Enhancing Savings Group Resiliency:
Linkages to specially designed financial products

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Savings groups have long been spaces where people come together to leverage their social capital—their relationships with each other-- to build financial capital. They are also spaces of active participation where women and other marginalized groups have the opportunity to exercise leadership and decision-making. Linkages with community-based organizations, government extension services and other NGOs can enrich savings groups with training that helps build human capital and strengthens participation, decision-making and self-efficacy among savings group members. The financial, human and social capital built by savings groups are fundamental building blocks of resilience.

Rigorous studies[1] have found significant positive effects of savings groups on food security, coping with shocks, access to emergency loans, and improved microbusinesses through increased investment. These studies confirm that savings groups increase both cash and livestock savings—a key coping mechanism for dealing with shocks faced by smallholder farming and pastoral communities—without a decrease in consumption, strengthening resilience in those communities. These studies were also able to detect a small but significant reduction in poverty levels.

As useful as savings groups are for consumption smoothing, managing risks and coping with shocks, their capacity for mitigating risks is limited by the amount of the funds that they have pooled. Because most savings groups share out their funds annually, there are times of the year when there are insufficient funds available for lending as members have built up minimal savings. Furthermore, when a shock hits the whole community—as is common with climate-related shocks such as droughts and floods--the demand for funds outstrips the availability, limiting the savings group's usefulness as a risk mitigation tool and highlighting the need for complementary financial services to bridge the gap.

VisionFund International has been implementing FAST (Finance Accelerating Savings group Transformation) since 2019, lending to savings groups through its financial institutions. Currently, the FAST product is serving over 10,500 groups in nine countries in Africa[2]. These are loans made to the group cashbox—not to individuals. The funds are then on-lent by the group to their members in the same way as they lend their own savings, generating interest income for the group. During good times, these loans accelerate income generation and asset building by making more funds available for investment, especially during the early stage of the savings group cycle when accumulated savings are not enough to meet the demand for loans. In fact, VisionFund International's monitoring reports show that on average groups increase their annual share-out by more than 20% when they have an external loan. In difficult times, such as after a crisis, loans can help an entire group get back on its feet by making more cash available to members.

Overall, we are seeing very promising results in terms of resilience through financial and social capital entry points and economic strengthening from lending to savings groups. In 2021, VisionFund International began a partnership with 60 Decibels, a social impact measurement and benchmarking firm, to survey the same savings group members right after the group loan had been disbursed and one month after the group's cycle had closed. In each country between 300 and 360 members were surveyed for the initial survey and 200-250 of those individuals were

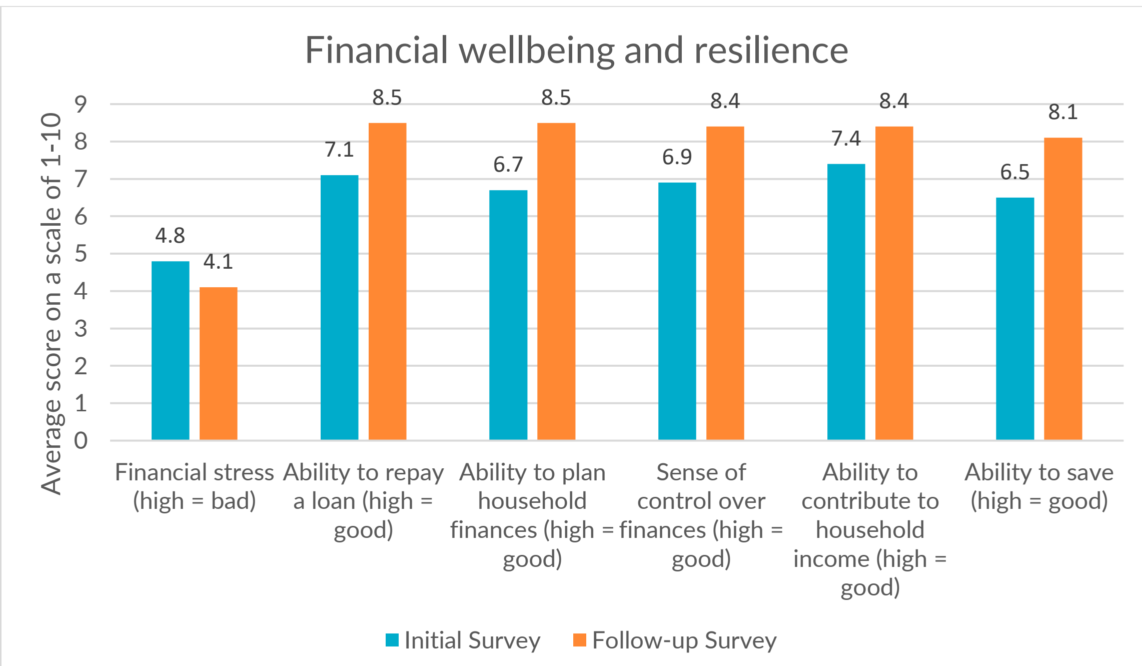
[1] For a comprehensive overview of the research on savings group impacts, please see "The Evidence-Based Story of Savings Groups" (Gash and Odell, 2013; The SEEP Network).

