



What are SAVINGS GROUPS?

The evolution of group mechanisms for savings and credit.

Note 1 from the Savings Groups in Latin America and the Caribbean series.





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www.pro-savings.org
pro-savings@iadb.org

AUTHOR XAVIER MARTÍN
PROGRAM COORDINATOR ANDREA REYES
DIRECTOR FERMÍN VIVANCO
EDITOR AVRIL PÉREZ

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Notes from the Savings Groups in Latin America and the Caribbean series:

Note 1 What are savings groups?
The evolution of group mechanisms for savings and credit.

Note 2 How do savings groups work?
Experiences from Latin America and the Caribbean.

Note 3 Where are savings groups headed? Aspirations and challenges.

This document was written by consultant Xavier Martín for the ProSavings Program under the supervision of Andrea Reyes and Avril Perez, and the direction of Fermin Vivanco.

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After a long day of selling sugar cane and coconuts alongside the Pan-American Highway, Valeria Flores boards the minibus that will drive her back home. Today, construction work has slowed the pace of traffic, which has been good for sales. From her seat, Valeria plans how she will distribute the day's earnings. It has been a profitable enough shift, so tomorrow she will finally be able to make her last payment on a pair of shoes she put on layaway three months ago. She will also toss a few coins into the red cookie box she keeps in her kitchen for Christmas savings. Maybe she will also start saving up for her daughter's next school term, so that this year she can avoid borrowing money for enrollment fees, or maybe she will finally decide to join that savings group that her cousin has been talking about for days now.

Valeria could very well be one of over 250 million adults in Latin America and the Caribbean who live without access to formal financial products. This is not a surprising assessment when we consider that only 8% of adults in the region use a formal credit product and just 39% have a savings account.¹ Financial inclusion indicators help us measure what percentage of the population has access to and uses formal financial services. By process of elimination the rest of the population, the majority is financially excluded. The terminology of financial inclusion/exclusion could lead us to conclude that the population that does not participate in the formal financial system does not save or borrow. However, as observed in the case of Valeria and as has been brilliantly illustrated in the book *Portfolios of the Poor*,² the population that does not participate in the formal financial system makes use of diverse informal mechanisms, often complex and sophisticated, to balance their income and expenses.

Some of the many borrowing and savings strategies used by people who lack access to formal financial services include, but are not limited to, the following: buying on credit, borrowing from relatives or friends, saving in-kind through the purchase of jewelry or other non-financial assets, asking for an advance on their paycheck, resorting to a pawn shop, obtaining a line of credit directly from a goods or services provider, or turning to a



¹ Demircuc-Kunt, Asli and Leora Klapper, (2012). "Measuring Financial Inclusion: The Global Findex Database". World Bank Policy Research Working Paper 6025

² Collins, Daryl, et al, (2009). *Portfolios of the poor: how the world's poor live on \$2 a day*. Princeton University Press.

moneylender. Most of these informal strategies are based on individual choices. However, there are also widely distributed mechanisms to save and borrow collectively or in groups. Informal savings and credit groups, both with and without the intermediation of external funds, have existed for decades in Latin America and the Caribbean, giving rise to a wide array of methodologies and approaches of varying scope and success. Some of these experiences have developed locally and spontaneously, while others have been launched into action by an institution or an organization with a social development agenda, usually targeting rural areas, that extends beyond the provision of financial services. The constitution of these groups often seeks to create opportunities for financial education, promote social cohesion, empower population segments, or use these to establish platforms for the implementation of other social development interventions.

In recent years, a renewed interest in promoting such collective savings and credit mechanisms has emerged within certain sectors.³ Therefore, this is an opportune moment to look back and review the experiences accumulated in the region. The lack of institutionalization among the groups themselves and the multiplicity of projects and entities using different methodologies to promote the formation of groups makes it difficult to engage in the sort of mapping that would allow us to develop a precise typology of the existing mechanisms for self-managed savings and credit currently in existence in Latin America and the Caribbean.

 ³ See, for example, the blog Savings Revolution, which started in 2010 as a forum for meeting and interchange of ideas between people involved in the facilitation of savings groups.



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CONTENT

Though this note does not provide a complete review of all existing initiatives, it proposes a tentative classification based on key outstanding examples from the field.

The following is part of a series of three notes on self-managed savings and credit groups commissioned by the ProSavings Program.

FIRST SECTION *In the first section we present experiences dealing with informal collective savings and lending without external funding.*

Pages 6-12.

SECOND SECTION *The second part introduces experiences in which external funding play a role.*

Pages 13-17.

THIRD SECTION *Finally, the last section closes with some brief reflections on the role of these experiences within the field of financial inclusion and lays out the topics that will be further explored in the next note of this series.*

Pages 18-19.

Informal savings and credit groups without EXTERNAL FUNDING

Many savings groups' initiatives are born locally, in a decentralized manner, and stem from long-standing cultural practices. Savings clubs, mutual aid groups, rotating savings and credit associations, and cumulative savings and credit associations are examples of methodologies and practices commonly found in various Latin American and Caribbean countries. Here are the main characteristics of this type of group savings and credit scheme.

