Delivering Inclusive Finance for All: The Role of Financial Services Providers in Strengthening Engagement with Informal Savers

Highlights from the programme close-out events in Tanzania, Ghana, and Zambia

This summary was prepared by Itad for the Mastercard Foundation Savings Learning Lab, a six-year initiative implemented by Itad to support learning among the Foundation's savings sector portfolio programmes: Savings at the Frontier and Scale2Save.

The Savings at the Frontier (SatF) programme collaborated with ten financial service providers (FSPs) in Ghana, Tanzania, and Zambia as part of a six and half year programme delivered as a partnership between Oxford Policy Management (OPM) and the Mastercard Foundation. The programme ended in June 2022. The core programme objective was to bridge the gap between the supply of formal financial services to informal savings mechanisms (ISMs) and their users. This experimental programme supported FSPs to innovate, develop and scale-up products, most of which were digital, with strong value propositions for ISMs and their users.

What are informal savings mechanisms (ISMs)?
Informal savings mechanisms (ISMs) refers to a range of collective savings structures, namely: Village Savings and Loans Associations, Rotating Savings and Credit Associations (ROSCAs), Accumulating Savings and Credit Associations (ASCAs), agricultural affinity groups, less structured savings groups, as well as susu collection.

In the final year of the programme, the SatF team collaborated with financial sector stakeholders in-country to organise a series of three learning events in Tanzania, Ghana, and Zambia. In-person events were held in Ghana and Tanzania and an online event held for Zambia. The objectives of these events were:

- To foster dialogue and learning through sharing partners' experience over the course of the programme of experimenting, innovating and adapting as they scaled-up the products they developed and reached new customers;
- To facilitate peer exchanges and constructive discussions between FSPs, regulators and other stakeholders in-country; and
- To create a platform to present programme achievements and to discuss how can the inclusive finance agenda can be accelerated in the respective countries.

The events provided a place to highlight the programme's research findings and lessons, discuss opportunities, present partners' value propositions, delivery and business models, allow other market actors to discuss challenges and barriers, both for customers and the FSPs themselves.

The events brought together SatF partners and other FSPs, including commercial banks and fintech companies, as well as other key financial inclusion stakeholders in the respective countries such as regulators, NGOs, donors, and national associations.

In Tanzania the event was organised in collaboration with Financial Sector Deepening Tanzania (FSDT) and supported by the Bank of Tanzania. The Ghana event was organised in collaboration with the Financial Inclusion Forum Africa, and the Zambia event opened with a keynote speech from the UNCDF Country Lead for Zambia. SatF's FSP partners prepared presentations not only for their respective country events, but also shared their value offers, business models and experiences across countries, for example, Ghanaian partner FSPs (Access Bank Ghana and DSS) joined the Tanzanian roadshow event; and Tanzanian partners (Tanzania Commercial Bank (TCB) and Bizytech) joined the Ghanaian and Zambian roadshow events to share their perspectives.

Insights and discussion points were based on research activities, data analysis and implementation insights. Data sources included country-specific FinScope surveys, the Global Findex database, and the primary research studies conducted throughout the implementation of the SatF programme. The Qualitative Impact Protocol (QuIP) research study, SatF's rolling impact assessment, directly involved selected FSP partners and looked at the impact of the financial products, and the relationships of informal users with these products and providers over time. The QuIP research was complemented by FSP led demand-side market research to inform the development of sustainable and adaptive solutions.

This summary paper captures the key learning and highlights from the three events. The findings fall into three main categories: 1) findings about ISMs and their users; 2) critical business insights from FSP partners; and 3) challenges in working with ISM users.

1. Who are the customers of informal savings mechanisms?

ISM users are a diverse market segment spanning the income spectrum, have varying levels of financial inclusion, and different types of livelihoods and geographies. The heterogeneity of ISM users is reflected in the diversity of existing ISMs. ISMs are – to varying degrees – designed by the people who use them and configured in ways that best fit their needs. The ways in which ISMs and their users save and borrow, govern themselves, and hold each other accountable are tailored to their members' financial capacity, preferences, timelines, commitments, and financial objectives.

