social bond already exists allow simple procedures and case-by-case decisions when necessary. Democratic procedures allow each member to contribute to decisions on products, processes and investments, thereby assuring a strong experience of agency and control.
- **Commitment and accountability:** meetings remind members of their responsibilities. Members are reminded of their balances and can track personal and group progress.
- **Transparency:** group assets are in cash, and displayed in full at each meeting, building trust and furthering security. A mix of cash and mobile money, or deposits into bank accounts, can be difficult to reconcile during meetings and may not lead to the same degree of confidence, depending on the group's familiarity with FSPs. Also, members are concerned about the cost, in terms of both fees and time, of using FSPs.
- **Pricing:** members appreciate that groups offer a free savings product with no account maintenance or withdrawal charges. Groups still charge fines to encourage positive behaviours. Fines are agreed on by members, and disputes are rare, in part because members know that money paid in fines becomes a group asset to be distributed at the end of the cycle.
- **Security:** security concerns are pushing groups to find alternative strategies, which rarely involve a formal bank or mobile group account as other factors, such as bank charges and other costs, come into play. However, some members use their personal bank or mobile account to keep and send their weekly contributions.
- **Proximity:** group meetings are usually organised close to the members' house or workplace, therefore are very convenient and inexpensive to attend.

3.2.2. Credit

Savings and credit are the two paths to acquiring lump sums for consumption, investment, or emergencies, although there is often a fine line between consumption and investment. School fees, which are a very common use of ISM credit, could be considered an immediate consumption good, or an investment in the future earnings of their educated children. Similarly buying land or building a house often involves having a room to let as an auxiliary source of income.

In the field research, we found varying attitudes towards the two services. Many people are risk averse and do not appreciate loans. In particular, many users resent the compulsory loans which have become widespread in Zambia. Group members who are savings oriented and prefer to slowly save for their goals feel particularly resentful when they are forced to borrow, especially if they do not have a business to invest and profit from. In Luapula, some members reported that they suffer from panic and anxiety due to compulsory loans. In several instances, interviewees told us that they do not use the entire borrowed amount, but they keep part of it to be able to pay back on time. In other groups, regular borrowing is expected or even required of members. Some members borrow for everyday necessities, whereas others allocate the loans towards achieving specific goals such as boosting or diversifying their business, paying school fees or acquiring housing.

We shifted into our house before it was finished, and it didn't have a floor, so when I joined the group, I got a loan and bought cement and we put in the floor. We borrowed money again and then put plaster. And then we borrowed again, and we put in wiring. We have even paid for the children through the group.

I joined the savings group because it helps us with a lot of things, what used to happen was that elsewhere when we borrow ZMW 100, we would have to pay back interest of ZMW 50 but with the savings group when I borrow a ZMW 100 the interest is only ZMW 10.

Commonly, members can borrow up to three times the amount of their savings. However, due to episodes of default and conflicts among members, some groups use a different leveraging ratio, including permitting borrowing only an amount equivalent to the member's savings. Loans are usually short-term with periods that vary from a few weeks to months. Groups are often structurally unable to provide long-term funding, so members use series of short-term loans to complete longer-term investments, especially in their business or for incremental household construction.

Many, or most groups will say they charge members who borrow ten percent interest, but the interpretation of that is not at all consistent: some will charge ten percent per month, while others will apply the ten percent charge once to a three-month loan. As a result, the annualised rate varies widely among groups. Some groups are strict on repayment and add fees or additional interest charges to borrowers who are late in repaying; others are more relaxed and might decide to provide a grace period if a member is unable to repay. While the calculation of interest is informal at best, this makes little difference to ISM members, for three reasons.

1. The ease and speed with which loans are granted makes them particularly valuable; they allow borrowers to seize opportunities or respond to emergencies quickly.
2. Borrowers compare the ISM loans to the possibilities of borrowing from other sources, particularly money lenders and FSPs; rightly or wrongly, they consider the other sources to be more expensive. Even if annualised rates are higher in the ISMs, they are not burdened with travel costs or any other fees.
3. The interest paid is returned to the members at the end of the year at the time of the share-out. Members are acutely aware of this, and some see the interest they pay as another form of saving. Not only does the borrower contribute to the fund that she will profit from at the end of the year, but those who borrow and pay interest are appreciated by other members. A number of the groups we encountered require all their members to borrow regularly, either because they know that borrowing grows the amount in the loan fund, or as a security measure to prevent liquidity building up in the cashbox, or for both reasons.

Many groups apply fines or add additional interest payments when a loan is overdue. However, they also show high degrees of flexibility for loan repayment and take the social situation of members into consideration. If a loan is not repaid for a number of months, many groups will stop applying any additional charges if they know that the member is not able to pay. Cooperation begins and the members try to understand the reasons behind the delay and agree to a grace period that might vary depending on the challenges of the borrower. An interviewed member told us that she could not repay the full amount when agreed, so she repaid the interest when due, and paid the capital and interest again the following month, as if she was taking a new loan. It seems that she regularly uses this strategy and the flexibility of the group to manage her business cash flow.

In addition to flexibility and grace periods, other strategies that groups use to recover loans include: encouraging the members to pay in small instalments before the due date; request for immediate family or the member who invited the defaulter to act as guarantors and repay the loan in her behalf. Occasionally, ISMs adopt harsher approaches such as visiting the member's house or even announcing the debt on the radio; however, these measures are considered a last resort, and are reserved for cases of wilful non-repayment. It is not unknown for unpaid liabilities to the ISM to linger for years, with the debtor making small payments over a long period.

Besides the high-degree of flexibility and the personalised approach that characterise ISM loans, users appreciate how quick and easy it is to get a loan from a saving group. For instance, users appreciate that there is no need for paperwork; they simply attend their regular meeting and at the indicated time they stand up and say they would like a loan. However, this is not always the case; when there is not enough cash, some members will have to queue to get a loan. Some groups choose to divert some of their collected savings into group income generating activities such as chicken rearing, farming, or food processing. Some groups would like to have greater assets without having to save more, and some members consider bank credit as a solution. However, members have varying opinions on this question, some being risk averse, and others mentioning challenges with customer engagement (e.g. cultural distance, paperwork, and difficulties with ATMs) that are discussed further in section 3.3.2.