■ *Savings Clubs*

Savings clubs or "cajas comunes" are formed when a group meets regularly with the purpose of accumulating a certain amount of savings. Typically, members share a common goal and a savings horizon. The rationale behind organizing a savings club often involves accumulating savings to cover extra expenses during the Christmas season. Self-imposed peer pressure can be a very effective mechanism to encourage saving. This was demonstrated by a recent study in Chile that analyzed the effect of group compromise in savings mobilization, revealing that group compromise achieved a superior effect to that obtained when incentives are limited to offering attractive interest rates alone.⁴

Another common practice involves forming savings groups in order to make joint purchases of supplies or other commodities. In Mexico, the "Pequeño Mundo Solidario" initiative promotes the creation of groups in marginalized communities in which each member makes a weekly savings contribution towards the purchase of bulk commodities, providing clients with better prices and a margin to finance administrative expenses and a contingency fund. The project started in 1992 in the town of Torreon and has grown to include groups in several municipalities.⁵

Savings clubs do not have a credit component and typically emerge within their local communities. The accumulated savings is kept by a group member, deposited at a financial institution or used towards joint purchases. The formation of savings clubs is not unique to Latin America and the Caribbean. For instance, during the early 1960s in Zimbabwe, Francis Wadelove, a Jesuit missionary of English origin, began forming savings clubs in that gave rise to a movement and to the Development Savings Self Help foundation; which by 1998 had reached over 100,000 people through the creation of more than 7,000 savings groups.⁶



4 Kast, Felipe, Stephan Meier and Dina Pomeranz, (2012) "Under-Savers Anonymous: Evidence on Self-Help Groups and Peer Pressure as a Savings Commitment Device". Working Paper 12-060. Harvard Business School.

5 Cuéllar Saavedra, Oscar and Víctor Hugo Martínez Escamilla (1998), "El pequeño mundo solidario: círculos de finanzas informales para reducir la pobreza. Entrevista con José Ramírez Mijares". Revista Sociológica, año 13, número 37, Economía informal, microempresas y estrategias de empleo. May-August 1998.

6 Raftopoulos, Brian and Jean-Paul Lacoste, (2001) "Savings Mobilization to Micro-Finance: A Historical Perspective on the Zimbabwe Savings Development Movement" Article presented at the international conference, "Livelihood, Savings and Debts in a Changing World: Developing Sociological and Anthropological Perspectives".

In some cases, savings clubs are used in schools as a tool for financial education and the development of good saving habits. For example, Cooperativa Confiar's foundation, currently implements a school savings project in Antioquia that involves the participation of 60 schools as well as its students, parents and teachers. Throughout the school year, students can engage in weekly group savings in amounts starting at 500 pesos (US\$0.20) to be withdrawn at the end of the school year.⁷

■ *Mutual Aid Groups* *("burial and friendly societies")*

Group schemes for mutual aid in case of emergencies or need are also common, especially in the Caribbean.⁸ These schemes are a hybrid of savings and insurance. Group members meet regularly and make contributions to cover funeral expenses and support a family in the case of the death of a member (burial societies) or in the case of a major event such as serious illness, calamity, or a wedding (friendly societies). The amount of money issued is usually linked to a member's prior savings contributions; thus the group does not exactly function like an insurance policy, but more like a savings account to cover emergencies or other specific events. In Jamaica, the Bahamas and other Caribbean countries where these schemes are well-known, it is believed that they emerged during the first half of the nineteenth century with the emancipation of slaves, as a mechanism of self-help and clearly influenced by English friendly societies typical during the Victorian era.⁹

■ *Rotating savings and credit associations*

These schemes consist of a group of people that come together to make periodic contributions, during a specific time period, to accumulate savings for future use. Like the saving clubs, each member regularly saves along with the rest of the group. However under this scheme, members access the funds accumulated at each savings meeting on rotating basis. Turns are selected by lottery, auction, or mutual agreement. It is also common for the group organizer to take the first turn. In a way, this scheme combines savings, credit and insurance. Those members most interested in long-term capital accumulation (the saving aspect of the scheme) will elect one of the last turns, whereas those interested in obtaining immediate funds (the credit aspect of the scheme) will seek to be among the first of the group to access funds. Further, given that group members are self-selected and very often share friendship or family ties, they also act as insurance, where in case of an emergency the group would swap turns so that the member in need can access the funds collected before his or her original turn.



⁷ Fundación Confiar, Programa Ahorro Escolar. Web page accessed March 2014: www.confir.coop/fundacion.

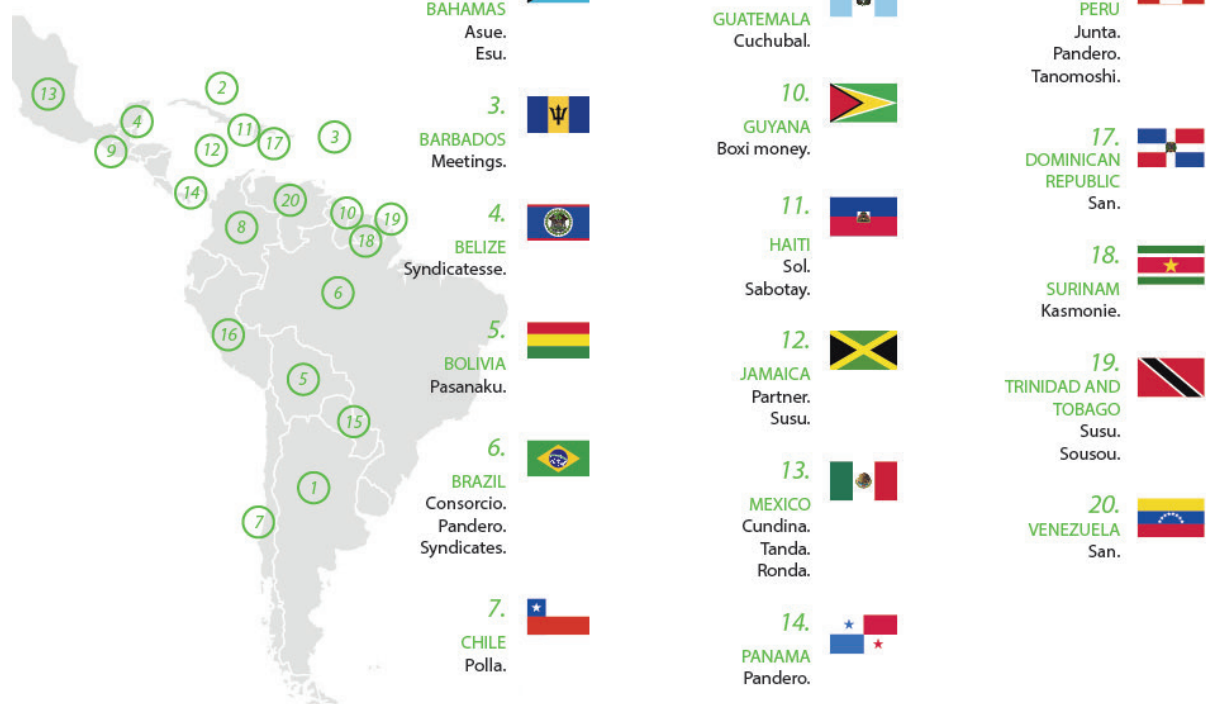
⁸ Besson, J. (1996). "Women's use of roscas in the Caribbean: reassessing the literature. Money-go-rounds: the importance of rotating savings and credit associations for women" *Cross Cultural Perspectives On Women*; 14; 263-288 .

