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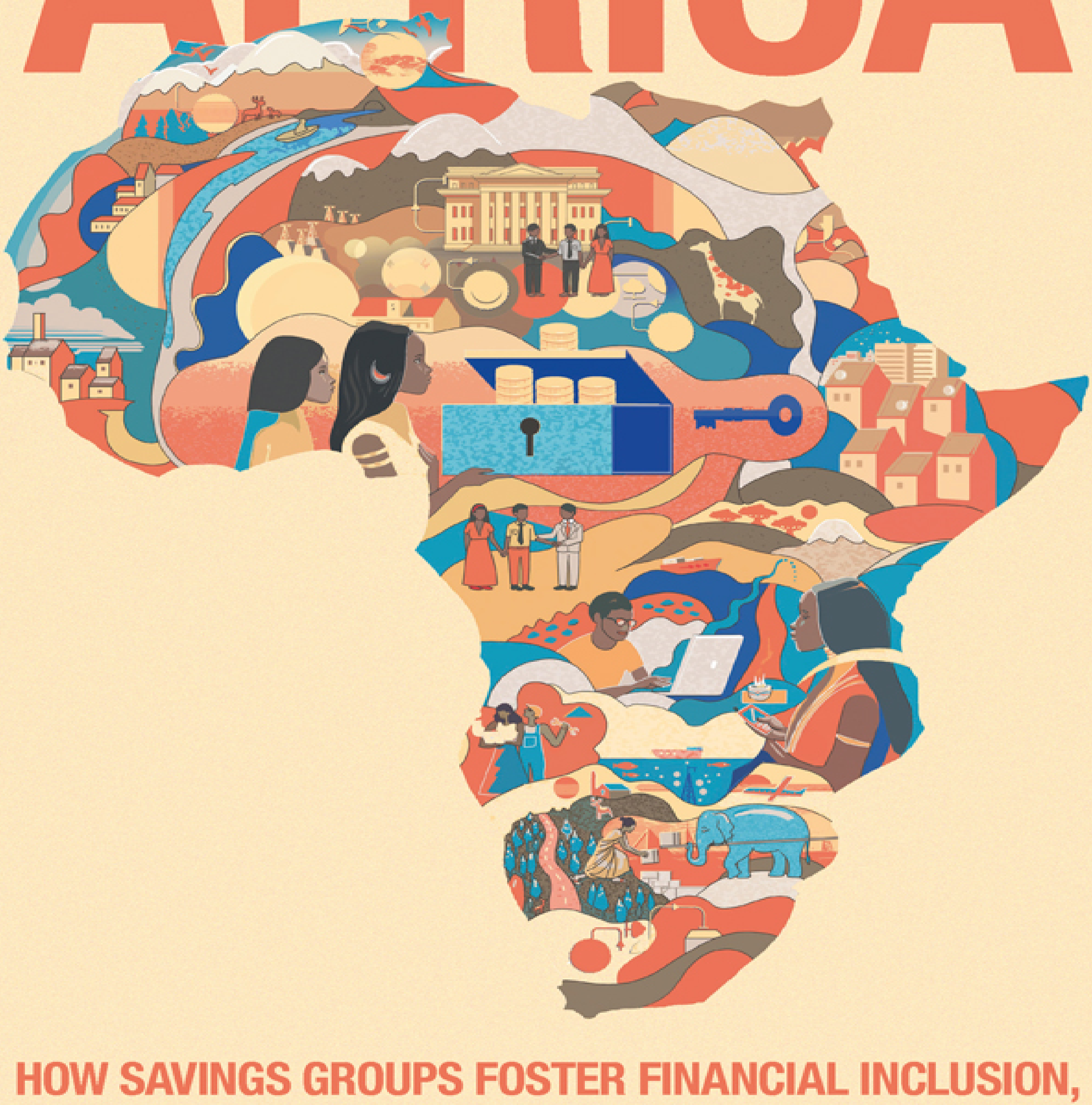

HOW SAVINGS GROUPS FOSTER FINANCIAL INCLUSION, RESILIENCE AND ECONOMIC DEVELOPMENT

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HOW SAVINGS GROUPS FOSTER FINANCIAL INCLUSION, RESILIENCE AND ECONOMIC DEVELOPMENT

Transforming Africa: How Savings Groups Foster Financial Inclusion, Resilience and Economic Development

EDITED BY

DANA T. REDFORD

Policy Experimentation & Evaluation Platform (PEEP), Portugal

University of California, Berkeley, USA

And

GRIETJIE VERHOEF

University of Johannesburg, South Africa and Monash University, Australia

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To the savings group leaders across Africa who are helping to lead their communities in this time and always.

Table of Contents

Vincent Bagire and Sheila Namagembe

Index

About the Contributors [1]

Dana T. Redford (Editor/Conceptual Chapter) is Founder & President of the Policy Experimentation & Evaluation Platform (PEEP) based in Lisbon, Portugal and Senior Fellow at the Institute of European Studies at UC-Berkeley. His research interests include entrepreneurship, sustainability, education and development studies.

Grietjie Verhoef (Editor/South Africa) is Professor at the University of Johannesburg and Adjunct Professor Monash University, Australia. She has published extensively on banking and financial development in Africa, as well as on voluntary savings organizations.

James Atta Peprah (Conceptual Chapter) is Senior Lecturer at the Department of Applied Economics, School of Economics, University of Cape Coast, Ghana. His research interests include development finance, microfinance, enterprise development and access to credit among people living with disability.

George Muruka (Conceptual Chapter) is an Independent Development Finance Consultant based in Kenya working with NGOs, banks, and MFIs on pro-poor products. His research interests include community finance, agriculture value chains integration and social entrepreneurship.

Lenora Biche (Conceptual Chapter) is a Junior Researcher at PEEP and student at John Cabot University. Her research interests include African fashion, education, and entrepreneurship.

Christian Wolf (Conceptual Chapter) is a Senior Researcher at PEEP and member of CEsA - Centre for African and Development Studies at the

University of Lisbon. His research interests include entrepreneurship and financial inclusion.

Katherine Rickard (Conceptual Chapter) is an Advisor in women empowerment and inclusive finance. Her research interests include payment digitization, enterprise development, agriculture value chains and savings-led solutions having worked for UNCDF, World Bank, FCDO, BMGF, SEEP Network and CARE International.

Sakola Djika Ali (Burkina Faso) is a Lecturer and Researcher at Thomas Sankara University. His research interests include entrepreneurship and microfinance.

Sako Siembou (Burkina Faso) is a civil servant at the Ministry of Trade, Industry and Crafts of Burkina Faso.

Cyrille Michel Bertand Onomo (Cameroon) is Lecturer at the University of Douala where he teaches finance. He is Secretary General of the CERAME (Centre d'Etudes et de Recherche Africaines en Management et Entrepreneuriat) at the ESSEC Business School of Douala.

Raphaël Nkakleu (Cameroon) is Professor at the University of Douala, and Director of the CERAME (Centre d'Etudes et de Recherche Africaines en Management et Entrepreneuriat) at the ESSEC Business School of Douala.

João António Furtado Brito (Cape Verde) is Professor at University of Cabo Verde and holds a PhD in Economics. His research interests include economic growth and development, development of small island countries and financial economies.

Deogratias Bugandwa Mungu Akonkwa (DRC) is Full Professor in the Faculty of Economics and Management, Catholic University of Bukavu and University of Goma. His research areas include microfinance institutions and the governance of higher education institutions.

Eddy Balemba Kanyurhi (DRC) is Professor at the Faculty of Economics and Management, Catholic University of Bukavu and Institut Supérieur de Commerce (Goma); and Invited Researcher at Center for European Research in Microfinance. His research fields are marketing of microfinance institutions and women entrepreneurship.

Guillaume Bidubula Juwa (DRC) is Lecturer at Catholic University of Bukavu, and General Manager of the provincial hospital. He has published on micro-insurance and group lending performance.

Albert Masheka Hongo (DRC) has a Msc. in Finance and Accountancy (Catholic University of Bukavu). He works as Budgeting and Management Officer at World Health Organization. He specialises in village savings and loans associations.

Konjit Hailu Gudeta (Ethiopia) is a Researcher at Maastricht University and an Assistant Professor at Addis Ababa University. Her research interests include wellbeing, decent work, women entrepreneurship, work-life experiences and savings groups.

Atsede Tesfaye Hailemariam (Ethiopia) is an Assistant Professor in School of Commerce at Addis Ababa University where she teaches project and operations management and statistics. Her research interests include women entrepreneurship and innovation.

Bantie Workie Gessese (Ethiopia) is an Associate Professor of Business Leadership in the School of Commerce at Addis Ababa University and Consultant in the areas of Human Resource and Social Performance Management. His research interest includes corporate performance and quality management.

Christopher Boachie (Ghana) is Lecturer at Central University, Ghana. He received his education in Ghana, Germany, UK and Malaysia. His research interest is in microfinance, financial markets, corporate social responsibility and development finance.

Eunice A. Adu-Darko (Ghana) is a development finance economist. She is an academic with research interests in econometrics, financial sector development, microfinance, institutional quality, and the finance of the extractive industries.

Ismael Mendes de Medina (Guinea-Bissau) is a Guinea-Bissau and Portuguese qualified lawyer with 15 years of experience practicing law. He began his career in Miranda Law Firm in Lisbon and is Co-Founder and Head of the GB Legal office in Bissau.

Filipa Monteiro (Guinea-Bissau) is a Portuguese qualified lawyer with over 20 years of experience with expertise in African capital markets and M&A transactions. For Miranda Alliance she advises companies in a wide range of sectors related to their operations in Africa.

Ana Pinelas Pinto (Guinea-Bissau) is a Portuguese qualified lawyer with over 20 years of experience. She is Co-Founder of the GB Legal office within the Miranda Alliance and has been the Supervising Partner for Guinea-Bissau for the past 15 years.

David Mathuva (Kenya) is Senior Lecturer and Director, Undergraduate Programmes at Strathmore University Business School. Previously, David worked at KPMG Kenya in the Risk Consulting department. He currently serves as a board member in a mid-sized financial cooperative.

Graham Sherbut (Mozambique) is an independent researcher and was previously the Director of Monitoring, Evaluation & Research with the Aga Khan Foundation in Mozambique and Madagascar.

Tiago Borges Coelho (Mozambique) is a social entrepreneur and founder of UX Information Technologies. His research interests include digital platforms, financial services, civic engagement and environmental preservation.

Eugénio Gujamo (Mozambique) is a lecturer and researcher at Universidade Zambeze. His research interests include informal saving systems, organizational behaviour, gender-based violence, masculinity and HIV/AIDS.

Ogechi Adeola (Nigeria) is an Associate Professor in Marketing at Lagos Business School, Nigeria. Her research interests include marketing, financial services and gender in sub-Saharan Africa.

Ifedapo Adeleye (Nigeria) is an Associate Professor of Practice at Georgetown University, USA. His research interests include financial services management in Africa and global human resources, diversity and compensation.

Garzali Muhammed (Nigeria) is a Strategy and Policy Development Specialist at the Central Bank of Nigeria and is a seconded expert to the Nirsal Microfinance Bank, where he is a Senior Special Advisor to the Managing Director.

Babalola Josiah Olajubu (Nigeria) is the Lead Psychologist at Olive Prime Psychological Centre. His research interests include SMEs and indigenous business practices.

Chijioke Oji (Nigeria) is Research Fellow at the University of Waterloo and teaches at Conestoga College, Canada. His research interests include the intersection of policy and finance within a global context.

Oserere Ibelegbu (Nigeria) is a Research Assistant at Lagos Business School, Pan-Atlantic University, Nigeria. Her research interests include consumer behavioural studies and service quality.

Edoé Djimitri Agbodjan (Senegal) is Lecturer and Researcher at CESAG, and Coordinator of the CESAG and MasterCard Foundation's co-financed project on capacity building for financial inclusion. His research areas include financial inclusion and results-based project management.

Mawuli Couchoro (Togo) is Professor at Faculté des Sciences Economiques et de Gestion (FASEG) of the University of Lomé in Togo.

Germain Lankoande (Senegal) is a PhD candidate in Economics at the Cheikh Anta Diop University in Dakar. His research interests include development finance, financial inclusion and inclusive growth.

Karen Hidden (South Africa) is an Independent Researcher and works with various non-profit organisations. Her research interests include inclusive innovation, corporate sustainability and entrepreneurship and social innovation.

Vincent Bagire (Uganda) is Associate Professor at MUBS. His teaching/research areas are management, strategy, organizational theory and corporate strategy. Currently he studies managerial practices in the public sector, civil society and SMEs.

Sheila Namagembe (Uganda) is an Associate Professor at MUBS. She has researched and published in areas of sustainability, energy and management.

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[1] In order of the chapters in the book.

Disclaimer

Although diligence, fact checking and review has been used in the writing of this publication, some errors and omissions might still be present. Furthermore, it is emphasized that this publication is for research and academic purposes only. It is not intended to be relied upon from a regulatory perspective, nor should it serve as a base for financial, legal, or business-related decisions.

Introduction

Dana T. Redford and Grietjie Verhoef

The swift development of modern financial services all around the world, powered by technological innovation and high-speed communications and computer networks, has extended the benefits of banking and finance to billions. At the same time, there remains a vast informal financial sector, serving communities that still lack access to formal banking. We believe a pan-African investigation of these informal financial networks – the 'savings groups' found in almost every African country, with many different structures and methods but featuring many common threads – reveals their potential for growth and collaboration, while technological changes emerge as tools to unify strategies, empower communities and smooth the path to formal financial integration.

Africa is a vast continent, with thousands of languages and dialects reflecting the rich ethnic and cultural diversity of the continent and its long and often turbulent history. Savings groups have long been a part of Africa's development, used to overcome existential threats (Besley, Coate, & Loury, 1993; Bouman, 1995; Huppi & Feder, 1990; Levenson & Besley, 1996; Sudarwan, Phaengsoi, & Suksri, 2015; Van den Brink & Chavas, 1997) and support economic and social activity.

The basic function of a savings group is to pool funds in a community, among a trusted group of family members, friends or business partners, and pay the pool out according to need. In practice, they are highly diverse in structure, purpose and organisation, and the names vary by country: what is called *stokvel* in South Africa, *tontine* in several French-speaking countries and *susu* in Ghana may differ in the details of organisation and form, but the foundations are strikingly similar. Savings groups are culturally embedded, as illustrated by the link between Kenya's *chamas* and *harambee*

– Swahili for ‘all pull together’ – which is such a central notion in Kenyan culture that it is enshrined in the country's coat of arms.

This collective action has deep roots. While there are no definitive statistics available on participation in savings groups – not in Africa, nor anywhere else in the world – a reasonable estimate is that between one-third and one-half of the population in sub-Saharan African countries participates in informal savings groups (Gash, Jahns-Harms, Odell, Carmichael, & Panetta, 2017; SEEP Network, 2018; Van den Brink & Chavas, 1997). Indeed, only 23% of people in Africa had a formal bank account in 2013 (Trinki & Faye, 2013, p. 44), and the pace of financial inclusion varies greatly among countries, from 4% in the Democratic Republic of the Congo to 54% in South Africa (African Development Bank. Financial inclusion in Africa, 2013, pp. 58–59). Global statistics also indicate that women comprise about 80% of savings group membership (SEEP Network, 2018), and in Africa, women also represent the vast majority of this cohort, which means these informal financial structures underpin women's empowerment.

This is only part of the complex configuration of African savings groups. Our extensive primary research across 13 countries, in each of the broad geographical regions of the continent, testifies to the sustained reliance on savings groups as an alternative for formal financial services. The research finds that it is incorrect to consider savings groups to be the exclusive preserve of ‘the poor’, and our research shows instead that they have emerged as a preferred vehicle for savings and wealth-building strategies also for people of more stable means, the rapidly growing African middle class as well as the higher-income strata of society.

Given this context, this book testifies to the sustained and widespread engagement in the power of communal action through savings groups. Savings groups are fundamental to self-driven capacity-building, using informal social capital, as a path to self-empowerment and, eventually, formal financial inclusion, in line with the World Bank's Universal Financial Access 2020 goals (World Bank, 2020). Savings groups in Africa are typically agents of economic growth, self-driven to address the existential phenomenon of poverty through informal community action. The embrace of digital technology helps strengthen their integration into the broader economy and the formal banking system.

Although various studies explore savings groups in Africa, they tend to be country-specific, see, for example, the recent study by Feather and Meme (2019) and Sithole, Mort, and D'Souza (2021). There is no comprehensive systematic study from a pan-African perspective covering different countries in each of the geographical regions. Gash (2017) presents a systematic review of impact studies in the savings group context, addressing several continents including Africa. A systematic pan-African approach is needed to grasp the dynamic adjustment of savings group behaviour during the recent acceleration of Africa's economic development. It is necessary to show how traditional savings groups coexist with savings groups among the emergent middle-class in this new growth era. This book delivers an understanding of how these groups align with market developments and adopt new technology, and their integral role in market-oriented, inclusive economic growth.

Savings Groups for Africa (SG4Africa) was launched in April 2018 to engage in a pan-African research effort to investigate the emergence of the new era savings groups alongside more established savings groups in Africa (See: www.sg4africa.org). SG4Africa embarked on inclusive primary research to contribute to an enhanced understanding of the fundamental role of savings groups. Led jointly by the Policy Experimentation and Evaluation Platform (PEEP) and the University of Johannesburg, the SG4Africa consortium consists of member institutions from 13 African countries, led at the country level by researchers from established universities and other credible private institutions. The participating countries are: Burkina Faso, Cabo Verde, Cameroon, the Democratic Republic of the Congo, Ethiopia, Ghana, Guinea-Bissau, Kenya, Mozambique, Nigeria, Senegal, South Africa and Uganda. The country-based research teams comprised researchers familiar with each country's savings group landscape and who live and work in each of these countries.

From the outset, SG4Africa formulated the scope of the research to be ‘savings groups *plus*’. In other words, the consortium sought to understand savings groups as an integral part of a wider ecosystem of financial behaviour, financial inclusion for empowerment, wealth creation and sustainable development. The main trends identified by SG4Africa as relevant to savings groups in the modern context include urbanisation, use of new technology and the rise of new forms of integration with formal financial services, especially micro-finance institutions. The research paid particular attention to these emerging trends. The growth of the middle class in many African countries is a focus of the research into modern savings groups. While prevalent among the poor, the savings group phenomenon clearly extends to Africa's growing middle class, fostering economic resilience in a segment that is still in its early days. Our research shows that savings groups are a powerful tool for community participation, economic growth and entrepreneurial development, with the social and economic potential to empower people, regardless of age, class or gender.

This book presents the outcome of the research in two parts. In the first part, a set of conceptual chapters establish key themes in the savings group space, providing the context for the second part, which presents country-specific research results.

A significant characteristic of sub-Saharan Africa is the rapid emergence of a middle class (Deloitte, 2012). One of the conceptual chapters defines the middle class and explores how it interacts with savings groups, setting the stage for the chapters in which country studies explore the integrated nature of organisations and savings groups with this emerging middle class. Another aspect of the savings group landscape is how international non-governmental organisations affect their operations. A chapter positions these activities within global initiatives to address poverty and encourage women's empowerment. The general perception that around 80% of savings group members are women (SEEP Network, 2018) prompts a closer look at the question of empowerment, an aspect that arises in each country. The last chapter of the first part of the book addresses the competences typically required by leaders of informal savings groups to manage the group interests efficiently. While existing research focuses mainly on financial literacy, our investigation into leadership capabilities identifies a dimension of future significance, especially considering the sophistication of members, group goals and the use of new technology. This chapter presents findings that help the reader appreciate the wide range of skills needed to lead a modern savings group.

The second part of the book offers country chapters based on the primary fieldwork conducted by the SG4Africa teams. Each country chapter explains the local manifestation of the informal savings group phenomenon, indicating country-specific naming and distinctive operational features, from *stokvels* in South Africa to *susu* in Ghana and *tontine* in Senegal. Some countries have a more complex typology of savings groups, based on historical developments, grounded in regional differences or ethnic diversity. Each chapter also details the extant literature on savings groups in the specific country. This exposition is significant because it reveals the limited nature of scientific analysis on savings groups in Africa. The chapters reflect on some of the generic literature on savings groups and the limited specific studies on the manifestation of the phenomenon. Because the literature is scant, the country studies also consider popular pamphlet-like material and a growing stream of official survey literature produced by micro-finance enterprises, financial institutions and state agencies. The studies often include both savings group activities and micro-finance operations. The reason for this blended perspective is the growing engagement by financial entrepreneurs with savings groups because of the enormous sums accumulated by those networks. This underlines an important entrepreneurial opportunity for technology operators and development agencies.

Operations of informal savings groups are not regulated universally across Africa. Our specific country chapters reflect various levels of regulation either by a central bank, as in Nigeria, Ghana and South Africa, or centrally through state statutes regulating micro-finance institutions. Central bank regulation in Africa is emerging and on different levels of international compliance. In South Africa, the South African Reserve Bank was established in 1923 and has since regulated formal banking operations, but central banks in many other African countries have taken shape primarily after independence since the 1960s. As discussed in each chapter specifically, regulation on state level seeks to protect savers' interests by stipulating prudential compliance measures in respect of Micro-finance Institutions (MFIs). Regulation of informal savings activities does not constitute the scope of central bank regulation. Once formally registered financial services organisations transgress statutory requirements, thereby impacting the interests of depositors, central bank regulation applies. The innovative trend of high-end savings groups engaging in capital projects, large asset accumulation and property development projects moved savings group closer to the regulatory radar. Future research may address the development of this trend.

The innovative contribution of this volume is the in-depth focus on country-specific manifestations of savings group operations and the interface with the growing micro-finance industry. Our researchers did extensive fieldwork to source first-ever micro-studies on the rich tapestry of savings group behaviour in the 13 countries under review. These chapters present a selection of case studies, typically zooming in on savings groups or actors in the ecosystem surrounding them, and illustrate how savings groups organise themselves around a range of existential needs in the diverse context of modern African societies. The chapter on Ethiopia focuses entirely on savings groups in the urban environment, while the Kenyan chapter illustrates the migration between urban and rural contexts, as the use of Kenya's leading mobile technology streamlines and extends operations nationwide. The Senegalese chapter includes a case about *MaTontine*, a digital financial services platform established by entrepreneurs to make technology available to enhance accumulation of capital and access to credit, helping ease the transition from rural savings groups to similar groups in urban areas.