The ISM value proposition: Credit

- **Customer engagement:** as members know each other, speak the same language and share similar needs and challenges, there is no need for paperwork to take loans; at the same time, peer pressure and social bonds provide strong incentives to repay.
- **Pricing:** interest rates are not perceived as a burden because of the speed and facility of credit, because ISM credit is perceived as less expensive than alternatives, and because interest paid will be redistributed at share-out. However, loan defaults, fraud or theft pose the risk of much higher costs to the group in the form of lost assets.
- **Transparency:** groups do not apply any other charges besides interest rate, and the interest rate has been set by the members. Even if the interest calculations sometimes lack financial logic, they are perceived as transparent and fair.
- **Flexibility:** repayment terms can be flexible and tailored to the members' needs. Groups compromise between flexible repayment and liquidity constraints in case demand for loans is higher than available funds.
- **Proximity:** groups are located near where members live or work, so it is easy to access money in case of an emergency.

3.2.3. Share-out

The share-out at the end of the cycle provides a large lump sum, generally larger than individual loans members might have taken. Share-outs are considered particularly desirable lump sums because they do not need to be paid back and are deliberately timed around the festive season or times with foreseeable large expenses, such as school fees or planting season. Members often join multiple groups to save more, learn from each other, diversify their "savings accounts" to reduce risk, and access multiple share-outs at different times of the year to be allocated to different expenses. Share-out is so important to members that it is fair to say that the interest rates in savings groups are set high to encourage capital accumulation.

If you are not contributing enough money, then at share out you will feel bad as your friends will receive larger amounts of money than you.

Volunteer bookkeepers are expected to keep accurate records over a year and compute the share due to each member at the annual share-out. The formula for doing this is usually to return everyone's savings, and then distribute the surplus funds from interest on loans, fines, gifts, or group businesses proportionally to the amount each member has saved. In some cases, this is considered unfair because some people who do not borrow, or borrow less, are sharing in the revenue earned by the group by those who borrowed and repaid with interest. Therefore, these groups do not redistribute the earnings proportionally.

There are at least four methods of sharing interest in groups and only one is taught by the facilitating agencies. The other methods were adopted either in reaction to the perceived unfairness (e.g. give everyone the interest they paid-in back to them), or make distribution more "unfair" but more social by giving every member an equal share of collected earnings, or, remarkably, giving everyone an equal share of all the assets. The method selected depends on the orientation and culture of the group, and whether it is more financial or social in its objectives.

The other thing we would like to learn in our group is about share out. For example, when you save k500 we need to know how much the interest for the k500 will be. I don't know if there is someone that knows how interest is shared in our group. All we know is that there is additional money on the day of sharing out. We need to know how to calculate interest.

The share-out requires the bookkeeper to carry out complex calculations, whose difficulty is compounded by records that are frequently incorrect, out-of-date or sometimes lost; members who have not completely paid back an outstanding loan and who therefore will see their part of the share-out reduced by the amount they still owe; and by the task of dealing with a large number of small bills under the pressure of impatient members who want to begin distribution. Bookkeepers frequently ask for help from their trainer or someone who knows the share-out calculation procedures. It is probably fair to say that most often these calculations are conducted with enough accuracy to satisfy the savers, though that is not always the case. Some members seem to make a distinction between the amount they have saved, and the share of the group's profits they are owed. If they do not receive all they have saved, they consider that a loss, while if they do not receive all that they should have, had everyone reimbursed their loans completely, then they might consider that more of a disappointment than a loss.

Many interviewed members proudly mentioned their achievements thanks to the share-out at the end of the cycle, usually one year though that period is variable. These achievements include buying land, building a house, boosting the business, paying school fees for the children or for themselves.

For two months before share-out, we don't give loans in the group. It is the time when the members bring back the money to the group, and that means that box is really filled with money and the person keeping the box is at risk.

Share-out is also the moment at which the group has the greatest security risk: not only are the group's assets at their highest level after a full cycle of saving, but they are also at their most liquid, as many groups stop making loans in the two or three months before share-out to give all the outstanding loans time to be repaid. Members are intensely aware of this risk, and groups address it in different ways, sometimes putting it in a group bank account, or a member's account, or even the trainer's account, and sometimes reducing risk by dividing the assets among several members, each responsible for assuring the security of their part of the whole.

The share-out is a milestone moment for the group and can be highly motivating or discouraging depending on the results. As mentioned above, defaulters affect a group's share-out and might trigger conflict and change of rules and membership within the group. Similarly, members have specific plans for their share-outs and moving the date, usually due to delays in loan repayments, is a source of conflict in the group.

The ISM value proposition: Share-out

- **Customer engagement:** Periodic redistribution of savings plus interest earnings rewards the members for their efforts. It is a source of pride, brings esteem, builds group solidarity, and increases motivation and loyalty.
- **Transparency:** calculation of share-out is seldom easy, usually mysterious to most members, and sometimes of questionable accuracy.

3.2.4. Social Fund

The traditional model of facilitated ASCA includes a social fund, a social safety net designed to help members in cases of shocks, like the loss of a breadwinner or unexpected medical emergencies. This fund is sometimes governed by a set of very clear written rules but in other cases, group members decide on a case-by-case basis whether to use the fund and how. Life emergencies like funerals and illness are often common knowledge among members, and the social fund can often be accessed quickly. Groups do not always limit the use of the fund to their own members: one of the interviewed groups decided to help someone in the community who was not a member upon the request of the social welfare agent.

We have a social fund which helps the members, if I am sick or I have a problem with the school fees, the group is able to help through the social funds. You know I don't even need to pay back, it is given to me based on the papers that I have produced like hospital, school fees and then funeral, everybody knows that you have a funeral.

Someone from social welfare came to ask for some of the money that we save to help people. She asked for ZMW 300 so that the person could get back their village, and also money for food on the road. The group agreed.

Groups occasionally have multiple funds for different purposes (e.g. social fund and education fund to incentivise the trainer). Members are expected to contribute to these funds separately, on top of their regular savings contributions. Social fund contributions among interviewed groups range between ZMW 2 and ZMW 5. Money from the social fund is sometimes reimbursable, sometimes given as a gift; when it must be paid back, it usually either carries an interest rate lower than the standard borrowing rate, or it is lent without interest. Groups make up their own rules for the social fund, and NGO trainers are generally less proscriptive about how the social fund should be managed than they are about the loan fund.

If the group arrives at the end of the cycle and money is left in the social fund, the group may decide to distribute it among the members, use it for other purposes such as a party to celebrate the end of the cycle or to help the local church or other community facilities, or may roll it over to the next cycle.

Some groups do not have a social fund and group members simply contribute money to someone in need. These contributions are spontaneous, voluntary, and motivated by tradition, rather than any written rules.