⁹ Johnson, Howard (1991) "Friendly societies in the Bahamas 1834–1910". *Slavery & Abolition: A Journal of Slave and Post-Slave Studies*. Vol. 12, num. 3, 1991.



TABLE 1

Names used for rotating savings groups in Latin America and the Caribbean.



In a rotating savings and credit association, the pool of savings accumulated at each meeting essentially becomes a loan that occurs automatically, whose total amount is determined according to the number of group members and the savings quota they establish. Since all the savings are delivered to a member at each meeting, there is no need to manage or maintain surplus funds. Within a savings cycle, each member of the group will receive, in aggregate, exactly the same amount they contributed at each savings meeting. Operations are simple and clear. There is no interest and the scheme's main benefit is the ability to accumulate a certain amount of savings in less time than it would take to save individually. Additionally, the group encourages savings discipline to achieve a savings objective. In some cases, the group is created in order to save towards the purchase of a particular type of product; while in other cases, each member decides how to use this money.

These types of schemes have been used for centuries and are common in all societies with limited access to formal financial services.¹⁰ This explains in part the extensive list of names by which these groups are known in the region. (See Table 1) These savings mechanisms are commonly used by both men and women, by low-income populations as well as middle-income populations, and in urban and rural areas. Given the informality and limited lifespan that characterizes these groups, it is difficult to establish precisely what percentage of the population uses this type of savings and credit mechanism. There are, however, some specific surveys and research projects that have quantified and confirmed the widespread use of these systems in several countries.¹¹ Global Findex includes a specific question on this topic, revealing that it is indeed a common and widespread practice in certain countries, such as Jamaica. (See Table 2)



¹⁰ Bouman, F.J.A. (1995), "Rotating and Accumulating Savings and Credit Associations: A Development Perspective", World Development, Vol.23, No. 3 pp.371-384.

¹¹ Demirguc-Kunt, Asli and Leora Klapper, (2012). "Measuring Financial Inclusion: The Global Findex Database". World Bank Policy Research Working Paper 6025.

In some countries, particularly in Brazil and Uruguay, the group savings mechanism has been formalized and is offered by banks and specialized financial intermediaries as an upfront savings product.¹² In the 1960s, the Bank of Brazil organized the first formal upfront savings scheme for the acquisition of vehicles. The product functions similarly to a rotating savings group, with the bank collecting the group's savings each month and transferring it to one or more group members (by lottery or through a bidding system). The system has evolved to include other categories of purchases, such as household appliances and even homes. In Brazil, groups have traditionally been created in order to save for a specific objective, while in Uruguay savings are usually unrestricted in their purpose.¹³ Upfront savings products, also known as *consorcios*, are inspired by rotating savings and credit groups, but are aimed at people with a high degree of financial inclusion and capability.



¹² Cotel, Emiliano (2012) Interview with Álvaro Macedo, director for the firm Consorcio del Uruguay, published in the newspaper *Espectador* 3 May 2012, in an article entitled, "Uruguay será sede por primera vez del Congreso Nacional de Administradoras de Consorcios de Brasil"

¹³ Ibid.

Country	Total	Women	Men	Bottom 40% of income percentile	Top 60% of income percentile	Rural Population	Urban Population
Argentina	2.4%	1.1%	3.9%	0.9%	3.6%	2.3%	2.2%
Bolivia	3.5%	4.4%	2.5%	3.7%	3.3%	4.4%	2.4%
Brazil	2.1%	1.6%	2.6%	1.1%	2.7%	2.5%	1.6%
Chile	3.3%	2.9%	3.7%	1.9%	4.3%	4.2%	0.9%
Colombia	5.7%	5.5%	6.0%	2.5%	8.7%	6.2%	4.6%
Costa Rica	14.7%	13.7%	15.8%	12.9%	15.8%	15.3%	14.2%
Dominican Republic	9.6%	9.5%	9.8%	4.7%	12.9%	11.8%	6.9%
Ecuador	2.4%	2.5%	2.3%	1.8%	2.8%	2.5%	2.3%
El Salvador	2.3%	2.6%	2.1%	2.2%	2.4%	3.2%	1.7%
Guatemala	3.8%	2.2%	5.7%	1.5%	5.7%	n/a	n/a
Haiti	5.8%	4.3%	7.4%	3.7%	7.2%	6.3%	5.6%
Honduras	2.3%	1.8%	2.8%	2.4%	2.2%	3.7%	1.6%
Jamaica	17.2%	18.2%	16.1%	24.1%	12.1%	19.0%	16.8%
Mexico	5.4%	4.5%	6.5%	1.6%	8.0%	6.6%	3.5%
Nicaragua	3.1%	2.9%	3.4%	2.5%	3.6%	3.2%	3.1%
Panama	7.0%	6.4%	7.6%	6.1%	7.7%	8.6%	3.9%
Paraguay	2.3%	2.6%	2.0%	0.4%	3.6%	3.3%	0.6%
Peru	4.3%	4.2%	4.5%	1.7%	6.6%	5.1%	2.7%
Trinidad and Tobago	9.5%	9.4%	9.6%	6.9%	11.3%	8.7%	9.8%
Uruguay	1.5%	0.8%	2.2%	1.1%	1.7%	0.6%	2.2%
Venezuela	5.5%	4.6%	6.5%	4.3%	6.3%	4.5%	7.7%
Total	5.4%	5.0%	5.9%	4.2%	6.3%	6.1%	4.7%

