



AGA KHAN DEVELOPMENT NETWORK

## Digital Savings Groups



**No cash risk**

Digital savings groups  
are cashless



**No recordkeeping**

Accounting is automated



**Self-sustaining**

The private sector is engaged in a  
commercially viable way.

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# Digital Savings Groups: low-cost, mobile, paperless

*The high cost of commercial microfinance remains a barrier to financial services for the poor and, in particular, the rural poor. Some low-cost approaches, like community-based savings groups (CBSGs), have shown promise. However, these groups, armed with a strongbox and a ledger, are non-commercial, and therefore training and scaling is dependent on donor funding.*

*Technology now allows for the community-managed approach – along with its mutual support and savings objectives – to be done commercially: Digital Savings Groups (DSGs).*

*Developed and tested by the Aga Khan Foundation (AKF) in Tanzania, and with the support of its partners (see page 4), the DSG solution is a new way for remote communities to gain access to a sustainable financial service on a self-help basis. The cashless, paperless “digital” offering removes the thorny issue of money security and engages the private sector in new ways that are commercially viable, thereby ensuring long-term sustainability. This is all done on simple “candy bar” phones, and according to members’ choice of mobile money offerings.*

## Digital Savings Groups

During 2015-2016, the Aga Khan Foundation began piloting digital savings groups in Lindi and Mtwara, two of Tanzania’s poorest provinces, where AKF’s Coastal Rural Support Programme has been operating since 2009 to support the Government of Tanzania’s national strategy for growth and poverty reduction. DSGs are

groups of 15-30 members who pay into a common platform, at any time, from the “mobile wallet” of their choice. Savings are pooled for purposes of issuing loans within the group. Members can take loans of up to three times their savings balance for periods of up to three months, generating a profit that is shared amongst members at the end of an annual cycle. The groups receive no external funds.

DSG groups meet once every two weeks to review the savings and loan repayment activity since the last meeting, check their financial statements, and issue new loans. Loans can only be issued in meetings.

A randomized approvals process, which is facilitated by the DSG platform and is applied to the issuance of all loans, ensures fairness and full participation in decision-making. This in turn ensures that DSGs are safe and transparent for members. No member can access critical functions on the platform outside of meetings, including office bearers.

## Uniting Commercial and Community-Based Approaches

In Tanzania, DSG members can choose from amongst several mobile wallets. They then trade cash for digital money at an agent of the wallet issuer, and then transact from their phones under the protection of a private PIN number. The reach of DSGs is limited by access to this critical enabling infrastructure, which is evolving rapidly in many developing countries, including in remote, rural areas.



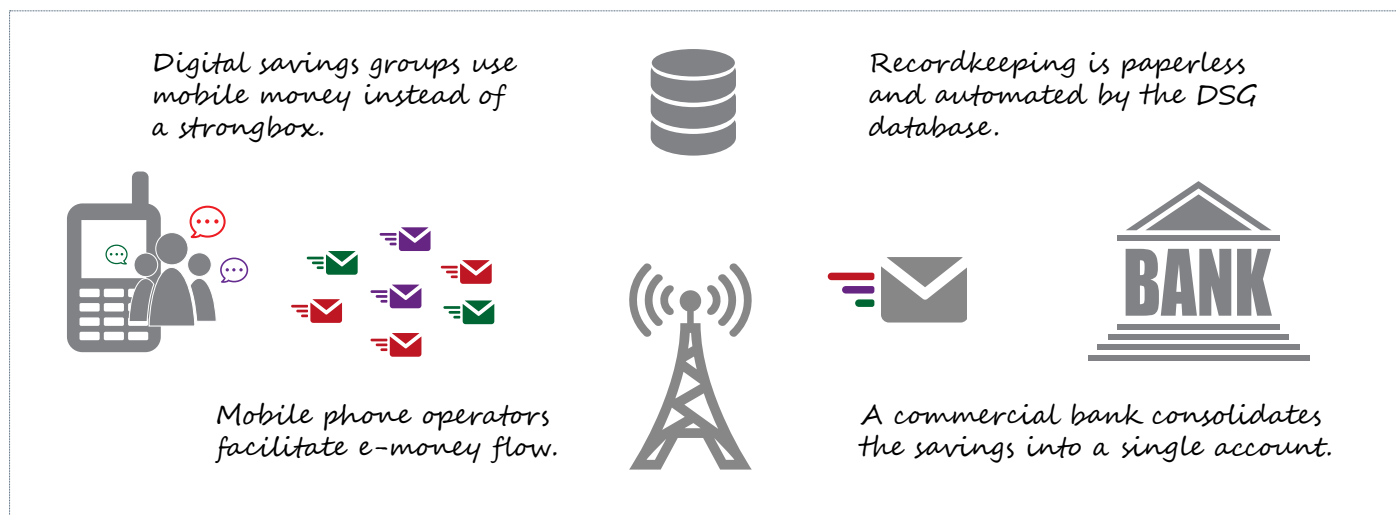
DSGs could be very important for efforts to support the poorest members of the community via social transfer schemes, such as Tanzania’s TASAF. Savings groups often self-exclude the poorest until programmes reach very high saturation levels. However, stipends, delivered periodically to the mobile wallets of the poorest members of the community could enable their participation in “mainstream” groups.

