

Savings at the Frontier

Strategy summary

This is a summary of a high-level strategy for the Savings at the Frontier (SatF) programme. Its purpose is to guide the implementation of the programme, seek feedback and shape internal and external communications about the programme. The strategy will be periodically revisited and revised considering emerging experience and insights.

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SatF is a five and a half year programme (2015-2021) to improve the financial inclusion of low-income individuals and communities in sub-Saharan Africa (SSA). The programme seeks to bridge the gap between the supply of formal financial services and informal savings mechanisms (ISMs), so that ISM users have a greater choice and use of financial services that best meet their needs.

SatF is a US\$17.6 million partnership between The MasterCard Foundation (MCF) and Oxford Policy Management (OPM). SatF will select and support eight financial service providers (FSPs) in three countries to help them test and deepen commercial relationships with ISMs. We aim to scale up financial services for at least 250,000 rural and semi-urban ISM users in Ghana, Tanzania and Zambia via innovative FSP-led business models.

Backdrop to this strategy

ISMs have existed for centuries in many parts of the world, often due to the attraction of community-based arrangements as well as the very low incomes of people living in rural areas, the distance required to travel to bank branches or a lack of trust or familiarity with banks.

An estimated nine million people in Ghana, Tanzania and Zambia who are excluded from the formal banking system are finding value in the informal services offered by savings groups or clubs. Some of these groups have been facilitated by outsiders but many have emerged from local community efforts. These groups, however, can only address some of their users' needs.

Enabling low-income individuals to access a broader set of products and services can empower them with the knowledge, ability and tools to better manage their financial lives. It allows them to manage risk, save and invest for short or long-term goals and provides other opportunities to improve their quality of life, through both formal and informal options.

The programme vision

Poor people have improved and increased access to and usage of financial services to meet their needs.

The SatF programme is specifically designed to target segments of the populations facing greatest financial exclusion such as women, young people, smallholder families, people living with disabilities and people living in rural areas.

Our mission

To test and demonstrate whether FSPs can use innovative and profitable business models to scale up financial services for rural and semi-urban households in SSA in collaboration with ISMs.

We believe that sustainable partnerships can be formed between FSPs and ISMs that improve the welfare of poor people.

Our objective

The core objective of SatF is to expand the range of financial services available to financially underserved and unserved populations by working with FSPs to design and roll out innovative business models in Ghana, Tanzania and Zambia.

Specifically, SatF will:

- Explore whether sustainable commercial relationships can be formed between FSPs and ISM users to provide a more diverse range of financial services that respond to the users needs;
- Select and support the implementation of FSP-led business models that can deliver sustainable, scalable and customer responsive formal financial services to ISM users; and
- Contribute to the generation, assimilation and dissemination of knowledge about different ways that the private sector can effectively work with ISMs, including learning from what does not work.

SatF will work at the intersection of practice and research through carefully selecting and supporting eight FSPs in the three countries and sharing emerging experience.

The current situation

Financial inclusion in sub-Saharan Africa

The financial inclusion agenda globally is gathering momentum. The insights acquired over the last 10 to 15 years by FSPs, policy makers, funders, investors and other stakeholders, combined with the growing excitement about the potential of technology and emergence of new market players, provide some of the key building blocks towards rapid progress in achieving broader financial inclusion. A growing youth population in SSA has rapidly adopted new technology to drive experimentation/ innovation.

The 2015 Global Findex notes that making the connection between informal savings groups and the formal banking system is one of the three most promising opportunities for financial inclusion and could enable up to 70 million adults in SSA to have a bank account.

The diversity, excitement and value of ISMs

Research shows that people do not necessarily give up their membership of ISMs even when they access formal financial services. Most people prefer on-going access to a portfolio of financial services from a range of formal and informal providers. It is very unhelpful, therefore, simply to categorise formal financial sector as good or the informal financial arrangements as bad. Both arrangements have strengths and weaknesses and offer different mechanisms to save, borrow, transfer or insure.

The key issue is to help expand the outreach and offering of the formal financial sector and improve the complementarity and options between the formal and informal services, in order to improve usable and affordable choices for ISM users.

Chilimbas in Zambia: an example of ISMs

In Zambia, *chilimbas* are a common type of informal indigenous savings club in which a group of 10 to 30 self-selected members, often exclusively or mainly women, come together at regular intervals to pool an agreed upon amount of money which is then paid out to one of the *chilimba* members in turn. These *chilimbas* are very efficient at immediately converting small sums from each of the member into a usable lump sum for one of the members.

Developing FSP linkages with ISMs

There is a need to develop and test innovative business models that can viably provide financial services to low access, poor populations while users continue to reap the benefits of the ISMs already being used. These new models will therefore have to at least bridge the gap between what the informal financial sector is able to provide and the remaining needs and demands of this target market.