An important common theme is the relationship with the formal financial services industry, including banks, micro-finance institutions and state-initiated credit unions. In some countries, such as Guinea-Bissau, the micro-finance industry is the only connection between savings groups and more structured financial services. In the case of South Africa, savings groups are incorporated into the financial services regulatory framework, and all the major banks have developed specialised savings accounts for them. In Burkina Faso and Cabo Verde, financial inclusion remains low, and most savings group link with micro-finance institutions and credit unions rather than formal banks. In Nigeria, Cameroon and Kenya, the formal financial system has more depth and tenure. Private banks have developed accounts suited to the needs of savings groups (Ghana, Nigeria, South Africa, Kenya), but a significant proportion of savings groups still rely on collectors to deposit their cash (Cabo Verde, Burkina Faso, Guinea-Bissau, Cameroon). The chapter on Ghana reports on the links between informal savings groups and formal finance, which includes banking institutions. A strong link to the focus of formal banks in Nigeria, Kenya and Uganda, but less so in Guinea-Bissau, the Democratic Republic of the Congo and Mozambique where savings groups organise into larger collectives, such as Village Savings and Loan Societies (VSLAs). Several of our case studies include discussions of VSLAs as these groups establish more functional connections with formal banking institutions and in many cases with international and local NGOs. The South African chapter reflects on the initiatives by formal banks to create special accounts tailored to the needs of the different types of *stokvels*, and the chapter on Nigeria presents examples of banks establishing savings group electronic platforms and group accounts.

Several country chapters (Kenya, Uganda, Nigeria, South Africa) present cases of savings groups organised at the place of employment, closely linked to the rise of formal employment by larger organisations in contrast to the more traditional rural, subsistence farming context that has long shaped African economies. The empowerment dimension of savings group activity in poorer rural landscapes, as described in the chapters on Guinea-Bissau, Burkina Faso, Senegal, Mozambique and Cabo Verde, still constitutes the backbone of these groups in Africa.

This volume also investigates the growth of the voluntary informal savings group structure in a high-income or middle-class urban environment, such as employees at universities. The transition from the rural poor to a higher income urban context shows the development of voluntary collective savings behaviour beyond a pure survival strategy, and into wealth creation for the next generation. This is the key contribution of this pan-African research project. The operation of savings groups in the high end of the market, displaying entrepreneurial dynamics, is significant and has clear implications for the alignment of informal savings with the formal financial sector.

The growing sophistication of urban and rural savings group organisation and management has major policy implications for overall socio-economic development and financial inclusion in Africa. These new studies on savings group activities highlight the market for cutting-edge electronic and mobile technology beyond urban centres. Members of the urbanised middle class maintain strong connections to more remote rural areas and make significant contributions to sustain livelihoods there through the savings networks. In this respect, access to credit through savings behaviour presents a significant opportunity to fund micro and small enterprises in the start-up stage. This occurs without involving higher-cost financial service institutions or potentially corrupt state officials, underlining the importance of leadership, management and governance capabilities in savings groups. In the reverse direction, savings group operations often constitute an empowering channel for education, training and professional careers in urban centres. Here, equal emphasis is placed on capable management and governance.

The case studies provide a clear picture of the dynamics of the existing savings group landscape, not just through numbers but also through a deep understanding of the core of modern-day savings group realities. These cases are the result of qualitative research carried out by the country teams, who conducted in-depth interviews with members of savings groups as well as actors in the surrounding ecosystem from late 2018 to late 2019 before the current Covid-19 pandemic.

During the pandemic, savings groups have taken on added importance. In a Small Enterprise Evaluation Project (SEEP) study at reviewing women's savings groups, it was found that, 'For example, households with a female savings group member in Nigeria were less likely to experience food insecurity and more likely to have savings, which was critical to face the Covid-19 crisis' (SEEP, 2021). Furthermore, researchers from the SG4Africa network observed in their case studies that the majority adapted well and shown tremendous potential for resilience during the pandemic. They utilised digitalisation and mobile money and other ways in adapting to the lockdowns and were effective to distribute personal protective equipment (PPE) to members and emphasise hygiene measures. They have been tasked with providing members with emergency funds and have been focussing on overcoming the economic and social challenges such as school closures and loss of income. Social distancing has also required groups to change how they function. The economic shocks initiated by pandemic in 2020 has in many cases reduced the income and viable prospects for groups and their members. These may ultimately result in the dissolution of groups due to the lack of financial capital and/or investments. On the other hand, they have served as insurance, social protection and a source of business capital. On the whole, these are informal measures, and often savings groups do not have an advocacy group that represents their needs to governments.

In South Africa where National Stokvel Association of South Africa (NASASA) is the only broad-based organisation representing *stokvels*, savings groups are subjected to regulation within the same framework as other financial institutions. In March 2020, NASASA issued the following recommendations:

(1) Stokvel meetings are to be suspended while Stokvel activity continues;
(2) As such instances are both transactional and social, we encourage groups to continue with the transactional aspect, while avoiding meeting physically, groups are to seek alternative group communications mechanisms;
(3) We encourage the prudent use of available mobile/digital platforms. Where possible, Stokvel members are to make their contributions electronically;
(4) Stokvel groups with bank accounts should encourage members to make group contributions via electronic transfer;
(5) We are aware that some banks don't allow such functionality on their Stokvel accounts, and we encourage group leaders to enquire with their bank of choice. NASASA has started engaging with banks around increasing functionality so as to accommodate such transactions;
(6) Unbanked Stokvels such as Rotational Clubs are to pay the receiving member through available instant payment platforms, or electronically into the receiving member's personal bank account.

This kind of umbrella organisation is unusual, and the absence of such representative institutions in the other countries has policy implications for the future agency of savings groups in small and micro business development. As the South African case shows, a firm market position of such umbrella organisations could strengthen entrepreneurial opportunities and support, and mitigate experience and leadership deficiencies, while operations benefit from regulatory oversight. This could also be a significant mechanism for women's empowerment and wealth creation. The research confirms a direct link between successful savings group operations and the empowerment of women, and notes that these groups strengthen society through the mobilisation of social capital. The risks of a breach of trust remain, but a firm social fabric of trust and established social capital networks provide resilient deterrents from this kind of mischief, underlining the need for leadership and the development of managerial competence in savings groups.

Several country teams reported very thinly spread comprehensive or in-depth research on savings groups in their country. Where research was present it was uncoordinated. This underlines the need for further research on the core managerial and leadership capabilities needed for success, the enhanced technology innovation to support independent operations in the market and the optimal interface with regulatory regimes. The research output from the SG4Africa consortium will map out policy reference points and inspire future researchers.

Informal savings groups are a pan-African phenomenon closely linked to economic development and social progress. These voluntary organisations are channels of empowerment for the poor. They remain an integral part of society despite the rise of the middle class. That this phenomenon is embedded explains the sustained prevalence among the no-longer-poor Africans. These voluntary institutions are also firmly integrated with the strategies for financial empowerment and financial inclusion, and this research highlights the lack of systematic acknowledgement of this fact, as well as the failure to embrace the inherent entrepreneurial opportunity. There is a vast, unexplored market opportunity to enhance the entrepreneurial capabilities of savings groups as independent drivers of economic growth.

In addition, the development of entrepreneurial ability in Africa will also benefit from a refocusing on savings groups – from sustaining the poor and empowering self-help to funding small and micro enterprises from accumulated sources of funds. The policy environment requires harmonisation with market opportunities to assist entrepreneurial initiatives, rather than slowing them down in inefficient and bureaucratic state-led business development programmes. The diverse case studies in this book show the prevalence of an entrepreneurial spirit, the identification of entrepreneurial opportunities and the development of social capital networks capable of supporting new enterprises through the difficult establishment phases. This is the contribution savings groups make to the growth of Africa's economy.

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Part 1
Conceptual Chapters

Chapter 1

High-end and Mid-market Savings Groups: A Pan-African Phenomenon

James Atta Peprah and Dana T. Redford

Keywords: Income; consumption; entrepreneur; middle class; urban; financial inclusion

Introduction

Savings are critical for individual and societal welfare. At the individual level, savings help households to smooth consumption and finance productive investment in human and business capital. At the macro level, savings are strongly predictive of future economic growth (Solow, 1956; Romer, 1986). Savings groups (SGs) are one of the strategies that could scale up the financial inclusion agenda by mobilising surplus funds into the banking system, increasing inclusive finance. SGs are usually linked to low-income households in poor and developing countries. Now the concept of middle-class and high-end collective savings behaviour emerges in developing and low-income countries. Research on these groups is limited.

The prevalence of SGs among middle-income earners has become a common phenomenon in middle-income countries. These people constitute the middle-income households who may have access to formal financial institutions (FFIs). This relatively new manifestation of participation in SG activities points to a number of conceptual and operational issues in the study of SGs. In spite of the abundant research on SGs generally, very little is known about high-end SGs in middle- and high-income countries. The high-end phenomenon is an emerging phenomenon. This necessitates the conceptualisation of what constitutes high-end SGs. The theoretical motive for saving by rich and poor alike remains under-researched. Keynes (1936) describes three basic reasons for saving: transaction-related motives, precautionary motives and speculative motives. While these motives are universal, what constitute high-end saving in emerging middle-class economies requires clarification.

This chapter provides insights into the parameters applicable to countries in Africa and elsewhere, taking into account the concept of a middle class. This chapter is perhaps the first of its kind to provide literature on the emerging middle-class, middle-market and high-end savings segments. This chapter contributes to providing the basis for future academic discussions on how mid-market and high-end savings can be defined within the context of emerging market economies.

The Concept of Middle Class in Africa

The middle class is defined in several ways. The first approach defines it simply in terms of its 'middle-ness', that is, those people who occupy the middle group of the income distribution in a given country (Seekings & Nattrass, 2014; Visagie & Posel, 2013). The second sees the middle class as a discrete category with unique characteristics. While most analysts agree that a middle class is characterised by a relatively high level of income, specific occupations and levels of education, there is little agreement on precisely what it is about being in the middle class that produces these traits. Membership of the middle class is more a marker for education than for people struggling to meet basic needs (e.g. food, water, shelter) and middle-order needs such as stable employment, physical safety, healthcare and pensions, and, thus, come to value higher-order needs such as self-actualisation, freedom and gender rights (following Maslow's hierarchy of needs).

In Africa, the concept emerged during decolonisation but fell out of favour in the academic world from the 1980s to the 2000s (Agence Française de Développement, 2011). The concept of middle class resurfaced in 2011 when the African Development Bank (AfDB) published an influential study, 'The Middle of the Pyramid: Dynamics of the Middle

Class in Africa', which prompted renewed discussion of the concept (AfDB, 2011). The AfDB defined the middle class as those who earn between US$2 and US$20 per day. The middle class may be sub-divided into a lower middle class and upper middle class depending on the category of the household income (they are neither rich nor poor). From an investment point, this indicates considerable opportunities for investors to mobilise financial resources.

From an economic perspective, the middle class may be defined as a group in the middle between the richest and poorest members of society. They are characterised by traits such as owning financial capital (the capitalists), investing in education as a means of attaining social ambitions and growing social capital. From the sociological perspective, the middle class may be considered a 'bourgeois-type' group of people in developing and middle-income countries. In many countries, the middle class is the class to whom society looks to in terms of delivering economic and social resources and, in democracies, the pool from which most politicians and business leaders are drawn.

From the behavioural perspective, some researchers (Quénot-Suarez, 2012) have identified the middle class by what they have, what they are (self-awareness and fundamental values) and what they do (individual attitudes and consumer behaviour). Designating the middle class through an income lens and a consumer behavioural lens converge in the fact that they are more than likely to earn enough money to cover their basic needs and also have disposable income that determines their lifestyle. There are several developing countries where the middle class does not earn enough for basic necessities and is closer to the bottom of the world earnings pyramid. Considering that the middle-class households are generally located around the median of the income distribution, it does not really matter if researchers take central quintiles or those some distance from the median. The median income is not a good indicator of middle-class status. Some resort to absolute measures such as the poverty line, defining an income (or consumption) range for which households can be considered middle class. The following sections describe the middle class in some selected African countries.

South Africa has a growing upper middle-income cohort, with per capita income higher than most African countries. A number of commercial banks in South Africa introduced accounts for SGs in the late 1980s to mid-1990s (Aliber, 2002; Verhoef, 2002), as described in the chapter on South Africa in this volume. The SGs, called *stokvels*, started in the 1930s and continued to grow. By 2019, about 11 million South Africans were members of *stokvels*, with around R44 billion (equivalent of $694 million USD) saved in 820,000 *stokvels* annually. Members of SGs are not only from poor or low-income households, but high-income individuals constitute a significant component of SGs.

Ghana also has a vast SG population, especially in the northern part of the country. In 2006, Ghana attained middle-income status after national economic reorganisation. Since then aid flows and other donor programmes have dwindled as the Government of Ghana sought to move 'Ghana beyond aid' in 2018. This strategy included the mobilisation of internal financial resources for development. SGs offered one mechanism of domestic savings mobilisation to divert surplus spending into the banking system. SGs operated in Ghana since the 1960s, when farming communities organised Rotating Savings and Credit Associations (RoSCAs) and Accumulated Savings and Credit Associations (ASCAs). SGs also operate among middle-income workers from a variety of sectors including teachers, bankers, university lecturers, nurses and civil servants. Wealthy business people also engage in the *merry-go-round* form of saving and are able pool significant amounts. These funds do not necessarily find their way into the banking system because beneficiaries spend it.

A recent study by Rodas, Molini, and Oseni (2019) on the middle class in Nigeria revealed that the lower middle class or middle class constitute about 20% of the Nigerian population. They live on an average $3.90 USD per capita per day. Most of the middle-class households are concentrated in the southern part of the country, where about 30% of the population lives above the threshold. In the poorest regions in the north, less than 15% of the population qualifies as middle class. The Nigerian middle class consists of mostly skilled professionals (35.5%) while 38% own their businesses and more than 93% of the middle class hold accounts with several financial institutions. Some 83.3% of the Nigerian middle class save to meet emergencies, whereas only 1.2% save for starting new businesses. It is interesting to note that as much as 84% of the middle class surveyed have never applied for a loan (Renaissance Capital, 2011). This means that the middle class has sufficient acess to capital and does not need to borrow money.

The Kenya National Bureau of Statistics estimates that a member of Kenya's middle class spends between 23,670 Kenyan Shilling (KES) (approximately $1,200 USD) and 199,999 KES (approximately $1,900 USD) each month, which puts the middle-class expenditure in Kenya beyond that of the middle class in Ghana and Nigeria.

Middle Class Savings Groups in Africa

People with comparable levels of income tend to associate and pool their funds. The growing emerging middle class in Africa (Deloitte, 2012) increasingly pool savings towards investment to supplement income through SG activities. Unlike the traditional SGs, mid-market SG members include wage workers or entrepreneurs, typically managing their financial activities with formal banks as well as SGs. The middle class is an affinity group of like-minded people associating to accumulate funds for a common purpose. The purpose of middle-class group savings is not always consumption smoothing, but long-term wealth building. Mobilised financial resources go towards investments, capital projects or to support poor individuals and households (charity). Informal savings and credit groups are also prevalent in Latin America and the Caribbean (Xavier, 2014). In that context, the middle-class SGs create mutual and pension funds. High-end savings mutual groups organise with the purpose of financial intermediation, creating portfolios and reselling them as shares to individual investors. In the case of pension funds, they hold the portfolio and manage it with financial institutions in order to provide supplementary retirement income to their members.

Chun, Hasan, and Ulubasoglu (2011) identified three middle-class categories in 70 developing countries between 1985 and 2006: absolute measure ($2–$10 USD), relative measure (share of the total consumption expenditure accruing to the middle 60% of the expenditure distribution) and median relative measure, (representing the share of the population with expenditures at least above $2 USD per day).

What Factors May Influence Savings?

Several factors can influence savings behaviour at the individual, household or national levels.

Gross Savings Rate

Income levels constitute the primary indicator of the middle-income group. The savings rate, derived from income levels, determines how much an individual or household can save. The AfDB's African Economic Outlook of 2010 shows that by the end of June 2011, the average middle-class savings per capita was US$19 or 5.2% of gross domestic product (GDP) per capita (AfDB, 2010). This proves that the African middle class saves the surplus of their income over expenditure.

Poverty Levels

People save after consuming. Individuals and households struggling to meet subsistence needs will find it difficult to save. The poverty line is the average consumption expenditure of individuals and households either on daily or annual basis. The Sustainable Development Agenda defines the global poverty line as US$1.90 per day. However, different countries have different poverty lines. The Ghana Statistical Service calculates two poverty lines using expenditure on food and non-food items. In 2013, the living standard survey (the sixth wave) set the upper poverty line at 1,314 Ghanaian Cedi (GHC) per adult per year (the equivalent of US$630 using the 2013 average exchange rate) while the lower poverty line was set at 729 GHC per adult per year (the equivalent of US$349 using the 2013 average exchange rate). High-end savers are above the upper poverty line while low-end SGs fall below it (United Nations, 2015).

Level of Financial Literacy: The Context of New Savers

Financial literacy is the knowledge, attitude and practice about financial products, services and institutions. Financial literacy is higher among the middle-class households and impacts on their saving behaviour. People with a high level of financial literacy are assumed to have sufficient knowledge and understanding of why, where and how to save. This knowledge enhances their positive attitude and the practice of savings. Higher levels of financial literacy are associated with higher savings for consumption smoothing, investment and retirement plans (see, for example, Banks, Cormac, & Zoë, 2009; Jappelli & Mario, 2011; Lusardi & Mitchell, 2009). More financially literate individuals are more likely to save above the subsistence level. In the context of SGs, financial literacy describes a new category of savers who are influenced by their level of financial literacy rather than the traditional motives for savings. This highlights the new context of savers who live above the subsistence level and have the potential to save. To enhance savings behaviour, requires strengthening financial literacy among savers.

Remittances

Workers' remittances are an important source of income for many African countries. Middle-class workers remit more than the lower-income households. Some African countries are particularly remittances-dependent. The World Bank reported in 2009 that remittances-to-GDP ratios were between approximately 8% and 11% (an average of 10%) in Nigeria, Sierra Leone, Togo, Guinea-Bissau, Senegal, Cape Verde and Morocco, and Gambia, Egypt, Sudan and the Comoros, with Uganda at ratios between approximately 5% and 7%. In 2008, Lesotho had the highest remittances-to-GDP ratio in Africa at 27%, primarily received from migrant workers employed in South Africa (World Bank, 2009). On the assumption that higher incomes promote higher levels of savings, it is assumed that countries with higher levels of remittances are more likely to save a higher proportions of their income. One expects high-end SGs in such countries. The rate of remittances should be a key indicator of high-end incomes.

Minimum Wage

The International Labour Organization (ILO) defines the minimum wage as 'the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract''. Individuals and households earning more than the minimum wage are more likely to save more, which could be mid-market level or high-end savings. The minimum wage might be problematic as a benchmark because some countries do not have legal backing for establishing a minimum wage. The minimum wage can nevertheless be a tool to gauge savings capability.

Linking Savings Groups to FFIs: Critical Factors

Irrespective of the income level of the SG, successful long-term engagement between SGs and FFIs links the informal sector to the formal sector. Banks are interested in linking SGs to their products, since that established access to future depositors (CARE International & UKAID, 2013). In some emerging markets, the savings propensity may be higher in urban societies engaged in formal and wage employment, compared to rural communities. Urban dwellers are better through employment and higher earnings (Gennetian, Redcross, & Miller, 2000) and, thus, could save more compared to their rural counterparts.

Even though some SGs may already have formal bank accounts, this relationship requires strengthening. Linking these SGs to FFIs requires group governance, physical proximity to FFIs, a culture of trust and the financial technology to reduce cost. This context is explained by the following:

(1) Maturity of the SGs, including financial education, established savings and loan repayment patterns, and strong group governance;
(2) The need for physical proximity to bank branches or qualified mobile money agents allows for cash-in/cash-out capabilities, even if mobile services are provided;
(3) Communities and FFIs need to establish a relationship of trust. This could be done by making funds available to SGs upon request.

Moreover, financial institutions must respect the culture of value and dignity of member;

(4) FFIs need to establish specific cost-efficient services to SGs and their members. Such no-frills services must be based on low costs and minimal human intervention. These are likely to be technology-based, such as mobile-based services. In countries where interoperability has taken hold, policies to link mobile money accounts to bank accounts and vice-versa need enforcing. This will ensure that savings enter the formal financial system.

Conclusions

Research on high-end SGs emerging in middle-income countries in Africa is limited. This book is the first to offer a systematic exposition of the phenomenon. In the conceptualisation and description of this pan-African phenomenon, this chapter provides a framework to delineate the mid-market and high-end SGs. There are key characteristics, patterns and behaviour that define the middle class in the emerging economies in Africa, as outlined in this chapter. Discerning membership of these groups across Africa by way of a single indicator (e.g. income level) can be misleading. This underlines the need to work with a composite index of various factors to define these groups accurately. Furthermore, the indicators (micro and macro) relevant for defining and understanding these groups provide a lens through which further academic research as well as commercial opportunities can be understood. The mid-market and high-end SGs constitute an important part of Africa's financial inclusion and are fundamental to its further development.

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[1] Lead author, in collaboration with Dana T. Redford.

Chapter 2

The Role of INGOs in the Promotion of Saving Groups: Contribution by CARE International

George Muruka

Keywords: Livelihood; financial inclusion; microfinance; banks; savings; International NGOs

Introduction

International non-governmental organisations (INGOs) are key in the promotion of savings groups (SGs) as a financial services mechanism in many developing countries. INGOs, leveraging on indigenous community processes, have developed semi-formal mechanisms and technologies to facilitate access to formal financial services in many developing countries. Communities across the world have had ingenious mechanisms to support the less fortunate members. For example, collective action has been used to mobilise resources to secure livelihoods, cultivate farms, construct houses and tend to livestock. Similar collective strategies are being used to mobilise and manage financial resources. INGOs have codified these processes and provided access to new technologies including, safe box, digital and cloud based services.

These strategies are important to address financial inclusion. Financial inclusion in developing countries ensures that 'individuals and businesses have access to useful and affordable financial products and services that meet their needs, but delivered responsibly and sustainably'. These financial services include financial transactions, payments, savings, credit, insurance and financial information such as account statements and credit reports.

CARE (Cooperative for Assistance and Relief Everywhere, formerly Cooperative for American Remittances to Europe) as an international humanitarian agency delivering emergency relief and long-term international development projects solidified its position as a leading INGO in women's empowerment, agriculture, education, health and community well-being, small-scale entrepreneurial and village savings and loans, to defeat poverty. [1] CARE and Accenture study of inclusive banking in 12 describes financial inclusion as the universal access to and use of affordable, quality financial services, provided responsibly. The study of 12 developing countries found that financial inclusion in emerging markets will present an estimated US$380 billion annual revenue by 2020. Providing credit to small businesses could generate about US$268 billion in fee-based services, targeting various unbanked market segments. Table 1 shows the broad categories of people who are considered unbanked or underbanked in the developing countries.