[2] Democratic Republic of Congo, Ghana, Kenya, Malawi, Rwanda, Senegal, Tanzania, Uganda, Zambia

surveyed in the follow-up. The survey looked at several metrics closely linked to financial capital and financial independence/self-efficacy as pathways to household resilience. The metrics below were used to create a financial resilience and wellbeing score.

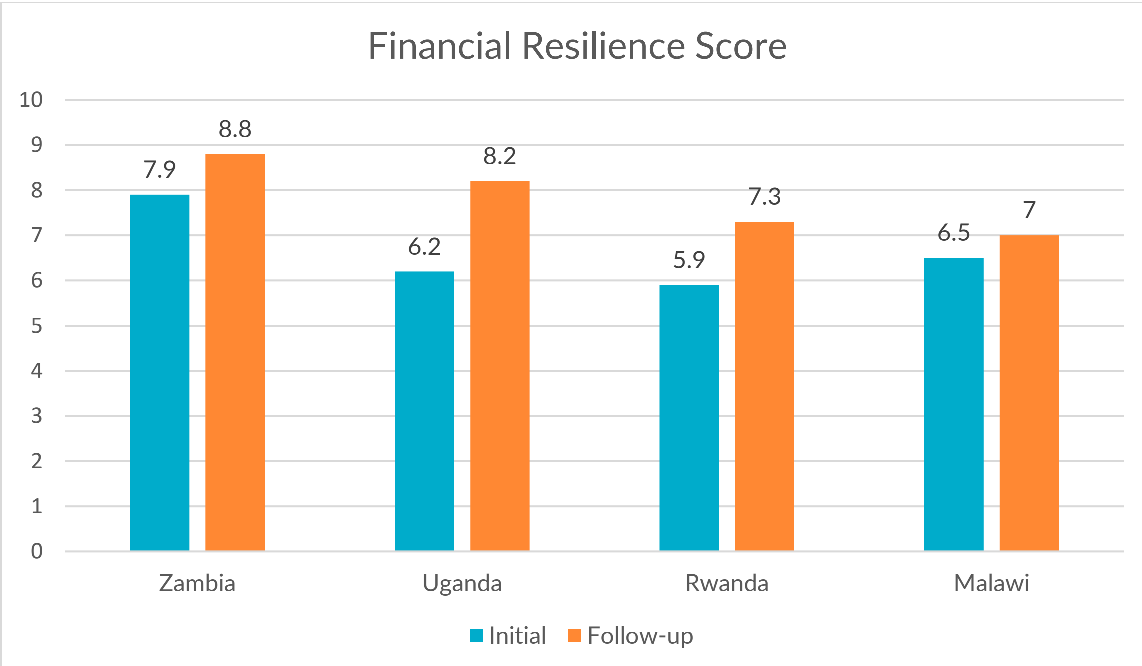
- Financial stress level
- Ability to save
- Ability to repay a loan
- Ability to plan household finances
- Ability to contribute to household income
- Ability to cover unexpected expenses
- Ability to cover living expenses for at least three months if primary income source is lost
- Sense of control over finances

So far, we have both baseline and follow-up survey data from [Malawi](), [Zambia](), [Uganda]() and [Rwanda](). In all four countries, we saw improvements in household financial resilience. The chart below presents the average score for each component across the four countries surveyed to date.

