

**MOBILE SOLUTIONS TECHNICAL ASSISTANCE
and RESEARCH (mSTAR)**

The Potential of Using Digital Financial Services for Savings Groups in Bangladesh

By Jaheed Parvez and Muhymin Chowdhury

February 2016



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OVERVIEW

“People and businesses need more than just credit to thrive. They need savings, insurance, payments, and remittance facilities that are tailored to the local needs. Savings and insurance in particular help build resilience to shocks such as price fluctuations, bad weather or natural disasters, and help small farmers recover fast.”

- Queen Maxima, Special Advocate of the UN Secretary General, Inclusive Finance for Development

Financial inclusion in Bangladesh has come a long way. A little less than a decade ago, discussion in this area centered almost entirely around microcredit—small loans allowing entrepreneurs at the base of the pyramid to expand their activities. While still a crucial service for these individuals, research by many institutions globally has shown that this was only one element of broadening access to financial services for the world’s poor. Today, the ability of financial inclusion to empower low-income populations worldwide has pushed it near the top of the sustainable development agenda.

Financial inclusion, in its broadest sense, requires much wider access to a range of financial products for traditionally underserved or excluded populations. Accordingly, in the past few years, the substantial importance to economic development—and the potential to improve the lives of individuals—of tools such as savings instruments, payment systems (notably digital financial services), and micro-insurance has become increasingly well understood.

The latest demonstration of the growing consensus of the importance of financial inclusion is found in “Transforming our world: the 2030 Agenda for Sustainable Development”—the unanimously adopted UN General Assembly plan that succeeds the Millennium Development Goals. Not only does its preamble specifically mention financial inclusion, but five of the 17 overarching Global Sustainable Development Goals that the agenda champions (specifically, Ending Poverty; Ending Hunger; Gender Equality; Sustainable, Inclusive Economic Growth; and Sustainable, Inclusive Industrialization) note the need for improved or universal access to financial services. In short, financial inclusion is now recognized as one of several essential building blocks supporting key elements of the sustainable-development agenda. As such, it is part of the foundation for the world’s wider hopes for progress.



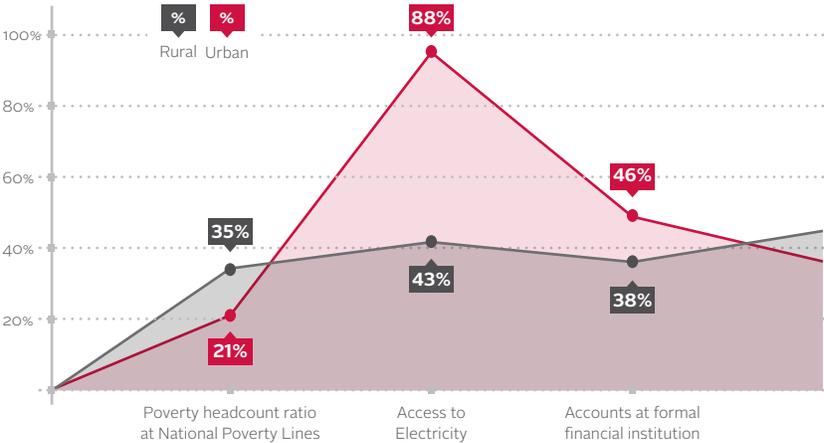
Bangladesh has committed itself to broadening financial inclusion for the underserved segments of the population. Financial inclusion initiatives have been carried out by Bangladesh Bank (the central bank of Bangladesh), the Microcredit Regulatory Authority (the regulator for microfinance institutions), and, more recently, the Banks and Financial Institutions Division of the Ministry of Finance. The main institutions providing microfinance services in Bangladesh include: non-governmental organization microfinance institutions (NGO-MFIs), Grameen Bank (organized independently under the Grameen Bank Ordinance of 1983), and commercial and specialized banks. Bangladesh Bank has adopted strategies on financial inclusion and developmental finance campaigns for the underserved as part of its effort to maintain financial stability in the country. Technology is also a great enabler that has prompted the governor of Bangladesh Bank to adopt strategies and policies on the use of mobile financial services (MFS) for financial inclusion.¹ This led to the issuance of “Guidelines on Mobile Financial Services (MFS) for Banks” by the Department of Currency Management and Payment Systems within Bangladesh Bank in 2011.²

1 2015 Global Microscope on Financial Inclusion

2 <http://www.bangladesh-bank.org/mediaroom/circulars/circulars.php>

With nearly 156 million inhabitants on a landmass of 147,570 square kilometers, Bangladesh is among the most densely populated countries in the world. According to the World Bank, over the past decade the Bangladeshi economy has grown at roughly 6% each year. Over that period, poverty has decreased dramatically (by a third), and life expectancy, literacy, and per capita food intake have all increased. All told, since 1992, more than 15 million Bangladeshis have found their way out of poverty. Despite these significant gains, the number of Bangladeshis that remain below the poverty line is still high in terms of absolute number (47 million people). Moreover, this is primarily a rural phenomenon, as roughly two-thirds of the country's population live in rural areas, although significant portions of the country's poor are in urban areas as well. This urban-rural divide is evident in many socio-economic aspects, as shown in the chart below:³

Urban-rural divide in Bangladesh



³ World Bank - Bangladesh Overview

The financial services sector in Bangladesh is dominated by commercial banks in terms of assets and liabilities. According to the most recent available data, in terms of reach, microfinance institutions have bigger networks, with an estimated 24.6 million microfinance clients as of June 2013.⁴ However, both of these traditional financial service providers have been overtaken by mobile financial services in terms of potential customer base as well as network reach. Agent banking, which has just recently started in Bangladesh, is also expected to have significant reach in the future as well. The possibilities to innovate, promote and deliver new products and services through these two channels to reach the mass market are significant.