Table 1. Estimated Income Levels of Underbanked Market Segments.

Segment	Income Segment	Annual Income Range (USD)
1	Low	USD 1,000–3,000
2	Lowest	USD 500–1,000
3	Micro	Less than USD 500

Source: Boyle, Whitehouse, and Kolnes (2015).

According to the G20 Global Partnership for financial inclusion, there are three dimensions of financial inclusion, i.e. availability, acceptance and usage. [2] The underbanked market segments include women, youth, elderly and small enterprises located in rural areas of developing countries. See CARE International and Cargail (2017), CARE International in Uganda (2012), CARE International in Uganda (2020).

The World Bank initiated the global financial inclusion index survey in 2010. Since then about 1.2 billion adults have had access to a basic financial services account (i.e. bank or mobile money). While a large proportion of people in developing countries now have access to formal financial services (including mobile money services), some surveys, for example, FinScope surveys, show that many people especially in Africa continue to use informal mechanisms to manage their finances, (Financial Sector Deepening Trust, Kenya, 2009; Central Bank of Kenya and FSD Kenya, 2019; Itad, 2019). These informal mechanisms are used alongside the formal banking and mobile money services, (See Demirgüç-Kunt & Klapper, 2012; Rutherford, 2010; Allen, 2010; The World Bank, 2018).

SGs are an important building block for financial inclusion, yet only about one quarter of formal financial institutions are pursuing inclusive banking business models and strategies (Boyle et al., 2015). SGs help the poor, especially women in rural and peri-urban areas, to accumulate small and usually irregular incomes into meaningful lump sums to meet household needs and alternative income-generating activities. Access to savings and credit enable women and girls to acquire their own assets and achieve greater control of their lives leading to women's economic empowerment (WEE) through a gradual and steady process of social coaching and engagement in income generating activities and asset base development. See Collins, Murdoch, Rutherford, and Ruthven (2009), Rutherford (2010), Catholic Relief Services and Itad (2019), Financial Sector Deepening Trust (2016), Lewis and Malle (2020).

Therefore, INGO's work in the promotion of SGs is critical in the social and economic transformation necessary to secure poor people's livelihoods and wellbeing. Some of these INGOs include CARE International, Plan International, Catholic Relief Services (CRS), Oxfarm, Aga Khan Foundation, World Vision, Age International among others.

INGOs and Savings Groups

INGOs use many approaches and tools to support the development of a community resource base, inter alia through microfinance. Microfinance is broadly described as 'pro-poor financial services'.

INGOs promote microfinance as a sustainable mechanism to enhance poor people's livelihoods. As many as 1.7 billion people in low-income countries are not served by banks and microfinance institutions. This segment relies heavily on informal financial service mechanisms including indigenous and semi-formal groups and neighbourhood associations. INGOs support and promote SGs. SGs aim to facilitate access to financial services by poor and hard to reach people usually in their localities including rural and peri-urban areas, (Muruka & Rahamatali, 2020; The World Bank, 2018; Ngegba, Kesoh, & Sesay, 2016; Ledgerwood, Earne, & Nelson, 2013).

High-quality and comprehensive data on SG outreach and performance are scarce. Saving Information Exchange (SAVIX) collects and analyses data on SGs' outreach and performance across many regions. [3] As at the end of 2018, SAVIX data showed that INGOs had facilitated the development of more than 200,000 SGs in at least 50 countries. Most of these groups (87%) are in Africa (CERSEM, 2018).

The roles performed by INGOs and their local partner non-governmental organisation (NGOs) include:

i. SG models' development and adaptation;
ii. User mobilisation and orientation;
iii. Capacity building through training and coaching;
iv. SG implementation support;
v. Service layering;
vi. Policy advocacy.

Case Studies of INGOs SG Models and Role

INGOs developed a range of SG models, operating manuals and training guides. The codification of how the groups operate has enabled the once obscure and informal activities become semi-formalised and standardised.

CARE's MMD/VSLA Model

SG Model: CARE started the development of SGs in Niger in 1991 with what was then known as *Mata Masu Dubara* (MMD) meaning women on the move. The goal of the project was to help women cope with household responsibilities due to unfavourable socio-economic and religious environment. The project trained women in crafts production and supported them to start other small economic activities to supplement household incomes. The women contributed to a savings and credit fund and then made small loans to the members.

This initiative evolved into the Village Savings and Loans Associations (VSLA) model. A VSLA is a self-managed group of self-selected members in the community. The VSLA model provides its members a safe place to save money, access loans and financial support in cases of emergency financial support. VSLAs have attracted women to leverage on group solidarity to access both financial and non-financial services including training and learning of new livelihoods enhancing information and skills. VSLA members use loans to invest in income-generating activities to enhance household income and asset base. The MMD/VSLA model creates space for users, particularly women to strengthen both individual empowerment (i.e. agency) and collective power to change relations and influence community structures.

The MMD model in Niger promotes the formation of networks of SGs as a tool for social change, (Delsol, Hassan, Nouhou, Larson, & Mahamadou, 1998). See case 1 for some more details of CARE International's MMD/VSLA model.

CARE Case 1a: MMD/VSLA Model, CARE International

With assistance of CARE, 30 women in the village of Malbaza started their own savings and credit association. They decided to contribute 200 FCFA per member each week for a total of 24,000 FCFA per month. The women decided that they would divide the funds in the association at the end of one year. If they found the MMD – Women on the Move, useful, they would continue. The association began to make loans to members in week 5. There was sufficient demand from the members, and the association lent all the money. The terms of repayment were 4 weeks at an interest rate of 10% of the amount borrowed. The inflation rate in Niger was 6%. The group continued to make loans every 4 weeks. The amount available for loans was unequally distributed among members.

MMD members take loans to continue their small income-generating activities. Others use loans for social obligations such as baptisms and marriages. Some women do not take loans but rather allow their savings, which earn interest, to accumulate and be loaned to other members.

Income-generating activities included the sale of food and spices in markets, resale of items purchased in neighbouring Nigeria and storage of grains for resale when the price increases. At the end of week 49, women had increased their savings by 80% through the interest earned on loans to members. Given their satisfaction with the association, the group divided 50% of the funds among the members and used the remaining 50%, 265,169 FCFA to collectively purchase millet which was resold when the price increased. They continued to make their weekly contributions of 200 FCFA. They also distributed 3,000 FCFA to each member for the Islamic religious holiday of Tabaski. When the millet was resold 6 months later, the women doubled the amount invested. They put this money, 530,337 FCFA back into the association.

At the end of two years, each member contributed a total of 20,200 FCFA (606,000/30 members). Each member had the possibility to take loans over the two years totalling, on average, 284,210 FCFA. Each member received a distribution of 11,838 FCFA (distribution of the money at the end of year 1+ distribution at Tabaski). Each member increased her savings by 125% over two years. Each woman accumulated 45,620 FCFA (1,368,624 FCFA/30) in the association. This marked the beginning of the MMD/VSLA model that has then been promoted in many other countries in Sub-Saharan Africa. The model is now being implemented with slight modifications in other countries, (Delsol et al., 1998).

Source: CARE Niger, 1998. Mata Masu Dubara: Women's Savings and Credit Groups, Training Guide.

While the MMD model is still implemented in Niger, CARE International has since codified this initial experience into the now widely known VSLA model and developed comprehensive VSLA manuals/guidelines to train both local NGO partners, VSLA leaders and members (Allen & Staehle, 2007). The box below presents in summary, features of the VSLA model.

CARE Case 1b: Summary of VSLA Features

- Self-selection of 15–25 members;
- Member managed group (usually overseen by an executive committee elected by and among members);
- Regular meetings (usually weekly/bi-weekly or monthly);
- Savings based (members contribute a pre-defined amount as savings or shares);
- Open and transparent transactions during the meeting session;
- Individual member's passbook (and digital accounts);
- Cash balances and stationery (passbooks and other notebooks) kept in tin/iron/wooden locally fabricated lockbox;
- CARE programs often provide new VSLAs with startup kits – a small financial support to purchase the lockbox and stationery – passbooks and other notebooks;
- Three separate key holders among the members;
- Pre-determined cycle/period of 6–12 months;
- End-of-cycle share out distribution of savings and dividends;
- External capacity building and coaching support from NGO field agents.

Source: CARE Uganda, VSLA booklet.

The SAVIX and program reports show that since 1991 CARE International has facilitated the development of 357,000 VSLAs in 51 countries. [4] The VSLA model has positive outcomes and presented both quantitative and qualitative evidence of a positive impact. This occurred through the mobilisation of users and partner organisations, capacity building of participants and rendering support with the implementation of VSLAs.

CARE Case 2: SILC by Catholic Relief Services

The CRS was founded in 1943 by the Catholic Bishops of the United States to serve World War II survivors in Europe. Since then, CRS has expanded to reach more than 130 million people in more than 100 countries on five continents. CRS promotes SGs in Africa and beyond. CRS promotes the Savings and Internal Lending Communities (SILC) which are largely a variant of VSLAs. However, CRS has made significant efforts to test different approaches, processes and training modules to ensure the SILC model requires low external support to be sustainably replicable.

SILC Principles

- A group of self-selected people;
- SILCs are autonomous and self-managing;
- Formed by 15–30 people (usually mixed gender, but majority tend to be women);
- Governed by a General Assemble and a management committee;
- Members agree on a set of rules to guide activities;
- Meet regularly at intervals set by members;
- All transactions carried out at the meetings to ensure accountability and transparency;
- All members have opportunity to save into the group fund during the meeting;
- Members set loan terms including interest rate and repayment terms, e.g. loans are due every 4 weeks, interest is not charged for remaining months in case a loan is fully pre-paid;
- Loan size is limited to a factor of the total value of member's savings;
- All members contribute an agreed amount to a social fund to cover unpredictable expenses;
- All SILCs keep attendance and financial records.

SILCs are a self-selected group of people who pool their money into a fund, from which members can borrow for a short period and at an agreed-upon interest rate. The saving and borrowing transactions are performed during a group cycle, usually a pre-determined period of 8–12 months. Similar to a VSLA, SILC members contribute to a separate welfare fund that enables members to access funds for emergencies. At the end of each cycle, the accumulated savings, interest earned and additional income such as penalties are distributed to members in proportion to their total savings. SILCs, like the VSLAs, require a management structure (group leaders), accounting system (record keeping and excess cash safe keeping). This usually require some technical support from an external person, usually referred to as field agents.

Therefore, capacity building through training and mentorship is a very important part of the role INGOs play while promoting the SGs.

SILCs offer the poor and usually unbanked people an organised mechanism to save and access capital in communities with limited banking services. The mutual assistance and access to short-term loans are important for household cash-flow smoothing, strengthening livelihoods through the development of alternative income-generating activities and meeting social obligations such as weddings and funerals. SILC members use the end-of-cycle lump sum to meet consumption needs, expand income-generating activities, purchase farming inputs and celebrate important social and religious ceremonies. CRS integrates SILC in most of its livelihood programs to support poor people's social security needs (CRS, SILC Field Agent Guide, 2019; Catholic Relief Services & Itad, 2019).

CARE Case 3 – Age International: Older People's Associations and Savings Groups in Sierra Leone

Age UK and HelpAge International established Age International in April 2012 to focus on older people in developing countries. On 30 November 2014, Age International and the Disasters Emergency Committee (DEC) launched an appeal to aid those affected by Ebola in West Africa, raising £482,000 and £37,000,000 respectively, the first time a DEC appeal was launched in response to a medical emergency. This support was used to implement an intergenerational livelihoods recovery project in Moyamba District, Sierra Leone.

Age International promotes SGs for older people especially in crisis situations. The target of 1,200 beneficiaries was split across 60 communities in Bonthe and Moyamba districts. In each community, 20 of the most vulnerable older people were selected to participate in the programme, forming an Older People's Association (OPA). At the community level, OPA's two volunteers, 'National Volunteers' from outside project communities, who spoke English and Krio, and 'Community' volunteers from the project communities, who spoke the local language, assist the formation of OPAs. These local volunteers are supported by field officers, who lived in a major town in their district and visit each community to guide and assist the community volunteers.

The volunteers train members to set up a livelihood, such as basic accounting, stock-taking and pricing, with the help of the Livelihoods Training Manual. On completion, the OPA is introduced to a 'revolving funds' scheme, known as a VSLA, the process described below:

- Each member saves a small amount L2000 (£0.20)–L5000 (£0.51) each week into a fund;
- When the fund grows large enough, members may apply to take out a loan;
- The loan duration and interest rate is decided by the OPA members;
- Once this loan is repaid, another member is able to take out a loan;
- As loans and interest are repaid and saving continues, the fund becomes large enough to allow multiple members to take loans at any one time;
- At some point (decided by the OPA), members can opt to withdraw their savings, plus a share of any accrued income especially from the interest payments;
- A portion of the programme budget is put aside to provide a 'top-up funding' when a VSLA reaches a certain level of saving. The aim of the external financial support was to incentivise saving by the OPA members.

Source: Project Report from Age International, Submission by Kate Horstead, Head of Policy, 2019.

Conclusion

INGOs have adopted and enhanced the indigenous mutual mechanisms to form the semi-formalised and codified SG model. CARE International's MMD/VSLA model, first tested in Niger in 1991, is the pioneer SG model in Africa. Promoters of SGs have kept the systems fairly simple and time-bound and thereby enhancing self-management and independence of SGs (Allen & Penetta, 2010; Allen & Staehle, 2007). Innovations such as the CARE's franchisee model, CRS' Private Service Providers (PSP) model, value add service layering such as graduation out of poverty approach and SG linkages to formal financial services provide a wide scope for SGs to facilitate socio-economic inclusion among the low income people in developing countries.

A report on the future of aid INGOs in 2030 posits that increasing protracted conflicts, environmental disasters, population growth (especially in Africa) and acute humanitarian need will widen inequality (Maietta, Kennedy, & Bourse, 2017). [5] SGs in remote areas offer a useful tool towards future financial inclusion efforts. There are three roles INGOs wish to perform in future: (1) layering capacity building services to groups to address challenges such as gender-based violence (GBV); (2) facilitating linkages between SGs and formal services, e.g. markets, banking and digital financial services, (Scott, Custers, Wu, & Dolan, 2020); (3) supporting governments to integrate SGs into existing and/or developing new financial policies and strategies for the most vulnerable people through SGs and (4) policy advocacy support.

Evidence shows group self-replication and continued support of SGs activities by for-fee private sector facilitation approaches as tested by leading INGOs (Anyango et al., 2006; Itad, 2019). However, given the risks that SG members face, INGOs and local partners continue to play a fundamental role in supporting the initial mobilisation and formation of a critical mass of SGs in an underserved community (Wheaton, 2018).

INGOs and local partners can in future link SGs with formal services sectors such as banking, insurance, financial technology companies and commodity markets. The most prominent linkage in the SG sector has been the bank linkage programs such as Banking on Change by CARE, Plan International and Barclays Bank, United Nations Capital Development Fund's (UNCDF's) MicroLead Program and Master Card Foundation funded Savings at the Frontier. INGOs involved in pro-poor agriculture support, e.g. TechnoServe (business solutions to poverty), Farm Concern International (commercial village model) and One Acre Fund (holistic services bundling), leverage on the power of farmer groups to develop market-based models to supply farm inputs, aggregate farm commodities and access to markets.

The initial mobilisation costs and engagement are prohibitive to the private sector actors interested in working with the poor and vulnerable populations. However, SGs represent an important demand aggregation mechanism and market entry point for the private sector. Therefore, INGOs and local NGOs can mobilise and engage the private sector to work with SGs. The private sector may provide the requisite resources to enable INGOs and NGOs to promote SGs. The private sector can provide such resources as part of their role to develop markets themselves.

Governments especially in Africa are taking notice of the role of SGs in financial inclusion and the broader socio-economic development. The World Bank noted that as many as 60 governments in developing countries introduced financial inclusion strategies. These strategies recognise the role of SGs as a component of the financial sector. In East Africa, Uganda was a pioneer in developing policies and laws that recognise SGs as Tier Four of the microfinance sub-sector. In 2018, Tanzania amended its Microfinance Act to recognise Community Microfinance Groups under Tier Four, (Tanzania Informal Microfinance Associations of Practitioners, 2018). INGO and local NGOs are (and should continue to be) actively involved in advocacy and support of appropriate and responsive policies and regulation for the systematic and sustainable development of SG sector. The role of INGOs in the development of the SG sector, financial inclusion and transformation of livelihoods in Africa is important and usually critical especially in remote and highly vulnerable locations. CARE, other INGOs and local partners have led the way in promoting collective action through SGs.

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Notes

1. CARE Uganda: Women and Youth Financial Inclusion Program (WAYFIP). VSLA Booklet. https://www.care.org.au/wp-content/uploads/2014/12/CARE-VSLA-Report-Uganda-Eco-Devel.pdf.
2. The Global Partnership for Financial Inclusion (GPFI), an inclusive platform for all G20 countries, interested non-G20 countries and relevant stakeholders on financial inclusion work and implementation of the Financial Inclusion Action Plan, endorsed at the G20 Summit in Seoul in 2010. See details at https://www.gpfi.org/.
3. Although the Savings Groups Information Exchange (SAVIX) database relies on voluntary, self-reported data by willing INGOs, SAVIX data can be used as indicative of SG outreach and performance in terms of saving and loan portfolio.
4. The SAVIX is the leading database for savings groups (SGs) data, with majority (87%) of the data being from projects in Africa and Asia (9%). SAVIX was developed by VSL Associates and supported by leading international non-governmental organisations (INGOs) including CARE (Cooperative for Assistance and Relief Everywhere) International, Catholic Relief and Oxfam America and Plan International. The platform enables implementers of SGs to monitor and assess SG project performance. SG project managers share project data with the SAVIX

on voluntary basis. As at 2018, 1,200 projects in about 50 countries were reporting SG data to the SAVIX. See http://mis.thesavix.org/.

5. See Inter-Agency Research and Analysis Network (IARAN) at https://www.iaran.org/future-of-aid or Bond, UK at http://futureofaid.iaran.org/The_Future_Of_Aid_INGOs_In_2030-36.pdf.

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Chapter 3

Exploring Leadership Competences in Informal Savings Groups in Sub-Saharan Africa

Lenora Biche and Christian Wolf

Keywords: Leadership; competence; society; education; technology; governance

Introduction

Informal savings groups contribute to financial inclusion and socio-economic development across sub-Saharan Africa. Non-governmental organisation (NGO) initiatives are aimed at promoting informal savings groups and leadership competences. The concept of Village Savings and Loan Associations (VSLAs) is considered a tool for financial education (Niyibizi, 2014). Academic literature on informal savings groups has only sparsely touched on the aspect of leadership competences in informal savings groups. Financial literacy as a competence is an exception. Kyazze (2010), for instance, found that SACCO members lacked financial literacy. Ndjeunga and Winter-Nelson (1997) refer to leadership abilities to screen members and enforce rules.

Informal savings groups rely on volunteers (Allen & Panetta, 2010), with many members assuming some leadership role. The objective of this chapter is to identify a set of competences relevant to informal savings group leaders by devising a conceptual structure to a set of competences and laying a conceptual foundation for future research. The competences identified through the research are shown – as a preview – in Table 1, along with a selection of the main empirical elements constituting each competence discovered.

Table 1. Overview of Relevant Competences as Identified in the Present Study.

Competence:	Financial Competence
Elements identified:	• possessing basic financial literacy (understanding interest and risk, simple ledger, etc.) • understanding how to access and use banking services • engaging in financial diligence (e.g. preventing risks such as fraudulent activities) • more advanced financial competences needed for some groups (e.g. for more formalised savings groups)
Competence:	Ethical Competence and Integrity
Elements identified:	• setting high standards on ethical matters • fostering transparency within the group • establishing trust and confidence internally and externally • integrating participatory processes, having many/all members involved in decision-making
Competence:	Organisational and Coordinating Skills
Elements identified:	• ensuring wide attendance and participation by group members • enforcing compliance of member responsibilities, such as regular payments • establishing procedures and rules and upholding the group's mission • understanding time and priority management and when and how to delegate

Competence: Leadership with Strategic Foresight

Elements identified:

- awareness of dynamic environment surrounding savings groups
- placing current issues on the group's agenda for participatory discussions
- maintaining realistic attitude and understanding of constraints of group
- developing a co-created vision for the group involving all members

Competence: Digital Skills

Elements identified:

- possessing a level of digital skills aligned with group needs
- understanding online banking and appropriate security practices
- facilitating training of digital skills to other group members

Competence: Interpersonal Skills

Elements identified:

- motivating and mobilising others
- empowering others and serving as a role model
- resolving problems and conflict management skills
- awareness of cultural and religious differences

Competence: Entrepreneurship Competences

Elements identified:

- promoting the sustainable growth of the savings group
- managing limited resources and finding additional resources
- ability to take initiative and put something into action

Competence: In Context of SGs Partnering with NGOs

Elements

identified:	• understanding the priorities of the NGO partner • following the reporting and evaluation regulations required • providing proactive feedback to the NGO partner

Qualitative Research Methodology

The SG4Africa pan-African network spanning 13 countries provided the conditions to capture insights on leadership competences. Qualitative research is an appropriate tool to study leadership (Bryman, Bresnen, Beardsworth, & Keil, 1988; Bryman, Stephens, & Campo, 1996; Klenke, 2016). The interview partners were selected from among the members of the various country teams within the SG4Africa consortium. The interviewees consisted of individuals engaged in research on savings group behavior in their country over a considerable time. Some are active as members of informal savings groups, some in leadership roles.

Given the complexity of the leadership structures in informal savings groups and the many variables, data collection through semi-structured in-depth interviews was the method of choice. The semi-structured interview guide was developed to elicit a wide range of competences, as well as competences in the context of trends shaping informal savings groups (such as mobile apps), and challenges that informal savings groups face.

The interviews were conducted by the authors between June and August 2019. Of the 15 in-depth interviews conducted, all except for one were carried out entirely in English for language consistency. The remaining interview was conducted in both English and French. The responses showed consistency with the other interviews. The researchers implemented dedicated measures to overcome a potential temptation to jump to conclusions and offer an 'anything goes' interpretation (Suddaby, 2006). These measures applied to both the data collection and the analysis phase, which included probes to challenge some of the responses with critical follow-up discussions with the respondents.

The study used a thematic analysis (Braun & Clarke, 2006) to identify a set of competences relevant for leaders of informal savings groups.

Responses were coded, to identify competence classifications. The preliminary selection of competence categories was reviewed for plausibility within each category and for clarity of the overarching competence title. Following further revisions based on the plausibility check, we made the final selection of competences. The results section presents an overview of the relevant competences identified in our study. Each sub-heading in the results represents a competence identified, and the respective sub-section presents a sample of the empirical evidence which led to the identification of the competence label.