TABLE 2

Use of informal savings groups in Latin America and the Caribbean.

Global Findex data allows us to compare the importance of informal savings mechanisms between countries. As this table shows, informal savings groups are used as much by men as by women, in rural and in urban areas, and by low-income populations as well as by those with more purchasing power. Other surveys, such as the one conducted by CAF in 17 cities in the region, also show the prevalence of informal savings groups, especially in cities like Lima or Arequipa, where more than 20% of those surveyed reported using them.* In Mexico, the National Financial Inclusion Survey conducted in 2012 also confirms the popularity of these mechanisms of informal savings. According to that survey, 31.7% of Mexicans use *tandas* as a savings mechanism.**

(*) *Sanguinetti, Pablo et al. (2011) "Servicios Financieros Para el Desarrollo: Promoviendo el Acceso en América Latina". Corporación Andina de Fomento. Serie: Reporte de Economía y Desarrollo.*

(**) www.inegi.org.mx

Based on this type of savings mechanism, Cemex, one of the world's largest cement companies, launched a program in 1998 to promote group savings among low-income Mexican families for home construction or improvement. The program, called *Patrimonio Hoy*, encouraged the creation of rotating savings groups in which members received building materials to start their projects, rather than money, when their turn to withdraw funds came up. This model has been replicated in Colombia, Costa Rica, Nicaragua and Dominican Republic, and to date has reached over 380,000 families¹⁴. It is a clear example of a private company adapting an informal rotating group savings and credit mechanism as a business strategy.

■ *Cumulative savings and credit associations*

The great advantage of rotating savings and credit associations is their simplicity. In contrast to these features, cumulative savings and credit associations consist of an extremely rigid system that binds an entire group to save the same amount of money and withdraw it on one agreed date. This system, in which the money collected is not distributed in turns, but rather accumulates and is lent out to group members (or to third parties) depending on their demand for credit, introduces an even greater degree of flexibility that opens up to a wide range of possibilities and variations. These variants also add a certain complexity to this scheme. Managing group funds between meetings requires careful planning in terms of what to do with excess cash and how and when to redistribute funds among members. Depending on the accumulated savings of the group, members have the option to apply for credit - usually at an interest rate that helps to capitalize the group and offers its members incentives to save more.

Groups in which savings are distributed by turns are easier to manage. In contrast, cumulative savings associations call for a basic form of bureaucracy, in order to control how much each member has contributed and to keep track of loans. In some ways, cumulative savings and credit associations are like small cooperatives. Depending on their origin, we can distinguish between two broad categories of these groups. On the one hand we have local groups formed without the involvement or promotion by external organizations. On the other hand, we have groups formed by an external person or organization that seeks to enable and promote this type of scheme as a strategy to achieve a particular social impact.

Local cumulative savings and credit associations are typically formed by a group of people that are already organized as such (a group of neighbors, employees, friends, family, or an association) and decide to start a common savings activity. In doing so, they pave the way for the creation of a lending fund that is managed according to internal rules set by the group. In some cases the group evolves, grows, and decides to establish a more formal structure, usually in the form of a credit union. In fact, many credit unions operating today were born from an informal cumulative savings and credit association. (See Table 3)



¹⁴ Cemex, Webpage consulted April 2014: www.cemexmexico.com/DesarrolloSustentables/PatrimonioHoy.aspx

TABLE 3

From "natilleras" to cooperatives

An outstanding example of savings groups turned into cooperatives can be found in Antioquia Colombia, where several currently active financial cooperatives originated from a group of factory workers who sought to find a way to save together. Today, Cooperativa Financiera Confiar boasts more than 100,000 savers and a portfolio of more than US\$230 million; yet it originated from a group of 33 Sofasa company workers who joined a "natillera" or Christmas savings group. Similarly in 1962, 28 workers from Empresas Publicas de Medellin joined together to improve living conditions for themselves and for their families by starting a cumulative savings and credit fund. The fund eventually became Coofinep, a cooperative that currently has a credit portfolio of more than US\$60 million. Another example is that of Cotrafa, founded in 1957 by a group of 161 workers from the textile company called Fabricato. However, while some savings and credit groups have evolved and expanded, there are many more that simply maintain their size and activities without transforming into larger institutions.



In other instances, we have groups that are championed by an external person or organization that provides the methodology, but does not form part of the group. In many cases, the facilitating agency is a local NGO that promotes the formation of groups either by their own initiative or in partnership with a larger international NGO that has more access to grants in order to implement such projects. (See Table 4) In other cases, it is a government agency that directly or indirectly promotes the formation of groups. Sometimes the driving force behind the creation of groups is an entrepreneur or social entrepreneur who seeks to improve some aspect of the communities in which they work through this methodology.