## Top 3 Benefits of Digital Savings Groups

**1. NO CASH RISK:** Digital savings accounts are cashless and confidential, without risk of theft. Transactions are made through mobile money.

**2. NO RECORDKEEPING:** In traditional groups, trainers spend half their time dealing with accounting, and many groups never get it right. Here, accounting is automated by the DSG database. No errors, no expensive accounting costs.

**3. SELF-SUSTAINING:** Banks have incentive to pay for the collective float, and mobile operators for the acquisition of active mobile money users. The private sector is engaged in a commercially viable way.



To avoid undue issues with access, the DSG platform uses GSM technology, allowing for the use of low-cost "candy bar" phones, without the need for mobile broadband and smartphones. DSGs can help resolve the inherent weaknesses of commercial and community-based approaches by combining their strengths into an integrated digital service. Microfinance or commercial banks can consider DSGs as not only part of their strategy to resolve financial services exclusion, but also as an opportunity to raise a new and stable source of savings. At the same time, the spread of DSGs will encourage wallet ownership on behalf of partnered wallet providers, as well as the development of agents to issue those wallets and service the cash-to-electronic money conversions.

### Digital Accounting Platform

DSGs operate on a bespoke database that accounts for all of their small and frequent transactions. When members pay into their groups, the funds are sent to "collection accounts" at the mobile wallet issuers and remain there until the day's net proceeds are swept into a common bank account. This "float" is then available to the treasury of the bank, which pays a cost of capital to the DSG offering, to offset some of the costs of supporting the platform.

Groups' funds remain in a "closed loop" between bank and wallet issuer. The DSG database – or digital accounting platform – is simply notified by the wallet issuer of each deposit paid into the group, and requests the wallet issuer to pay out any loans the groups wish to make. In other words, all accounts on the DSG platform are strictly notional. Funds remain at all times with either the wallet issuer, or the bank.

### Sustainability

The DSG offering is inherently sustainable based on an annual user fee and the bank's payment of a float fee. This combined revenue covers all of the charges relating to hosting of the DSG platform, facilitation of payments between the groups and members, and the SMS reports for members. It also covers a commission paid to DSG trainers.

In Tanzania, the user fee is roughly US\$ 5 per year, per member, which is equivalent to around 3-5 percent of each members' expected annual savings amount. Reconverting digital money into cash would incur an additional cost that is set by the wallet provider and borne entirely by members.

The combined user fees and float revenue eventually create a small profit. As the DSG offering scales up, and this profit pool grows, the need for external capital input declines and is eventually eliminated. In Tanzania, the demand is expected to increase to at least one million memberships.

## Training

The essential elements of the training model are commission-based trainers and video-based training support. In East Africa, trainers will be paid a commission that will be a percentage of the savings generated. This commission is included in the “platform cost”.

Training will be supported by a package of 40-50 short videos demonstrating all of the key steps and processes for establishing and managing a DSG on the platform. “Master Trainers” (trainers of trainers) are given an Android tablet with the videos pre-loaded. “Village agents” (group trainers) then have the option to download the video package to their personal smartphone. The videos are not intended to be a means of training groups, but simply a reference for trainers, to be used while becoming familiar with the platform.

## Aiding Overall Development

Digital savings groups address financial exclusion at scale. However, they also can support other development opportunities, such as labor migration, access to new clean technology, or organising

beneficiaries of health programmes. DSGs could also be very important for efforts to support the poorest members of the community via social transfer schemes. Savings groups often self-exclude the poorest until programmes reach very high saturation levels. However, stipends, delivered periodically to the mobile wallets of the poorest members of the community could enable their participation in “mainstream” DSG groups.

## Development Partners

The Digital Savings Group (DSG) platform was developed to AKF’s specifications with financial support from the Financial Sector Deepening Trust (FSDT), and technical support from Bankable Frontier Associates. The DSG offering is hosted by Selcom, a Tanzanian technology company and payments aggregator. The platform is being live tested with additional support from the Bill & Melinda Gates Foundation.

## Support AKDN

### Partnerships

When AKDN refines its development approach in a given area, it looks to partners to help expand the scale. A significant portion of the funding for its activities therefore comes from national governments, multilateral institutions and private sector partners. For more information, visit: [akdn.org/partners](http://akdn.org/partners)

### Individuals

Individuals can support the AKDN. For more information, visit: [akdn.org/support](http://akdn.org/support)

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## About AKDN

Founded and guided by His Highness the Aga Khan, the **Aga Khan Development Network (AKDN)** brings together a number of development agencies, institutions, and programmes that work primarily in the poorest parts of Asia and Africa. **It works in over 30 countries for the common good of all citizens, regardless of their gender, origin or religion.** A central feature of the AKDN’s approach to development is to design and implement strategies in which its different agencies participate in particular settings to help those in need achieve a level of self-reliance and improve the quality of life.