Pacific Financial Inclusion Programme
focus notes

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Saving Groups: A Sustainable Mechanism for Rural Financial Services in Solomon Islands

Savings groups (SGs) are simple financial service vehicles that cater to under-served poor persons around the world. SGs are made up of self-selected members that meet regularly and contribute savings to a pool of funds, which are then used to make small loans to group members. Loans are given with interest, which is collected and reinvested in the loan portfolio and also allocated as interest earned on savings. Payouts are often scheduled to coincide with planned yearly expenses such as seasonal planting, payment of school fees, or holidays, giving SG members access to funds when they are most needed. Many SGs also allocate a portion of their money to a "social fund," which acts as a small insurance policy, apportioned to members in times of emergency.

SGs are widely distributed in many rural and remote areas of the developing world, though not in the Pacific region. Where they operate, SGs have proven to be extremely popular and durable. They have emerged as a low-cost vehicle not only for providing needed financial services, but also retaining earnings and capital within a local community. Over three million people, mostly women in rural areas of Africa, Latin America and Asia, use SGs as a reliable, accessible place to save money.[1] In the Solomon Islands, as elsewhere in the Pacific region, other less appropriate rural finance models have been tried and failed, despite research indicating a high demand for basic savings products coupled with a strong existing culture of saving non-cash resources. As such, there is reason to believe that the Solomon Islands provide a fertile environment for establishing SGs to provide access to financial services in rural, underserved markets

As a result, once established, SGs require little or no external assistance for continual management

Saving Groups: a Different Approach

Generally, commercial banks, microfinance institutions and credit unions follow a business model based on institutional and portfolio growth supported by increasingly complex management and infrastructure systems. Covering the costs associated with such a model requires a strong revenue line. Standardized credit products, which may be sold to large numbers of clients by well-trained staff, are best suited to this need. To date, these models have not demonstrated a large degree of success in rural areas of developing countries, where the greatest financial need is access to useful lump sums of money to manage household cash-flow.

The SG model represents a fundamentally different approach from better-known models. Specifically designed to offer entry-level financial services in remote places with little infrastructure and low levels of education, SGs are very simple, independent organisations that grow little in size or complexity over time. Membership is generally limited to 30 or fewer people who agree to operate under set rules for a fixed period, typically one year or less. At the end of the period, all savings and income earned are distributed to SG members. This process of group renewal serves as a natural entry or exit point for members and reduces the need to have a more permanent, costly infrastructure. As a result, once established, SGs require little or no external assistance for continual management, yet research indicates that nearly all members participate in SGs for multiple cycles. A study conducted in Zanzibar four years after the SG organizer left the region found that 96% of the groups were still functioning and had self-replicated at an annualized growth rate of 37.5%. Further, 48% of groups in the sample doubled the amount of weekly contributions they were making[2]. Figure 1 below offers a comparison of SGs to other microfinance service provision models.

1 Ashe, Jeffery. (2009). The Savings Led Revolution: Mass-Scale, Group Managed Microfinance for the Rural Poor. Oxfam America. Available at: http://communities.seepnetwork.org/node/2378
2 Anyango, Ezra, et. al. (2007). Village Savings and Loans Associations: Experience from Zanzibar. *Small Enterprise Development Vol.18 No.1.*

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Figure 1: Comparing SGs to Other Service Provider Models

	SGs	Credit Unions*	Microfinance Institutions**	Commercial Banks++
Global Institutional Size	Usually 10-30 members	Avg. Active Borrowers 3,149	Avg. Active Borrowers 10,121	Avg. Active Borrowers 44,981
Clientele Demographic	Largely low-income rural women, but include men	Largely urban-based wage earners	Largely low-income urban & peri-urban women	Largely middle- and high-income urban people
Profits	Paid to members as interest on their savings.		Invested in the institution or paid to shareholders.	
Loan Size ($USD)	Loans Typically $10-20+	Avg. $1,518	Avg. $272	Avg. $2,363
Cash Security	Excess cash is kept in a lockbox with two or three locks, to which different members have the keys.	Mostly kept in a bank		Highly Secure Vaults
Transparency	Is obtained by conducting all transactions in front of all members, and publically counting money	Trained staff fill-out complex accounting forms. External audits may provide some transparency.		
Regulation	Self-regulate through informed democratic decisions & periodic pay-outs	Usually regulated by a Credit Union Act	In the Pacific, most are either registered as banks or NGOs	Regulated by a Reserve Bank

*Source: MIX Market 2009, Charter Type: Credit Union
**Source: MIX Market 2009, Charter Type: NGO
+ Source: http://www.vsla.net/ Accessed 10 February 2011.
++ Source: MIX Market 2009, Charter Type: Bank

Measuring Performance of SGs

Due to their dispersive, independent operations, measuring financial and outreach performance of SGs presents significant challenges and is still a developing field within the movement. The Savings Groups Information Exchange[3] is a centralised, global, SG reporting system allowing public monitoring of selected performance ratios based on open source data (see Figure 2). Data for growth rates, long term sustainability and impact are planned, but will take more time to compile.