Both ISM research studies, in Tanzania and in Zambia, as well as data analysis using the Findex and FinScope data in the respective countries indicated that **even most rural ISMs and their users, such as rural smallholder savers, had previous experiences or existing relationships with some types of formal finance**. In most cases they were using digital services, such as mobile money transactions. SatF's research also shows that ISM users rarely move away from informal financial services completely once they have access to formal financial services: customers with sophisticated formal financial portfolios still tend to use savings groups or other ISMs for particular financial purposes. This said, the role the informal and formal financial services play in customers' financial portfolios can change with the depth of financial inclusion.

ISMs and ISM users do not simply adopt new technologies or value propositions: rather they adapt them to best meet their needs. Customers will adopt those services that are valuable, adapt them where needed, and find ways of making financial and non-financial services useful for their savings groups, their enterprises, or their households. SatF research revealed that ISM users, for example, opened individual savings accounts not necessarily to be able to transact with the ISM via bank transfers but in order to keep additional personal savings separate from ISM contributions. They might instead use mobile agents to deposit money into the ISM account or continue with a cash-based solution. This may well change, for example if mobile transaction pricing changes, or when the person's daily schedule changes. In many cases, FSP partners found that customers used their value propositions differently from how they were designed to be used, and that use cases evolved over time.

ISMs can serve as a sandbox and an accelerator for the adoption of formal financial services. This means that members of an ISM who are reluctant to use new services are able to observe other members using individual accounts or mobile wallets before they adopt them themselves. This also reduces the need for training or sensitisation of ISM users because people are able to learn by observation and with time become sufficiently comfortable to use these services.

Partnerships and collaborations are crucial for linking formal and informal financial services and ISMs can help build trust in formal financial services providers. Across all three SatF countries, the key reason given by ISMs for linking with FSPs was to form reliable relationships and partnerships. ISM members' own experience and testimonies about their engagement with FSPs builds trust among fellow members and encourages others to join.

The blended proposition of savings and loans is appealing to ISM users. Many types of ISMs offer access to loans and savings services (as well as insurance) at the same time. Loans are often accessible dependent on the users' savings ability and track record. While all SatF-supported value offers were initially focused on savings-led value propositions, many partner FSPs developed loan services based on the demand of ISMs and individual ISM users. For ISMs and their users, access to loans is an important value driver for linkage. Where FSPs want to complement ISM services, and engage in lasting relationships with ISM users, they need to consider integrated value offers that include loans. Especially in rural areas, ISMs perceive prospective loans as a signal of trust, and the commitment of the FSP to developing a relationship.

2. Critical business insights from working with informal savings mechanisms

> *"ISMs and indeed all FSPs must carefully look at the products they serve the people in order to encourage them. Interest rates need to be attractive on both the demand and supply sides if FSPs will be able to attract deposits. More importantly is to understand the dynamics between individuals and groups and providing a holistic and comprehension solution rather than hand picking."*
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> Dr. William Derban, Financial Inclusion Forum

As well as providing partner FSPs with funding and technical assistance, the SatF programme also shared and encouraged the use of data analytics, research, and learning opportunities. Thus SatF's partner FSPs benefitted from a more nuanced understanding of the diversity of the ISM customer segment than other FSPs might be able to gain. As a result, **partner FSPs gradually developed either generic ISM and ISM user value propositions, accessible through various channels, to fit the diverse use cases of the market segment or focused on a specific type of ISM, such as smallholder producer groups, to develop tailored value propositions.** Those opting for the former considered interoperability, multi-channel access, and user-friendly, intuitive design as key to their value proposition, whereas those choosing the latter attempted to support the targeted ISMs beyond just developing financial products and solutions.

Whether FSP partners decided to develop customisable, flexible solutions for ISMs and their users, or develop tailored value propositions, **feedback channels and processes allowing them to track and understand the use cases on the ground were important for improving their fit and value, and adding relevant cross selling services**. FSP project teams observed co-innovation processes by ISMs and their users and report having taken cues from customers to further refine or adapt their value propositions.