Results

Financial Competences

Financial competence is a core element of the set of leadership competences in informal savings groups. All interviewees referred to at least basic financial literacy. The unanimous sentiment is captured concisely in what one respondent expressed as: *Leaders of informal savings groups must have basic knowledge of finance. They need to have an idea of financial terms and concepts, possess some knowledge of calculus and basic math*. When further probed, the responded added that *an example of this basic financial literacy is how to calculate interest*. At the same time, it was also seen as important that there was *an understanding of the risks involved in the financial context*. Another example of basic financial literacy was *knowing how to keep a simple ledger to keep track of the group's finances*.

Interviewees noted that formal banking institutions were increasingly targeting informal savings groups to provide them with formal banking products, such as a bank account. One interviewee commented that *savings group leaders whose group makes use of banking services should have knowledge about those products*. With large population segments in sub-Saharan Africa still considered unbanked, few leaders, especially in rural areas, have the required knowledge of banking. In some regions, *there is also the aspect of agency banking, where savings groups interact with agents. So, there must be some knowledge about documenting the banking* *relationship so that other members know how the money is secured*. This may involve transparent record keeping and making these accessible to group members.

The depth of the required financial competence is contingent on the nature of the savings groups. While basic financial literacy is considered crucial to all informal savings groups, some groups require more advanced financial competence. Interviewees reflected on two contexts:

(1) Some groups are progressing towards a more formal organisation. In this context *leaders should understand complex rules and matters and translate them to other members – especially in context of where savings groups take on more formal nature, such as evolving into formal cooperatives*. These more formal groups might benefit from leaders' accounting abilities, as there *may be the need to fulfil accounting or other obligations imposed by regulation*.

(2) The level of financial competence required depends on the type of the group's activity: *The level of financial competence needed in a small merry-go-round is different from a high-end savings group that invests their savings*. The latter requires more advanced financial skill and experience.

Respondents underlined the imperative that leaders of different savings groups must display prudence with the group's finance. This is exemplified in what one interviewee expressed as *having a critical mind, because after all there could be questionable entities or individuals out there with bad intentions trying to exploit the group*. In another sense a critical mind is vital, because *the savings group members had worked hard for the money that they are putting aside for the savings group. Therefore, the absolute minimum that savings group leaders owe to the rest of the group is the necessary financial due diligence in all directions*. Respondents pointed to the importance of being *self-critical* and *being aware of our own limitations and to be open about that with the other group members*.

Ethical Competences and Integrity

Respondents place significant emphasis on ethical competences and the practice of integrity. This category is highly multifaceted. One interviewee stated that a savings group leader had *to be honest and serious*, saying that in their opinion *this is the most important skill that a leader should have in order to lead a savings group*. Another interviewee commented that there must be *close communication and transparency in everything* to build and maintain trust. It was also observed that *sometimes members may not know each other, which is when they look to leaders of ROSCAs and put their trust in them*. Trust comes with high responsibility, and leaders must live up to that responsibility. Trust was further illuminated through an observation that successful savings groups *can establish trust, and confidence among members as well as with outside institutions*. The establishment of trust is critical internally and to external stakeholders. The key to integrity, however, is not only the establishment of trust, but that the *highest ethical standards are central to the leader's attitude and actually put into practice in action*.

Leaders' ethical conduct towards group members is fundamental, since *the importance of transparency internally cannot be overstated*. Another stated that *there is room for conflict if leaders are not transparent*. Leaders are expected to apply best practices to enhance transparency and integrity. Towards transparency, one interviewee suggested for the leader to *have at least half of the members to attend when the draw is made, and never to make a draw when only a small circle of friends is present, or even worse, just by himself or herself*. It is considered important to *make these processes participatory, but also to keep records so that there can be verification*. Ethics and integrity start with having the right attitude, but leaders can resort to specific procedures to sustain ethics and integrity.

Organisational and Coordinating Skills

An extensive set of responses emphasised organisational and coordinating skills. Leaders must ensure the basic functioning of the groups. An interviewee stated that *the leader must have the skills to convince members* *of the group to uphold the mission by attending meetings, keeping up with their payments, and performing group tasks and projects*. One respondent formulated this basic competence as *the leaders are keeping the group together and up and running, and that requires someone who is good at organizing things*. An interviewee pointed to *an ability to manage group dynamics and instil a sense of routine and predictable process into the workings of the savings group. They keep the mission standing, they motivate and encourage members* to participate. In the dynamic modern world of professionals, members often join multiple groups, therefore, *time and priority management are essential abilities of any savings group leader*. Time management is a vital organisational competence.

The task of managing periodic collections was frequently mentioned. As many groups meet often, such as weekly or monthly, the collection management might seem trivial. However, this task becomes more challenging if members cannot attend meetings. Leaders' organisational skills ensure that the pending contributions of absent members are organised. Some respondents referred to scenarios where *some members don't take the matter as seriously as expected, so in some cases members don't pay their contributions on schedule*. The interviewee pointed out that in these cases *the leader has to be focused in order to reach the defaulting members, and also be strict to collect the contributions due*. In ROSCAs it is key, since it *would not be fair towards those members who are living up to their commitment, and living up to it even when it may not be easy for them*, as another interviewee has stated.

The scope with extensive and laborious organisation and co-ordination mandate that leaders need *skills to coordinate among activities and among members* or to have the *capacity to select someone to help. To know how to delegate*. Savings group leaders have to delegate tasks and assign functions to members, thereby building group capabilities. An interviewee remarked that leaders must be ‘capable of setting up the rules governing the group’. Leaders also need to *keep in mind that informal savings groups tend to be ‘democratic’ in the sense that there is not that one leader who imposes the rules. Rather, there is a participatory process involving many or all members, but it can be helpful if there is someone who takes the lead and then involves everyone in that process*. Interviewees agreed widely that the active presence of one or more engaged leader in the participatory process emerged as more important as the groups became more formalised.

Leadership with Strategic Foresight

Respondents reflected on the capabilities of leaders to lead the way forward, engage in long-term thinking, have an awareness of current external developments and wider trends and engage in problem-solving. Leadership must display strategic foresight. Interviewees noted the *dynamic environment surrounding savings groups*, which may impact the group in many ways. A respondent pointed to *disruptive technological advances such as mobile apps, which hold the potential to transform the way savings groups operate*. Effective leaders are therefore personalities *who can provide insights and show the way forward*. While doing so, it is important to *be aware of legal constraints and macro-economic problems like inflation, etc*.

In this context effective savings group leaders must be *bright minds who are aware of the latest trends that are relevant to the savings group – be it the availability of products by banks or the development of mobile apps which may or may not make the savings group functioning more successful*. Just because there is a new project pitched to the savings group community does not mean that it is good. However, good leaders are capable of collecting the relevant information and asking critical questions. The leaders should be capable of *bringing these developments to the attention of the entire group members and engage all members in the discussion and in a participatory decision-making process*.

Therefore savings group leaders must be able to maintain what one respondent called *a bird's-eye view of the savings group. To know it well and understand its relation to the external environment*. Respondents observed generally that leaders are *able to make all members buy into the objective of the group*, that means leaders are able to mobilise group members to realise group objectives. This is especially important when the group adopts new technology. When a new app is adopted following thorough due diligence, the group must be rallied behind it, especially if the app targets enhanced intra-group communication. However, good leaders are *critical minds who avoid jumping on a trend lightly just for the sake of doing so*. Sometimes it can be wise to *be critical towards offerings that are pitched as beneficial when in fact they might turn out not to be*. Leaders with strategic foresight will apply due diligence.

Digital Skills

With the emergence of digital products and services for informal savings groups, basic digital skills have been identified as a key competence for savings groups leaders. One interviewee commented that "*technology has a positive impact on these groups as the use of software applications have become common in coordinating*." Basic digital skills are therefore needed for the leader to evaluate the newly emerging products and, if chosen, to know how to use them properly. For more complex products, more advanced skills might be necessary. Savings groups transforming into more formal entities might be exposed to more complex technology.

For savings groups working with formal banking products, an appropriate digital skillset is needed to use of the product safely. One interviewee pointed out that *in terms of linkage to banking, the element of mobile is important. Therefore, a certain technological competence level is needed. Leaders of SG must understand how the technology used by banks works*. Having the appropriate digital skills was also considered *a matter of security*. A high level of precaution must be exercised to use technology safely and securely. If other group members use the technology, it might be necessary for the leaders who possess the required digital skills to *train the other group members or facilitate for someone else who is qualified to conduct a training session*. One core element of digital competence is the drive and motivation to stay informed about rapidly evolving digital developments. Therefore, *learning must be a continuous habit for everyone involved*.

Interpersonal Skills

An extensive set of responses pointed to what can be summarised as the centrality of interpersonal skills. The range of these skills is wide.

Interviewees have described leaders as *someone who is engaged and has a heart for the group, not someone who is aloof and disconnected*. Other responses were phrased as: *good leaders must be quick to make friends; be a people's person* and ultimately *a person who can be a driving engine, can motivate and is enthusiastic about group issues*.

Leaders must know peers well, what one interviewee described as *knowing what each and every member is good at and as a group assign the tasks they are good at to them. Leadership personalities can play a major facilitating role in the assignment of tasks to group members*. Another respondent observed that *there may not always be a formal leader, but there is most often a person who is playing the role of the leader, who tries to mobilize the others*. The respondent added that *this leader brings other group members to the leadership table*, which in turn can stimulate more participatory approaches involving all group members. Interpersonal skills are instrumental for empowerment. One interviewee stated: *Savings groups are also about empowerment. And savings groups leaders should be able to show pathways to empowerment. They should be a role model and support each other*. The person commented further that *not all members are equally empowered and have a voice. But one can pull the other up in the process by showing ways and sharing stories, giving advice, etc*.

It has been pointed out that occasionally conflicts might occur within savings groups. After all, savings groups consist of humans, and while there is typically a high level of goodwill within informal savings groups, especially when they consist of people entertaining warm relationships with each other, there is still room for conflict. Thus, conflict resolution skills are key. One interviewee observed that *many conflicts tend to emerge from smaller issues before they escalate. Good leaders are aware of when a conflict emerges in their group and address the issue while hopefully making use of their conflict resolution abilities*. Conflict can often be mitigated by listening to people, making an effort to understand their positions and interests and trying to come together as humans. There is a strong burden on leaders to be cognisant of and *adapting to cultural and religious differences*.

Entrepreneurship Competences

Establishing new savings groups requires entrepreneurial competences as it involves what a respondent expressed as *getting people behind something new and make it grow*. Several interviewees referred to the *ability to take initiative* and *put something into action*. Novice savings groups may frequently have very limited resources. Therefore, the entrepreneurial ability to use existing resources optimally and find new resources is helpful. One respondent expressed this ability as *being thrifty: someone who is not wasteful and can use things to their utmost potential*. Leadership requires tapping into additional resources, *in particular at the founding stage but also down the road if a group wants to grow, have to be capable entrepreneurs who can build the group's financial resources*.

Entrepreneurial competences are useful to all savings groups – new and existing groups. *Savings group leaders benefit from a financial and entrepreneurial mindset. A background in business is a plus*. Of course, what constitutes entrepreneurship has been subject to extensive academic debate (Bull & Willard, 1993) A definition suitable for this study is what Eisenman (2013) identified as the Harvard working definition of entrepreneurship, which he credits to Professor Howard Stevenson from Harvard Business School: 'the pursuit of opportunity beyond the resources controlled'.

Especially in the context of the emerging middle class, some informal savings groups choose to become a more formal financial entity, such as a financial cooperative. In that context one interviewee commented that those leaders *need to have some awareness of how their savings groups can expand over time; e.g. successful group leaders should have some knowledge/contacts that can help groups transition into the microfinance/formal financial services sphere*.

Additional Competences in the Context of NGOs

Where savings groups are promoted by NGOs, we found that additional competences might be relevant for leaders. Interviewees observed that, *there is a coordination responsibility which the savings group leaders are tasked with, but it has to be set out according to the expectations of the NGO – it is about understanding of what that is about and then it is about* *implementing*. Savings group leaders require a deep understanding of the core mission of the NGO they are working with. One respondent formulated it fittingly as that *when projects go beyond savings and lending, there must be capacity to understand the extra element, such as empowerment*. The savings group leaders need to be sensitised to the focus of the NGO with which they collaborate. NGOs can assist in training savings group leaders to communicate functionally with the NGOs, to exhibit a *competence element of feedback to NGOs*. The interviewee's statement points to some reporting requirements in the NGO context. Therefore more advanced reporting skills can be helpful, in particular to provide *reports that are useful for the NGO*.

Discussion and Conclusion

The findings suggest a set of competences which include financial competences, ethical competences and integrity, organizational and coordinating skills, leadership with strategic foresight, digital skills, entrepreneurship competences and ultimately interpersonal skills. The research further identified additional competences that are relevant for leaders collaborating with NGOs, such as the alignment between the savings group and the NGO's priorities. Although Africa is a highly diverse continent, with substantial diversity found even within countries, the observations of what constitute leadership competences were fairly consistent across different geographies.

The set of competences identified through our study is certainly not all-encompassing the entire set of competencies required by savings group leaders. There might be dimensions that the research did not capture. Furthermore, every savings group is unique and is embedded into a unique environment. Therefore, the set of competences may vary from group to group. This study is an attempt to bring some structure to the discourse on relevant competences, stimulating further research on the topic. An example of a dimension not mentioned during interviews is the ability of savings group leaders to respond to public health issues. The interviews were conducted prior to Covid-19. As a leader's ability to address public health issues for the savings group was not mentioned during the interviews, this aspect was not part of the analysis, although it will surely be relevant in the context of any public health threat.

It is also likely that the set of the relevant competences may evolve over time. Some of the innovations documented in SG4Africa's country chapters, such as the leveraging of technology in Mozambique's SOMA and Senegal's Ma Tontines, are at the forefront of innovation in the savings groups landscape. The adoption of such innovation was facilitated by technological advances, i.e. mobile devices and mobile apps, in combination with the increase of the number of mobile devices in use by the population. Future innovations impacting savings groups might be diverse, therefore, the set of competences actually needed in the future may shift accordingly.

What is timeless, however, is that informal savings groups are created based on trust and the need for financial help and community spirit. Trust is manifested in the founding and development of most informal saving groups. What has been shining through across several competences is the role of diligence and the importance of trust. Future research will certainly be needed to illuminate the range of competences in the savings group context further and in more depth. It was also beyond the scope of this chapter to detect exhaustively all the constituent elements behind the competence labels identified. Future research might therefore select one of the competences identified to explore it more intensively. For example, what do digital skills for savings group leaders entail in more detail? Future research can thus go either wide (to detect extra categories not already identified) or deep (to explore each category that is already identified in more depth). Furthermore, future research might also address the linkage with academic leadership theory. Ultimately, this research is presented as a point of departure for future research.

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Chapter 4

Enhancing Women's Empowerment through Savings Groups

*Katherine Rickard**

Keywords: Household; education; health; education; decision-making; gender; empowerment

Inclusive Finance – Where Are We at?

Achieving gender equality and the empowerment of women and girls (UNDP, 2019) is essential. This is because women *deserve* to be treated equally and because empowered women are able to reinforce economic gains by contributing to the overall development of their families and societies (Panetta, 2018). Societies must use all human capital optimally. Women, young and old, are part of society's human capital. In the words of Klaus Schwab, Founder and Executive Chairman, World Economic Forum, 'societies cannot afford to lose out on the skills, ideas and perspectives of half of humanity to realize the promise of a more prosperous and human-centric future that well-governed innovation and technology can bring' (World Economic Forum, 2018). Providing women and girls with equal access to education, health care, decent work and representation in political and economic decision-making processes will fuel sustainable economies and benefit societies and humanity at large (Demirgüç-Kunt, 2018).

Despite the economic arguments for gender equality, women are among the most financially excluded segment of society; out of the 1.7 billion unbanked adults globally (unbanked persons have no account with a financial institution or through a mobile money provider), the majority

(56%) are women (Demirgüç-Kunt, 2018). The 2018 Global Gender Gap Report, which benchmarks countries on progress towards gender parity, reveals persistent gaps in the control of financial assets and in the time spent on unpaid tasks which continue to preserve economic disparities between men and women. In only 60% of countries, women have the same access to financial services as men and women spend, on average, twice as much time on housework and other unpaid activities than men (World Economic Forum, 2018).

Gender equality gaps continue to be wider in developing countries, in South Asia, Africa and Middle East (Cuberes & Teignier-Baqué, 2011; World Economic Forum, 2018). In developing countries, poor people are especially vulnerable to financial shocks, as they experience few income-generating opportunities and have a high dependence on natural resources, with limited capacity to cope with climate variability (Abeygunawardena et al., 2009). Job loss or crop failure can undermine livelihoods, leading to poverty. Women feel the negative impacts more acutely. Access to finance, specifically savings, loans and insurance products, can assist families to invest in long-term goals such their health, education and businesses and become more resilient to economic shocks (World Bank, 2019). An inclusive financial sector can therefore drive development (Cuberes & Teignier-Baqué, 2011).

The most prevalent reasons why people are unbanked include having too little money to justify the use of an account, the cost of financial services and the physical distance to a bank is too far, a lack of documentation and distrust in the financial system (Demirgüç-Kunt, 2018). The Global Microscope 2019 highlights the added challenges to women – have less access to national ID, the Internet and mobile phones than men in most countries surveyed. Social norms and institutional arrangements such as patriarchal family structures are core factors limiting women's ability to use financial services and participate in the wider economy (Cuberes & Teignier-Baqué, 2011).

How Are Savings Groups Facilitating Financial Inclusion of Women?

In this context, savings groups can provide access to basic financial services to financially excluded women through savings in small amounts, credit on flexible terms and micro-insurance (Brody et al., 2015). On average, women make up 80% of savings group members globally. Savings groups appeal to women because of the low level of documentation they require for access and can be set up at a more convenient distance than most formal financial services (Goetz & Sen Gupta, 1994; Johnson, 2004).

Women in savings groups report familiarity with handling money and independence in financial decision-making; solidarity; improved social networks and respect from the household and other community members (Brody et al., 2015; Karlan, Savonitto, Thuysbaert, & Udry, 2017) and enhanced financial decision-making capabilities (Karlan et al., 2017). Enhanced economic independence often leads to the assumption that savings groups consistently contribute to women's empowerment (Brody et al., 2015). There is little evidence *as to how* access to finance translates into improved control over financial resources, increase independence and mobility, stimulate greater investments in income-generating activities and enhance the ability to make decisions that serve the needs of women and their families better (Vaessen, 2014).

Some studies actually report a negative impact on women as a result of savings group interventions, whereby household tensions arise if men felt threatened by their wives' increased earning power and voice (Waller, 2014). CARE International Research identifies evidence that 'failing to engage thoughtfully with men can lead to negative unintended consequences, including co-option of women's resources, assets and other program benefits, and even – in some cases – a measurable increase in domestic violence or sexual harassment and coercion experienced by program participants' (Barker & Jennifer, 2010; CARE, 2012).

Fully understanding the relationship between savings groups and women's empowerment demands an examination of the empowerment domains that emerge and how programmes with different designs and components can result in different empowerment impacts.

Evidencing Empowerment in Savings Groups

A review of the evidence on savings groups concludes that the evidence of impact on women's empowerment is mixed, with only half of the most rigorous studies demonstrating a positive impact of savings group participation on women's decision-making power (Gash, 2017). Quantitative indicators of economic well-being such as access to and use of financial resources (Goetz & Sen Gupta, 1994) only provide a limited understanding of the role of savings groups in affecting various dimensions of women's empowerment, such as economic, social, political and reproductive empowerment. It also misses a broader understanding of the impact of critical mass at the community level. The lack of evidence on the contribution of savings groups to women's empowerment is partly the result of the use of inconsistent definitions and approaches to measuring women's empowerment (Alkire et al., 2013; Brody et al., 2015; Glennerster, Walsh, & Diaz-Martin, 2018).

What Does This Mean for Evolution of SG Programmes?

Savings groups have evolved from a pure methodological form of promoting financial management in the 90s to complex multidimensional programmes accounting for health, gender and education components. This confirms that savings groups offer an effective tool to reach the most excluded with an integrated package of support and services. With various agents seeking to tap into the potential of women-led businesses as a means to economic growth and job creation (Nguyen, 2012), savings groups often present an additional potential platform to support women's entrepreneurship and market engagement.

Financial inclusion policies are shifting increasingly to the promotion of digital financial services. The Global Microscope 2019 showed that while nearly four-fifths of countries surveyed have strategies or initiatives to promote digital literacy, only one-fifth incorporate a gender approach (EIU, 2019). A new focus must address the emergence of new gender gaps in technology or risk contributing to even greater disparities in access to financial services between women and men (EIU, 2019; World Economic Forum, 2018). Many countries are grappling to close the gender gap, since ‘economic development alone is insufficient to ensure significant progress in important dimensions of women's empowerment (particularly, decision-making ability in the face of persistent stereotype)' (Duflo, 2010; World Bank, 2011).

In the context of savings groups, this requires more than just being gender-conscious. It requires a critical examination of gender norms and dynamics, creation of systems that support gender equality, strengthening of equitable gender norms and dynamics and changing of inequitable gender norms and dynamics (USAID, 2017).

The following sections offers solutions to defining empowerment pathways in the context of savings groups and the measurement of outcomes in a more consistent manner based on research by Nathan Associates in a tripartite evidence and learning partnership with The SEEP Network and FSD Africa (Johnsson & Rickard, 2019).

Saving Group Empowerment Pathways

What Are the Empowerment Domains?

There are several widely used frameworks to measure empowerment, yet none are adequately applicable to savings groups. Drawing from existing approaches, the adapted framework in the Learning Brief *Women's Empowerment and Savings Groups: What Do We Know?* (2019) identifies seven domains where savings groups can be seen to contribute to empowerment outcomes. [1] These are economic independence, confidence and self-worth, decision-making, voice and leadership, time use, mobility and health and well-being, and the main components of each domain are summarised in Fig. 1.