The ISM value proposition: The Social Fund

- **Customer engagement:** funds are easily accessible and strengthen loyalty to the group and social bond within the group and with the community.
- **Pricing:** most interviewed groups reported that the use of social fund is free of charge and funds do not need to be repaid.
- **Transparency:** the entire group agrees on the use of the funds.
- **Proximity:** as in the case of other services, the group is located near where people live or work, so it is easy to access money in case of an emergency.

3.2.5. Overview of ISM value proposition

The totality of the ISM value proposition constitutes a point of reference for many ISM users. Many of them have only ever dealt with ISMs and have only secondary knowledge of FSPs. As they come to know FSPs, they will automatically compare them to the products and services they already know from their ISMs. The ISM value proposition then becomes an important benchmark for others who want to reach the market of ISM users.

As illustrated above, each product offered by ISMs contributes to create the value proposition summarised below.

Table 1: The value proposition of ISMs

<table>
<tr><th>Value Proposition Dimensions</th><th>ISM</th></tr>
<tr><td rowspan="3">Product features</td><td>Pricing
Savings are free of charge
Fines for bad behaviours
Interest rates usually are nominally “10%”, but application varies between groups, some applying 10% monthly on declining balance, others as a one-time charge on the loan amount, regardless of the period. Most groups increase charges in case of late repayment.
Fines and interest rate redistributed to members at share-out</td></tr>
<tr><td>Transparency
Conditions and charges clearly communicated to members who usually contribute to the decision-making process on those conditions
Meetings ensure full transparency of transactions</td></tr>
<tr><td>Commitment, Flexibility and Accessibility
Members obliged to save shares every week within the range agreed by the group
Peer pressure to save and repay loans are a strong commitment mechanism, but the money is still easily accessible in case of emergency
Compulsory borrowing quite common in Zambia
Flexible and often personalised loan repayment terms (including grace periods)</td></tr>
<tr><td>Customer engagement</td><td>Members look for the “right group” with a good fit in culture, easy engagement among peers
Weekly meetings create sense of belonging, increase motivation, loyalty, and trust
Group members feel comfortable dealing in their own culture/ language and learning from and supporting other members
No need for paperwork</td></tr>
<tr><td>Security</td><td>Vulnerable to external theft and potential internal fraud</td></tr>
<tr><td>Proximity</td><td>Groups are close to the home or workplace of their members; no transport costs and no queues to access the money</td></tr>
</table>

3.3. Contrasting User Experiences of different financial services

User experience here refers to the way people perceive their interactions with a service provider. User experience is a subjective, automatic perception of whether a service is accessible, efficient, fair, welcoming, transparent, and provides value for money. User experience depends in part on the product or service being experienced of course, but also on what others are saying, old memories, cultural values, or other factors that the user may not even be aware of.

In this section, we will discuss the user experience of ISM members with banks, MFIs, and mobile money providers. Table 2 summarises members' experience as discussed in the rest of this section.

Table 2: ISM members' experience with banks/MFIs and mobile money providers

Value Proposition Dimensions	Bank/MFI	Mobile Money Providers
Product features	**Pricing** • Multiple fees and charges on withdrawals and transactions • Interest rates perceived as high • Loan terms are perceived as subject to adjustment by bank if exchange rates change	**Pricing** • Savings are free of charge • Cash out charges are low, but increase with the amount • Possible to access small loans with flexible conditions • Cost of these loans was not mentioned as a consideration in our sample
	Transparency • Charges not always understood, in part because of English language documents	**Transparency** • Easy to understand charges and conditions
	Flexibility • Banks only accept larger amounts • Strict loan repayment terms compared to ISMs	**Flexibility** • Accept any amount for savings • It is easy to pay back loans
	Accessibility • It can be difficult to access savings in case of emergency • Limited access encourages savings	**Accessibility** • Very easy to access money, except for agents' liquidity concerns • Mobile money is perceived as liquid as cash and therefore too easy to spend
Customer engagement	• Cultural and language barriers between ISM members and banks' staff • Complicated and time-consuming paperwork • Occasional difficulties with the use of ATMs	• Easier to relate to agents, but they cannot always resolve issues
Security	• Considered very secure • Memorable events around bank defaults affect ISM members' trust in banks	• Mixed experiences with security
Proximity	• In our sample, often high transport, and time costs • Limited and unreliable agent network	• In general, widespread but often insufficiently liquid agent network • Increases the proximity of other providers (e.g. utilities)

3.3.1. Product features

Because if you deposit money now, [banks] will be deducting. And if you have an ATM, the more you withdraw the more they deduct. This defeats the whole purpose of the bank. When we put money there it means there is something that we want to do at one point. But them they keep deducting. What the bank wants is us depositors. But now they are choking the depositors.

Because of the book balances when I deposit a ZMW 700, I can manage to withdraw a ZMW 500, so I feel demoralized to take money to the bank.

Under product features we considered four main product characteristics: pricing, transparency, flexibility, and accessibility.

From a savings perspective, a number of the interviewed members have, or used to have, an account to receive their salary, or because they have a registered business. Many respondents were unaware that they can earn interest by saving at a bank. Many said that they see their savings reduce due to fees and charges applied to their accounts, especially maintenance charges or deductions and withdrawal fees. Some ISM members consider these charges to be too high, while others seem to be reacting to the number and recurring nature of the charges. No one we talked to rejected the notion that banks need to charge for their services; rather they were *surprised* by charges, and especially if they saw their savings balance steadily eroding, and felt that they were getting steadily

My husband uses the bank; the goodness is that when he is working far from home, he just lives the ATM and when we tell him that there is no food I can easily withdraw from his account.

Another thing is when you deposit your money as fixed deposit, banks will not agree or will not compromise at any point when you change your mind, or you are under pressure. When you have problems like ailments or funerals when you go to the bank before the withdraw date to try and withdraw some money because you made a fixed deposit. You didn't want to use that money at that time the bank will refuse to assist you. Not until the agreed upon time.

[Banks] have brought the apps and so it is easy to access and if you are in Rwanda or UK, you are able to transact.

[Mobile money] is not good at all. My money normally ends up on talk time such that if I have ZMW 200 in it, I will be buying talk time to recharge my phone.

Well it was expensive for me. I'd use *ZMW* 20 transport money to go to the bank to save *ZMW* 20.

Before all these electronic things came in, we used to use the bank, even money gram is through the bank as well. But I think it is faster because when you use the bank, it will take a good five days for the money to reflect whereby for western union and money gram, it is 24 hours and then for mobile money it is instant and e-wallet.

You will find that [the banks] tell you that the rates have changed and so we will increase. Even if you were supposed to finish paying a loan in 5 years, you find that you finish in 6 or 7 years.

poorer as a result. Some members said that they were not aware of all charges and they complained that the money at the bank "disappears".