Figure 2: Global Performance Indicators for SGs

Number of SGs	34,209
Number of members	767,428
Assets ($US)	>$18 million
% of women clients	82%
Avg. return on assets	38%
% of loans outstanding past due	0.62%

Numerous studies on SGs for specific programmes and/or countries exist and focus on a variety of variables, often regarding impact. Increased household income[4], increased investment in productive activities including agriculture and livestock, improved housing[5], increased food security, facilitated payments of school fees, and higher levels of women's empowerment[6] have been attributed to them. Studies also indicate that they are often vehicles for the provision of non-financial services, such as HIV and AIDS training, malaria prevention courses, or opportunities to buy solar lights for the household[7].

Solomon Islands and Savings Culture

Throughout the Melanesian Pacific, people traditionally use different crops for different savings and income needs. For example, coconuts provide monthly income while sandalwood is a long-term investment to provide income in later years. Solomon Islanders traditionally plant special plots of food in preparation for large cultural events, store grated food in pits anticipating times of shortage, and designate certain areas "tapu," prohibiting agricultural activity to prevent over-exploitation of the land. Further, all rural households plant traditional gardens, called "gadens". Vegetables planting in "gadens" is staggered over time so that they mature sequentially, ensuring that something is perennially saved in the ground for the next day's meal.

3 In 2009, The Gates Foundation funded VSL Associates, to conduct a large-scale data collection on SGs.
4 Anyango, Ezra. (June 2005). Impact Assessment Report of Village Savings and Loans Component. Central Region Livelihood Security Project: Lilongwe, and Dowa Districts. CARE Malawi.
5 Allen, Hugh. (2005). Savings and Loan Associations Pilot Project: West Nile. DFID's Financial Sector Deepening Project: Uganda.
6 Matthews, Brett H. Musoke, Christopher. & Green, Colleen. (December 2010) Group Savings and Loans Associations: Impact Study. Financial Sector Deepening: Kenya. DAI.
7 Allen, Hugh. & Panetta, David. (June 2010). Savings Groups: What are they? The SEEP Network.

However, the habit of saving money is much less culturally ingrained. Research in Solomon Islands indicates that while cash is available in rural areas[8], many report difficulty in managing cash sufficiently to meet household needs, even for foreseeable expenses such as school fees. Efforts to present SGs as "Money Gadens" in Solomon Islands may help to both harness agricultural concepts of savings, linking these practices to established local culture, while further distinguishing them from failed attempts to provide financial services in rural areas.

The "Sour Spot" and Solomon Island Savings Institutions

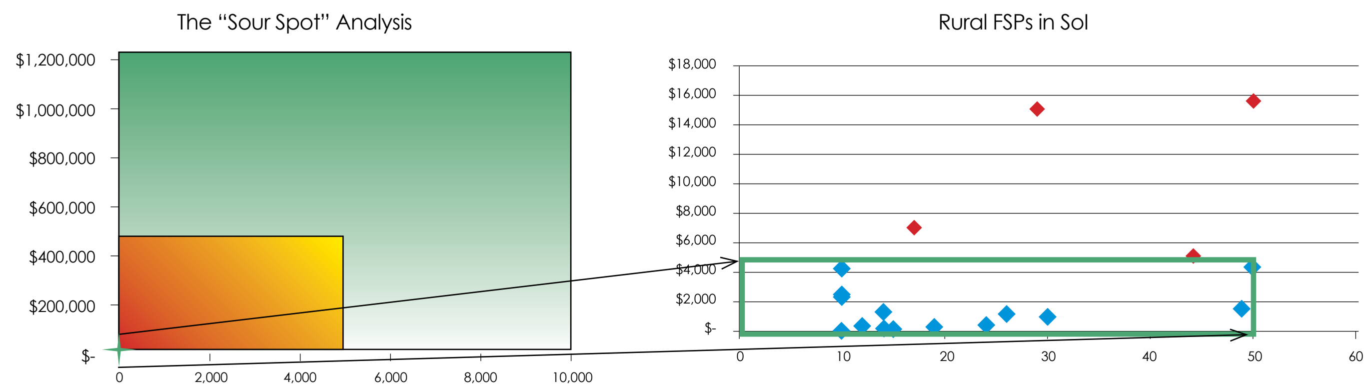
Credit unions and saving clubs were introduced in Solomon Islands to extend financial to rural areas; however, after meeting initial success, many of these institutions failed due weaknesses inherent in both movements. Both institutional types rely on complex accounting systems and encourage institutional growth and asset accumulation. Of the 175 credit unions that were once registered with the Solomon Island Credit Union League (SICUL), only nine (5%) are reporting today, all located in the capital city. Of 292 saving clubs registered, only 22 (8%) reported in 2010. It is assumed that the vast majority of the others have failed. The "Sour Spot" theory provides insight into a likely reason for such a massive decline.