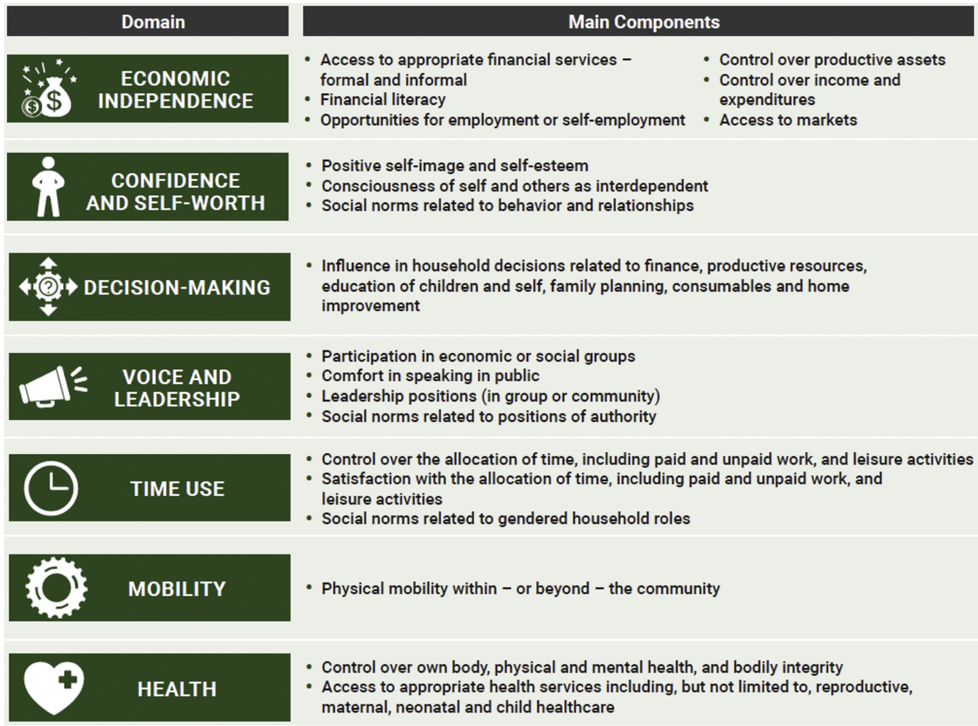

Fig. 1. Empowerment Domains for Savings Groups.

What Outcomes Can We Realistically Expect?

Savings groups are gender-conscious by design. They meet a need for improved access to finance by women, foster principles of group governance that favour women and provide a forum for women to discuss matters of shared interest. However, empowerment outcomes differ across the types of interventions applied to savings group programmes.

Three common types of savings group programmes include savings group formation and governance support only; savings group formation in combination with other economic development activities and savings group formation with an integrated gender component. [2], [3] Conducting a meta-analysis of over 30 project impact evaluations and studies, which fall into these three programme types, sheds light on the extent to which savings groups empower women across these seven domains. [4]

Evidence points to the *economic independence* and confidence of women increasing across all savings group interventions. This includes improved access to financial services and participation in income-generating activities that can enhance women's control over income and expenditure.

Women's participation in a savings group reflects increased *confidence and self-worth*, where they act in a safe space for sharing opinions and gaining advice. Positive community attitudes towards women in savings groups reinforce their confidence in their financial achievements.

The results in these two domains also reflect a more comprehensive measurement of economic empowerment, which is discussed in more detail later in this chapter.

Improvements in *decision-making* occur when an additional economic development intervention such as entrepreneurship training was combined with savings group formation. Whilst women in savings groups are appreciated for their money management skills, improved engagement in financial decision-making in specific areas, it remains limited to saving and investment planning. Decisions on large value purchases or asset sales tend to remain male dominated. Evidence of greater decision-making in non-financial areas is limited. Engaging men as part of a gendered savings group intervention delivers more favourable change here.

Programmes to form savings groups only have modest empowerment effects in the *voice and leadership* domain. This is because social norms tend to limit the channels available for women to express themselves beyond the safety of the savings group and the uptake of group leadership positions. In programmes where men and powerholders are engaged, there is more likelihood of women engaging with local authorities and other social forums and becoming role models. When a specific gender intervention is integrated with a savings group programme, improvements in women's health and well-being, mobility and use of time are more visible.

Membership of a savings group requires *mobility* to attend meetings regularly and timeously. This might be complex, since social norms may restrict women's movement, such as requiring permission to leave the home. Mobility can also be dependent on physical, gender-sensitive services such as childcare and time availability. Women's freedom of movement requires careful integrated planning.

A *lack of* time can restrict women's participation in group meetings and potential income-generating activities. Household chores and raising children are typical women's roles in many rural and poor communities where savings groups exist. Without support in these areas, women must manage their economic activities around their domestic roles complicating their double time burden. Redistributing unpaid work at the household and community level requires long-term change of social norms.

Health and well-being are central to the sustainability of any productive activity. Poor health can result from exhaustion, malnutrition, sickness and disease and mental stress. Poverty exacerbates poor health and vice versa. The majority of savings groups exist in relatively impoverished communities. Understanding gender-specific health concerns and gender-based violence, early child marriage, family planning and genital mutilation among women in savings groups, is also limited. Without targeted interventions these issues may remain unaddressed. Savings groups may not directly impact these issues, but the economic independence they create could sustain the outcomes of other health-specific interventions.

Outcomes across the seven empowerment domains for each of these programmes are summarised in Fig. 2. Not all savings group programmes intentionally strive to deliver gender-specific outcomes. This matrix acts as a reference for outcomes and assists practitioners in setting realistic expectations during programme design with regards to empowerment.

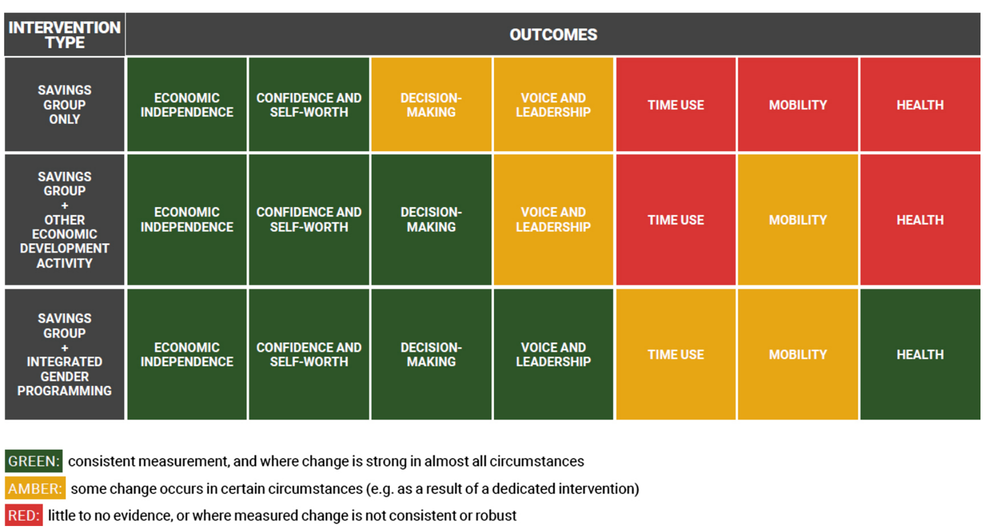

Fig. 2. Overview of the Evidence on the Contribution of Savings Groups to Women's Empowerment. *Source:* Women's Empowerment and Savings Groups: What do we Know? (Johnsson & Rickard, 2019).

The key message here is that a pure savings group formation model has limitations in terms of its gender transformative potential. In many cases it would be unfair to expect anything more based on the design intentions and resourcing available for such programmes.

Closing the Gaps in Empowerment Measurement Frameworks

How to Strengthen, Measure and Sustain Impact

Measurement frameworks for savings group programmes have traditionally focussed primarily on economic indicators. This created a knowledge base demonstrating the contribution of savings groups to economic empowerment, but little definitive evidence for other, equally important empowerment domains. When new interventions are applied, there is little guidance on what to measure and how.

This creates two dilemmas: (1) a missed opportunity to reveal the positive outcomes generated by savings group interventions and any unintended consequences feeding into learning on this topic, and (2) barriers to building a strong evidence base as data are not comparable across projects.

Prior to designing a measurement framework for a programme, there are five key issues relating to empowerment that need to be internalised.

The first is to understand that women do not constitute a homogenous group. Differences in age, life stage, location, religion, caste and other demographic characteristics impact women's empowerment barriers and interventions required – barriers encountered by an adolescent woman may differ for an older woman, or barriers may differ for women in a polygamous marriage as opposed to women in monogamous marriages or those not in a relationship.

Second, changes in empowerment are incremental and expected pathways need to be determined separately in each context. This requires a gender analysis to understand women's aspirations and the contextual barriers preventing them from achieving these goals. This may remove pre-conceptions around expected type and level of change and set realistic targets. When reference is made to the holders of power, for example, too often only men in a household are identified. It may also be other family members.

Third, it is important to plan which tools to use to extract this information from the outset. A qualitative or mixed-method approach is most effective at generating deeper responses for example (going beyond the 'what' to answer the why's and how's) but these can also be resource-intensive.

Fourth, determining exactly how data will be collected is key. Pride and trust play a big role in getting women to express their own opinions, especially expressing anything more than what is socially acceptable. Confidentiality is crucial.

Finally, it is important to agree from the start how data will be collected, used and managed. All savings group programmes collect data. Trying to compare data poses another equally difficult issue where project-specific indicators do not align.

Recommendations

Build Capacity of Key Stakeholders

The identification of key stakeholders with the potential to influence the empowerment outcomes of the programme will help to design strategies to enhance positive outcomes and mitigate any negative ones. In the majority of cases, key stakeholders will include, to some extent, local government, donors, practitioners, partner staff and possibly the private sector.

Engaging with each stakeholder early in the process can uncover where capacity building and knowledge enhancement of gender-specific issues within savings groups is required and can then be prioritised and integrated within programme design.

When all stakeholders are knowledgeable of the barriers to women's empowerment issues and their impact on development, they are better equipped to understand the value of a gendered approach to savings group implementation.

The private sector is becoming an increasingly important stakeholder as savings group programmes evolve to include market actors, such as linkages with financial institutions and commercial relationships with agricultural input providers.

Improve Collaboration among Stakeholders

High-quality and relevant capacity building strategies need to be aligned with the most up-to-date evidence available. This places a large responsibility to collect good quality and comparable data, supported by management information systems.

The monitoring and results' measurement toolkit developed by FSD Africa, Nathan Associates and The SEEP Network (2019) aim to improve collection and management of data (Rickard, 2019).

Engagement between practitioners across projects, organisations and sectors will also enhance learning on women's empowerment. Numerous platforms exist to support collaboration already including The SEEP Network's Women's Economic Empowerment Working Group, FinEquity and EMERGE.

In conclusion, savings groups are widely recognised for their contribution to the economic independence of women through financial inclusion. However, the social empowerment of women in savings groups is necessary to sustain and expand the economic gains achieved by women. To achieve truly gender transformative outcomes, across all domains of women's empowerment, more purposeful programme design, monitoring and results measurement is required. That will generate more evidence and shared knowledge to strengthen the pathways in which various savings group interventions are contributing progress towards SDG Goal 5.

Table 1. Project Evaluations and Studies Included in Analysis.

Number	Study Reference
1	Abebe, S. and Bahre, H/selassie. (2009). *Report on impact evaluation of WORTH literacy-led savings and credit program*. Pact Ethiopia, Addis Ababa.

Number	Study Reference
2	Allen, H. (2009). *Impact and programme evaluation of plan and UHIKI's joint VSL programme in Tanzania*. Plan/VSL Associates.
3	Allen, H. (2015). *Programme review of CARE Rwanda's Scale Up Project*. *Draft*. VSL Associates: pp. 1–39.
4	Anyango, E., Mvula, J., Maulana, J., Sikero, M., luke, I. and Gondwe, O. (2005). *CARE Malawi central region livelihood security project impact assessment report on village savings and loans component* (*VS&L*). Lilongwe and Dowa Districts: pp. 1–39.
5	Barclays, CARE UK, Plan UK. (2016). *Banking on change phase 2*. *Final report*. Reporting Period: 1 January 2013–31 December 2015, pp. 1–83.
6	Baro, M., Beaman, L., Greenberg, J. and karlan, D. (2013). *Final impact evaluation of the saving for change program in Mali*, *2009–2012*. Bureau of Applied Research in Anthropology, University of Arizona, and Innovations for Poverty Action. Evaluation commissioned by Oxfam America and Freedom from Hunger, pp. 5–215.
7	Boyle, P. (2009). *Evaluation of impact of the Tougouri Pilot Project and establishment of baseline data for Phase II*. Plan Burkina Faso Namentenga Village Savings & Loan Project.
8	Brody, C. M., De Hoop, T., Vojtkova, M., Warnock, R., Dunbar, M., Murthy, P. and Dworkin, S. (2015). *Economic self-help group programs for improving women's empowerment: A systematic review*. The Campbell Collaboration, pp. 4–182.
9	Cameron, S. and Ananga, E. (2013). *Savings groups and educational investments*. Commissioned by Plan UK, with Funding from its Programme Partnership Arrangement with the UK Government, pp. 1–55.
10	CARE International, Mondelez International's Cocoa Life program. (2015). *Emerging best practices of women's leadership within cocoa farming in Ghana and Côte d'Ivoire*. London, pp. 1–60.

Number	Study Reference
11	Davina and Qualispess Consultancy. (2015). *End line survey for banking on change project for carryover groups*. Submitted to CARE Kenya, pp. 1–39.
12	Datassist. (2017). *Care link up final report*. *Evaluation of key learning questions*. Submitted to CARE, pp. 1–41.
13	Downen, J. and Banwart, L. (2016). *Care we-rise final evaluation Tanzania*. Tango International, Technical Assistances to NGOs, pp. 1–156.
14	Downen, J. and Banwart, L. (2016). *Care Tanzania pathways project endline report*. Tango International, Technical Assistances to NGOs, pp. 1–141.
15	Edmeades, J. and Hayes, R. *Evaluation report for the TESFA* (*towards economic and sexual reproductive health outcomes for adolescent girls*) *project*. International Center for Research on Women, pp. 1–50.
16	Forcier Consulting, CARE. (2016). *Improving resilience through village savings and loan associations*, pp. 1–60.
17	Gash, M. (2017). *Understanding the impact of saving groups*. *A typology of relationships between saving groups and financial service providers*. SEEP Network and FSD Africa, pp. 1–30.
18	Gash, M. and Odell, K. (2013). *The evidence-based story of savings groups: A synthesis of seven randomized control trials*. A publication of the Savings-led Financial Services Group at SEEP, pp. 1–56.
19	JMK Consulting, LLC. (2015). *Banking on change II. Transforming lives of poor communities*. Endline survey and impact assessment report carry-over groups, Ghana. Legon: Accra, pp. 1–70.
20	Karlan, D., Savonitto, B., Thuysbaert, B. and Udry, C. (2017). 'Impact of savings groups on the lives of the poor'. *Proceedings of the National Academy of Sciences*, vol. 114, no. 12, pp. 3079–3084.

Number	Study Reference
21	Kagwa, A. R. (2016). *Boc II endline report (final draft)*. Plan International, pp. 1–66.
22	Kemigisa, M. (2015). *Youth rolling endline survey report*, *Uganda*. *Banking on changing*, pp. 1–58.
23	Kilimanjaro Consulting. (2017). *Extracting best practices and lessons learned from pastoralist afar girl's education support* (*pages*) *project*. *Final report*. Submitted to CARE Ethiopia. Addis Ababa: Ethiopia, pp. 1–72.
24	Makoka and Associates. (2016). *End of project evaluation for ANCP Malawi microfinance project*. *Final report*. Lilongwe: Malawi, pp. 2–24.
25	MkNelly, B. and Kevane, M. (2002). 'Improving design and performance of group lending: Suggestions from Burkina Faso'. *World Development*, vol. 30, no. 11, pp. 2017–2032.
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28	Plan International. (2016). *Banking on change*. *Carry-over endline survey report–Zambia*. Lusaka: Zambia, pp. 1–48.
29	Rwanda, CARE. (2012). *Mind the gap: Exploring the gender dynamics of CARE Rwanda's Village Savings and Loans* (*VSL*) *Programming*. Care International in Rwanda, pp. 1–32.
30	Stern, E., Heise, L. and McLean, L. (2018). 'The doing and undoing of male household decision-making and economic authority in Rwanda and its implications for gender transformative programming'. *Culture*, *Health & Sexuality*, vol. 20, no. 9, pp. 976–991.

Number	Study Reference
31	Sutter, P., Sutter, S., Brown, V. (2016). *Care we-rise ethiopia endline evaluation*. Tango International, Technical Assistances to NGOs, pp. 1–69.
32	Teruneh Zenna Business and Management Consultancy, TZBMC. (2015). *Berchi or 'be strong' project end line evaluation (final report)*. Addis Ababa: Ethiopia, pp. 1–196.
33	USAID/Ethiopia and Social Impact, Inc. (2017). *Graduation with Resilience to Achieve Sustainable Development* (*GRAD*). *Final performance evaluation*, pp. 1–105.

Notes

1. Key empowerment frameworks include IFPRI Women's Empowerment in Agriculture Index and CARE's Women's Empowerment Framework.
2. Economic development activities may include but not limited to life skills training, enterprise selection planning and management training, facilitating market access and further financial education.
3. Integrated gender components include gender transformative approaches such as engagement of men and other powerholders, dialogue on gender roles and sexual and reproductive health training.
4. A list of these projects can be found in Table 1 .

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*This chapter is written by one of the authors of '*Women's Empowerment and Savings Groups*: *What Do We Know?*' The findings from this publication largely inform this chapter.

Part 2
Country Chapters

Chapter 5

Saving Groups in Burkina Faso

Sakola Djika Ali and Sako Siembou

Keywords: Savings groups; financial inclusion; ecosystem; economic effects; social capital; financial service; mobile banking; rural populations

Introduction

Savings groups capture an important component of social capital between their members. The World Bank's development report presents increased social capital formation as a major strategy for poverty reduction. According to Putnam (1993), it increases a community's productive potential in several ways by promoting business networking, sharing prospects, equipment and services, joint ventures, faster information flow and more agile transactions (Wilson, 1995). It thus creates local economic prosperity (Coleman, 1988, 1990; Fukuyama, 1995; Putnam, 1993). The social capital approach can contribute both to poverty eradication and social stability, as well as to economic development. United Nations Educational, Scientific and Cultural Organization (UNESCO)'s concerns about the problems of poverty, exclusion, inequality and their impact on human rights could be addressed through this approach.

Lack of access to credit is often cited as one of the main causes of poverty in the world in general and in developing countries in particular. For the poor, money is a matter of absolute survival. Credit is often used to develop income-generating activities (IGAs), to feed, to care for themselves, to finance their children's schooling, etc. When they need to, they do not hesitate to go to pawn shops to relinquish their prized possessions for a meager amount that contributes to keeping the poor in their precarious conditions.

Savings groups could be an interesting strategy to deal with the negative effects of over-extended borrowing. Indeed, savings groups are a small group (15–20 members), formed voluntarily and bound by affinity for specific purposes. It is a group whose members use savings, credit and social commitment as instruments of accountability. Savings groups are often informal associations of people who choose to come together to find ways to improve their living conditions. They help to build social capital across society, especially among women. The most important functions of a savings group are (1) to encourage and motivate its members to save, (2) to persuade them to make a collective plan to generate additional income and (3) to act as an intermediary for formal banking services to reach them (Sundaram, Sabesh Manikandan, & Premkumar, 2016). These groups function as a collective guarantee system for members who offer to borrow from organised sources.

However, there are virtually no comprehensive overview studies that address savings groups as a whole in Burkina Faso. However, it can be said that 'the country has a long tradition of organized savings and solidarity practices that can be traced back to traditional associations of mutual aid and solidarity such as the "sossoaga", the "songtaaba", or the "tone", which are forms of mutual aid and solidarity in rural work or at the financial level, found in village communities' (Zett, 2013, p. 7). These practices have since evolved and several names are used to refer to savings groups in Burkina Faso. This includes *tontines*, village groups, mutual societies, savings and credit cooperatives and other associations.

These practices have since evolved, giving rise to several forms of savings groups in Burkina Faso. These features distinguish *tontines* from village groups, mutuals, credit unions and other associations. Each savings group has its own specificities. The Community of Savings and Internal Credit (CSIC), for example, is a type of community-based Cumulative Savings and Credit Association (CSCA). The CSICs are based on the CSCA model developed by CARE in Niger ('Mata Masu Dubara' or 'dynamic women in action' project, better known as MMD) and incorporate a number of adaptations and innovations specific to Catholic Relief

Services (CRS) (Bavois & Vanemeenen, 2012). CSCAs themselves are the result of an improvement in the traditional rotating or rotating funds or ROSCA (Rotating Savings and Credit Association) that are found in many communities around the world.

Savings groups are an emerging movement in which members of savings groups save together, lend each other their savings with interest and share the profits. These savings groups have little connection to the formal financial system. Microfinance institutions (MFIs) are increasingly using these groups to penetrate rural areas in order to facilitate access to finance for rural populations. Indeed, the Grameen Bank's successful experience in providing financial services to more than two million poor people (mainly women) in Bangladesh through group solidarity loans has fostered many Grameen-type replications around the world during the 1990s. According to Paxton, Graham, and Thraen (2000), lending to the world's poor through groups rather than individuals has become an increasingly popular tool for poverty reduction. Several NGOs have also used this channel as part of their development activities. However, the domino effect could be a negative externality associated with group lending. Besley and Coate (1995) made one of the most insightful contributions to group lending theory. In their group loan repayment game, the authors show how the default of a group member can lead to a secondary default of a member who would otherwise have repaid an individual loan (Paxton et al., 2000). In any sector, the first group may fail for a number of reasons, but once this happens, the whole sector tends to collapse. According to Konrad Ellsasser, founder of PPPCR, the success of group loans can be compared to that of an aircraft: if a single part fails, the aircraft cannot fly.

Many case studies on the functioning of local associations have argued that voluntary organisations that have their roots in the community are more effective than externally imposed or mandated groups (Narayan, 1995; Ostrom, 1995; Uphoff, 1992). Savings groups in Burkina Faso have a long tradition; according to one study, 83.7% of memberships in savings groups in Burkina Faso were created through a community-based process, even although the vast majority of farmers' associations, village groups and social associations were created at the initiative of the government (Grootaert, Oh, & Swamy, 1999).

The organisation of these savings groups depends on the type of group. For example, the Réseau des Caisses Populaires du Burkina (RCPB) does not have the same organisation as a *tontine*. The RCPB has a more sophisticated way of being organised than other grassroots groups. The level of organisation of savings groups may or may not facilitate their inclusion in the formal financial system.

The utility of savings groups in Burkina Faso is evident; the problem is rather oriented towards establishing links between these groups and market players. The majority of the population is illiterate and financial institutions as a whole, whether commercial banks or microfinance agencies, are very centralised and concentrated and rarely present in rural communities where most members of savings groups live. The use of digital financial services could be considered. However, the illiteracy of the population will be a major obstacle.

This chapter summarises various articles that have been written on the subject, although it is important to note that the majority are not based on academic research. The lack of scientific research on savings groups in Burkina Faso suggests that there are many opportunities for further research. This analysis will highlight some knowledge gaps and suggest research avenues for academics.