Only two groups in our sample had a group account. Both are generally happy with it since they earn interest, and the accounts are flexible and meet their needs. In some cases, individual members who have a bank account and need to miss a meeting send their contributions to the group account or other members' accounts. However, several groups noticed that maintenance and book balance fees erode "the box" but do not bring any benefits in return. Just as earnings are shared at the end of a cycle and are a cause of celebration, bank charges are also divided among the members, but without the celebration. Some groups think, perhaps rightly, that it would be too costly for them to keep their collective funds in an account on a regular basis since the money is usually lent out or shared among participants, and they only need the account for the few months before share-out.

Unless a group happens to meet near a bank branch, or can conduct its transactions by phone, using an account can create logistical challenges and new risks. If all the group's cash is kept in the bank, funds transport before and after meetings will create risks, while if only some is kept in the bank, transport risk is reduced but the physical verification of cash that is at the heart of group transparency is reduced also, because some of the assets exist "only" as a statement from the bank. Since ATM withdrawals are capped, the group might need to withdraw multiple times and therefore pay multiple fees. In addition, the group must consider time, transport fees and other costs some group representative(s) will need to incur to deposit and withdraw from the bank account. While these are details, they are details that are important to group members.

Mobile money was widely appreciated during the study as a way of storing and transmitting value. Mobile wallets do not apply any fees at the time of cash-in, so members find their balances do not decrease over time. ISM users perceive mobile money as very liquid, practically cash, which can be used to pay for an increasing number of services such as utilities. This convenience can however make it too easy to spend money, and thus more difficult to save.

Interviewed members appreciate that mobile money charges are clear, transparent, and reasonable for the low amounts of their typical transactions. Mobile money agents are widespread and accept any amount of money.

Finally, respondents also reported some use of mobile money loans. These are easy to get, can be repaid in small instalments every time that airtime is bought and if paid back on time the mobile money provider gradually increases the amount offered to individual savers. These loans were seen in the same positive light as other mobile money products: appreciated for the transparency of their pricing, for the lack of geographical and cultural distance of their agents, and for speed and ease.

Concerning bank credit, some respondents resented the perceived practice of banks as not disbursing the full amount of loans, deducting fees and commissions from the nominal amount borrowed. The loan approval process is perceived as long, and one interviewed member managed to get a loan from her ISM and sort out her challenge before hearing back from the bank. Members also reported interest rates that they objected to, not because they were high in absolute terms, but because they benefited the FSP and not the group. Again, this is

When you want to borrow money from the banks you will find that the interest rates are too high. Of course, our group has not reached a level that we lend each other a lot of money but compared to the banks their interest rates double the amount you borrow, and you do not benefit anything from the interest which is not the case with the savings group. I think the savings group is better.

For the savings group, they would understand and give you three months more for you to clear and if you fail, that means you have just failed because you are lazy. For [Bank], they don't tolerate that because they don't understand you even if you have a funeral.

They can only give you a loan if you have a pay slip otherwise, you can't get a loan.

That's not good. There are some of us who do serious businesses who can easily pay back whatever amount of money. We can borrow from the bank but because the bank looks down on business people, they only focus on people who are in employment. They can't give a marketeer money

evidence that ISM users benchmark their expectations of financial services based on their experience with their ISM.

In several cases, interviewed members told us that the interest rate fluctuated as a result of inflation and foreign exchange rates. The bank did not communicate clearly about these changes but simply extended the loan duration. It is noteworthy that the negative remarks about interest rates at banks came from people who paid as much as ten percent per month to borrow in their groups. The issue is not the absolute cost of borrowing, so much as the frequency of charges, the transparency in communicating them, and – in contrast with ISMs – the fact that all the money paid stays with the bank. While none of the respondents mentioned the size of loans as a factor in the perceived fairness of interest rates, the interest rate on the small loans typical of ISMs is typically higher than the interest rate applied to somewhat larger bank loans.

Some respondents said that banks "only give loans to employed people" and request a substantial number of papers and documents. Some businesswomen said they feel excluded as they feel that they would be able to service bank loans, but they believe that their application would not even be considered. Interviewed stakeholders agree that it is much easier to access loans from their ISM, where everyone knows the reason why the member is asking for a loan and credit is based on an assessment of the borrower based on existing knowledge of character and circumstances.

Strict loan recovery practices increase the burden of the loan. Interviewed members stress the lack of banks' understanding and the embarrassment felt when bank staff comes to seize household items given as collateral. A group told us how they managed to access a loan from a bank, but this required the group to be the guarantor of loans made to individual members. Although ISM credit also puts the group's assets at risk, members found that being asked to guarantee a bank loan was "unfair". Essentially, banks are held up to a different standard than the groups, which are member owned organisations.

I don't [use banks] and I have never used one. Only [MFI], that's where we used to get loans a long time ago. We used to get money as a group and as individuals too, the individual one was better than the group one because when you get a loan as a group it was hard to keep track of the money and security wise the money wasn't safe.

We were forced to pay for the other people that failed to pay back the money which was unfair for the other members that had paid back their loans. So mostly the one that had to pay for the other members had to go and grab things from the ones that failed to pay the loan.

3.3.2. Customer engagement

For this discussion, we looked interactions between customers and staff, agents, and interactions with ATMs.

Many of the comments collected in the field suggest that Zambians place as high a value on where they will "feel at home" as they do on product-specific factors like interest rates and fees. Distance is not only measured in kilometres, but in language, hospitality, attitude – all the non-financial issues that help people feel connected to an organisation. In the case of ISMs, people join the "right group" in which they can relate easily to other members, take pride in membership, speak the same language, share the same values and culture, have similar occupations and wealth, and similar challenges and needs. When members find the right group, they sometimes mark that by acquiring uniforms which they wear both to meetings and to public functions.

> *We want the banks to be honest. When I say honest, what I mean is there are people that are illiterate so that when you encounter a problem, bank people need to explain to you all the information that you need to know. Some of us have noticed people go to the managers offices when they encounter a problem in the account. But for us illiterates, I think it's impossible. We'll just accept whatever they say.*

> *Then [Bank] here is not reliable and so when I get paid, I have to call someone from Lusaka to withdraw for me and then send via mobile money.*

Some respondents felt that banks treat less educated or illiterate customers worse, and they point to language and cultural barriers and also sometimes to a generational gap between the young bank staff and older illiterate ISM users. In some cases, the cultural distance that ISM users feel from FSPs contrasts very strongly with the affinity they feel towards their groups.