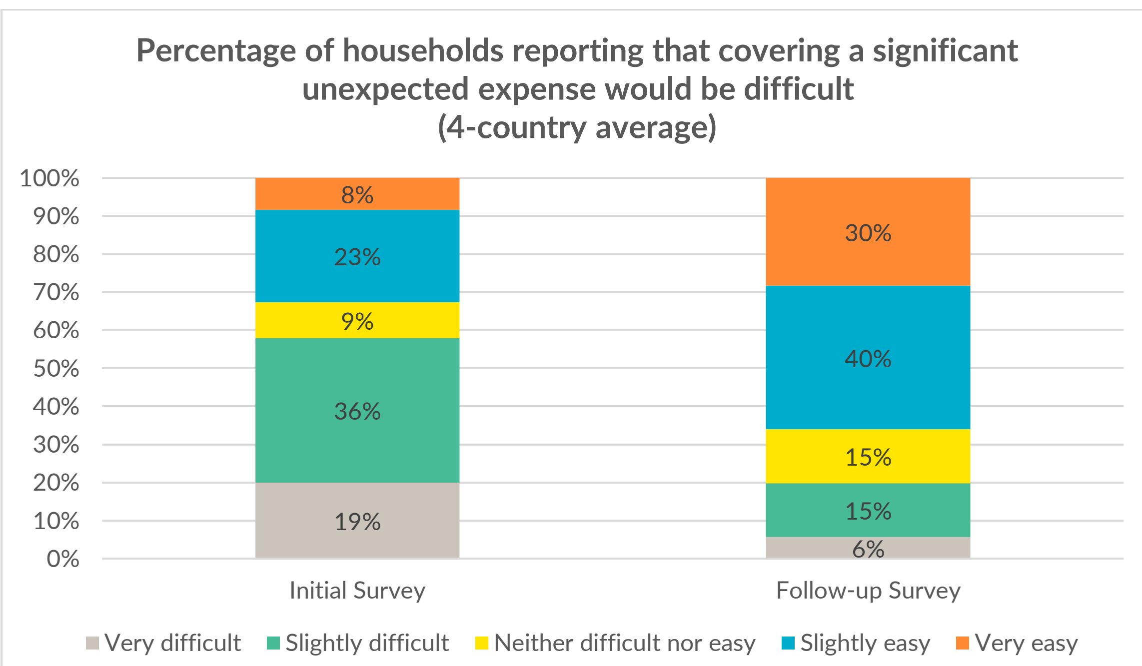


Malawi, which suffered severe cyclone damage toward the end of the study year, was a bit of an outlier and yet, even in Malawi a slight increase in overall resilience can be seen.