Savings Groups and the Formal Financial Sector in Burkina Faso

Savings groups are generally local initiatives to address the poor access of the members to the formal financial system. They are most concentrated in rural areas. These savings groups can be a springboard for rural populations to access the formal financial sector. The socio-economic characteristics of households living in rural areas make it much more difficult for these households to generate incomes that fall outside the poverty line. Indeed, according to Institut National de la Statistique et de la Démographie (INSD), in Burkina Faso, monetary poverty indicators show that in 2014, 40.1% of the population lived below the poverty line, estimated at USD 307.06, against 46.7% in 2009, for a line of USD 216.91. Poverty is predominantly rural, with an incidence of 47.5% compared to 13.6% in urban areas (INSD). Formal financial institutions, whether banks or MFIs, are more concerned about economic performance than social performance. The risk of insolvency is therefore higher in rural areas than in urban areas. The data from the 2002 Développement International Desjardins (DID) survey on the impact of savings and credit cooperatives in Burkina Faso show that, in addition to the increased dispersion of clientele and the risk associated with financing agricultural operations that are often vulnerable to climatic and market risks, these institutions serve a poor clientele who, at any given time, will be asked to use the loan money for more vital and urgent purposes than those of conducting their economic activities (nutrition health problems). A study on African finance shows that microcredit is more effective in African urban areas (Aburgr, 1993). This finding was supported by the model which showed that repayment problems were more likely to occur in rural areas. It is well known that financial institutions face many challenges in rural areas, while these institutions are focussed on risk reduction.

Despite these difficulties, the DID study report highlights a marked perceived impact of MFIs in general and credit unions in particular in their community. The most important factor is the availability of financial services. Most respondents had no access to a formal savings and credit systems before the caisse arrived in the community (Larocque, Kalala, & Gaboury, 2002). The establishment of cash registers is therefore not only an alternative but also a completely new opportunity to have access to quality and controlled financial services. In the rural areas where they are located, the use of caisse services has been to the detriment of the informal sector. As a result, the caisses have had a significant impact on the development of rural banking. However, these funds are not widely used in rural areas. Researchers could consider studies on the adjustment of methodologies to the environment (rural/urban) and also on distribution networks located in both rural and urban areas, thus playing on the effects of ‘inter-client subsidies’.

Savings groups can also facilitate access to credit. Poor households are generally unable to provide guarantees to obtain credit from formal lenders and often have to rely on local lenders or collective credit. The data allow us to assess whether households with active participation in local associations are more likely to have received loans (Grootaert et al., 1999).

The development of digital financial services and the role that financial institutions may wish to play in investing in this sector could be the key lever that should be used to promote the financial inclusion of savings groups in the formal financial system. Thus, Freedom from Hunger, after carrying out a promising feasibility study at the end of 2012, officially launched a pilot project whose report was published in 2015 to facilitate the establishment of financial links with savings groups in northern Burkina Faso (Passoré Province) via Airtel Money product, in collaboration with Airtel Burkina and Ecobank Burkina.

In Burkina Faso, the study focussed on savings groups supported by local NGOs implementing Freedom from Hunger's Saving for Change programme and savings groups supported by local NGOs in partnership with the Stromme Foundation, which also promotes the Saving for Change methodology in Burkina Faso. During this research work to identify appropriate financial products and potential financial institutions with which partnerships could be established, Freedom from Hunger discovered Airtel Money, a mobile money product launched in May 2012 by Ecobank Burkina and Airtel Burkina. The results of this study show that savings groups promote the integration of members of these groups into the formal financial sector.

At the end of the pilot project, 148 Savings Groups had opened Airtel Money savings accounts and made deposits for an estimated total amount of USD 10,374. The modest level of Airtel Money deposits can be explained by the lack of confidence of savings group members in a relatively new product and the fact that many groups had already distributed (or were preparing to distribute) their funds when it came time to open savings accounts. During the last six months of the pilot project (March to September 2014), the average balance on Airtel Money accounts opened for SEMUS and ODE was USD 67, the average savings deposit was USD 78 and the average withdrawal per group was USD 11 (Loupeda, Ouédraogo, & Gash, 2015).

According to the same study, by the end of September 2014, 64% of savings groups that had opened an Airtel Money savings account had become eligible to open an Ecobank account and had indicated their willingness to do so.

Some savings groups have decided to establish links with both the Airtel Money account and the Ecobank savings account, some only with the Airtel Money account and some with neither (Freedom from Hunger, 2015).

Groups that establish links with Airtel Money and Ecobank do so because they understand that their funds earn interest and because the funds are safe. Some of these groups also want to benefit from the experience of using the services of a formal financial institution and follow the recommendation of their NGO facilitator, as well as what they have learned through financial education about the relationship building process.

Groups that link only to Airtel Money accounts say they also link to Airtel Money because they care about the security of their group's funds, but some acknowledge that a link to Ecobank could also give them access to loans, indicating that groups that are only linked to Airtel Money at the moment may wish to link to Ecobank later.

Among the groups that do not wish to establish a link with either one, some do not think they have enough funds to deposit, others are concerned about not being able to access their funds at any time to give loans to members and others have reservations about the Airtel Money system because they do not fully understand how it works.

The Economic Effect of Savings Groups in Burkina Faso

In Burkina Faso, there are several types of savings groups. There are *tontines*, village savings and credit groups, village savings and credit cooperatives, mutuals and savings and credit cooperatives. There is little literature on the economic performance of savings groups in Burkina Faso. Nevertheless, a study carried out by Kalyta Partners in 2017 on the effects and impact of informal savings groups, mutual solidarity societies (MUSOs) in Burkina Faso and the Democratic Republic of Congo provides us with some evidence. It should be noted that this study focussed only on MUSOs. The results of this study show that for nearly 40% of Musoniers, loans have made a decisive contribution by enabling them to increase their working capital and/or launch a new activity or restart their IGAs after a shock (Kalyta Partners, 2017). Indeed, the value of the loans (small amount) and the very short repayment period of the loans (small amounts repayable over a very short period) ensure a good internal rotation of the Green Fund's loans and promote the financing of working capital over short cycles. Generally speaking, the credits granted by savings groups do not exceed one operating cycle (one year). This is due to the characteristics of the economic activities of the members, which are generally agricultural. It should be noted that MUSO's resources come from two types of payments by its members into funds identified by a specific colour. The red fund is a solidarity fund funded by contributions. It can be used to support a member facing a life event. The green-coloured fund is funded by members' savings.

The outcome of the MUSOs on strengthening the productive assets of their members is mixed (Kalyta Partners, 2017). Indeed, the study reveals that for nearly 50% of Musoniers, there is no effect of MUSO on the improvement of their material assets. The characteristics of the loans are not necessarily adapted for this type of financing, either because of their short duration (green or blue box) or because of their amount (green box). However, for the other half of the Musoniers surveyed, MUSO made it possible to acquire essential productive assets that made it possible to improve their ability to generate income (case of equipment related to sewing, weaving and especially the fattening of animals in the context of fattening activities). Equipment as well as fattened livestock, beyond their impact on income, can be mobilised and sold to respond to a crisis that the household would face. This will be referred to as a distress sale.

Although financial markets work very well, in any economy, most households sell or trade their assets by constraint. This is a step backwards in the quest for their well-being. A household is said to engage in a distress sale if, faced with an income shock, it is forced to sell a property because it cannot borrow to cope with the emergency. In Burkina Faso, as in many poor countries whose economies are dominated by agriculture, incomes are not only very low but also vary in size. As agriculture is confronted with climatic hazards, crop yields can vary due to shocks. In addition, other personal factors, such as illness, are sources of income reduction by increasing their vulnerability. Several solutions are possible to overcome this uncertainty. The first is to take measures to reduce income variability, opting for diversification in different dimensions. This diversification could be the choice of a risk-reducing crop mix, the cultivation of several nonadjacent plots with different soil qualities, or the practice of different professions by family members (for example, a family member migrates to the city). Reardon, Delgado, and Matlon (1992) demonstrated the effectiveness of income diversification as a means of smoothing consumption in Burkina Faso. The second approach commonly used to smooth consumption in the face of income variability is personal savings. However, given very low average incomes and high variability, a household may face a significant risk despite the adoption of such measures. Another method to reduce variability in consumption is also widely used: risk sharing with neighbours, relatives or friends. A household that receives an income shock may receive loans, gifts or work, etc., to help it overcome the emergency situation, pending reciprocity.

The potential role of risk pooling in smoothing consumption fluctuations in Burkina Faso was convincingly highlighted by Carter (1997), using a detailed household level data set compiled by the International Crops Research Institute for the Semi-Arid Tropics. Risk pooling is only beneficial if a significant proportion of income shocks are idiosyncratic, i.e., infrequent in households. Carter (1997) points out that although agriculture in Burkina Faso is vulnerable to large aggregate shocks, households are also subject to many idiosyncratic shocks. [1] Rainfall can vary not only from one agro-climatic region to another but also from one village to another or even from one field to another. Household-specific shocks can also occur due to damage caused by animals, diseases, etc. Based on its estimates of the relative importance of aggregate and idiosyncratic risk, the Carter simulation exercise suggests that a typical Sahel household, if fully dependent on self-insurance, will face a livelihood crisis with a probability of 0.21 in a given year. [2] However, if 10 households form a network and agree to give (if necessary) all of their subsistence income to a household that falls below the subsistence threshold, this probability drops to 0.16.

The results of Grootaert et al. (1999) show that the most interesting explanatory variable is COMMEAN, the proportion of village households that depend on community credit institutions. Their main conclusion is that a household living in a village where all households are most likely to receive emergency assistance from a community lending institution is 42% less likely to have a distress sale than if it lives in a village where none of the households are likely to receive emergency assistance from a community institution. Savings groups can then significantly reduce distress sales that push households to consume their productive assets.

Savings groups therefore have a positive economic impact on households.

Social Results of Savings Groups in Burkina Faso

In Burkina Faso, we are witnessing precarious health conditions in general and those of mothers and children in particular, linked to workloads, multiple and frequent pregnancies, diseases such as malaria, acute respiratory infections, diarrhoea, HIV/AIDS, etc. The health situation of women is characterised by even higher mortality and morbidity rates. Due to unsanitary deliveries, the prenatal mortality rate was 134.6 per 100,000 in 2016 (INSD, 2018). The factors that explain this health situation are, in addition to ignorance and poverty, the burden of domestic activities, inadequate sanitation and drinking water supply. IGAs promoted by access to credit through savings groups enable women to feel useful not only to their children but also to their communities and to develop greater self-esteem. As a result, they participate in family decision-making, of which girls' education is one of the key issues. They therefore have a say since they have acquired the esteem of their husbands. On the social level, these are effects that contribute to making women a key actor in social mobilisation, since women feel valued for defending an important cause such as girls' schooling. In addition, with regard to the IGAs they conduct, women have arguments that support the need to send girls to school, rather than keeping them at home to help mothers with domestic tasks. It is therefore an important impact to know that women, through their participation in family decision-making, are key links in the interest of letting girls go to school than keeping them at home.

The schooling of children is also a financial imperative. Women spend a higher proportion of their income on household consumption than their male counterparts. From both a commercial and public policy perspective, there is a strong case for focussing on women in the provision of loans. In Burkina Faso, as part of the evaluation of the implementation of IGAs by

MEAs, 68.2% of women surveyed reported participating in current household expenses while 66.5% reported participating in the financial coverage of children's needs. Women spend 68.2% of their income on it (evaluation of the implementation of IGAs by MEAs, final report August 2017, p. 35). Children of women in savings groups who use credit benefit because they are more likely to attend school full-time and fewer drop out. Studies show that the new income generated by the microenterprises created from these loans is invested primarily in children's education, and that it is girls in particular who benefit. Households of women in savings groups also appear to have better health and nutritional practices than those who are not members.

Savings groups promote social cohesion. MUSO is a group of people who decide to join forces to meet concrete financing needs. The ideal size of a MUSO, according to its promoters, should be between 15 and 30 members (Kalyta Partners, 2017). In reality, the size of MUSOs is very variable and the ideal threshold of 30 members can be greatly exceeded. MUSO is based on principles of solidarity, self-promotion and self-management. The MUSO has a decisive positive effect on the coverage of at least two basic needs: food security and health. By becoming a member of a MUSO, the Musonier has a wider range of means to prevent shocks and above all to manage them afterwards.

In addition to the MUSO, the tontine is at the same time a savings instrument, a credit system, a gathering of friends for exchanges of ideas, a dating club, a network of social influence, a place to share family joys and a support group for difficult moments, especially for bereavement. In fact, each member has its own advantages. All these responsibilities allow it to strengthen social ties for greater social cohesion.

However, Sanov (1992) concludes that in Burkina Faso, tontines were reserved for men rather than women. According to the latter, in Burkina Faso, 51% of tontines are exclusively reserved for men and 36% for women. And 13% are mixed. These results could lead us to think of social exclusion and marginalisation of the female gender since more than half of the tontines are reserved for men. This situation is due rather to the configuration of Burkinabe society, which makes women into domestic beings rather than encourage participation in tontines.

Savings Groups and the Wider Ecosystem for Financial Inclusion in Burkina Faso

The ecosystem of savings groups in Burkina Faso is now very different from its beginnings at independence, despite less dynamic development than in other parts of the world, but with significant potential for growth and innovation.

Burkinabe populations have always saved money. To do this, they very often use informal financial mechanisms such as the 'tontine' (pooling of funds in a sum that is redistributed alternately to group members). It is a culture that favours the growth of savings groups. This culture promotes the sustainability of savings groups initiated by international and national NGOs. Indeed, after the launch phase, the population with the savings culture takes ownership of the tool.

In recent years, the environment for MFIs has changed. This has allowed the sector to develop and organise itself better. Thus, there are the bodies in charge of promotion (the Permanent Secretariat for the Promotion of Microfinance and the Professional Association of Decentralized Financial Systems of Burkina Faso) and the bodies in charge of supervision (the Ministry of Finance, Central Bank of West African States and the Banking Commission). The bodies in charge of promotion are responsible for monitoring and evaluating the implementation of the government's general policy on the promotion of microfinance, as well as for ensuring the representativeness of all the country's decentralised financial systems (DFS) and the role of the DFS as a key interface between them and other actors in the sector. To this end, it ensures the coordination and strategic monitoring of support to the microfinance sector and participates in the capacity building of its members and the development of the sector as well as the defence of its members' interests. With regard to the bodies in charge of supervision, we have first of all the Ministry of Finance, which is the supervisory authority for DFS and ensures the supervision of DFS through a technical department of the General Directorate of the Treasury and Public Accounting; secondly, the BCEAO, which has set up a central services department responsible for microfinance; and, finally, the Banking Commission of the WAMU, which also intervenes in the supervision of the sector, mainly through the control of large financial DFS, the characteristics of which are specified in Article 44 of the law regulating DFS in Burkina Faso. This organisation allows MFIs to operate in a healthy environment and facilitate the financing of savings groups.

Commercial banks have also experienced a boom in recent years. We are witnessing the arrival of new banks in the country's banking landscape. The former banks are focussing on devolving their services in order to be local banks to better serve their customers. The development of these banks could allow savings groups to be taken into account in their development strategies. Thus, mobile money and remote banking also represent an opportunity for banks to enter the microfinance segment through savings groups. In Burkina Faso, telephone operators have been offering financial services via mobile phones for some years now. These are ‘orange money’ and ‘mobicash’ which are widely used. This allows people in rural areas to index their accounts to their phone numbers in order to facilitate access to financial services for these populations. However, the illiteracy of a large number of the rural population in Burkina Faso could be a barrier to the use of these products.

Cross-cutting Themes

There is a real challenge for the growth of savings groups to place new technologies at the heart of strategy and operations. For example, the use of mobile banking services could improve access to finance, support services, networking and distribution networks. Telephone networks and financial institutions must therefore work in tandem. Today, most of them are now telephone operators' service providers. By taking greater ownership of mobile money tools and developing mobile banking, operators will be able to reduce their transaction costs, especially in rural areas, and strengthen financial inclusion (Attali, 2014). For example, PlaNet Finance and the Agence française de développement (AFD) recently supported the government of Burkina Faso in identifying the best strategy to promote the development of mobile banking in the country. According to Attali (2014), the use of biometrics or speech recognition programmes will extend access to microfinance for those still excluded and facilitate the establishment of agent networks by preventing fraud, should make it possible to innovate in the design and delivery of services and enhance the impact of financial inclusion. This has led to the expansion of rural financial services and improved access in rural areas through the development of branchless banking services.

With population illiteracy, knowledge management activities for rural populations are likely to lead to behavioural change at the sector level and evidence-based development (e.g., people-centred product design) and strengthened financial services adapted to the needs of rural households.

Burkina Faso Case Study: Savings Groups as a Mechanism for 'Banking' the Rural Poor

Burkina Faso is a poor Sahelian country that is particularly vulnerable to climatic hazards and faces food insecurity issues. The United Nations Development Programme (UNDP) estimates in 2016 that 43.5% of the populations live on less than one dollar a day. Its economy, based mainly on agriculture, livestock and trade, is facing difficulties related to financing issues.

With an estimated banking rate of less than 20%, the vast majority of the population does not have access to the traditional banking system. This vulnerable population does not always have access to a savings service that allows them to secure their income and finance a remunerative activity. Lack of access to financial services penalises poor farmers and rural dwellers. Rural populations, for example, need credit to invest in their farms and small businesses to smooth their consumption and to protect themselves against climatic hazards and economic shocks. It is in this context that the savings group (village banks) is seen as a tool that can help improve living conditions by offering financial services to those excluded from the traditional banking system. To carry out this case, we interviewed three actors, namely the Managing Director of the Bank of Africa Burkina Faso (BOA-Burkina) which is a commercial bank, a branch manager of the Caisse Populaire d'épargne et de Crédit du Burkina (an MFI) and a member of a village bank (savings group).

The rapid development of the microfinance sector in general (savings group in particular) in Burkina Faso shows that savings meet a real need of the population and that it is possible even in remote areas where the traditional banking system does not operate. It meets the need to hybridise security savings methods, reduce dependence on loan sharks, control spending and access to credit.

According to Central Bank of West African States (BCEAO)'s DFS indicators, the country includes 85 MFIs and 402 service points for 2,247,812 clients/members at the end of 2014. The total amount of deposits amounts to USD 30,387,000 and the outstanding loans to USD 221,530,000.

MFIs generally rely on savings groups to operate in remote areas. Indeed, by taking an interest in the case of the caisse populaire, it intervenes through village caisses in remote areas that serve as local relays. These village funds are groups of people who manage their finances at the local level. These village banks are savings groups. The members of the village fund who are a member of the community are the focal point who reports to the community facilitator or agents.

Village banks mobilise members' savings and open an account in the name of their association (village bank) in the books of the caisse populaire. From the savings collected, loans are granted to members who have financing needs. These village caisses therefore act as financial intermediaries among caisse members. They are adapted to the realities of rural areas. They collect small amounts of money from members who have excess liquidity at different times of the year and lend it to members who need it. They only use the credit union's credits when necessary.

In case of financing need, the village fund expresses the need to the facilitator, who is responsible for obtaining the loan on behalf of the village fund. The person in charge of the village caisse is responsible for distributing the credit to members who need it. Through savings groups, the issue of guarantees that impede the poor's access to financial services in general and credit in particular is partly resolved. The village caisse is the guarantor of the members, because the reimbursement is made with the support of the association manager (village fund). If one of the members defaults, the others are required to repay in the place of the defaulting member. For this reason, associations are formed by affinity to avoid this kind of situation. In addition, there is the possibility for each member to have an individual account at the caisse populaire level. When the member of the village caisse manages to develop his activities, he can open an individual account in addition to the collective account. But as far as the individual account is concerned, access to credit is conditional on the provision of a guarantee. The provision of collateral is not always easy for rural populations with a poor majority who do not have assets that can be used as collateral.

For Burkina Faso's MFIs, savings are higher than credit. Total deposits are often twice as large as total loans. This reflects the interest that rural populations have in financial services. Contrary to popular belief, rural populations do not only need loans. Given the seasonal nature of their activities, they need savings services to secure their income until the lean season. Members through village credit unions make significant deposits at the credit union level.

Generally speaking, the major problem that affects the proper functioning of these savings groups (village banks) is the illiteracy of members. This situation poses management problems for these village funds. The maintenance of accounts requires a certain level of education. Secondly, the characteristics of the activities (generally very volatile) of rural populations mean that in the event of illness during a member's active period, the member becomes insolvent and therefore unable to honour the annuity when it expires. Finally, it appears that the mobility of some members puts savings groups at risk. Indeed, the departure of a member can disrupt the entire system set up by the savings group.

In the particular case of women, the loans granted to them are most often misappropriated by their husbands. This is explained by the social situation of women in rural Burkina Faso. Indeed, they are most often under the total domination of their husbands.

Commercial banks target the rural population with an informal organisation less. Even if they sometimes address rural populations, they do so with a number of precautions. For example, BOA-Burkina offers financial services to cotton producer groups (GPCs). This bank grants season credits to cotton producers through the GPCs. These GPCs must be identified by the Fibre and Textiles Society (SOFITEX). It is on the basis of their identification code by SOFITEX that they are financed by the bank in agreement with SOFITEX. It is obvious that with secondary banks collaboration is less easy with traditional savings groups, which are more often than not informal. But for women's groups that are officially created, i.e., registered with the Ministry of Territorial Administration, they can benefit from funding from commercial banks. The prudential management rules of secondary banks make it impossible for rural populations to use their services initially. These populations, with the services offered by savings groups, will be able to develop their activities as well as their financial culture and integrate themselves into the formal financial system over time.

In view of the important role of savings groups in the financial inclusion of rural populations, it is important to remove the constraints that hinder its financial intermediation activities. To achieve this, the following actions can be used:

- The organisation of literacy activities to enable the leaders of savings groups to better manage their structure;
- The diversification of members' activities and the proposal of products that take into account the specificities of members;
- Raising women's awareness of their responsibility when they are recipients of credit. At the end of this case study, it appears that savings groups are essential partners for MFIs. They are in fact an important lever for the financial inclusion of rural populations. Despite their significant potential, certain characteristics inherent in rural areas hinder the development of savings groups in Burkina Faso.

Notes

1. For example, in the Sahel region, the average annual yield of millet per hectare was 504 kg in 1981 and 205 kg in 1980 (Carter, 1997, p. 562).
2. Carter defines a livelihood crisis as the consumption of less than 200 kg of grain per capita in a year.