Financial Service Coverage

Providers	Number of Service Providers	Number of Touch Points
Banks	56	9,000+ branches
Non-Bank Financial Institutions	31	183+ branches
Microfinance Institutions	742	18,000+ branches
Mobile Financial Services	18	561,000+ agents*
Agent Banking	4	64+ agents

(Source: Bangladesh Bank, 2015, Microcredit Regulatory Authority, 2013)

*Does not account for double counting

A background study commissioned for the General Economics Division of the Planning Commission in Bangladesh for the country's 7th Five Year Plan (2016-2020) entitled, "Improving Access of the Poor to Financial Services," noted that despite the substantial expansion of bank branches and an increase in the membership of MFIs and other financial institutions, around 25% of the country's adult population still remains financially excluded.⁵

⁴ Microcredit in Bangladesh, overview from the Bangladesh Microcredit Regulatory Authority.

⁵ Improving Access of the Poor to Financial Services

The study added that in terms of access to credit from the banking system, the state of financial inclusion is low. For example, for farmers who mostly live in the rural areas, access to banking services is significantly low relative to their contribution to the GDP. A substantial share of households, especially in rural areas, still remain outside the coverage area of the formal banking system and are therefore unable to access mainstream financial products. Government regulation mandating that banks open at least one in five branches in rural areas to encourage rural banking has resulted in 57% of bank branches in rural areas by 2012. Despite those gains, the share of rural bank branches in terms of total deposits and advances were only 17% and 12%, respectively, which indicates very low exposure of rural people to the formal banking system.

The study noted that increasing access to financial services for Bangladeshis, especially for the rural poor, is critical to enabling them to adopt new and more productive income earning opportunities and technologies. This access will help counter personal financial crises and unforeseen risks, and increase their chances of moving out of poverty.

In this respect, the study recommended that the government's strategy should aim to capitalize on rapid advances in mobile communications and digital payment systems to connect poor households to affordable and reliable financial services. The study recommended adopting an effective strategy in the 7th Five Year Plan to help poor households increase their access to effective digital financial services for savings, payments, credit, and insurance—especially at critical moments. It noted that for the poor, access to financial services would support them to: successfully adopt new farming technologies, invest in new business opportunities, or find new and more productive jobs. At the same time, access to digital financial services would prevent a large number of people from falling back into poverty or into deeper poverty due to health problems, financial setbacks, and other shocks.

ASSESSMENT OBJECTIVE

“From a development perspective the key point is the practice of regular saving - not the amount or method but the action. The practice of regular saving is the best thing anyone regardless of income can do to improve his/her financial well-being, but among the very poor the decision to save reflects much more - control over resources, a vision of a better future, recognition that he/she can shape his future”

- Jon Thiele, Chief of Party, USAID's SHOUHARDO II project, CARE Bangladesh

The primary goal of this assessment was to increase understanding of the structure of savings groups in Bangladesh, which are mainly represented by lower income populations, as well as the financial behavior (both savings and expenses) of members of those savings groups, in order to identify opportunities that may exist for leveraging digital financial services. The assessment looked into the challenges facing different savings groups with regards to cash management, required level of effort to manage a savings group (cost and time), literacy, and exposure to financial services.

The assessment also looked into the existing savings products and services that are being used by savings groups and informal savings and expense behaviors at an individual level. Learnings from this assessment can provide guidance in formulating group savings products and increase understanding on how digital financial services can be used to bring about efficiency regarding delivery of these products. It also aims to provide mobile financial service providers with additional information about the poorest segment of the population and the value of targeting this segment through additional services.



ASSESSMENT DESIGN

The assessment was conducted across multiple Upazilas of three districts: Sirajganj, Rangpur, and Kurigram in the northern region of Bangladesh in August 2015. It was greatly supported by USAID's SHOUHARDO II program, implemented by CARE Bangladesh.⁶ The program provided us access to their savings group beneficiaries, who were interviewed to collect data for the assessment. The assessment focused heavily on qualitative data, and included 57 participants in seven focus group discussions (FGDs) and 41 key informant interviews (KIIs).

All participants were selected from Poor and Extreme Poor (PEP) households, with a particular emphasis on households engaged in agriculture either as a primary or secondary profession. The assessment was limited to households with a minimum monthly income of BDT 5,000 and above. All of the KII participants are either currently members of different savings groups or were so in the past. The aim of the assessment was to better understand how informal savings groups operate, therefore, MFIs were not looked into as part of this assessment.

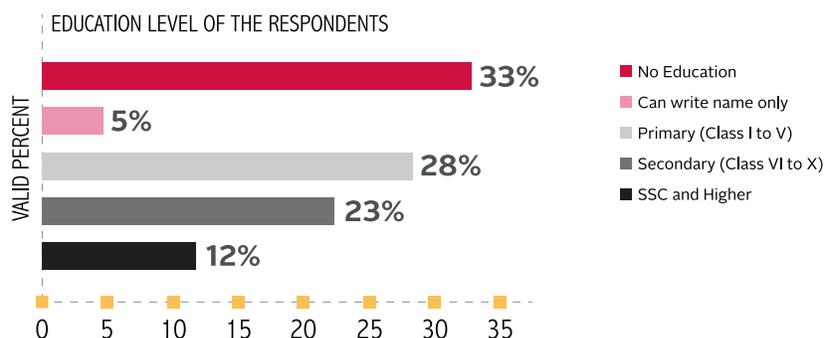
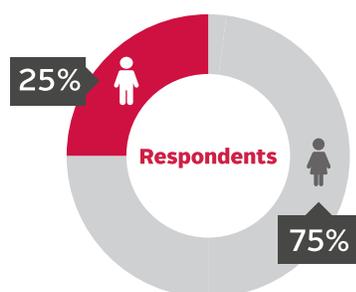
It is important to note that the findings of this assessment are not nationally representative. However, we hope that the insights unveiled here are a helpful start for MFS providers and other organizations working with savings groups as they explore how to expand their service offerings to reach new populations in new ways.