FSPs should continue to demonstrate the value proposition of their products to ISMs and their users. Customer research cannot stop with the initial product roll out: it should be done continuously so products can evolve to respond to customers' needs and preferences. Customers want to feel that FSPs value their business, understand what they do, appreciate how much money they have, how hard they work, and how they run their businesses. Communication, relationships and appreciation are paramount. FSPs can show they value ISMs by offering interest on their savings, offering other savings incentives, loans, and other services that enable the ISMs to flourish. In addition, FSPs can respond to ISMs' requirements for accounts to be easy to open, transparency in transactions and fees, and proximity or familiarity of agents.

3. Solving the challenges of serving informal savers

The distance a customer must travel to get to an access point to deposit or receive cash continues to be a key challenge. While banks tend to be concentrated in urban areas, or small town centres, mobile money agents and emerging bank agents may reach into less populated areas but are often situated along major roads. Households in rural areas thus often remain under-served in terms of both formal credit and savings. During the learning events, all FSPs identified this as a key challenge, and presented their individual solutions to map, measure and consider proximity to ISMs and their users in product development and the design of delivery models. Some SatF innovations included for example new agent network strategies and models rather than product features. Other FSPs addressed the proximity challenge through a multi-channel approach, and new technology, i.e. deploying the proximity tool, which allows FSPs to plan and monitor roving agent routes. The proximity tool (developed in partnership with NIRAS Ltd, under the SatF programme) helps to map ISM and ISM user locations, manage and maintain that data, identify priority zones and viable catchment areas for agents, and plan outreach more effectively.

Proximity is not just a spatial issue but also a temporal one. For example, at the introduction of a new value offer, and in the process of onboarding, ISMs and ISM users perceive the proximity to the FSP as more important than at a later stage, when customers are more familiar with the product. This is especially true for digital solutions that might be affected by unreliable network connectivity, or other on-the-ground challenges. In agricultural value chains, seasons are marked by certain events such as the first rains. If smallholder farmers have not received input finance, or inputs before then, they will find alternative solutions in order to be able to start planting, and might disregard their loan applications or input orders placed on a new platform. Fintechs working in this space therefore need to be aware of these change events, as well as changing weather patterns, and seasons. The SatF proximity tool was upgraded to include weather forecasts and alerts to support the planning processes.

Establishing customer trust in formal financial institutions was a big challenge for many FSPs. Groups often test the relationship by opening a bank account – if something goes wrong in the testing phase, they become disengaged and the account becomes inactive. In addition, full transparency around fees and product pricing are important for building trust. Digitisation can enhance transparency and features like SMS notifications are appreciated by customers.

Informal savers are price sensitive, which can be a challenge for formal FSPs. Some FSP partners suggested that the initial price sensitivity could be due to the competition with a cash-based system, which is often perceived as being free. At a later stage, when ISMs and ISM users have engaged with the value propositions more, this changes to competing with other formal financial services, such as mobile money. Therefore, customers might tolerate price increases over time. Experiences from both East and West Africa show that newly introduced charges on mobile money transactions affected the channel use of ISM users, and shifted use cases away from mobile transactions to bank transactions.

Another challenge for FSPs is the **reluctance of ISMs to digitise group transactions if they cannot see an immediate value in doing so.** All SatF value propositions were designed to allow ISMs to continue to perform their transactions in cash if they wanted to. But in order to use the financial information of ISMs and ISM users for credit scoring or to guarantee input orders, ideally even the remaining cash transactions could be digitised. Some SatF partner FSPs tried to do so, by offering Apps, or digital solutions to enter and record transactions. But digitising transactions of most traditional ISM types, such as VSLAs, can lead to parallel book-keeping systems, longer and more complex contribution and share out processes, and group meetings, and decreased transparency. Not all ISM members are able to use mobile or digital channels to buy shares, make loan repayments, or contribute to the social fund. In addition, not all ISMs are comfortable with the group leaders disbursing share outs or loans into mobile wallets and accounts. Therefore, incentives need to be salient and aligned with ISM interests to encourage the accurate and consistent recording of cash transactions and balances in ISMs.