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Chapter 6

Savings Groups in Cameroon

Cyrille Michel Bertand Onomo and Raphaël Nkakleu

Keywords: *Tontinne* ; deposits; financial system; communities; social insurance; microfinance

Savings Groups in Cameroon

Finance in Cameroon comprises formal and informal institutions. This sector recently went through major changes and restructuring. More comprehensive regulation aims to prevent crises and limit risks. Microfinance Institutions (MFI) were welcomed with euphoria in its genesis and has become more professionalised and modernised. Crisis and bankruptcies in MFIs are less common. Savings groups like the ROSCA (Rotating Savings and Credit Association) and village or community banks which were expected to lose appeal due to the development of microfinance and banking (Kemayou, Guebou, & Madiba, 2011) remain a significant player in the social and entrepreneurial dynamics of economic actors on the perimeters of traditional systems.

In Cameroon, there are two main types of informal self-aid financial structures: those that accumulate funds and those that collect funds and distribute them to their members (Bouman, 1994). The latter type, comprised of ROSCA, is the group in Cameroon most studied by researchers (Tankou & Adams, 1994). Research on ROSCA was abundant until the 1990s, focussed mainly on the Bamileke people (Creusot, 1999). Amongst the Bamileke in Western Cameroon, the majority of adults are members of the savings groups. Three-quarters of inhabitants in Bamileke villages belong to ROSCA (Harteveld, 1972, cited by Bouman, 1977). ROSCA members bring periodic contributions, and the total sum is handed to a member on a rotating basis (Tankou & Adams, 1994). The contribution is by mutual agreement at a given interval (Bouman & Harteveld, 1976; Parrot, 1998).

All ROSCAs do not have the same configuration. There are two main types of ROSCA: those with a primary social function and those with a financial function. In the first case, the mode of credit distribution is based on a system of ballots, or on a previously determined order depending on the social problems encountered by the members or on the profitability of the projects to be financed. In the latter case, the rules of credit distribution are dependent on market mechanisms. There is a price associated with the fundraising (Nzemen, 1993). The simple *tontines* in Cameroon are non-rotary savings and credit associations in which a member is in charge of keeping the funds raised either in his business or in his bank account, for a commission. The capital auction ROSCA is similar to simple tontines, but here the product of the contribution is put to auction and granted to the highest bidder. These different forms of ROSCA can be combined to form insurance, commercial and financial ROSCAs. The most widespread in Cameroon is the insurance ROSCA (Owoundi, 1992). For Rietsch (1992), there is a more complex form of ROSCA amongst Cameroonians living in the Central African Republic, based on two levels of auction. The first is at the level of the funds raised and the second at the level of short-term credit extension. Each member deposits the same amount, and after a predefined cycle, the group is modified, as older members retreat and new members enter. Generally, members are people who work together; they are family relations, friends or neighbours (Tankou & Adams, 1994). New members are integrated through recommendation or co-optation, but have to make additional contributions to be at the same level as old members (Rietsch, 1992). The smaller the number of members, the shorter the cycle. Members change their positions during the different cycles (Weyde, 1976, cited by Bouman, 1977). These *tontines* are characterised by the flexibility in management and the adaptation to the needs of the various members, and a sharp reduction in financial intermediary and transaction costs (Edimo, 1998; Tankou & Adams, 1994). A combination of a special savings fund and the ROSCA promotes the flexibility and adaptation of these saving groups (Bouman, 1977). In Cameroon, these savings groups are essentially informal, and small in size, thus rendering high social control (Bouman, 1977; Rietsch, 1992).

Savings Groups and the Banking System in Cameroon

Although ROSCA are informal financial practices in Cameroon, they link to the formal financial system. Some ROSCA members have financial needs exceeding the ROSCA capacity. This includes financial needs in relation to opening an account and access to payments. These financial services are exclusively offered by formal financial institutions, notably banks (Williams, 2014). ROSCA are an excellent opportunity to introduce the community to the functioning of financial institutions, banking products and services (Owoundi, 1992). People outside the formal banking system can acquire elementary financial skills, ultimately to integrate them into the formal banking sector.

The strong preference for formal financial institutions (banks and MFIs) undermines the long-standing social links among individuals. ROSCAs increasingly adopt practices and principles from banking institutions but have their own weaknesses and limitations, such as failures to repay loans or to make periodic contributions due to the absence of a strict legal sanctions against non-performance and internal conflict. With the growth of savings and credit co-operatives, many ROSCAs changed into formal institutions, in a bid to improve their efficiency (Tchawe & Tcheunta, 2008). Some banks adopted some operational characteristics of ROSCAs (Kemayou et al., 2011) because these institutions operate in the same financial system, targeting a similar customer market (Bidzogo, 2006; Kago, 1993). Banks and ROSCAs challenge each other – an opposition which is highly institutional and cultural (Kemayou et al., 2011). They co-exist alongside each other by adapting to a fast-growing and dynamic financial environment. Ecobank Cameroon, for example, established more branches near popular food markets to encourage small sellers to deposit their money in the lower risk bank account instead of through ROSCAs.

Economic Impact of Saving Groups

Savings group services people who cannot afford bank accounts in the formal financial system, thereby making a significant contribution to address social needs. In 2011, only 15% of Cameroonians had bank accounts (MINFI, 2013). The vast majority of people are members of savings groups, thus strengthening members' savings capacity. Members develop the capacity to manage expenses (for feeding, health and education purposes). They have easy access to credit to build productive assets. They can raise small amounts of capital and repay debt. The auction method encourages competition between group members to get access to money and encourages small-scale investors to grab economic opportunities and to realise a profit from the resources raised to be able to pay back (Bouman, 1977). Loans from savings groups often finance entrepreneurial projects (Rietsch, 1992). These income-generating activities reinforce the revenue of said actors.

Savings groups charge low transaction costs because of the mutual trust existing amongst members (Tankou & Adams, 1994). Large distances complicate such financial intermediation (Bouman, 1977). Tontines do not provide large long-term credit. Savings groups prefer the financing of entrepreneurial projects and better management of businesses by group members. Members can join their resources to develop small businesses (Bouman, 1977). The social networks of members facilitate access to financial resources, thereby financing their activities (Rozas & Gauthier, 2012). This mechanism primarily favours members in the informal sector, and they avoid constraints imposed by formal financial institutions. Through these financing projects, tontines impact positively on the performance, employment growth and sales, of Cameroonian companies. However, financial resources raised from tontines mainly serve to finance cash flow needs and to a lesser extent investment.

Social Impact of Savings Groups in Cameroon

The most significant social impact of savings groups is the construction and consolidation of social networks (Ebe & Bilongo, 1989; Ebe, Owoundi, Bilongo, & Dissake, 1991). In studying tontines of Cameroonian immigrants living in the Central African Republic, Rietsch (1992) highlights that the conviviality that exists among members during parties organised by the association enables members to gather, relax and build social links. Savings groups are where social capital is built, thereby giving members a testimony of good repute. Bamileke savings groups foster solidarity based on traditional rituals (Soen & De Comarmond, 1972). For Bouman and Harteveld (1976), ROSCAs basically operate more on personal security and trust and less on material security. In cities, tontines protect traditional values and adjust to changes in society. Meetings serve to raise funds, assist newcomers and job seekers, celebrate successes and resolve internal group conflict.

Savings groups provide for members' social needs such as providing health facilities for themselves and their extended families, or education for their children and relatives. Savers equally benefit from health and life insurance. Members receive financial assistance in case of death or hospitalisation. The amount is derived from a social fund to which all members are entitled to subscribe or contribute, and this fund is regularly collected (Tankou & Adams, 1994). Savings groups maintain social cohesion and facilitate social and economic transition, particularly among groups of urban workers who have migrated to the cities, thereby protecting cultural and traditional values (Bouman, 1977).

Cameroonian ROSCA practices are extended to companies (Nkakleu, 2009). Tontines are an informal practice of financial solidarity and a social link between workers, creating social capital, which acts to cement organisational capacity. Workers in a company identify themselves through the savings groups, and the saving group enables workers to benefit from the resources raised by other savers. This type of tontine is also prevalent under salaried staff in Cameroonian SMEs. It influences the affective and normative consequences of top-ranking company personnel (Nkakleu & Manga, 2015). Informal savings are determined by socio-economic factors (Bime & Mbanasor, 2011). The interest raised, the size of the farm, the revenue created and the level of education all contribute to the volume of savings realised by a farmer. On the other hand, gender, age and the size of the household negatively affect the amount of money saved by farmers.

Van Dievoet and Verboven (1993), in their work on factors determining informal savings among farmers in the Northwest region, taking examples of tontines in the Bamileke communities, show that in urban agglomerations simple tontines grow to become money exchanges. This form of savings groups is well adapted to the new economy, favouring an endogenous development through commerce. This type of savings group can become an essential instrument for development policies as it is a testimony to the financial responsibility and personal commitment of the population.

Lessons from Cameroon Case Studies

Cameroon Case 1: ESSEC Douala Employees' Insurance Fund: Organisational Mutualisation, Social Insurance and Savings Belonging to Members of Savings Groups in Organisations

The ESSEC Mutual fund, established in 1994, brought together the staff and lecturers of the ESSEC (Higher School of Economic and Commercial Sciences) of the University of Douala. ESSEC is a business school of the University of Douala in Cameroon (est. 1979) and has contributed to the training of directors and managers in Cameroon and the Central African sub-region. The mutual fund was created after the devaluation of the CFA franc to resolve unsustainable social problems among ESSEC employees. Indeed, the devaluation had the effect of reducing the social benefits of Cameroon civil servants, weakening their purchasing power significantly.

The University of Douala and in ESSEC had no social security system to provide for such circumstances. The staff did not have health insurance, and it was impossible for them to benefit from salary advances or loans from formal financial institutions. The staff organised a mutual association on the principles of solidarity and mutual aid. The problems solved by this mutual association concern all the staff of the University of Douala, and for 20 years it has been accessible by all employees of this institution.

Functioning of the ESSEC Mutual Fund

The ESSEC Mutual Fund has around 60 members. The growth of membership over the last five years is provided in

Table 1. Membership of Mutual Fund Association.

Year	2015	2016	2017	2018	2019
Staff	60	61	60	55	54

Source: Mutual Fund report document. Table 1.

In the beginning, members made contributions of 1,000 FCFA (US$1.7) per month or 12,000 FCFA (US$20.43) per year. For the past 10 years, members have had to make a monthly contribution of at least 2,000 FCFA (US$3.41). This contribution constitutes regular savings reserved for the employee's retirement. At the time of retirement, the member is paid the sum of his contributions plus 150,000 FCFA (US$255.38). The mutual fund operates as a retirement pension fund. The money saved is used to provide loans to members. The interest rate associated with these loans was for a long time 5% for one month. With the agreement of the management of the University, repayments were made via deductions from the salary. Some of the interest collected helped members offer meals to other members during general meetings, which are held every six months. Another part helps to provide support to members. This assistance consists of financial support for the member when he is sick, or bereaved (loss of a parent, a child or a spouse). When the amount of aid is not fully covered, the uncovered portion is divided equally among the members.

In recent years, the interest rate of loans has been 10% every 6 months. The duration of the loans does not exceed two years, and in the case of non-repayment, the portion of the principal not repaid is deducted from the accumulation of the member's contributions. Help granted to members is given in Table 2.

Table 2. Financial Conditions of Different Types of Support.

Type of Support	**Financial Terms**
Death	

Type of Support	Financial Terms
• Parent of the member (father, mother) • Child over one month and under 40 • Spouse of the member	170,000 FCFA (US$289.43), of at least 150,000 FCFA (US$255.38) and 20,000 FCFA (US$34.05) for snacks offered to other members of the mutual fund. 150,000 FCFA (US$255.38) 350,000 FCFA (US$595.88)
Member's wedding	50,000 FCFA (US$85.13)
Birth of a child of the member	32,500 FCFA (US$55.33)
Sickness of a member	15,000 FCFA (US$25.54)

Source: Statutes of the mutual fund.

The total monthly contribution of 54 members is 500,000 FCFA (US$851.25) on average in 2019. Loans are granted after a request made by the member and authorisation given by the president of the mutual fund. The latter manages the mutual fund for a two-year term, renewable indefinitely. The loan authorisation is based on the respect of certain rules by the member. The member must, therefore, ensure the regular payment of his contributions and can request an amount less than the sum of his assets in the funds of the association. To borrow more money, the member can present other members as guarantors. In this case, the requested amount should be less than the total of the respective contributions of the member and his guarantors. The maximum amount to be borrowed by a member is 400,000 FCFA (US$681), and the cumulative contributions as of January 2019 is 12,000,000 FCFA (US$20,430).

Social Consequences of ESSEC Mutual Fund

The formation of this mutual fund changed their lives in and out of the university. At the university, the fund has helped to strengthen the bond of solidarity among members and established a sense of belonging to a big family and a community. For new employees, it promotes their organisational socialising. The University of Douala brings together staff from many regions and ethnic entities of Cameroon. Being registered in the mutual fund, a member enjoys the support, collective and individual solidarity of other members.

In case of sickness, this mutual fund provides financial support. Some beneficiaries commented: ‘it is thanks to the mutual fund that they are still alive’. The mutual fund has shielded members from shame, by allowing them to properly organise the funeral of a husband or wife, family member, a child or a parent. For others who could not secure housing loans from banks, successive loans from the mutual fund have helped them to buy land and subsequently to build a house.

Economic Consequences of the ESSEC Mutual Fund

Cameroon state university staff earn low salaries. Banks are reluctant to finance small entrepreneurs. Members of the mutual fund have applied for loans to carry out income-generating activities. Some members were able to set up poultry farms, breeding and selling poultry. Others set up restaurants, plantations and shops. The development of income-generating activities helps most retired employees to recover. Also, with these activities, they maintain or even improve their income.

For members of the mutual fund, the obligation to contribute monthly fosters disciplined savings behaviour in an environment where the financial pressure on households is very high. The mutual fund then offers an avenue to promote entrepreneurship and encourage savings by members.

Cameroon Case 2: ROSCA ‘Les Amis’ – Business ROSCAs as Instruments of Solidarity Building and Development of Entrepreneurship in Cameroon

‘Tontine des Amis du 21’ is a ROSCA for businessmen or entrepreneurs. The Friends of the ‘21’ is the new name of the former association ‘Le Baron’. The death of the founding president of the association ‘Le Baron’ was an opportunity to create a new association built around shared values of respected entrepreneurs in Cameroonian society. The founder of the association is the president for life by its statutes. When the president dies and there is no one to carry the torch, the association is dissolved. In the ‘Le Baron’ association, the deceased president validated a new membership as soon as the following two conditions were fulfilled: all new members must be co-opted by a member whose contributions are paid up, rotating savings contributions or the contributions in the fund to finance social actions. This is how the ‘Le Baron’ association registered a large number of entrepreneurs who operate both in the informal sector and in the formal sector. Membership profiles of the entrepreneurs are diverse. The ‘Le Baron’ association entrepreneurs who own medium-sized or large businesses in the formal sector and generate a significant turnover, decided, upon the death of the president, to break away from member entrepreneurs who could not contribute FCFA one million per month.

Organisation and Functioning of the Friends of the ‘21’ Association

This ROSCA for businesses is organised on the criteria of financial standing, credibility, honesty and integrity. All the members of the Friends of the ‘21’ association are entrepreneurs with businesses that have gone well beyond the start-up phase. The association of the Friends of the ‘21’ meets by gathering friends and is held every 21st of the month. It opened an account at a commercial bank. Most of the members belong to the same Bamileke village. The mutual relationship is built on the sharing of values based on mutual assistance, trust and pooling of resources to facilitate the development of businesses owned by members and, indirectly, to promote their individual and collective fulfilment.

While the monthly contributions have been constant since establishment of the Friends of the ‘21’ tontine, the number of members grew from 20 in 2008 to a membership of 30 in 2019, of which five members are resident in France, Germany, Canada and the United States. The monthly contributions of FCFA one million (US$1702.5) are put on sale for an amount of FCFA 20 million (US$34,050) at a 10% interest. The additional resources of the monthly tontine, that is FCFA 10 million (US$17,025), are considered as an accelerator of the rotating savings, meaning that they make it possible to generate additional gains. This business association collects and distributes the savings of the members by selling it at a premium. The sale is effective when the recipient presents a guarantor who is up to date with his financial commitments in the books of the Friends of the ‘21’. The interest (premium) of the sale is repaid to members at the end of the cycle according to members' share in the sale. Contributions are made into the Friends of the ‘21’ bank account, and all payments by the management body are made by cheque as shown in Table 3. This payment method through banking transactions aims to reduce the risk of robbery and violence to which members would be exposed in a context of increased insecurity.

Table 3. Transfer of a Rotating Savings and Credit Association for Businesses in the City of Douala.

Mutation of a Business Association	**«Le Baron»**	**Friends of the «21»**
Membership	Membership of 70 members who were dissolved in 2008, following the death of the founder	30 members in 2019
Representation of members in entrepreneurship		70% are importers 5% are industrialists 10% are exporters 10% are in the audio-visual 5% have their business in Germany, France, Canada, the United States

Mutation of a Business Association	**«Le Baron»**	**Friends of the «21»**
Longevity in the business		Minimum age: 14 years Maximum age: 40 years
Contributions	Monthly fees of 500,000 F CFA (US$851.25)	Monthly contribution of 1,000,000 FCFA
	Social security fund to assist the members financially monthly of 1,000,000 FCFA (US$1,703 Dollars)	Contribution of a guarantee fund of 1,000,000 FCFA (US$1,703)
Social impact	Social impact Social assistance for a happy or unhappy event in a member's family	Moral and physical assistance
	Moral and physical assistance	Social fund of 1,000,000 FCFA (US$1,703 Dollars) to deal with the default of a member
	Mutual assistance in the acquisition of land to build a home Moral and physical assistance	
Economic impact	Exchange of services between entrepreneurs Advice and sharing of market and business information Incentive to Networking in Business	Impact Trade in Services among Entrepreneurs Advice and sharing of market and business information Incentive to networking in the business

Social Impact of the Friends of the '21'

All the members built a house. Some even built several houses that are rented in the city of Douala. Other members also built a secondary house in their village, which in the socio-cultural context of the Bamileke is a sign of success. In some Bamileke chieftaincies, an elite (or dignitary) who builds a house in the village is considered worthy of a title of notability which confers a social status of an enlightened actor capable of taking action for the well-being of the population and the development of the community. When a member is highly successful, he would no longer receive financial assistance for events such as marriage, birth or family death. On the other hand, the Friends of the '21' has set up a guarantee fund to which each member contributes at the beginning of the rotating savings cycle, in order to meet mutual obligations.

The first round of contribution, a total amount of FCFA 30 million, is blocked to finance the probable failures of the members having benefited from the rotating savings. This guarantee fund is used to manage non-repayments in a timely manner, thus giving the guarantors the opportunity to meet their commitments without heavy penalties. The assistance that is given to any member facing a happy or unhappy event is limited to moral support and the physical presence of other members. When financial assistance is rendered, it is free, based on the mutuality of members. Finally, the benefits of the Friends of the '21' include the personal satisfaction when receiving the savings at the end of the cycle. This is considered proof of the merits of his participation in a savings scheme joining entrepreneurial friends.

The Economic Impact of the Friends of the '21', Rotating Savings and Credit Association

The solidarity between the members of the Friends of the '21' is essentially economic. Members of this business association agreed to support each other in funding their business activities. In this case, the sale of the rotating savings is not subject to bidding when a member needs funds urgently. It can occur that a turn of the scheme, which is FCFA 20 million, is granted priority when a member needs working capital, such as to pay custom duties on goods at the harbour. When evidence of the urgency of the need is provided, the bureau of the Friends of the '21' grants the turn to the member at an appropriate interest rate, which is below the usual rate of 10%.

As entrepreneurs, they pool their resources, share information on the competition, on the new procedures in customs duties, new regulations, and administrative procedures. Finally, the Friends of the ‘21’ association provides advice and funds the working capital needs of the members. This mutual organisation allows members to bypass bank financing difficulties and access financing of their business more readily.

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Chapter 7

Savings Groups in Cabo Verde

João António Furtado Brito

Keywords: *Tabanca* ; *botu* ; *mitim* ; *totocaixa* ; *djunta-mon* ; mutual; families; microcredit

Introduction

The traditional forms of social solidarity in Cabo Verde are as old as the country. There has always been a spirit of solidarity and mutual assistance among the people, both in agricultural work and in social activities such as weddings, baptisms and popular festivals. For these events, people contribute with their labour (as '*Djunta mó*') or by offering food and/or money (Pina, 2007).

Traditional forms of social solidarity in Cabo Verde, include, (1) '*Tabanca*' – a socio-cultural and recreational association which provides mutual aid. It is financed through member contributions (each pays on a monthly basis) and donations. The funds are used for cultural activities and to support members in case of illness, death, agricultural work, construction of houses, etc.; (2) Mutual Assistance Associations, Funerary Associations (e.g. '*Botu*' and '*Mitim*')*,* Savings and Credit Associations (e.g. '*Totocaixa*') – these associations focus on providing support in cases of death or illness; (3) '*Djuda*' – is a form of solidarity support for activities that require strength or dexterity and which can't be performed by the very young or old or sick or disabled people; (4) '*Djunta-mon*' – is mutual aid where work performed by a person for someone else is paid back through work of similar nature. Social bonds create mandatory reciprocity, although this is not regulated by law. It occurs mainly among families (father, mother, cousins, nieces, nephews, etc.) with weak economic power Varela (2010).

Some traditional forms of social solidarity, such as the '*djunta-mon*', have disappeared because of the growing monetisation and use of banks in the Cape Verdean economy, which gradually shifted from a subsistence economy to a market economy. Extreme poverty declined and household income rose.

Savings groups in Cabo Verde operate in the context of such solidarity. In rural areas, the funeral ceremony is accompanied by costly rituals, which many families can't afford without aid. To solve the problem, informal funeral associations form such as '*Botu*'/'*Mitim*' (the concept is the same, the name may vary according to village), which consists of neighbours who support the associated families at death. This form of association is a savings group, where each member contributes financially to the funeral expenses.

These funeral associations have two models of quota payment (called '*boto*'). One model has a fixed monthly payment of the quota and another has the payment of the quota when any member of the associated family dies. The quota is fixed and equal for each family, and there is no payment or receipt of interest. Each associated family names the member whose expenses will be supported upon death. The funds that the family will receive are defined in advance. The larger the number of families enrolled in the association the larger the pay-out. The association keeps book of members, of families who pay the quota. Families have seven days after the burial to pay their quota.

In the model with fixed monthly payment of the quota, the members pay irrespective of a death during the month. The quota typically varies between CVE 50 – CVE 500 (US$0.5 to US$5), but can be higher. [1] The amount of funds an associate will receive is proportional to the amount of the quota that they paid. Many of the funeral associations developed beyond their original goal, extending finance towards other activities, such as emigration, education, house construction, marriage, baptisms and certain productive activities (Santos, 2013).