⁶ SHOUHARDO, which ran from October 2004 to May 2010 addressed availability, access and utilization issues that lead to food insecurity, along with underlying issues that contribute to vulnerabilities such as a lack of participation, social injustice, and discrimination that prevent people from realizing their full potential in leading healthy and productive lives. The SHOUHARDO II program, picked up from the models employed in SHOUHARDO, and continued to be one of USAID's largest non-emergency food security programs worldwide providing support to beneficiaries from 11 of the poorest and most marginalized districts in Bangladesh. SHOUHARDO II started in June 2010 and ended in September 2015.

ASSESSMENT FINDINGS

Respondent profile

On average, respondents lived in households consisting of five members. Of all the respondents, 75% were female and 25% were male. One third of the respondents interviewed had no formal education. Almost all respondents have a Government of Bangladesh (GOB) issued National Identity (NID) card. Those who do not have NID, possess a Citizenship Certificate issued by local Union Parishad Chairman.⁷ Respondents worked in a variety of different professions including housewives, fishermen, barbers, farmers, shopkeepers and tailors.



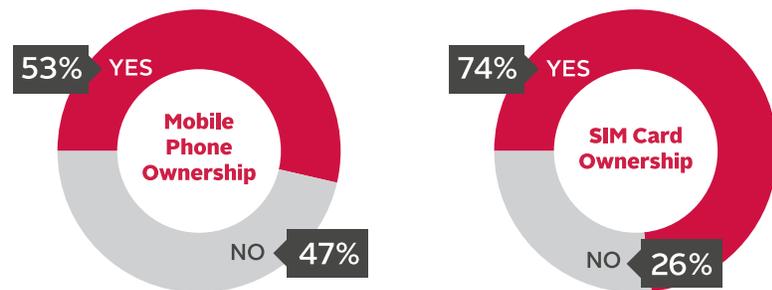
Mobile Phone Usage

Of all the respondents, 53% own a personal mobile phone (mainly feature phones), 40% have access to a mobile phone through a member of the same household, and 5% through neighbors. Only 2% of respondents did not have access to a mobile phone at all. Of the respondents who do not own a mobile phone, 90% of them are female and 10% are male. Most respondents used Grameenphone SIMs, owing to their network strength in the areas surveyed. Some respondents maintain multiple SIM cards to access call rate benefits offered by different mobile network operators (MNOs). However, 26% respondents did not have their SIM card registered in their own name and of these respondents, 83% are female and 17% are male.⁸ Of the female respondents who did not have a SIM card

⁷ A chairman is an elected representative of a Union Parishad (i.e. the smallest rural administrative and local government units in Bangladesh).

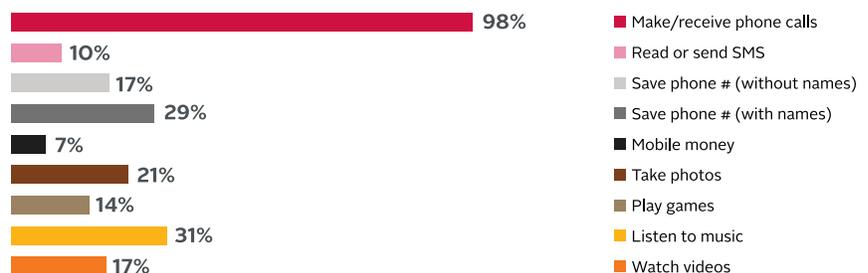
⁸ It is to be noted that for both Mobile and SIM card ownership, the results are entirely based on the fact that our limited sample size consisted of 75% female respondents and 25% male respondents. Had the sampling ratio between male and female been equal, the results would have been different due to the fact that male phone ownership in Bangladesh tends to be higher than that of females.

registered in their names, most are registered in their husband's name or in the name of a member of the same household. For male respondents, SIM cards are registered in the name of friends or family members who they got the SIM from. This is important because the Government of Bangladesh recently mandated that all SIM card owners must register their SIM cards along with biometric information by April 2016. Any SIMs not registered by that time will be deactivated.



Of all the respondents, 98% know how to place and receive phone calls, 10% of respondents could read and send SMS, 17% could save phone numbers only without names, 29% could save phone numbers with names, 7% already knew how to use mobile money, 21% knew how to take photos, 14% could play games (Snake being the most popular), 31% listened to music and 17% watched videos with their phones. None of the respondents use the internet. Phone credits are mostly topped up electronically through an agent. In some cases where MNO agents do not provide electronic top-ups, respondents purchase scratch cards.

MOBILE PHONE ACTIVITY



Income and Investment



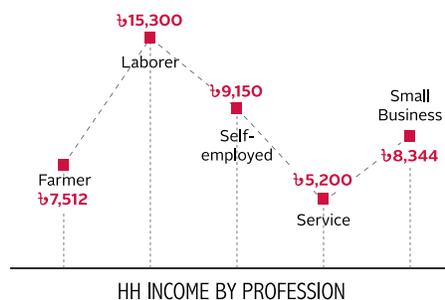
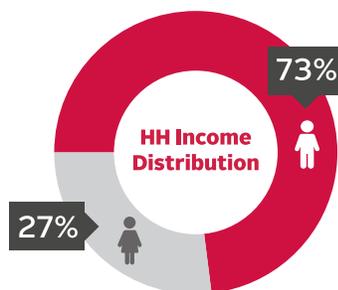
“I use the money I earn to buy clothes for my young one and school fees for my older child. My husband manages our food bill, savings and other expenses.”

Mineri hails from Sirajganj districts and lives with 4 other members in her household. She is primarily a tailor by profession earning BDT 1,000/month. She also manages a poultry business and sells eggs to earn additional income.

All respondents selected for the assessment are from households with a minimum monthly income of at least BDT 5,000. The average monthly income of respondent’s households across all professions was approximately BDT 8,700 (around US\$115). Male household members contributed just under three quarters of that income (73%), while females contributed 27% on average. A majority of the respondents are involved in multiple professions. Secondary professions are generally pursued either to earn extra money or to cultivate produce to feed their family. The frequency of income varied depending on the type of profession. For example, shopkeepers earn daily, tailors earn 2-3 times a month, and farmers earn seasonally.