In terms of interaction with ATMs, members do not always find them member friendly. We encountered a number of issues that affect cost, reliability, and security of the service. For instance, a member did not know how to use an ATM, so her card got swallowed. She had to pay charges and spend time to get a new card. Now she asks for help to use the ATM, which means that she must disclose her information to others and tip them. Others reported similar stories and related instances in which they thought money was stolen from the account. Members also told us that they feel more comfortable asking bank guards for information than bank staff since they see the guards as their cultural peers who will speak to them in their own languages.

Interviewed members told us that ATMs sometimes do not work or run out of money, especially when civil servants receive their salaries, or in rural areas, and there are often long queues.

> *I have used mobile money, but the challenge is when I want to withdraw cash, the agents tell me that they don't have cash, cash has finished, but this is the only inconvenience. They are also good because you find them almost everywhere. For the banks, I have an account with the big banks, but you will find that they do not have money in their ATM machines over the month's end. You will find long queues when you need the money urgently*

Members of one group reported the extreme case in which, due to lack of reliability, they needed to ask someone in Lusaka to withdraw for them and send the money through mobile channels. Members reported how it is much easier to find a mobile money agent, even though the challenges with liquidity remain. Some members said that they appreciated the mobile money agents because they were people from the community, and "just like us".

> *The other thing is that if you have a bank in Lusaka you find that you waste money just to travel to Lusaka to get your money because of no branches here.*

> *There are only three banks branches in Chongwe and once they deny you access you must wait for two weeks. Sometimes when the ATM card is swallowed up, they tell you to go to Lusaka to retrieve it and you don't even have transport money to travel to Lusaka. There should be more branches.*

3.3.3. Security

> *When you save the money with the bank, the money can't be stolen. Even a witch can't access your money at the bank. And also, the cockroaches can't access the money.*

> *They are times when a person is paid but when they go to the bank, they don't find any money and they don't even know who withdrew it.*

Security is an ongoing concern for ISMs. Despite the strategies that members put in place to increase security of their funds, security was repeatedly cited as a concern, and security is seen as a key strength of formal FSPs. While this feeling was widespread, it was tempered by old memories of bank failures, which have left the lingering fear that one can lose money in banks. Some respondents said they trust local banks more than foreign banks since they think that foreign banks could "run away with the money" whereas the chances of retrieving their money from a failed local bank would be higher.

Security issues also emerge when, as mentioned above, people do not know how to use ATMs or feel uncomfortable talking with bank staff and end up relying on other people for help, thereby disclosing their PINs. Interviewed members reported similar issues with mobile agents too.

People can attack and kill you for keeping money in the house but when they try to attack you, they can't kill you as if the money is at the bank. Even when a house is on fire, the money will no catch fire as it is in the bank so you can come and withdraw the money and renovate your house.

3.3.4. Proximity

Physical distance is an important determinant of use of different services. Without exception, respondents appreciated the proximity of their ISM. Depending on one's location, the distance to banks can make them inaccessible and costly to reach, therefore discouraging members to save there. Mobile money agents occupy a middle ground: they are widespread, so members usually find it convenient to use them, both for their personal financial management and occasionally to carry out transactions with their ISM. However, home remains the closest place of all and members told us that they always keep some cash at home for daily use.

The problem is that we live far from the banks. Banks are in town. It is easier for me to just use mobile money providers because they are close to where we are than for me going to the banks using public transport. The money I could have used for transport, I can use it for mobile money saving

If I am not coming to a meeting sometimes, I send via [my phone] because here we have mobile money just outside and while we are in a meeting one of my friends can collect my savings on my behalf.

Physical proximity translates into less movement, physical effort and time spent on financial services. One ISM user said she wished that banks could go to the markets since marketeers do not have the time to leave their shops to go to the banks. She also mentioned that at banks and ATMs people need to queue for a long time even to withdraw small amounts and this is definitely perceived as a waste of time. The time that members spend in meetings is spent sitting and resting, and the financial activities are interspersed in part with seeing friends and networking; the time spent waiting to get to an ATM is empty and tiring, standing and looking at the back of a stranger's head. While some groups bend their rules to allow unscheduled access to funds in emergencies, some members told us that to access their savings in the ISMs, they need to wait for the weekly meeting. Therefore, in an emergency, members with a bank account would decide whether to wait for the meeting or face the costs to go to the ATM and withdraw. In this respect, ISM users seem to appreciate the fact that banks are also opening booths to reduce their distance from the customers. However, it seems that mobile money booths are still much more widespread and open for longer, with some exceptions in rural areas in which it can still be far.

I like their Express business, but it needs to be improved. Their Booth is normally closed. So, if they can find a way of ensuring that they are always open, I think the customers would appreciate that.

At home there should be something because they cannot remain without any money. The needs at home are more than such that you can't always get on a bus and go to Chambeshi and get some money. For instance, maybe a school going child wants five books so you can't say I'll get on my bicycle and ride all the way to Chambeshi just to withdraw money.

It's a personal decision. Sometimes when you want to get money you remember you can only get money from your savings group when there is a meeting; sometimes you may need money when the meeting has already passed, and you need it urgently you may decide to go to the bank. But if it's a situation that you are having a meeting in 2 days you can wait for the savings groups because you can only borrow money during the meeting.

M: What's the important reason why you like using mobile money?
R1: It's urgent and near and most of the time they are available.
R2: It is easier to withdraw because mobile money posts are everywhere. It is better to use mobile money because I don't have transport money to go to the bank, hence, I prefer mobile money so that I can even withdraw a ZMW 20 for using at home.
M: You take how long to go there?
R2: About 45 minutes.

Like for the people that are far away you can just pay through mobile money. You don't have to visit a utility company physically.

It is easy I can use a phone to pay a bill and transfer money unlike walking to the bank to withdraw money. It reduces movements

Another advantage of mobile money is that it increases the proximity of people and services. Through national and international transfers, people can send money to each other in case of emergencies. And, of course, it has the advantage of easing payments to utilities or other services.