As institutions grow in size, they also increase in complexity and risk. Small-but-growing institutions do not generate the enough income to pay for needed institutional strengthening. As they grow, they inevitably enter a danger zone known as the "Sour Spot," where they are in need of intensive support but do not have the resources to obtain it. The result is that rural financial institutions rarely exit this stage of development: either they fail to implement the systems needed to continue growth, or some fraud or other loss causes them to collapse. Low population densities and a lack of supportive resources compound this problem.

...a danger zone known as the "Sour Spot," where they are in need of intensive support but do not have the resources to obtain it.

SGs differ from both credit unions and savings clubs in that they generally maintain 30 members or fewer and less than $2,000 USD in assets, which allows them to operate without ever depending on institutional systems and structures they cannot afford. Should more than 30 members want to join an SG, members generally divide the group in two, which preserves their institutional simplicity as opposed to growing the size of the group.

Figure 3: The "Sour Spot"[9] for Institutional Size of Financial Service Providers



In Figure 3, above, total membership/clientele is shown on the x-axis, vs. total assets on the y-axis for financial service providers (FSPs). The "Sour Spot" is shown by the red box on the left, roughly from 50-5,000 members, and $50,000 to $500,000 USD in assets. Institutions in this zone around the world are typically too large to be managed by intuitive, group-based systems and too small to afford professional management with external controls of transparency. This leaves them highly dependent on external assistance or at risk of failure. The surrounding green area represents a stable institutional size. The green star on the left-side of the graph denotes the small stable area which SGs occupy: small enough to be managed with simple systems that are widely understood by the members, who retain the sense of ownership that every transaction contains some of their own money.

8 McCaffrey, Mike. (2010). In Search of Sustainability: The Provision of Rural Financial Services in Solomon Islands. The United Nations Development Programme. Suva, Fiji.
9 The concept of the Sour Spot is taken from Paul Rippey's blog available at: http://savings-revolution.org/blog/2011/3/21/the-sour-spot.html Accessed on: 20 February 2011.

The green box in the graph on the right-hand side is an expansion of the small stable area represented by the green star on the left. It includes all the rural FSPs reporting to SICUL[10] in Solomon Islands. Institutions small enough to be in this stable green area are marked blue, and those that have drifted into the "Sour Spot" are marked in red. Four of the remaining FSPs have already drifted into the "Sour Spot", exposing themselves to the liabilities inherent in this high-risk zone. Others are likely drift into the danger zone, where their prospects are poor, as they are not being given the necessary systems or support to become sustainable, and they have not been encouraged to stay simple and small. There is currently no organisation with any plan or resources to address these issues.

Conclusion

There are currently no sustainable financial service providers operating in the rural and remote regions of Solomon Islands on any large scale; however, there is a high demand for basic savings products. SGs can provide this service if they are adapted to the physical and cultural attributes of Solomon Islands using a concept like "Money Gadens". These models are new to the Pacific, but avoid the problems of the past by not relying on continued donor or government support. They have been successful on large scales in other parts of the world, and the prospects for rolling these out on a national scale should be fully investigated by interested stakeholders.

10 Note: In field visits conducted by SICUL, there are a reported 65 savings clubs operating, but there is no information available for them as all reports were either "lost or unavailable". Of the 22 that are reporting, the 18 rural based ones are depicted above.

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Source: In Search of Sustainability: The Provision of Rural Financial Services in Solomon Islands

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