In general, respondents noted that generating income to meet basic necessities such as food and clothing is given the highest priority. After that, catering to children’s education, business expenses, and mobile phone credit are prioritized.

Investing in assets was widespread amongst the respondents. The most popular investment is livestock. According to respondents, investing in livestock is a good method of short-term savings and leads to high returns in a short span of time. Respondents purchase livestock for breeding and for dairy production. Cattle bred by respondents are usually sold in the market whereas milk produced is kept for personal consumption or sold in the neighborhood. Another popular area for investment is leasing cropland through ‘kott’. ‘Kott’ is a method where a landowner loans out their land for a particular sum of money to a third party. The third party can grow crops and keeps all the produce until the agreed duration is completed.



Loans and Savings



“Although I have taken loans from MFIs before, this time I took the loan from these two sources as I won’t have to pay any interest and the repayment schedule is more flexible. Obtaining the loans were easy since I did not have to go through any formal application process. It was based on trust.”

Mujibur hails from Sirajganj and maintains a small shop through which he sells basic daily necessities. Mujibur took a loan of BDT 5,000 from a family member to buy a cow and another loan of BDT 4,000 from his savings group to expand his business.

9 http://www.inm.org.bd/publication/policypaper/policypaper_multiple_borrowing.pdf

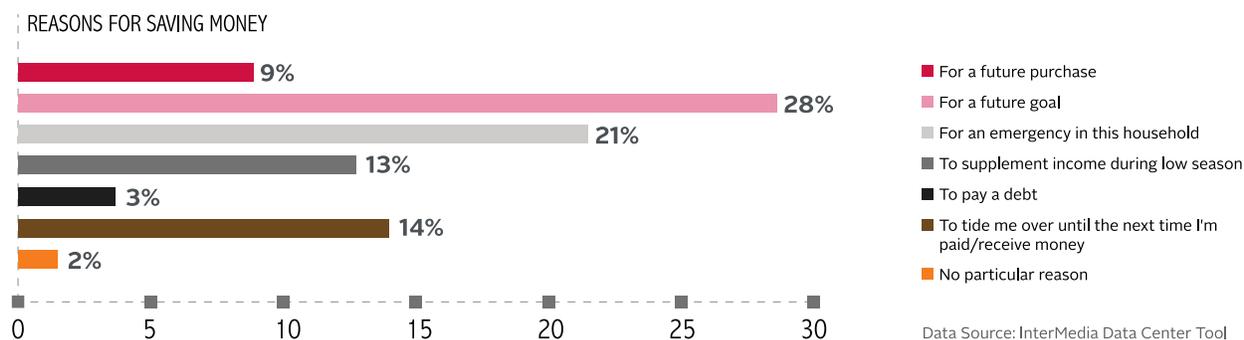
10 Stuart Rutherford. <http://www.cgap.org/blog/saving-hard-do>.

11 <http://finclusion.org/datacenter/data-center/>

The majority of the respondents have taken loans over the past year. Loans have generally been taken to support the establishment of a business, for a medical emergency, or for investment purposes. The most common source of loans are MFIs followed by family members and savings groups. Borrowing from multiple sources along with borrowing from multiple MFIs is widely prevalent in Bangladesh. According to the Institute of Microfinance (INM), multiple borrowing may lead to increasing indebtedness and it occurs when borrowers owe so much that their loan have made them worse off than they would have been without the loans.⁹ Respondents surveyed did not, however, seem to think that their degree of indebtedness was proving to be a financial concern. The average loan size they received was approximately BDT 15,000. Respondents were generally not clear about the interest rates they received but had a clear idea on the installment amount and the number of installments. Loan repayment to MFIs is generally weekly (typically 44 installments), while repayments to savings group are mostly monthly over a 10 to 12 month period. Loan payments to family members are more flexible and do not have any standard schedule.

When people save they ideally want the best mix of accessibility, security and returns.¹⁰ For the poor, saving through such instruments can be quite challenging particularly when their income size and flow is generally unstable. More than half of the total respondents also save using other instruments such as those offered through MFIs, banks, insurance companies, Government of Bangladesh financial inclusion programs or at home.

According to nationally representative research conducted by InterMedia through the Financial Inclusion Insights program, 15.6% of the respondents they surveyed save in current/checking accounts at a bank/MFI, 6.5% save in fixed-rate savings accounts at a bank/MFI, 5.3% save cash in a hiding place in their house or on their person, 3.6% save in cooperatives and 1.3% save with a member of the household or another family member.¹¹ While this does not necessarily reflect the exact saving habits of PEP households, it gives a sense of how Bangladeshis in general save money.



The respondents we spoke with generally save with a large future expenditure in mind such as their daughter's wedding, children's education, health emergencies, to invest in cows, and to weather natural disasters. This is similar to InterMedia's findings, which showed that the majority saved with a future goal in mind (see chart above). Respondents who have borrowed from MFIs have to subscribe to a monthly non-interest bearing savings deposit scheme as part of their loan condition. Respondents have mentioned that this "forced savings" is a kind of collateral which can be used should there be any missed repayment. The deposited amount is paid back after the full loan repayment. Others have opened up separate monthly deposit schemes with MFIs. The amount ranges between BDT 80-200 per month. While more accessible than banks, on average it still required around 30 minutes to walk to nearby MFIs from the homes of respondents.