SatF will help to explore how the proposed business models can change various costs and benefits for both FSPs and ISM users (economic, social and others) and provide evidence based on carefully supported pilots as to what works and what does not. SatF also seeks to confirm whether it is possible for FSPs to profitably finance informal groups and their members by analysing and meeting the needs of all stakeholders involved.

Why is this our focus?

SatF programme resources will be used to create, test and build a business case that enables FSPs and ISM users to see value in the partnerships created through SatF, in ways that up to now have not been possible despite the revolution in digital financial services.

This is why knowledge creation under SatF is at least as important as providing funding. It is also why business case modelling with FSPs is a core function: without better value propositions neither FSPs nor ISM users will be satisfied in the long term. Ensuring a value proposition where FSPs see profit coming from delivering value for money services to users without an element of donor funding is essential to SatF's success.

SatF is an experimental, learning programme in which knowledge and practice will reinforce each other to develop successful models to:

- Explore and experiment with multiple opportunities for FSPs and ISM users to work together in ways that create value for all parties and model different ways this mutual value creation can happen;
- Create an enhanced quality of linkage where the informal arrangements function better and FSPs can viably deliver village-level access to formal financial services; and emerging profits can encourage FSPs to take the most effective models to scale;
- Recognise the need to be savings-led and savings-focused to meet a key requirement of low-income individuals;
- Show that despite the attractions of ISMs, users can gain more by integrating their activity into formal financial systems;
- Understand how the 'mind set gap' between the way ISM users think finance can work for them and what FSPs offer can be closed;
- Ensure that all this is done in a way that respects and maintains the financial and non-financial benefits that ISMs currently bring to their members; and
- Understand fundamental differences in the country contexts and adjust for those factors when drawing general conclusions from experience gained in each country.

What will SatF do?

Undertake market analysis, awareness raising and market coordination: gathering market information, conducting market analysis, identifying barriers to and opportunities for financial inclusion, facilitating relationships and raising awareness about the programme and opportunities for linkage.

Provide financial support to FSPs: eight FSPs will be carefully selected and provided with funding and technical assistance.

Implement and monitor the programme: monitor the contractual and technical performance of FSPs, focusing on outcomes and impacts and proactively addressing the needs of FSP partners and any challenges they face. Funds will be disbursed based on reaching agreed milestones.

Undertake and disseminate research on supply, demand, and impact of linking ISMs and FSPs: the research will improve understanding around issues of informality, the financial service needs of the poor, technological innovations linking ISMs and FSPs, and the effect this can have on financial inclusion and social welfare.

SatF seeks to answer the following learning questions over the life of the programme:

1. What are the different segments of users/clients of the informal savings mechanisms and how do they differ from each other?
2. How do the financially excluded and underserved users (e.g. women, young people, small holder families and people living in remote areas) of informal savings mechanisms respond to linkage experiences and opportunities and how can the mutual value proposition of linkage for ISMs be shared with FSPs?
3. What can we learn from the SatF supported models on how best to serve the financially excluded and underserved?
4. What are the challenges and opportunities for financial institutions to contribute towards and manage the formation and acquisition of informal savings mechanisms and how can the mutual value proposition of linkage for FSPs can be shared with ISMs?

Develop and implement a monitoring, research, evaluation and learning (MREL) framework: the objectives of the MREL function are: to facilitate internal learning to support adaptive evidence-based programme management and; to contribute to an expanded knowledge base on what works and what does not work, for whom and under what conditions.

Communicate programme learning: we will ensure that lessons learned from SatF are shared with other stakeholders in the financial inclusion space to develop sustainable products for poor people in frontier markets.

Our values in a nutshell

- Customer-driven, putting customers' financial, social and economic needs centre-stage;
- Market-focused, viewing issues through a pragmatic business lens; and entrepreneurial, taking calculated risks;

- Adopt a 'learning by doing' approach that fosters a deeper understanding of the opportunities available;
- Look for opportunities to unlock the potential of technology – using innovative solutions that offer effective channels for delivering savings;
- Foster local ownership by using local implementation partners and involving other stakeholders in understanding the local market and grounding the FSP projects in local contexts; and
- Be inclusive by reaching out to ISMs who engage with women, youth, vulnerable and disadvantaged groups.

We firmly believe that a prosperous community provides the basis for social, individual and economic development.

About the SatF consortium

This programme is being implemented by OPM in collaboration with Bankable Frontier Associates, MicroSave, PSD Consulting, Development Pioneer Consultants and Kadale Consultants.

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



The MasterCard Foundation

The MasterCard Foundation works with visionary organisations to provide greater access to education, skills training and financial services for people living in poverty, primarily in Africa. As one of the largest private foundations its work is guided by its mission to advance learning and promote financial inclusion to create an inclusive and equitable world. Based in Toronto, Canada, its independence was established by MasterCard when the Foundation was created in 2006. For more information and to sign up for the Foundation's newsletter, please visit www.mastercardfdn.org. Follow the Foundation at @MastercardFdn on Twitter.



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