4. Insights and Conclusions

We spoke with almost 400 ISM users and non-users, who sometimes contradicted each other, and had varied and personal observations about their ISMs, the challenges they face in life, and financial services in general. In this report we presented the recurring themes that emerged from our analysis of the transcripts of the fieldwork. The following section attempts to sum up insights and conclusions from this analysis around five key points:

1. **Variety of ISMs:** The researchers chose to limit their research to ASCAs, so Chilimbas are not represented here, although many of the conclusions should apply equally to Chilimbas and their members. Within the world of ASCAs, it seems that it would be difficult to find two that are alike. There are often thought to be two large categories of ASCA: facilitated by an NGO, and non-facilitated. We found that even this top-level categorisation is difficult to apply in practice, as facilitated groups mutate, split, break up, and as trainers no longer with an NGO continue to form groups. It might also be assumed that facilitated groups are likely to be of higher quality, with clear procedures respected by all the members; however, we found no strong correlation between facilitation and quality. Many groups go through the steps that we refer to in Section 2 as Forming, Storming, Norming and Performing, or FSNP, and during those middle storming and norming periods, the membership and procedures can change quite a bit. Very often, the changes are positive, and groups which reach maturity will have made modifications that serve the membership well.
2. **Variety of Members:** ISM members can vary enormously in wealth (including every stage from the rural survival economy to urban professionals). They come to ISMs to fulfil hugely different financial needs, from urgent immediate needs, to investing in life goals such as businesses and housing. Whatever financial needs they may be meeting, users of ISMs almost universally find social benefits too, including a sense of belonging, or heightened esteem in the community. Some members come to groups only to save, while others take a series of loans at every opportunity. Some are net contributors to the social fund, while others find that the fund helps assuage life's hardships.
3. **ISM users as discerning consumers:** ISM users look for the financial services that will meet their needs, and they will act in accordance with what they perceive to be their self-interest. While they tend to have positive feelings towards their group, they are always in the market for other services, if those services meet their needs better. They are quite willing to mix products from different providers and have no compunction about putting together a mix of formal and informal financial products, if they judge that they make their lives better.
4. **The ISM value proposition:** ISMs have been designed by their users, through the FSNP process, to meet the needs of a particular set of people, and the members of that particular group. It is not surprising, therefore, that users are generally happy with their groups. In most cases, ISMs provide commitment savings accounts with an annual payback to the saver, quick access to loans, flexibility in repayment, transparency, social support, a feeling of community, networking opportunities, esteem within the community, and proximity, and ISMs take the user's life achievements and situation into account in assessing them for credit. When ISMs work well, they have a remarkable virtuous circle in which the good behaviour of members enriches the group, which in turn can provide better services to the member. However, while users appreciate their ISMs, ISMs seldom meet every need of every user. Issues with ISMs that were mentioned repeatedly were cash security, the challenge of keeping accurate financial records, the limits on the amounts people can save and borrow, especially at certain times of the yearly cycle, problems caused by other members, particularly regarding late repayments and defaults.
5. **User experience:** Respondents were quite outspoken about what they liked and did not like about financial institutions, and while some of their opinions may be based on inaccurate or outdated information, their decision making is still driven by their perceptions. Their perceptions in turn are benchmarked by their experience with their ISMs, which for many people are the only financial service mechanisms they have ever dealt with. Below observations regarding the user experience are outlined:
    - ISM users are not particularly concerned about interest rates, which they may not fully understand, and they acknowledge that banks need to make money. However, they care about the appearance of fairness, and they are particularly sensitive about seeing their balance decrease when they have not withdrawn funds.
    - ISM's offer outstanding proximity, administrative simplicity, rapid responsiveness, and flexibility.

- Informal group members are sensitive to the people they are dealing with and prefer people who are "just like us" in language, class, and culture. Largely because of the characteristics of the agents, agent networks are strongly appreciated, both mobile money and banking agents.
- In addition, mobile money has a good reputation for the transparency of its pricing.
- The success of ISMs has been accompanied by growth in the amount of cash they manage, and security has become a huge issue, one that few ISMs have completely solved. Many respondents look to FSPs to help but are daunted by distance or other factors. Mobile money agents can help and will probably continue to play an increasing role but there are liquidity issues with them.
- Proximity returned repeatedly as an important theme. While many ISM users would like to use the additional services of FSPs, issues around travel time and cost stand in the way.

Annex A: Categorising and measuring ISMs

What are Informal Savings Mechanisms? ISMs have been around for a substantial amount of time and exist globally. While they seem to be more common among the less-well-off who were traditionally excluded from formal financial markets and need to find alternative ways to manage their tight income, they also exist among salaried people (i.e. many bank workers have a Chilimba that meets on pay day), and even among the wealthy (the researchers know of at least one ISM in Zambia that has repeatedly helped members purchase automobiles). ISMs are a broad generic category intended to include all assemblies of people who voluntarily come together to save, and usually borrow, and often provide a form of social insurance. They are managed by their members and not regulated by any national body. While the term is broad enough to include other ways people save, such as confiding their savings to an individual. However, this study was limited to the familiar groups of about 15 to 25 people which meet regularly to save and borrow. And, within groups, it was limited to accumulating groups or those which keep a balance between meetings.

Table 3: Idealised classification of ISMs

<table>
<tr><td colspan="3">Rotating Savings and Credit Association (ROSCA or chilimba) Member make periodic contributions into a common fund which is distributed to one member at each meeting, in turn.</td></tr>
<tr><td rowspan="4">Accumulating Savings and Credit Association (ASCA) Members save usually variable amounts, to constitute a fund from which other members may borrow</td><td rowspan="2">Distributing ASCA: group funds are periodically distributed to the members according to a formula agreed to by the group. Often called “Savings Groups”</td><td>Facilitated distributing ASCA: group was formed or trained with the help of a facilitating agency</td></tr>
<tr><td>Non-facilitated distributing ASCA: group was formed or trained by other group members or in other ways.</td></tr>
<tr><td rowspan="2">Non-distributing ASCA: group funds are retained and continue to grow.</td><td>Facilitated non-distributing ASCA: group was formed or trained with the help of a facilitating agency</td></tr>
<tr><td>Non-facilitated non-distributing ASCA: group was formed or trained by other group members or in other ways.</td></tr>
</table>

While these categories cover all ISMs in principle, in practice there are hybrid groups, as well as groups which migrate from one category to another.

Ref SatF Tanzania study

Classifying groups is theoretically simple, but in practice it presents problematic issues. Groups are (again, theoretically) divided into two subclasses: ASCAs (Accumulating Savings and Credit Associations) and Rotating Savings and Credit Associations (ROSCAs) – called Chilimbas in Zambia.

In Chilimbas or ROSCAs, members periodically contribute the same amount to a fund that is given in its totality to each member in turn; ROSCAs do not accumulate. ASCAs collect money from members, usually variable amounts, to capitalise a group loan fund from which members may borrow. ASCAs in turn fall into two subgroups.

Distributing ASCAs "share-out" or return each member's savings to the member plus a share of accumulated interest, at the end of a cycle, usually once a year. Distributing ASCAs are usually introduced in an area by an NGO or other agency, which usually gives them a name or brand associated with the agency. They may be called SILC groups or Village Savings and Loans Associations, (VSLs or VSLAs). A generic term for all accumulating ASCAs is Savings Group, and that term is used in this report. While NGOs usually introduce the concept of ASCA into an area, members often take over the task of spreading the concept, forming their own groups.