Savings Groups

Despite limited access to appropriate and affordable formal financial services, with the support from USAID-funded programs, an increasing number of low income population in rural Bangladesh have begun to develop savings behaviors by participating in informal savings groups. Savings groups are a forward version of Accumulating Savings and Credit Associations (ACSA).¹² With more than 5 million members globally, savings groups can provide essential services for members to manage their daily lives.¹³

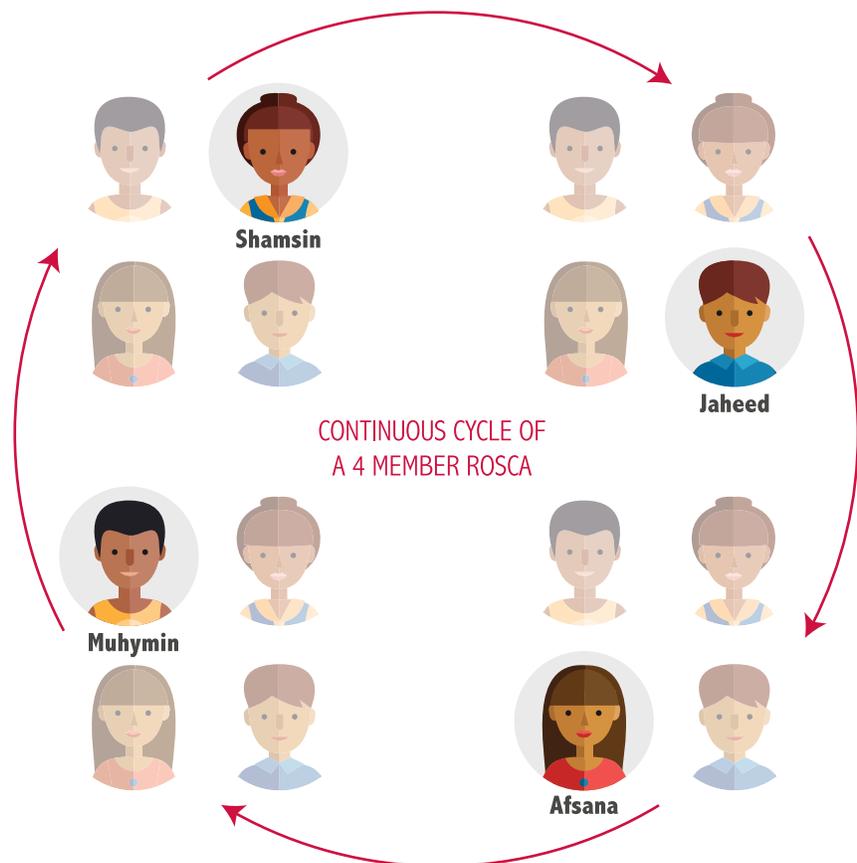
¹² In the early 1990s, CARE Niger took up the challenge of providing financial services in remote rural areas in the Prefecture of Maradi. Through an intelligent appreciation of traditional tontines (ROSCAs), it evolved an accumulating savings and credit association (ASCA) model that used member savings as a source of capital to provide one-month loans.

¹³ CGAP, 2011

An informal savings group is a social organization formed to help the members save money for a specific purpose. Some members, however, only participate in the group because others they know are doing it. They do not necessarily have a clear savings goal.

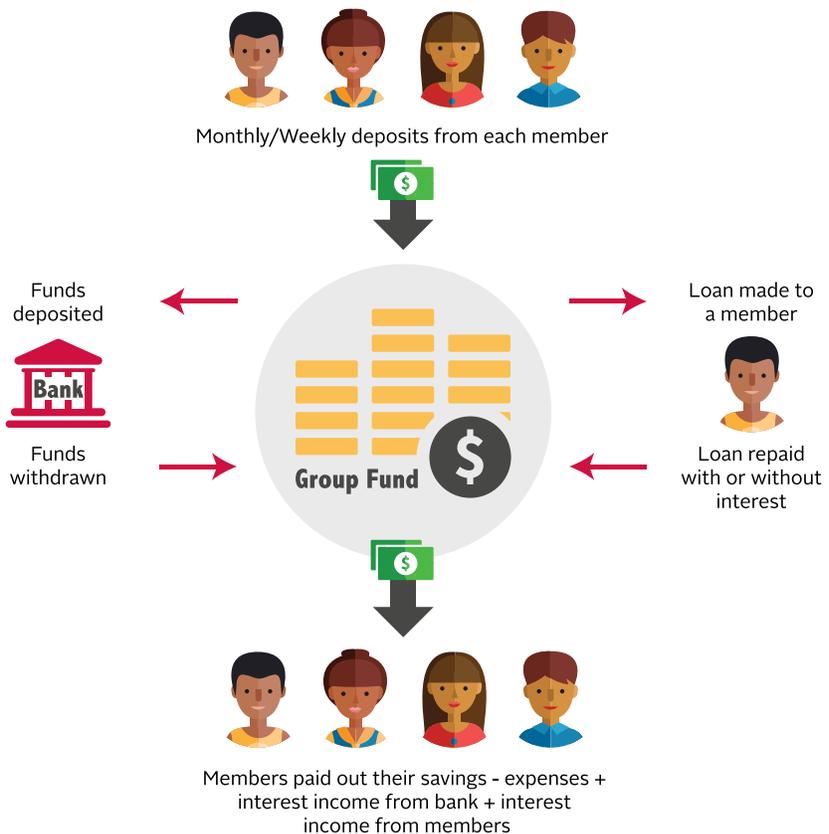
The two most common examples of savings group are:

- 1/ Rotating Savings and Credit Association (ROSCA):** ROSCAs function by taking monthly deposits from each member of a group and then giving the whole monthly sum to one member of the group. The recipient of the monthly sum is based on a predetermined rotation, ensuring each participant will eventually receive a large payout. Once a member has received the payout, they must continue to contribute but will not become eligible for next payout until all of the other members had a chance to receive one once. ROSCAs were not prevalent among the groups who participated in the assessment.



2/ Accumulated Savings and Credit Association (ASCA): ASCAs function by collecting weekly or monthly deposits from each group member. The sum of the collected amount is accumulated, rather than distributed to one member at the end of each meeting like in ROSCA. With the accumulated fund, the group can do many things. It can lend to its members free of interest or with interest. The interest rate at which loans are extended to a group member is generally 10% and the tenure is typically for 10 months. The group fund earns income in two ways – firstly, interest income from the bank on the savings fund and secondly from the interest earned from loans they provide among group members. The total income of the group fund is the income earned by the group members. This method serves both the savings and credit needs of members in a flexible way. Of all of the groups participating in the assessment, the majority of them fall under the generic definition of ASCA. However, there were a few groups that do not provide loans.