The reasons why an organization decides to promote savings groups may vary. In some cases, an organization seeks to promote savings groups as a social good in and of itself. Among the theoretical virtues of cumulative savings associations that are often cited, is their ability to help increase discipline in family savings, household income, asset accumulation, women’s empowerment, financial education, the level of education of younger household members, social capital, and health and nutrition, among others.¹⁵ Some aspects of savings groups and their benefits have been more studied than others and there is more evidence to understand the impact of such interventions. Other aspects require further analysis to better understand the mechanisms and circumstances through which savings groups lead to these outcomes. Beyond the inherent virtues of cumulative savings and credit associations, which probably depend largely on the methodology and specific implementation of each project or initiative, there is also interest in their potential as platforms for the deployment of other types of support within the community. This applies to the provision of health services, development of income-generating activities, increasing financial inclusion through linking groups with financial services providers, or for any other purpose that focuses on improving the living conditions of a the target population.



¹⁵ Besson, J. (1996). "Women's use of roscas in the Caribbean: reassessing the literature. Money-go-rounds: the importance of rotating savings and credit associations for women" *Cross Cultural Perspectives On Women*; 14; 263-288 .

TABLE 4

50 million people participating in savings groups in 2020.

In 2013, a group of NGOs launched the "50 by 2020" initiative, which by the year 2020 aims to have a total of 50 million people organized into 7.5 million savings and lending groups. The organizations behind the initiative include the Aga Khan Foundation, CARE - Cooperative for Assistance and Relief Everywhere, Catholic Relief Services, Freedom from Hunger, Oxfam America Foundation and Plan International. VSLA, an organization that collects information from various non-governmental organizations working with projects and funds to promote savings groups, estimates that there are about 9 million people participating in savings groups - 90% of them in Africa. This figure only includes organization-driven initiatives that are based on the methodology developed in 1991 through a CARE project in Mali; a methodology has been changed and adapted to different countries. In Latin America and the Caribbean, the presence of these organizations has been significantly lower, with just over 200,000 people reportedly participating in these types of savings groups in the region. However, there are more local examples in the region that are often developed with government support and focused on the creation of self-managed savings and credit groups.

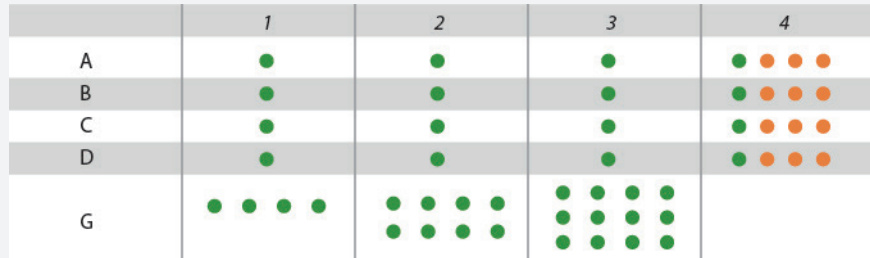
TABLE 5

Scheme of the operation of four informal group savings methodologies.

Simplified and schematic representation of four different informal group savings methodologies in which four members participate (A, B, C, D), within a cycle consisting of four meetings (1, 2, 3, 4). The letter G represents the group's accumulated savings by the end of each meeting.

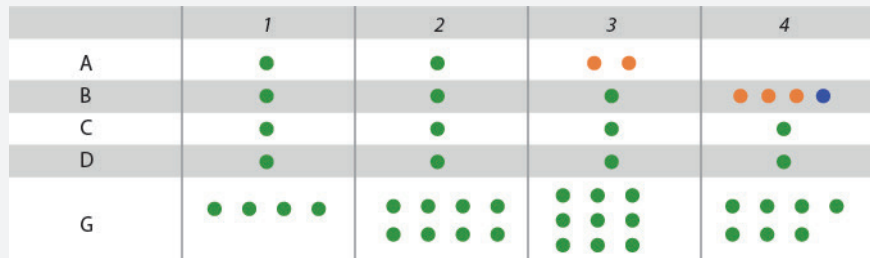
● Savings ● Payback ● Gift ● Loan ▲ Interest

FIGURE 1 Savings Club.



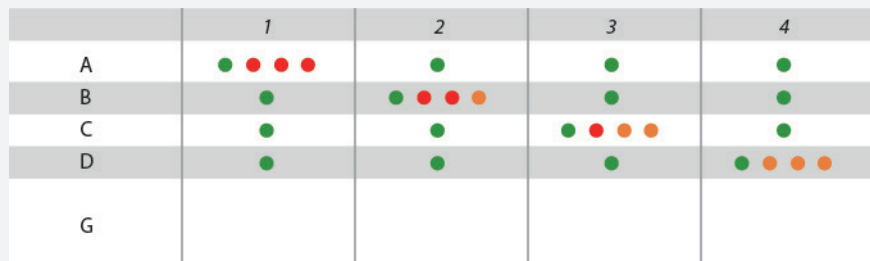
In a savings club all the members make a deposit during each meeting and withdraw the accumulated amount at the end of the established cycle. The money is collected by the group, so they must find a mechanism to manage the funds. Self-imposed peer pressure is an effective motivation that explains the popularity of these mechanisms in some contexts.

FIGURE 2 Mutuall Aid Club.