Non-distributing ASCAs do not share out. ASCAs are classified as facilitated or non-facilitated, depending on whether they were trained by an agency (e.g. NGO) or not.

Classifying groups in the field is much more challenging than the above schema suggests. There are hybrid forms like ASCAs whose members also have a ROSCA, and uncertain forms like ASCAs which have not yet decided if they will distribute. There are also judgement calls to make in classifying a group as facilitated or not, because of membership changes since they were formed, or changes in name, or infrequent or irregular visits from a trainer.

A number of studies have attempted to quantify the ISM sector or parts of it, either nationwide or in parts of the country. The studies are not comparable because each had different objectives and approaches and were conducted at different times with different sampling frames. However, taken together they provide a picture of a large and vibrant ISM sector.

We have limited the following summary of key findings to four studies which are based on random sampling of households and therefore provide reliable demand-side data. We have chosen not to report on studies that are limited to groups formed by particular NGOs or following a particular methodology; these latter studies can be useful and informative but track the results of particular delivery channels and do not give a complete picture of the ISM sector because of selection limitations. While we do not have completely reliable data on facilitated and non-facilitated groups, we are confident that any study which only includes the former is missing a huge and important part of the market. The sources we chose not to include are the compilations compiled by SaveNet of its member organisations; the rigorous baseline survey of 520 facilitated ASCAs conducted by the Rural Finance Expansion Program (RUFEP) in 2016; and data from the SAVIX, the worldwide clearing house for self-reported data on facilitated ASCA formation by participating NGOS (as of this writing, the SAVIX database at http://www.thesavix.org is not functioning, and reportedly being rebuilt).

Rather, we look at four studies based on random sampling of households or individuals. Three of these - FinScope, Findex and the Zambia Geospatial Mapping Exercise - are ambitious nationwide studies, while the fourth, the Zambian Financial Diaries study, although smaller and limited to four regions, provides a rich qualitative look at households, and why they use, or choose not to use, financial services.

A foundational study is the **FinScope** study, conducted by FSD Zambia and the Bank of Zambia. This nationwide study, of which the most recent report is from 2015, involved 8570 interviews conducted in 875 Enumeration Areas in all provinces. The scope of the study gives a good level of confidence even at provincial level, although the FinScope report does not disaggregate its data geographically. The study indicated that 6.5% of all adult Zambians were in ISMs (0.4 million people), 12.5%, or one million people were in Chilimbas, and 1.5% (0.1 million) were in both. This report however is based on field research conducted in February March 2015, and it is likely that the intervening years have led to very significant increases in the numbers of members, as the following paragraphs will show.

A more current document is the **Findex** study conducted approximately every three years by the World Bank. The most recent study, 2017, was analysed by OPM[10] and compared to data from the same study in 2011. These data underline the complementarity between FSPs and ISMs: during that period, 2011-2017, the number of people using only ISMs remained stagnant, at about 400,000 people. However, both those using only FSPs, and those using FSPs and ISMs, increased remarkably. Those using only Formal services more than doubled, from 1.6 million to 3.9 million people, while those using both ISM and FSP services increased a remarkable nine times from 200,000 to 1.8 million. The data make it clear that the rapid growth of digital financial services and expansion of formal services have not reduced ISM usage, and in fact ISM use has expanded in absolute terms and as a percentage of Zambia's growing population. If these trends continue, the future will not be one in which FSPs and ISMs battle for a market; rather, it will be one in which millions of Zambians continue to procure different services from both ISMs and FSPs, mixing and matching to meet their own needs as they evolve.

The Findex data also show that the digital revolution is helping to expand services to groups that were previously excluded, in particular youth, the poorest 40% of the population, and farmers; Peachey's analysis points out that while women are benefiting from the expanded use of phones, there is still a gap between access for men and women that technology is not fully bridging.

The **FSD Zambia Geospatial Mapping Exercise** is an ambitious project that sought to geolocate, among other things, all the existing financial service access points, as well as other points such as agricultural service points that might be expanded to provide financial services. The scope of the study provided a remarkably comprehensive picture of financial services access in Zambia. It mapped the grid of access points over the population spatial distribution map. Unsurprisingly, FSPs and ATMs are overwhelming located along main roads and in areas of high density. (It is also noted that most of the time MFIs are in the same areas as commercial banks, and almost two thirds of MFI clients also have bank accounts, belying the purported objective of MFIs of

[10] "Formalisation and the cross-over with informal saving outside the home: Findex analysis comparing 2011 and 2017 microdata", Steve Peachey, Oxford Policy Management, May 2019.

serving the underserved.) That is true of bank agents also, although they are beginning to disperse into less populated, unserved areas. Finally, mobile money agents are much more dispersed into lower density off-road areas. The analysis showed that 42% of Zambian adults live within 5 km. of a formal access point where they can save, which is quite high compared to other African countries; not all these facilities provide credit, however, and only 34% of adults are within 5 km. of a formal credit access point.

The study aggregated various sorts of member owned organisations in their field work, including SACCOs and farmers groups, so that the data do not allow us to report precisely on geographical outreach of ISMs. However, the study did report with some confidence that informal organisations also concentrate along main roads and in populated areas, but nonetheless have much better outreach into remote, less populated areas. The study also confirmed (what is widely assumed) that in poorer areas of the country, people are more likely to use informal services than formal, although that may be at least in part a function of supply rather than demand: it is possible that NGOs forming ISMs have targeted the poorer areas, or that banks have avoided them.

The **Zambian Financial Diaries** Study conducted by FSD Zambia in 2014 carried out weekly interviews over a year concerning all goods or services bought, sold, or traded, the financial services used, and important events in the lives of 355 participants. 57% of respondents rarely or never used financial services. The Diaries found that there are “meaningful attitudinal barriers to financial service use”, and that these attitudes, essentially mistrust, apply both to formal and to informal services. On the one hand, respondents lacked an understanding of how FSPs operate, although several who had used FSPs were satisfied with the services. On the other hand, they were afraid of the locally dominant kind of ISM, the Chilimba, because they knew of, or in some cases had directly experienced, cases where a Chilimba member disappeared without honouring their contribution commitments. Overall, respondents were suspicious “of formal and informal financial services that charge them fees or interest, especially when their preferred alternative—family and friends—do not”. Some respondents were satisfied with the terms offered by money lenders; although they charged 100% on the money borrowed, they are considered reliable and transparent, underlining the finding from the present study that the impression of transparency is more important than interest rates.