AN EXAMPLE OF AN ASCA



“We are all victims of Destiny MLM.* We were lured by their promises of high returns from long term savings and each member lost at least BDT 5,000. We are now more careful to learn. We have learned through educational programs, through local TV channels, and by conducting background research (visiting their office, talking to their staff, and talking to community members) on companies who offer savings services and products. We prefer to deposit money at the office location instead of going through agents.”

- quote from one FGD participant

*Destiny started operation in 2000 as a multi-level marketing (MLM) company. It has reportedly attracted nearly 4 million people with a promise of giving them hefty returns on their investments. Members of the Destiny board of directors have allegedly siphoned off a large part of the money. ([Financial Express Bangladesh](#))

In Bangladesh, savings groups generally consist of 20-25 members. Each savings group consists of a chairman, secretary and cashier. Members generally meet on a weekly basis and deposit BDT 10-20 with the cashier. The deposit amounts are recorded in each members' individual passbooks and signed off by the cashier. The accumulated amount is generally deposited at a specified MFI or bank, or in some cases maintained within the group. Some of the groups keep the money in a lockbox in a member's house, while others do not use any sort of lockbox. MFI and bank accounts are maintained jointly by multiple members and hence require multiple signatures to gain access to the account. The following are the three major reasons cited by the respondents as to what the pooled amount is used for:

- » Earn interest from bank/MFI accounts;
- » Weather shocks faced by any member;
- » Give interest/interest-free loans to members. Interest-free loans are generally given to members during emergencies such as medical or natural disasters. Interest is charged when loans are given for profit making ventures such as investment in livestock and other business ventures.

The respondents we spoke with agreed that savings groups are a convenient and trusted method due to the fact that the act of savings is broken down into small amounts which can easily be put aside from a household's regular cash flow. Some respondents have lost trust in insurance companies and other non-financial institutions as they have had negative experiences with them in the past. Savings groups are easily accessible as they are generally made up of members located in the same village. Plus, as the accumulated amount is also maintained between members of the same community through joint accounts, the chances of the money getting lost or stolen is low. Furthermore, when the accumulated amount usually reaches between BDT 30,000 – 50,000, the amount is redistributed amongst members so that they may use it for productive purposes and the cycle of accumulation is restarted anew.

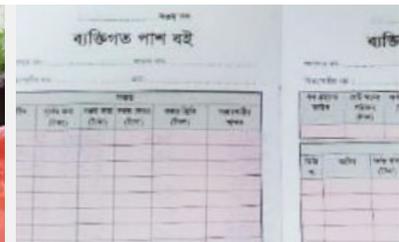
“My daughter saw me and all the other members of my savings group during a weekly meeting. She saw us depositing money. She wanted to join the group. I told her why don’t you try doing it with your friends. To my utter surprise I saw she had convinced many of her friends about the idea. They nominated a cashier and chairman. All the members in my daughter’s savings group are below 13. They started putting aside money from their daily school lunch allowance. Currently they have 26 members and all the members are getting along well. They wanted to open a bank account. As all the members are below 18, they could not open an account and instead started depositing the accumulated amount with a local shop.”

Fenshi Begum hails from Kaunia, Rangpur. She has been a member of a savings group for three years. She has an 11 year old daughter who is studying in class 5.

There has been significant demonstration effect in terms of creating new savings groups in many of the respondents’ villages. Villagers who came to know about savings groups asked respondents to help them to set up new savings group so that others could benefit. Until now, all of those active savings groups appear to be functioning equally well and some groups have raised more than BDT 300,000 from their members. However, some of the savings groups that were formed with support from CARE Bangladesh were dissolved after the SHOUHARDO II program ended. The two main reasons cited were lack of capacity to manage the group and trust issues.



Left: Mohammad Bablur Rahman



Right: Individual Pass Book

Mohammad Bablur Rahman is a member of a savings group in Sirajganj. Bablur became a member in 2012. Currently the group has 25 members and has accumulated more than BDT 40,000.

“Although I became a member with encouragement from CARE Bangladesh, I and all the other members of our group realized the value of having a savings group with known members who have the same vision and goals. Having people from the same community and income level increases trust and eliminates chances of friction within the group. We meet every week to discuss issues amongst our members and deposit BDT 25 with the cashier. The passbook is signed by the cashier. Even though I cannot read or write, I can count the number of boxes that have been signed and can match it with other member passbooks to verify whether everything is in order or not.

All the members get along well and have saved up a considerable amount of money over the last three years. This has eliminated our need to use lenders in our villages and even MFIs to a large extent. I borrowed BDT 5,000 from the group to pay for my daughter’s wedding. The group was kind enough to not charge any interest and I repaid the amount over 11 months through equal monthly installments. I made my payments on time which helped to increase my credit worthiness within the group. I am planning to take another loan for cultivation purposes and I know the group will not hesitate to loan me the amount again.”

CHALLENGES WITH SAVINGS GROUPS

“We need one and half hour to reach Grameen Bank if we go by rickshaw, we will have to incur BDT 80. To save the fare, we walk to the bank. The whole day is lost during deposit days. Thus at times we go to the banks on a bi-monthly basis to deposit our savings”

- Mossamat Begum, Chairman, Savings Group, Rangpur

Despite having millions of members across Bangladesh, based on our assessment they appeared to face a number of challenges. The following are some of the key challenges observed during the assessment:

- » **Lack of Individualized Financial Records and Access to Credit:** Even though a majority of the savings groups keep their funds in a bank or MFI, the financial behavior (including both savings and credit) that members demonstrate individually cannot be reflected in the bank account. There is just one single bank account for the entire group. As a result, it is not possible for financial institutions to offer tailored services to members based on their financial behavior.
- » **The amount that each member can borrow from the savings group entirely depends on the group fund.** The demand for credit will be very high in the first few years as savings are very low. Members cannot apply for a credit from a formal financial institution based on their savings as their individual financial behavior is entirely informal.
- » **Security:** Cash is risky and the treasurers’ or cashiers’ houses can become an easy target for local thieves. The majority of savings groups we spoke with mentioned that their preference is to deposit the funds in bank/MFI immediately after the weekly meeting, although this is not always possible. There is also a perception is that should the cashier run into financial problems, they may wish to access the funds.
- » **Convenience:** Savings groups that deposit funds at a bank or MFI, often travel long distances, which requires travel time, transportation costs, and exposing themselves to risk while they are carrying cash.