Financial Resilience Index Score by Country

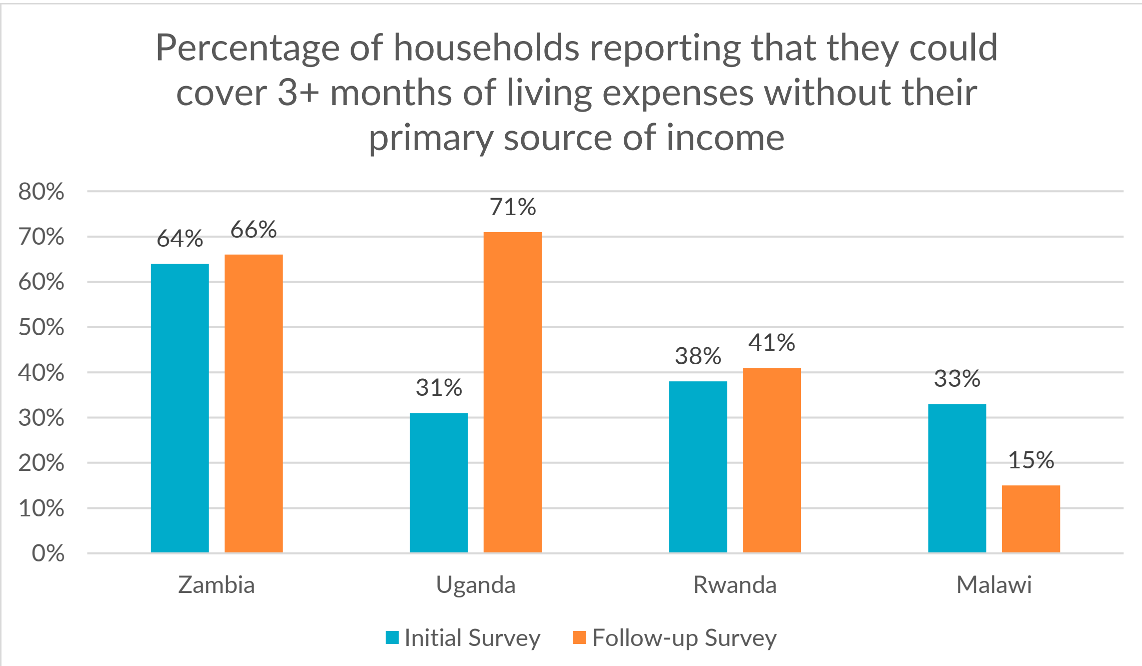


One of the most striking shifts was in the ability to cover a significant unexpected expense equivalent to 1/20 of GNI/capita. The ability of households to cover an unexpected expense improved dramatically with the percentage saying that they would find it difficult to cover such an expense falling by more than half, from 55% to 21%.



In Zambia, Uganda and Rwanda, survey respondents were also asked whether access to cashbox loans had improved their ability to cover significant unexpected expenses. The responses were overwhelmingly positive with between 87% and 92% saying yes.

Smaller but consistent improvements were also reported in three of four countries in the ability of households to cover at least three months of living expenses without their primary source of income.



Conclusion

The initial evidence suggests that resilience is being strengthened through increasing investments that results in increased income from businesses as well as consumption-smoothing that allows households to more easily manage recurring expenses such as school fees and household bills. Over 90% of those surveyed in all countries reported that both their quality of life and their ability to care for their children had improved since their group took an external loan. The most frequently cited improvements were an increase in income and in the ability to invest in their businesses as well as the ability to pay for school fees and household expenses. This suggests that savings groups with loans are contributing to a virtuous cycle of increasing income through access to capital for investment while simultaneously having a protective effect, mitigating risks and smoothing consumption, thus allowing businesses to grow more continuously.

On the strength of these initial findings and the overall strength and financial sustainability of the loan product, VisionFund is rapidly expanding FAST throughout its network with the goal of reaching two million people by 2030. To advance this goal beyond its own financial institutions to serve the market of more than 700,000 savings groups comprising 16 million people, VisionFund is now offering training and technical assistance to other financial institutions to set up similar savings and loan products tailored to the needs of savings groups.

VisionFund is also exploring other ways to support resilience through savings group linkages. A high percentage of households in the surveyed countries had experienced a financial shock in the last 12 months with a health crisis or bereavement being the two most common causes. VisionFund has developed insurance products that directly addresses these two risks with its enhanced credit life and "hospicash" products. These products are being adapted for savings groups and provide cash payments to cover debts, funeral expenses and loss of income in the event of a death or hospitalization. Additionally, research is underway to develop recovery lending and climate adaptation loan products for savings groups vulnerable to climate shocks. By working together to link savings groups to formal financial services, VisionFund and World Vision hope to enhance and augment the risk mitigating properties of savings groups for a more resilient future for vulnerable children.