Annex B: Research questions

#	Research questions (RQs)	Research sub-questions (RSQs)	Method	Source
Objective 1. ISM Sector: Improve understanding of the extent, distribution, and composition of ISMs in Zambia.				
1.1	What is the best current estimate of ISM prevalence and usage across demographic segments and geographical areas?	1.1.1 What are the principal quantitative measures of ISM usage in Zambia – number and type, membership, etc.? 1.1.2 How are ISMs distributed in Zambia?	• Literature review • Secondary data analysis • Primary data analysis	• Findex and FinScope reports, RUFEP report, and other literature (e.g. academic and grey literature published since 2014) • Findex microdata, FinScope dataset, SaveNet database • RUFEP baseline research and dataset (limited) • KIIs with relevant stakeholders including facilitating agency management teams
1.2	What are the key characteristics of ISMs?	1.2.1 What trends can be estimated concerning changes in ISM outreach, transaction volume, distribution, longevity, and membership for different types of ISM?	• Secondary data analysis • Literature review	• Findex and FinScope reports, • Findex microdata, FinScope dataset, SaveNet database • RUFEP baseline research and dataset (limited) • Other documents or data sources
Objective 2. ISMs: Deepen knowledge of ISM profiles, financial practices and performance, and stability and longevity				
2.1	Within a sample of ISMs, what are membership structures?	2.1.1 What is the membership composition in the sample ISMs, in terms of gender, age, economic activities, and to the extent possible wealth? 2.1.2 How homogenous or heterogeneous is membership within sampled groups? 2.1.3 If there are categories of people who are significantly over- or under-represented within ISMs, who are they, and why is this?	• Primary data analysis	• Interview with ISMs management (Chairpersons and record keepers) • Interview/FGDs with ISMs users
2.2	Within a sample of ISMs, what are the governance, management structures?	2.2.1 How are decisions made within ISMs, and to what extent do they rely on traditional hierarchies, gender, and power roles? 2.2.2 How and to what extent are interests of poorer or less powerful users protected?	• Primary data analysis	• Interview with ISMs management (Chairpersons and record keepers) • Interview/FGDs with ISMs users

#	Research questions (RQs)	Research sub-questions (RSQs)	Method	Source
2.3	Within a sample of ISMs, what factors may play a role in determining the stability and longevity of ISMs?	2.3.1 What roles do trust, social capital and personal relationships play in the formation and longevity of sampled ISMs? 2.3.2 What roles do governance and management structures play in the formation and longevity of sampled ISMs? 2.3.3 What channels of information do groups use and trust? 2.3.4 What are the principal risks faced by ISMs? 2.3.5 What are their aspirations for their evolution?	• Primary data analysis	• Interview with ISMs management (Chairpersons and record keepers) • Interview/FGDs with ISMs users
2.4	Within sampled ISMs, what are the financial management practices and products offered?	2.4.1 What are the average balances, cash-flows, and growth trends of sampled ISMs? 2.4.2 What is the portfolio quality of sampled ISMs? 2.4.3 How do users manage their portfolio quality (e.g. what members do in the case of missed payments, under-payments, or defaults)? 2.4.4 What are the financial management practices with regards to record-keeping and security?	• Primary data analysis	• Interview with ISMs management (Chairpersons and record keepers) • Interview/FGDs with ISMs users
2.5	What are experiences, attitudes, and perceptions towards formal financial services and FSPs in sampled ISMs?	2.5.1 What are experiences, attitudes, and perceptions towards formal financial services and FSPs in sampled ISMs? 2.5.2 What are the financial products offered by FSPs and their performance? What are the financial products that sampled ISMs now identify as desirable? 2.5.3 What factors – including group history and affiliations - are determinant of their use or non-use of FSPs? 2.5.4 What is the present use of FSPs by ISMs, by financial product and by kind of ISM, in terms of product, frequency, amounts? 2.5.5 If the ISM uses formal financial products, did the FSPs provide any training? If so, did the training meet the ISM's expectations?	• Primary data analysis	• Interview with ISMs management (Chairpersons and record keepers) • Interview/FGDs with ISMs users

#	Research questions (RQs)	Research sub-questions (RSQs)	Method	Source
Objective 3. ISM user profile: Gain a better appreciation of ISM users and their financial decision making.				
3.1	What products and how do ISM users use their financial products (e.g. size, type, and frequency of transaction) in sample locations?	3.1.1 What are the socio-economic and demographic characteristics of ISM users? 3.1.2 What are the perceived financial challenges/needs of ISM users with different characteristics? When do they occur and how are they resolved? 3.1.3 What do ISM users save and borrow money for? 3.1.4 What other formal and informal financial products and services do ISM users use in addition to their saving groups? What has been their experience so far? 3.1.5 What are the different channels used by ISM users with different characteristics? 3.1.6 In addition to ASCAs, are there any deposit collectors in the sampled areas?	• Primary data analysis	• Interviews/FGDs with ISM users
3.2	How do individual's experiences, attitudes and perceptions about formal financial services providers influence the use of ISMs?	3.2.1 Where do ISM users give and receive financial advice? What would ISM users like to know about financial services? 3.2.2 What are perceived reasons to use or not to use formal FSPs? 3.2.3 If ISM users use formal financial products, did FSPs provide any training? If so, did the training meet ISM users' expectations? 3.2.4 How do individual experiences and perceptions about formal financial services providers shape use of ISMs and the collective decision-making within ISMs?	• Primary data analysis	• Interviews/FGDs with ISM users
3.3	To what extent do ISMs meet their users' financial needs?	3.3.1 Do ISM users use different ISMs for different purposes? At the same time? If so, why? 3.3.2 How satisfied are users with their ISMs, and what are their aspirations for their evolution?	• Primary data analysis	• Interviews/FGDs with ISM users

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About the SatF Programme

The programme was launched in November 2015 and is being implemented by a consortium led by OPM.

For more information – and to read the full SatF strategy – visit www.opml.co.uk/projects/savings-frontier

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FSD Zambia is a Zambian organisation that works closely with key players throughout the economy to ensure that all Zambians are financially healthy, particularly the most excluded and underserved. They help rural families, women, youth, low income people, and other households in Zambia to understand and access a wide range of sustainable and affordable financial services. FSD Zambia collaborates with both public and private sector institutions to make financial markets work better. FSD Zambia enjoys the active support of financing partners UK Aid, SIDA, Rural Finance Expansion Programme (RUFEP) and Comic Relief/Jersey Overseas Aid.