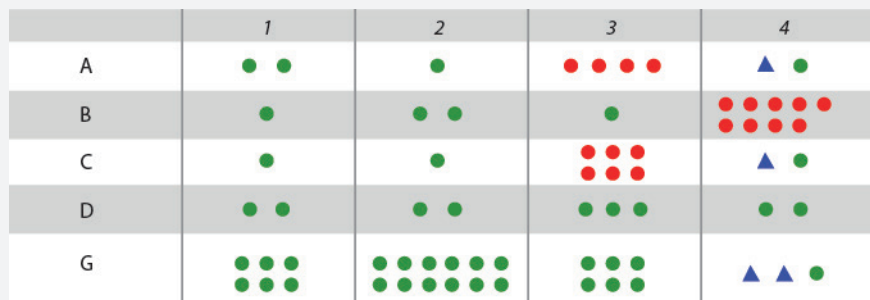
In self-help groups, members save at each meeting and, in the case of emergency or need, members or their families receive an amount determined by their savings.

FIGURE 3 Rotating and Savings Groups.



In a rotating savings group savings does not accumulate, but rather is paid out on a rotating basis to each of the members according to a pre-established order.

FIGURE 4 Cumulative Savings and Credit Groups.



In cumulative savings and credit groups members save and apply for credit according to their needs. This greater degree of flexibility, together with the introduction of interest, requires the establishment of a record or another minimal measure of control in order to keep track of how much each member has contributed and how much they owe at any given point.

SECOND SECTION

Groups that use EXTERNAL FUNDING

There are almost as many methodologies for group savings and credit as there are groups. The distinction between savings and credit groups with or without the use of external funding is derived from a practical approach rather than an irreconcilable difference between the two categories. In fact, various savings and credit groups that initially do not have external funding subsequently seek, either as a group or individually, to establish formal relationships with financial institutions in order to gain access to their products. As conveyed during several presentations at the Latin American Savings Groups Forum held in Bogota in December 2013, linking savings groups with formal financial institutions is a controversial topic among several organizations specialized in promoting such programs.¹⁶ With this in mind, the following sections introduce a few models of self-managed savings and credit groups in which linkage to a formal financial institution is or has been a key element to their operation.

In the historical evolution of self-managed savings and credit mechanisms in Latin America and the Caribbean, we can highlight several initiatives in which external funding has played an important role in financing the group's initial activities. These initiatives can be divided into three types of interventions. The first involves models inspired by the village banking methodology, though these place an important emphasis on savings and group self-management. The second type of intervention involves initiatives that have stemmed from rural development projects, often involving a rotating fund component and which after undergoing a minor or major transformation, have continued operations beyond the completion of the project. Finally, there are some interesting initiatives in which credit unions support informal savings and credit groups with a high degree of self-management in order to increase their client base and reach populations that are mobilizing important sums of money informally. This way, cooperatives seek to incentivize formal savings and strengthen savings habits, gaining new clients that in the future will become credit-worthy clients with access to multiple products and services. In addition, these cooperatives also fulfill their social mission of contributing to financial inclusion.



¹⁶ Johnson, Howard (1991) "Friendly societies in the Bahamas 1834–1910". *Slavery & Abolition: A Journal of Slave and Post-Slave Studies*. Vol. 12, num. 3, 1991.



BID / Fomin / BOLIVIA.

Savings groups and village banks

The village banking methodology was used for the first time in Bolivia in the early 1980s, and spread throughout the region mainly due to the role of non-governmental institutions, inspired to a certain extent by FINCA International's methodology.¹⁷ In their initial conception, village banks were promoted in several countries of Latin America and the Caribbean as savings and loan instruments with a high degree of self-management in which groups could eventually become independent and "graduate" from the supporting institution. Unlike methodologies that employed solidarity groups only as a credit guarantee, village banks sought to create real savings and credit groups, so that self-managed meetings and training groups played a key role. The village banks chose their own executive committees, defined the cycle, determined the frequency of meetings, developed rules for compulsory savings, decided fines, etc.

In this context, the internal account of a village bank was a crucial element in the promotion of savings among its members in that 1) they could obtain much higher interest rates than could be received through any formal alternative, and 2) this account constituted the basis on which the bank could grow sufficiently to meet the credit demands of its members without the need for external funding. Yet, for practical purposes the internal account reduced institutions' capacity to recover their costs, and added complexity to the bank's management and control; which, in many cases, required a significant time commitment on the part of the bank's promoter. The reality is that as early as the 1st Latin American Forum on Village Banks, held in Lima in October 2003, it was recognized that "[The internal account] constituted a specific element of the village bank methodology, but today it has been abandoned by most programs [translation]."¹⁸



¹⁷ Nelson, C, et al (1998). Bancos Comunes. La práctica mundial. Small Enterprises Education and Promotion Network, Fondo de las Naciones Unidas para el Desarrollo de la Mujer.

¹⁸ Mesa Interinstitucional de Bancos Comunes del Perú (2004) I Foro Latinoamericano de Bancos Comunes. Avances y Retos hacia la Expansión y Sostenibilidad con Impacto sobre la Pobreza. Lima, Perú, 15-17 October 2003. Word of Jean Paul Lacoste, official of the Finance for Development and Economic Program at the Ford Foundation.



In many cases, village banking organizations have served as platforms for the provision of other non-financial services. Experiences like ProMujer in several countries in Latin America or UCADE in Ecuador demonstrate the role that village banks play as a vehicle for providing not only financial services, but health services and training also. Despite their social vision and their role as platforms for the provision of non-financial services, the ownership structure of most village banks rests with the promoting entity. The degree of control held by members is limited because they act as clients and service users rather than as members of highly independent self-managed groups with a high degree of decision-making power.

