

Regulating Savings Groups

Lessons from East Africa, India, and desk research

Stefan Staschen, stefan@staschen.me

September 2025

Gates Foundation

Objective

Create an enabling, light touch regulatory framework for savings groups (SGs) connecting them to broader financial sector for on-lending and growth. The ultimate objective is to support (women's) economic empowerment



Source: Somenath Mukhopadhyay, 2012 CGAP Photo Contest

Savings Group: What do we mean by that?

Be clear what is included and what not

Savings group:

Generic term used for variety of informal groups with following common elements

- Limited number of members with common social bond
- Collecting savings from members
- Using collected funds for lending to members
- Self-governance
- Group leaders elected from among the members (chair, treasurer, secretary)
- Could be time-bound or accumulating
- Mostly women members

What are not considered savings groups:

- Larger groups (e.g. some chamas in Kenya, stokvels in South Africa). Different types of risk, different regulatory approach
- RoSCAs: Best to be left informal if everything is shared out immediately
- Credit cooperatives/credit unions/SACCOs: Some things in common, but still much more formal than SGs

Regulation: *What do we mean by that?*

There is a wide range of approaches across these dimensions with simple registration being most common

To what degree?	 Registration	  Monitoring and oversight	 Regulation and supervision
Data collection	Only at the time of registration	Specific data requests in case of need	    Periodic reporting
Who?	Industry association or federation	 Delegated government body	   Financial sector regulator
Inspection	  No visits	Visit to SRO/Federation	  Onsite visits
Enforcement	Voluntary (often a precondition for something else)	 Binding rules, no specific enforcement measures	 Sanctions for non-compliance (corrective measures, penalties, closure)

-  India
-  Kenya
-  Tanzania
-  Uganda

Why would you even want to regulate savings groups?

Be clear what you want. Regulation is not always the only answer

Reasons for regulation	Recommended action
Loss of savings due to fraud, theft, elite capture, rogue promoters etc.	<ul style="list-style-type: none">Regulators following a risk-based approach are unlikely to focus on SGs. Important to assess extent of problem and main reasons for losses. Focus on capacity building and providing avenues for recourse
Improve quality of SGs	<ul style="list-style-type: none">Increase standards among promoters including registering them, setting up self-regulatory system
Facilitate linkages with banks and other formal financial service providers	<ul style="list-style-type: none">Clarify KYC rules applying to SGsImprove data (including alternative data) through digitization and credit reportingClarify legal status
Identifying SGs eligible for government and/or donor support	<ul style="list-style-type: none">Set up optional registration system and use as incentive for SGs to register
Promoting SGs	<ul style="list-style-type: none">Remove existing regulatory constraints such as KYC rules, unclear tax status
Creating more visibility of SG operations	<ul style="list-style-type: none">Use demand side surveys for financial inclusion monitoring purposesSet up registry

Suggested principles to follow

Principle	Implications
Align regulatory approach with capacity to supervise and enforce	More often than not simple registration (with unique ID) and periodic reporting might do
Harness potential of digitization	Set up central database with digital reporting; report to credit reference system, digitize transactions (unlikely to be regulatory requirement)
Incentivize rather than mandate	Mandate hard to enforce; clear advantages of being registered (e.g., legal status; access to resources); clarify tax status
Do not undermine the strength of informality	Regulatory impact assessment around this. Risk of being overly prescriptive
Remove any unnecessary regulatory barriers	Rules such as lending to non-corporate entities, KYC rules
Delegate and federate where it makes sense	Delegate registration and possibly reporting to local government; use federations for support with compliance
Measure the impact of regulation and adjust over time in line with market development	Clarity of objectives, measure achievements, adjust

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