- » **Transparency:** The group transaction details are recorded in a common log book generally maintained by the cashier. Individual members also maintain a log book for individual transactions. This system lacks transparency as the members are aware of their individual savings but they do not always have access to the group log book and cannot ensure if the group fund is in order or not.

OPPORTUNITIES FOR DIGITAL FINANCIAL SERVICES

“It is difficult to get loans when we need them. We thought of saving together so that we can access it when we need them.”

- Sri Sarkar, Cashier, Savings Group, Rangpur

As Stuart Rutherford has pointed out “poor people can save and want to save, and when they do not save it is because of lack of opportunity rather than lack of capacity.”¹⁴ Savings groups provide a system where people can save and take loans in a convenient way. Given the relative ease with which savings groups can be created, the volume of potential savings balances, frequent deposit behavior, lack of access to brick and mortar banking channels, and relatively low savings deposit rates offered by MFIs, digital financial services, in particular those offered via mobile, can be a viable alternative to extend formal financial services to these groups.

In only a little more than four years, mobile financial service (MFS) providers in Bangladesh have scaled up their services and reached out to most remote corners of the country. MFS agents are generally located much closer to respondents’ homes than alternative financial service channels thus significantly reducing mobility barriers. For savings groups, the prevalence of MFS agents provides opportunities to increase the ease and frequency with which they deposit funds, in addition to helping them to avoid transportation costs and the risk of holding the accumulated amount in members’ homes. Connecting savings groups to mobile financial services can bring additional convenience and efficiency into the process as well as increased resiliency by promoting a culture of savings.

¹⁴ The Poor and Their Money by Rutherford, S.

INFORMAL SAVINGS GROUPS

A high potential segment for MFS in Bangladesh

87,000

Number of villages

2

Estimated number of savings groups in each village

174,000

Total potential number of savings groups

4.3 million

Total potential number of savings group members

- » **Potential volume:** Savings groups are predominantly located in rural communities in Bangladesh. Bangladesh's 87,000 villages account for more than roughly two-thirds of the total population.¹⁵ Although there is no clear data on the collective number of savings groups that are operating in the country, the success of community-based savings group globally has led to the promotion of savings groups through donor funded projects in Bangladesh. For example, UNDP's Urban Partnerships for Poverty Reduction program, which has been implemented in 23 towns, created savings groups with over 394,809 households and a collective savings balance of USD \$8.7 million.¹⁶ In addition, USAID's SHOUHARDO II program has created savings groups with members from nearly 25,000 households. Even if we take a conservative estimate of 2 savings group in each village, we are talking about potentially 174,000 savings groups and 4.3 million members nationally. This figure would put the number of potential clients for MFS as even greater than those from the RMG sector where the size of the population is 4.2 million. It should be noted, however, that this is just a hypothesis which needs to be backed by nationally representative research.
- » **Activity rate:** From a provider's perspective maintaining inactive wallets is one of the most challenging and expensive issues they face. According to Bangladesh Bank, as of December 2015, there are 31.8 million registered accounts, but only 13.2 million active customers, meaning that only 42% of accounts are active. Savings group wallets users, however, will ensure high activity levels as deposits will be made every week by each savings group member, making all of them active customers.

¹⁵ World Bank Database

¹⁶ Urban Partnerships for Poverty Reduction project page

- » **Perception:** According to a survey conducted by InterMedia in 2014, trust of mobile financial service providers was not a factor for not opening an account.¹⁷ This indicates that with the right product, awareness, and marketing MFS providers can use their larger agent network to promote savings.
- » **Access to low cost funds and cross-sale of financial products:** All financial institutions collect deposits in order to extend loans to others. Savings group are a great source of low cost funds for them. While the interest rates that MFS providers are providing is less than the interest on fixed deposits offered by financial institutions, it tends to be higher than the rates paid by savings groups. MFS providers such as bKash provide up to 4.5% interest on accumulated wallet balance, which is higher than the 3% interest savings groups are currently receiving from existing savings products.¹⁸ The repayment behavior of savings group members can also be used to determine individual credit worthiness to extend loans to them and cross-sell other financial products.

¹⁷ InterMedia, Financial Inclusion Insights, Bangladesh: Steps Toward Financial Inclusion 2014 (Wave 2)

¹⁸ Bangladesh Bank requires all MFS providers to eventually offer interest rates, although at present only a few of them are.



PRODUCT DESIGN AND THE WAY FORWARD

The reason over-the-counter (OTC) mobile transactions are so prevalent in Bangladesh, despite the fact that they are not technically allowed, is that they give users an experience similar to what they experience with informal domestic remittances.

Therefore, while designing potential products for savings groups, MFS providers must be mindful of not only keeping the process customer centric but also keep it experience centric. Currently savings group members are accustomed to depositing weekly with their cashier. The accumulated amount is deposited in a joint account in a financial institution and in some cases maintained in a lockbox or with a designated member of the group. As it is a joint account, members cannot withdraw money from that account individually. MFS providers should look to replicate savings group members' current experience when developing savings products so that members do not feel that they have to deal with an entirely new process and hence are less likely to be resistant. For example, a double PIN authentication system can be introduced so that members cannot access the savings group wallet individually. Similarly when designing savings products for individuals, introducing goal-based commitment savings products are more likely to resonate with lower income populations. For example, savings products to purchase a cow, for their daughter's wedding and so on.

MFS providers in Bangladesh can also take inspiration from similar initiatives from other countries. For instance, in Uganda, Airtel Uganda partnered with the Grameen Foundation to launch a mobile-based savings group product called Airtel Weza with support from an Innovation Fund grant from GSMA Connected Women.¹⁹ The product was launched in Eastern Uganda in August 2014 and aimed to reduce the use of cash by savings groups, while at the same time introducing them to other benefits associated with mobile money.