Not all village bank experiences in Latin America and the Caribbean can be considered examples of self-managed savings and credit structures. In many cases, the group is mainly a tool for delivering credit by an external financial institution. That said, in Latin America there are several examples of programs initially inspired by the village banking methodology that evolved into another type of self-managed structure in which saving took on an important role. Such is the experience of FINCA Costa Rica with business community credit and of FUNDEFIR with the *bankomunales* methodology in Venezuela. Both experiences have been replicated in other countries in Latin America and the Caribbean. These experiences share similarities with existing mechanisms in other regions, which by nature can also serve as a source of learning for other initiatives to promote self-managed savings and credit groups, especially when it comes to linking groups with formal financial institutions. (See Table 6)

TABLE 6

Self-help groups promoted by the National Bank for Agriculture and Development in India.

Savings groups gained popularity in India in the early 1990s when the National Bank for Agriculture and Development (NABARD) established guidelines for their linkage with formal financial institutions. In terms of reach, linkage to financial institutions, and decentralization, this experience is without a doubt the most significant example we have at a global level. In March 2012 there were over 7.5 million groups, in which 100 million people were participating. By 2011, 4.9 million of these groups were linked to formal financial institutions where savings amounted to US\$1.2 billion and loans amounted to US\$5.1 billion. The formation of these groups is typically facilitated by an NGO and frequently by government entities and personnel from financial institutions themselves. In March 2012, after more than 20 years of promoting these groups, NABARD introduced significant changes to the program, which was renamed SHG2, and which mainly sought to increase the rate of group savings and to create a higher degree of flexibility in the system. Source: National Bank for Agriculture and Development (www.nabard.org)



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■ *Groups formed from rural development projects*

A CGAP study by Jessica Murray and Richard Rosenberg published a few years ago reviewed 20 projects with external funds managed at the community level and revealed that savings and credit groups that are funded by an early injection of external loans from agencies or governments tend to fail and often have default problems that lead to decapitalization.¹⁹ As a result of this review the authors conclude unequivocally that, “the history of such groups is so negative that funding agencies should abandon this model and not use it as a vehicle for providing financial services to the poor.”²⁰

While it is true that experiences with this type of intervention have often led to disappointing results, it is equally true that such projects have been very common in Latin America and the Caribbean, especially in the early 1980s and 1990s. From this large number of initiatives, projects and interventions have emerged that have evolved to find external funding mechanisms that have facilitated their survival and have generated a positive impact in the community. In Honduras, for example, there are success stories of rural banks with a high level of informality that have managed to create effective links with formal financial institutions.²¹ In fact, in Honduras there is a specific law for the creation of Rural Savings and Credit Funds, although in practice they usually develop under the stimulus of government or international cooperation projects. In 2010, Honduras had 4,113 rural banks across the country with a total of 85,697 members.²²

At other times, the unmitigated failure of rural development projects with rotating funds has helped reframe interventions and make substantial changes. In some cases these changes have generated a new approach based exclusively on promoting saving groups, even without the presence of external funding. In Mexico in 1997, the Ministry of Agriculture and Rural Development (SAGAR) promoted a rural development program in communities of less than 2,500 people in six marginal regions of four states. The program incorporated instruments to promote savings through which producers participating in the program used portions of the proceeds from the project to create a rotating fund for the purpose of making loans within the group. Given that there was not a clear methodology for managing the rotating fund many groups refused to participate in the scheme. In 2000, as a result of this initial failure, changes were made to create Community Savings Funds (FCA) of 15 to 25 people with no seed capital, limited to providing training



¹⁹ Murray, Jessica and Richard Rosenberg (2006) *Fondos de Préstamos Gestionados por la Comunidad: ¿Cuál de ellos Funciona?* CGAP, Enfoques, nº 36, May, 2006.

²⁰ Ibid.

²¹ Trivelli, Carolina and Gina Alvarado. (2005) “Lecciones para el desarrollo de las finanzas rurales a partir de 16 experiencias sistematizadas por FIDAMERICA”. *Rimisp-Centro Latinoamericano para el Desarrollo Rural. Debates y Temas Rurales*, nº 2.

²² Torres Calderón Manuel (2012). Honduras. Estudio de Caso. *Las Cajas Rurales, mecanismos sociales de contingencia y apoyo económico*. Food and Agriculture Organization of the United Nations (FAO).

in methodology and basic tools for operations management. In less than two years 420 Community Savings Funds were created with 11,653 members and savings of over US\$425,000.²³

■ *Experiences with credit unions*

In the region we also find examples of credit unions that have chosen to promote savings and credit groups as a strategy for the development of local financial structures in rural areas. In some cases, the predominant approach has centered around potential demand for credit, while other groups have focused on savings mobilization.

In Ecuador, for example, savings and credit banks have emerged as a kind of subsystem within the cooperative sector, mostly promoted by the NGO Grupo Social FEPP, Ecuadorian Agricultural Services, and government programs, particularly the Development Project for Indigenous and Afro-Ecuadorian Peoples.²⁴ Many banks have achieved a level of administrative management and governance that has allowed them to establish alliances with cooperatives in order to channel resources to their members. Several of these community banks and pre-cooperatives have been integrated into networks of local financial structures promoted mainly by Grupo Social FEPP, which has over 35 years of experience in the development of this type of local financial structures. In 2007, with the support of Grupo Social FEPP 13 of these networks of local financial structures formed the Renafispse, uniting 272 community banks and 98 small cooperatives.²⁵

Cosechando Juntos lo Sembado, a savings and credit cooperative found in Mexico, is an example of another initiative, one that is more focused on the promotion of local savings in rural areas. For 30 years, this small cooperative has prioritized savings mobilization in rural communities through the creation of groups with a high level of self-management. Its decentralized structure has facilitated the mobilization of savings from some 36,000 people in 430 groups distributed throughout five municipalities of the state of Queretaro, with a team of only 13 employees.²⁶

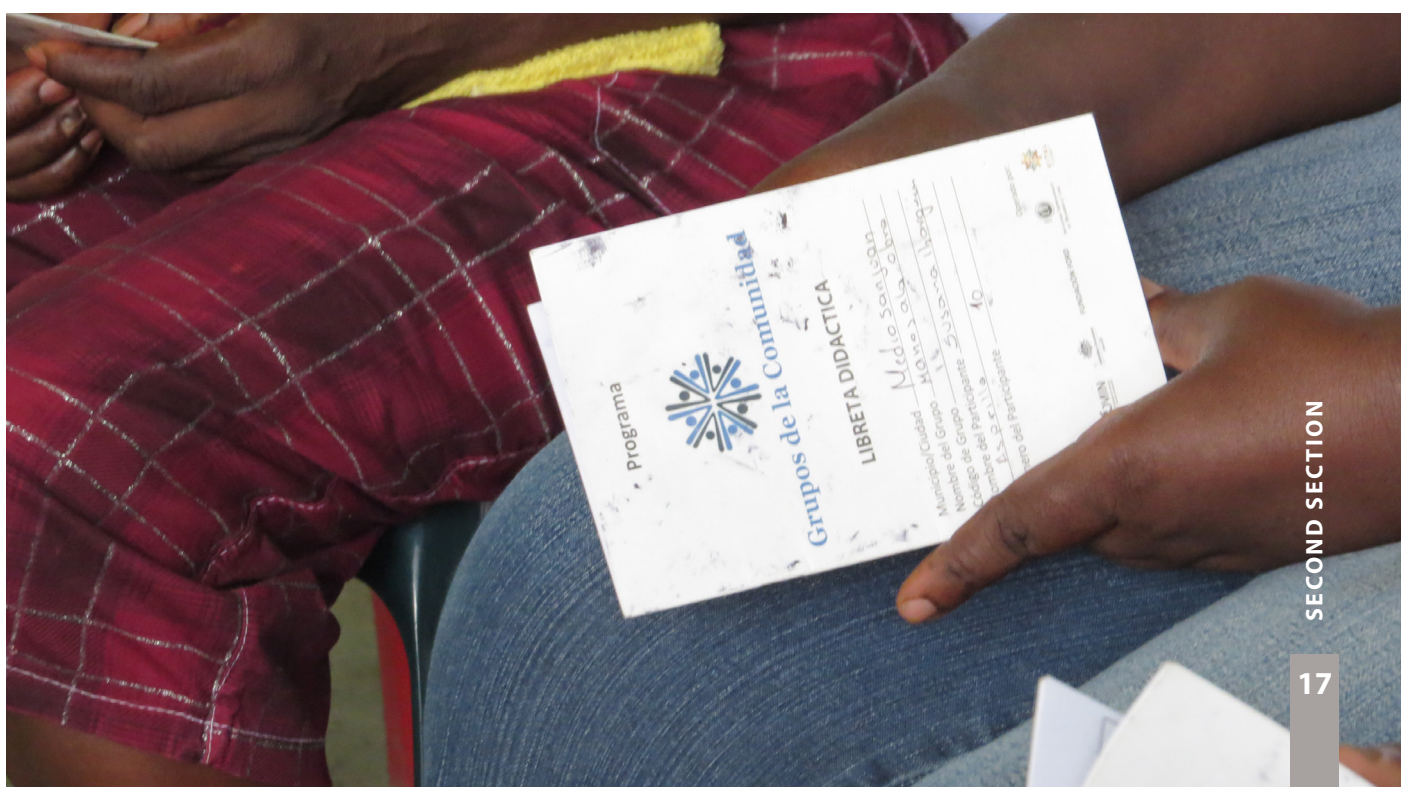


²³ Zapata Álvarez, G. (2003). Fondos comunitarios de ahorro: Servicios financieros básicos en las Zonas rurales marginadas de México. Undersecretary for Rural Development, General Directorate of Regional Programs and Rural Organization, Directorate of Financial Organizations.

²⁴ Zapata Álvarez, G. (2003). Fondos comunitarios de ahorro: Servicios financieros básicos en las Zonas rurales marginadas de México. Undersecretary for Rural Development, General Directorate of Regional Programs and Rural Organization, Directorate of Financial Organizations.

²⁵ Orellana, E. (2009). Las Finanzas Sociales y Solidarias en el Ecuador: verdades y desafíos

²⁶ Ibid.



THIRD SECTION

Reflexions ABOUT FINANCIAL INCLUSION

In Latin America and the Caribbean there are a significant number of experiences promoting community finances with a high degree of self-management. As in other regions, there are informal savings and credit mechanisms that are entirely independent and in which a significant part of the populations participates. In addition to these spontaneous and autonomous experiences, there are organizations that actively promote the formation of self-managed savings and credit groups. Some of these experiences have emerged from the evolution of community banking methodologies, as is the case of FINCA Costa Rica and Fundefir in Venezuela. In other cases, international NGOs have promoted the formation of groups using methodologies previously tested in African countries. We also find experiences with cooperatives and local financial structures in which the creation of highly autonomous groups have played a key role. It is also true that the government and international organisms have played an important role in the development of certain rural development programs in which self-managed savings and credit groups have been used to reach financially unserved populations. Here, we note the experience of the Rural Savings and Credit Banks in Honduras and the Community Savings Funds in Mexico.

Over the past 30 years Latin America and the Caribbean has seen numerous self-managed community finance initiatives based on savings. At a time when there seems to be a renewed interest in the promotion of development projects based in the creation of self-managed savings and credit groups, it is appropriate to look back and analyze these experiences. The present article offers a general vision of the different mechanisms of collective self-managed savings and credit in the region and highlights various initiatives that have been able to provide basic financial services for thousands of individuals organized in groups. The diversity and reach of these initiatives will be examined in greater detail in the next note from this series.



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