¹⁹ Airtel Uganda – A Mobile Money Solution for Savings Groups

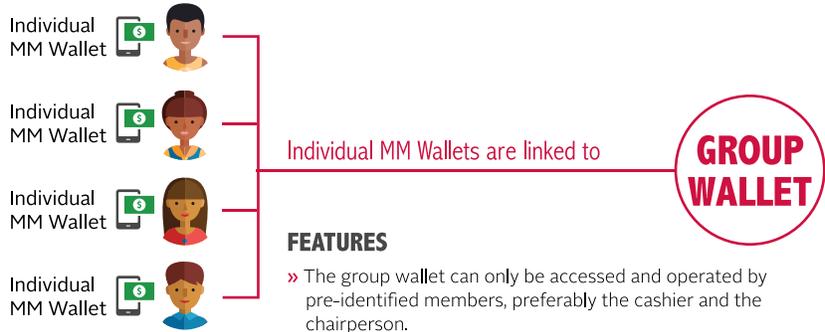
Airtel Weza is a group wallet that stores group funds as mobile money. It also offers mini-statements so that subscribers can see transaction summaries over a defined period. Airtel was also planning to allow users to link their Weza wallets to bank accounts at partnering financial institutions, thereby enabling them to access additional savings and credit products. In this case, credit would be offered to the group, rather than each individual. It would be based on the group's savings history and would be disbursed and repaid through the group Weza wallet.

An initial assessment conducted by GSMA in December 2014 found two major benefits from Weza. The first is that users reported feeling increased security and transparency. As users now have more confidence in the safety and security of their money saved in the savings group than they previously had, some users expressed increased ability to save. There were also some indications of potential commercial benefit for Airtel stemming from positive brand impact and increased average revenue per user (ARPU), although given the low uptake at the time of the assessment the actual impact requires further exploration.

One of the main challenges experienced with Airtel Weza's initial roll out was the need for increased training and outreach to promote user understanding and comfort with the product. The level of support required to promote uptake of such a new product among the rural poor is significantly different than middle-class urban phone owners, which are Airtel's more traditional customers. There was also a need to extend their agent network and networks coverage into the rural areas where populations being targeted by Airtel Weza lived. While mobile network and agent access may be less of an issue in Bangladesh, the lower education and limited experience with anything but very basic mobile services of the respondents we surveyed would likely mean that any new mobile-based savings group product would require significant training and outreach. NGOs that are already supporting savings groups in Bangladesh are likely going to be strong allies through which this type of training and outreach can be conducted.

Considering all of the above, we have designed one potential MFS savings group product that could be relevant to the Bangladeshi context.

SAMPLE MFS PRODUCT FOR SAVINGS GROUPS



FEATURES

- » The group wallet can only be accessed and operated by pre-identified members, preferably the cashier and the chairperson.
- » The group wallet will require PIN numbers from both the cashier and chairperson for money transfer transactions from the group wallet to individual wallets.
- » The group wallet can accept incoming payments only from the individual wallets linked to it.
- » The individual wallets would be regular consumer wallets.
- » The cashier and the chairperson will receive notification if a deposit payment is not made by any member by a specified date.
- » Individuals can request group statements from their personal wallet. The statement will include the last transaction amount and date, total individual contribution to date, and the total balance in the group wallet.
- » Statements can also be requested from the group wallet. The statement will include the last contribution and amount made by each member, any missing payments and the total current balance.
- » Transactions between the group wallet and individual wallets are free. However, transaction fees are applicable for all other types of transaction for individuals.
- » The rate at which the group wallet will earn interest will be decided by the providers.

PROCESS FOR SUBMITTING WEEKLY CONTRIBUTIONS TO THE GROUP WALLET

- ✓ Member initiates deposit from personal wallet
- ✓ Completes user authentication
- ✓ Enters the Group Wallet # and amount
- ✓ Member and Cashier receives confirmation message
- ✓ Transaction Completed

NOTE: Given that wallets are supposed to be associated with a SIM card, providers will need to seek guidance from both relevant regulators (Bangladesh Bank and BTRC) on how to create a group wallet.



While this idea is entirely dependent on whether MFS providers want to develop and launch a product for savings groups, institutions working to promote and manage savings groups may also want to consider developing an interim solution. For example, BRAC has developed and tested a system which uses an existing MFS product for microfinance repayment. Even though the system is not targeted at savings group, it demonstrates how customized solutions can be used to compensate for some features that are not available with existing products. BRAC initially tested the system by opening multiple wallets for its branch offices. However, given the huge number of BRAC branches across Bangladesh and the complexities of managing multiple wallets, BRAC decided to use a single wallet mechanism with an option of assigning reference numbers in order to track where transactions are originating from. A system like this could open up an opportunity to manage savings groups more systematically with the help of an existing MFS product under which each savings group would have a single wallet assigned to it, while each member would have a unique reference number.

While the integration of customized solutions and mobile money wallets may be able to bring about efficiencies at both institutional and individual levels, it may not necessarily facilitate financial inclusion among savings group members owing to the fact that members will not be able to demonstrate their individual financial behavior to a formal financial institution.

To date, both savings groups and the adoption of mobile financial services in Bangladesh have been successful to a certain extent. Given the challenges facing savings groups, we believe that there is significant potential for customized savings group products through the MFS. While doing so will not be without its costs, we believe that the potential volume of transactions and increase in active customers presents a significant opportunity to MFS providers. In addition, a mobile-based savings group product will not only reduce the risk of saving to rural households, it will also allow members to continue to participate within the group regardless of their location, which is of particular importance given the high rates of internal migration within Bangladesh. Ultimately, access to mobile-based savings group products would lead to increased financial inclusion for potentially hundreds of thousands of Bangladeshis, while at the same time helping MFS providers increase customer loyalty and revenue.

The Potential of Using
Digital Financial Services
for Savings Groups in
Bangladesh

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