Another well-known savings group in Cabo Verde is '*Totocaixa*', originating in characteristic mutual aid. The popularity of an informal way of saving has led *Morabi* to develop a financial product called '*Totocaixa*' that works as a form of savings. [2] '*Totocaixa*' spread across the islands and municipalities of the country. '*Totocaixa*' usually works with a group of friends and trustworthy people who work in the same institution, or company, or carry out the same economic activity, or belong to the same family. The '*Totocaixa*' system is found in urban centres and in rural villages.

Each member of the '*Totocaixa*' group pays a fixed and equal amount, on a daily, weekly, fortnightly or monthly basis. The most common is monthly. The amount of the contribution varies and depends on the financial ability of the members. The contribution typically ranges from CVE 200 to CVE 30,000 (US $2 to US $300), but can be higher. The quota paid by each member corresponds to the group fund, and each member of the group will receive the total amount of the fund, on the pre-defined date.

In the model with a monthly quota, normally the group consists of 12 elements, so that the cycle corresponds to a calendar year. When within the same institution or company there are not enough people interested to constitute a group of 12 elements, they can invite people from other institutions or companies to complete the group. In a cycle, each member will receive the fund once on a pre-defined date, determined by consensus among the members or through a lottery system.

'*Totacaixa*' is common among small traders in the informal market who make daily payments of the quota. The value of the quota starts at CVE 200 (US $2). Each member of the group has its turn to receive the fund, which is collected from the other members (Grassi, 2001).

The '*Totocaixa*' fund has several purposes depending on the group members. Small traders, experience great difficulty to obtaining financing from commercial banks. They therefore use the '*Totocaixa*' system to finance some activities, such as trips abroad to buy products for resale (Grassi, 2001, 2004). The members of '*Totocaixa*' groups in institutions or companies usually use the money for vacation, house renovation, children's education or to pay debt.

‘*Totocaixas*’ do not pay or receive interest. The ‘*Totocaixa*’ group is formed within a company or formal institution, among colleagues, but is an informal and unregulated activity operating on the basis of personal trust and without a formal written contract. ‘*Totocaixa*’ is not illegal under Cape Verdean law. Members do run the risk of losing their turn when a recipient of the pool leaves the group after receiving the money. It is difficult to recover the money from the deserter because it is an informal organisation.

Formal Finance (Microfinance, Microcredit) and Savings Groups in Cabo Verde

Despite the long history of savings groups such as ‘*Betim*’ or ‘*Totocaixa*’, the literature about them is practically non-existent. The microfinance and microcredit sector in Cabo Verde has its roots in these informal savings groups. A number of studies focus on microcredit and microfinance. These were developed by undergraduate and postgraduate students. Microcredit and microfinance practices emerged in Cabo Verde in the early 1990s, and the literature on these activities began to emerge in the late 1990s and early 2000s.

The first experiences of microcredit in Cabo Verde were somewhat disorganised and focussed on programmes to promote women in rural development. These funds came essentially from international agencies, and the procedures were often determined by the funders. The credit operators faced many difficulties, which compromised the continuity of the programme and extension to the largest number of beneficiaries, primarily because of a lack of knowledge of the sector, the lack of a microcredit programme and low interest rate loans Soares (2003).

The difficulties faced in the microcredit sector led to the formation in 1999 of a Steering Committee that comprised five institutions (MORABI, OMCV, CITABAS, CITY HABITAT, ASDIS) with the objective of reaching consensus among microcredit operators about the form of operation. [3] CITY HABITAT and CÁRITAS left the Committee, and new members were admitted, FAMI-PICOS in 2000 and ADIRV in 2001. In 2004, the Steering Committee was transformed into a Federation of Cape Verdean Associations operating in the Microfinance Area (FAM-F). The maximum amounts of loans granted by microcredit institutions in Cabo Verde range from CVE 300,000 to CVE 500,000 (US$3,000 to US$5,000), with interest rates ranging from 1% to 3% per month and the maximum payment period between 18 and 24 months (Orrico, 2015).

The survival of the microcredit sector in Cabo Verde is largely due to the influence of the American non-governmental organisation ACDI-VOCA (Agricultural Cooperative for International Development/Volunteers in Overseas Cooperative Assistance), which implemented a programme characterised by: (1) small and increasing amounts in successive loans; (2) interest rate (3%/month) that covers operating costs, well above the market rate; (3) granting of credit assisted by credit agents; (4) follow-up of the credit by an agent of credit; (5) training of clients in order to raise the awareness of the responsibilities inherent to credit and business management Soares (2003).

These characteristics enabled the survival of the microcredit sector in Cabo Verde and proved that by offering credit under market-acceptable conditions, the system can be sustained and could grow.

Bernardino, Santos, and Vicente (2017) divide the microfinance market in Cabo Verde into two groups: the first group consists of microfinance institutions that seek self-sustainability, with separate credit assistance programmes, and apply interest rates between 5% and 6% per month with standard deadlines; the second group consists of microfinance institutions that seek perpetuity; the funding is allocated to specific social activities with interest of 0%–2% per month and on terms compatible with the funded activities.

There are 12 microfinance institutions in Cabo Verde, of the following nature: Non-governmental Organisations – four; Community Development Associations – one; Mutual Associations – three; Federations – three; and Cooperatives – 1. The vast majority of these institutions operate only on the island of Santiago; however, all islands have microfinance institutions (Santos, 2013). Most of these institutions grant loans less than or equal to US$500, with the target group being the poorest, with a low level of schooling, and female heads of family (Casini, Riera, & Monteiro, 2014).

In 2014, the Government of Cabo Verde prepared the National Strategic Plan for Microfinance, for the period 2014–2019, as a policy document on the promotion of the development of the microfinance sector. On the other hand, the Government has approved a set of laws to regulate and promote the microfinance sector. The Government of Cabo Verde approved Law no. 15/VII/2007, which regulates microfinance activity. This law defines as microfinance institutions the cooperatives, the non-governmental organisations, the associations or foundations of social interest, the health mutuals and other institutions that grant loans, practice mutual and other social benefits to third parties, without exercising the activity of collecting deposits from the general public. The Central Bank of Cabo Verde is the institution responsible for issuing the authorisation for the exercise of microfinance activities.

Later, in 2015, a new legal regime for the microfinance sector, Law no. 83/VIII/2015, was approved. This new law defines three different categories of microfinance institutions: (1) Category A: Microfinance institutions that receive deposits, capture savings, provide credit and practice other financial services to the general public – these are the savings banks and the rural credit bureaus; (2) Category B: Microfinance institutions which only receive deposits and collect savings exclusively from their members or partners, provide credits and involvement in other financial services in favour of them or third parties – these are the cooperatives and mutual funds of savings and credit; (3) Category C: Microfinance institutions that intervene in the collection of deposits in national territory or abroad and refinance the other microfinance institutions – these are the intermediary institutions.

The Notice no. 4/2016 of the Central Bank of Cabo Verde establishes minimum capital requirements for each type of microfinance institution: (1) Category A: Rural credit fund – CVE50,000,000 (US$500,000); Savings bank – CVE60,000,000 (US$600,000); Savings Post – CVE40,000,000 (US$400,000); (2) Category B: Savings and credit mutual funds – CVE15,000,000 (US$150,000); Savings and Credit Cooperatives – CVE10,000,000 (US$100,000); (3) Category C: Deposit Intermediary – is not defined.

In 2017, the Law no. 12/IX/2017, of August 2, makes some amendments to Law no. 83/VIII/2015, of January 16. These changes happen, essentially, in relation to attributions that the Ministry of Social Solidarity passed on to the Ministry of Economy and also with some concepts.

In 2017, the Decree-Law no. 52/2017, of November 15 was approved, which regulates the constitution and operation of savings and credit mutual funds. Under the terms of this Decree-Law, savings and mutual credit societies are associations of persons, with legal personality, variable capital and indefinite duration, whose corporate purpose is the collection of savings from members, the granting of loans and the provision of other financial services, following the mutualist principles. These microfinance institutions are authorised only to receive deposits and to collect savings exclusively from their members or partners, to grant loans and to perform other financial services in their favour or for third parties. Those interested in carrying out these activities must register with the Central Bank of Cabo Verde, which is the entity responsible for monitoring and supervising the activities of these microfinance institutions.

In 2017, the Decree-Law no. 59/2017, of December 15, was approved, which defines the attributions, competencies and conditions of groups of microfinance institutions in Unions and Federations.

Economic Outcomes of Savings Groups in Cabo Verde

Studies on the impact of savings groups such as '*Totocaixa*' and '*Betim*' on Cape Verde's economy are practically non-existent. An exception is the work of Grassi (2001, 2004), which analyses the impact of '*Totocaixa*' on the life of the small traders in the Sucupira market in Praia City. He found that because of the great difficulty of obtaining financing from traditional commercial banks, these small traders use the '*Totocaixa*' system to finance some activities, such as trips abroad to buy products/goods that will be resold. This has a positive impact on the business of these traders.

Soares (2003) found that microcredit makes a significant contribution to the improvement of the socio-economic conditions of individuals and therefore represents an important tool to reduce poverty, since it has been demonstrated that the credit, even reduced, provides opportunities for entrepreneurship and to escape the vicious cycle of low income, low savings and low investment. Fernandes (2008) analysed the role of microcredit in poverty reduction in the municipality of Santa Catarina. Women in the municipality of Santa Catarina are the main beneficiaries of microcredit, and this contributes to alleviate poverty and improving the living conditions of families.

Faheina (2012) found that women and entrepreneurs with low income are the main beneficiaries of microcredit. The vast majority of credits are to finance activities below CVE100,000 (US$1,000). The main sectors benefiting from microcredit are agriculture, livestock, fisheries and commerce. Most of these activities occur in the informal sector. The microcredit allows improvement in the income of the beneficiaries, and provides better access to the financial market, with the creation of a bank account and constitution of savings. These findings are supported by Casini et al. (2014). Families with access to microcredit have higher income at work and total income, save more and are more likely to develop entrepreneurial activities than families that do not receive microcredit.

Leite (2014) concluded on the microcredit activities on the island of Santo Antão, that microcredit allows for gains on three levels: (1) improvement of the conditions and quality of life of the beneficiary communities, namely physical well-being (food, clothing, hygiene, etc.) and access to new goods and services; (2) new infrastructure built by microfinance institutions to oversee the communities or to work with local authorities; (3) progress in the different sectors of the economy in which microcredit is investing through the businesses it finances and which have provided local and, in some cases, other islands with access to agricultural products.

The Bernardino et al. (2017) study of microcredit in entrepreneurship in Cabo Verde shows that the main clients of microfinance institutions are active in the informal sector. Microcredit in Cabo Verde focusses essentially on women heads of families and has played an important role in promoting entrepreneurship and micro and small enterprises, reducing poverty, combating unemployment and improving living conditions.

Despite the positive impact of microfinance institutions in the Cabo Verde economy, Faheina (2012), criticised these institutions for: (1) scarce-funding sources; (2) computer systems not prepared for an adequate and responsive response to loan monitoring; (3) staff who are poorly trained in microcredit methodology; (4) insufficient information about customers; (5) insufficient training of managers. Casini et al. (2014) also criticise the microfinance sector in Cabo Verde for being highly fragmented and uncoordinated. There is a very large number of institutions, given the size of the country, but not all are able to manage their portfolio according to acceptable international standards. This makes the sector dependent on indirect public subsidies (such as subsidized loans), which constrains the development and expansion of the sector.

Social Outcomes of Savings Groups in Cabo Verde

*F*uneral associations and mutuals in urban and rural areas are basically savings groups that provide social protection. These groups support members with funeral expenses (Santos, 2016). This constitutes a significant social support for members personally and their families, as well as the communities where they are active. The funds are used to finance expenses related to the children's education, emigration, marriage, religious festivals (baptisms, confirmations, etc.) and the purchase of material and equipment for agricultural production and fishing, fertilizers, pesticides, vegetable seeds, motor pumps, piping and reservoirs.

Cabo Verde savings groups support members through the mutual health and social protection network that comprises 4,400 registered members, involving 22,000 direct beneficiaries. Of these, 40% have been participating as active members and with regular payment of quotas. Between 2013 and 2016, the mutual health network managed to mobilise about CVE20,000,000$ (US$ 200,000) and the associates, by family, contributed with a monthly quota that varied between CVE240$ (US$2.40) and CVE540$ (US$5.40). These groups have exercised complementary, transversal and horizontal functions in order to respond to the multiple needs of their members and the challenges they face, with the aim of providing the Island of Santiago, and the country in general, with a system of community-based social protection (Santos, 2016).

The mutual health and social protection network provides the following services to members: (1) acquisition of medicine, in the amount of 75%, up to a limit of CVE3,000$ (US$30)/month; (2) coverage of the in-patient fee, in the amount of CVE2,000$ (US$20), and these expenses can reach the limit of CVE6,000$ (US$60); (3) coverage of the co-payment for minor surgery at 50%, up to the limit of CVE2,500$ (US$25); (4) transport coverage, in emergency situations, up to the limit of CVE3,000$ (US$30), and it contributes with 50% in the costs of examinations performed in hospitals and private clinics (Faheina, 2012).

Cabo Verde Case 1: FAMI-Picos

The Association of Support for Family Self-Promotion Initiatives (*Associação de Apoio a Iniciativas de Auto-promoção Familiar*) FAMI-Picos is a non-profit association created in 1997 through the merger of savings and credit mutual funds of Manhanga, Picos Ariba and Achada Igreja (all neighboring villages). [4] The association is located inland on the island of Santiago. Its mission is to foster family self-promotion by supporting socio-economic and cultural development and fostering the practice of mutual aid and social solidarity through the provision of microfinance services.

The savings and credit mutual funds that were at the heart of the FAMI-Picos project were linked to the High Intensity Labour Front – FAIMO (*Frente de Alta Intensidade de Mao-de-obra*). The people who worked at FAIMO had to set aside compulsory savings, which could be a working day per week, per fortnight or per month, as defined in each FAIMO. The minimum monthly savings was CVE200$ (US$2), but the members could save more. There was also the possibility of voluntary savings for people who did not belong to the FAIMO group. The members did not receive interest on the savings, but when they applied for loans, they paid interest (rates were very low, since the jobs were voluntary, so the interest was only to cover the cost of consumables). Only people with a certain minimum amount of savings had access to credit. The credits were CVE5,000$ (US $50), CVE10,000$ (US $100), ECV20,000$ (US $200), CVE50,000$ (US $500) and, in rare cases, CVE100,000$ (US $1,000). Savings are controlled by a log book and notebook (each member had a notebook in their possession). When a member deposits their savings, a stamp of the value of the savings is placed in the notebook.

The Savings and Credit Mutual Funds were managed by a Board of Directors (comprising a president, secretary and treasurer) and the Fiscal

Council (comprising a president and two members). The credits were approved by the Board of Directors.

FAMI-Picos went through a process of evolution, where it depended heavily on the financial support from the African Development Foundation (ADF), to achieve the success that is now recognised in rural area where it operates. Currently, FAMI-Picos has its own facilities and around 2,400 customers. They use computer software to manage the savings and loans of the members.

FAMI-Picos charges a monthly interest rate of 3% and the minimum loan term is one month and the maximum 24 months. Members must have a minimum savings of 25% of the amount of credit they apply. The required loan guarantees are guarantors and real guarantees (some assets, such as gold and silver) that are kept by the institution until the end of credit repayment. The loans are mainly requested for agriculture, housing restoration or investment in small businesses. FAMI-Picos uses credit agents to visit the recipients of the credit, to follow up on the application of credit, the activities developed and to give recipients guidance.

After the promulgation of Law no. 12/IX/2017 of August 2, which establishes the new regime of microfinance institutions, FAMI-Picos implemented the new requirements (in terms of social capital, amount of loans, payments, internal organisation, among others), and register with the Bank of Cabo Verde, which became the institution responsible for monitoring and supervising microfinance institutions.

Notes

1. CVE – Cabo Verde Escudos – Cabo Verde's currency. 1€ = 110.265 CVE.
2. Morabi is a microfinance institution.
3. MORABI – Associação de Apoio a Auto-promoção da Mulher no Desenvolvimento; OMCV – Organização da Mulheres de Cabo Verde; ASDIS – União das Associações de Desenvolvimento Interior de Santiago; CITY HABITAT – Centro de Inovação em Tecnologias de Intervenção Social Para o Habitat.

4. The information in the text results from the interview with Vice President of the Credit Committee, manager of FAMI-Picos.

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Chapter 8

Savings Groups in the Democratic Republic of Congo

Deogratias Bugandwa Mungu Akonkwa, Eddy Balemba Kanyurhi, Guillaume Bidubula Juwa and Albert Masheka Hongo

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General Introduction

Microfinance has proven its strengths in the fight against poverty, especially in developing and emerging countries. However, it has not solved the problem of access to formal financial services, since until now, less than 10% of Congolese have access to a bank account. Only about 25% use other formal financial institutions products (Central Bank of Congo, 2012). Several reasons may justify the low financial inclusion of the Congolese population.

The country's socio-economic situation has deteriorated considerably the past two decades and more particularly between the 1990s and 2006 (Kalala, 2007). The economic slump has led to: (1) Bankruptcy of state-controlled banks and collapse of privately owned banks and (2) Slowdown of microfinance activities in savings collection and credit distribution. Since 2006, several financial institutions settled in the different provinces of the Democratic Republic of Congo (DRC), including microfinance institutions (MFIs). The population's memory was marked by persistent crises in the microfinance sector, which destroyed trust in the sector (Bugandwa, Bugandwa, & Mutabazi, 2017; Bugandwa, Amuli, & Mulega, 2018). Beyond these external constraints to the expansion of financial access in the DRC, an intrinsic limitation of microfinance is the mismatch between the range of financial services offered and the specific financing needs of the very poor (the poorest of the poor, in the words of

Ledgerwood, 1998). Access and use of financial services by Congolese remains a big challenge.

This discussion signals that (very) poor people neither save nor borrow, which is misleading. These people have created informal mechanisms to replace formal savings and loans, using other forms of microfinance, more community based, at lower levels in many developing countries. The community microfinance model focusses on small village savings, among which the Village Savings and Loan Association (VSLA) is one of the innovative solutions to provide financial services adapted to very poor and vulnerable populations which were still excluded even from MFIs. VSLAs are groups of women and/or men who meet periodically (usually on a weekly basis) to contribute to a community savings fund and make decisions on the functioning of the *caisses* and the financing of the activities of the members.

The Congolese financial environment is characterised by different sub-periods (Bugandwa et al., 2018):

(1) A shy development from the 1970s to the 1980s benefitting from a bright economic outlook in the ex-Zaïre.
(2) An almost total collapse of the financial system during the deterioration of the socio-economic fabric of the country. This situation deteriorated during the two wars, both in 1996 and in 1998, and complications during the crises in the east. The situation remains explosive because of the presence of armed militias, which impacted on group dynamics, including savings groups (SGs).
(3) From 2001, a degree of political stability gave a little respite to the economy and allowed the financial sector to recover. While many institutions were established, several others fell into bankruptcy and disappeared with their clients/members savings. [1]

In the DRC, people distrust the banking and the microfinance sectors. SGs are experiencing unparalleled development as more people prefer informal finance as a means of saving and asset diversification, to finance investment and maintain the level of domestic production. Informal savings is that portion of people's disposable income mobilised by informal financial institutions operating outside official control and regulation (Qadir, 2005). By DRC Law, a financial institution is formal when it is recognised by the Central Bank (supervising authority).

In the DRC, these associations exist, either self-organised or created and structured by NGOs working in development and poverty alleviation. They are designated by different names: *Likelemba/Likirimba, Muso, Musiki*… This literature review is not about VSLA as they have been conceived in theory (Grant & Allen, 2002; Hamadziripi, 2008; Micaro & Rouleau, 2013) but about the different community savings which exist in DRC. Although their main similarity is community-rooted, and going beyond the sole savings activities, they reinforce social links and solidarity between members. Among them are identified: *Banque Lambert*, *(Ko)Bwakisa carte* or *Tontine à la carte*, *Likelemba* or *Geographic tontine*, *Moziki* or *Socioprofessional tontine*, and Solidary mutual *MUSO*.

These organisations have not received enough attention by academics in the DRC. Except some scattered reports from NGOs, there is no extensive and structured research about their functioning. This chapter offers a brief general presentation of the microfinance sector in DRC, and then describes and differentiates between each of these informal community-based finance organisations.

The next section provides more detail about the SGs identified. Each of them is simply described with a focus on the way it operates in the DRC or some of its provinces.

Different Savings Group Models

This section discusses the emergence and functioning of SGs.

The 'Banque Lambert' or Lambert Bank

The only publication about the *Banque Lambert* is Ependa (2002). Lambert is the name of a 'generous' Belgian settler, Léon Lambert, who lived in the DRC during colonial period. He created this informal formula for non-bank borrowing. Lambert lent money to people in need, more often to indigenes who did not have access to formal loans from colonial banks. He lent to those facing fortuitous events such as bereavement, illness, receiving important guests, marriage, etc. To qualify for the loan, one should (1) agree to pay an interest on the loan and (2) give collateral (sewing machine, clothes, ivory tip, jewellery, etc.) recoverable after repayment. In the event of insolvency, the collateral became the property of Léon Lambert, which could be sold or used.

This tradition is perpetuated by a few prominent people in Kinshasa and in urban DRC. These people lend money to those in need, but at a very high interest rate, based on affinity links between the two actors of the transaction. The only important criteria is trust between the lender and the borrower. This quasi-bank operates as follows: an individual holding the funds lends to one or more persons who have a need for liquidity provided that they deposit a valuable object as collateral and engage verbally in front of a witness to repay the debt with an interest that varies between 25% and 50% as agreed in future. Interest earned facilitates further loans. If the borrower fails to repay, the lender seizes other property in addition to that which he already holds as collateral, up to the value of the loan, or sell it to recover his money. This type of tontine serves as a last minute relief fund, but some people borrow almost the equivalent of their monthly salary. They are subsequently trapped in this system to survive. It's a vicious circle of over-indebtedness for people with low income.

The '(Ko)Bwakisa Carte' or 'Tontine à la Carte'

Ko Bwaka in Lingala means 'to throw', but also 'to put somewhere', 'to invest'. [2] Drawing on the first meaning, Pampetelalo (2014) translates *Kobwakisa* as 'throwing something aside'. Simply put, we can say from the second etymological meaning that *Ko bwaka carte* or *Ko bwakisa carte* which is 'to put/invest money somewhere, in order to withdraw more "cartes" after a moment'. The *Bwakisa carte* functions as follows:

The owner and initiator prints cards which look like a cash register. He/she has a registration booklet. Each page of this notebook acts as an individual sheet/file on which are written (1) the full address of each member who voluntarily joins the tontine and (2) the different transactions (deposits, and sometimes goods borrowed by the member from the initiator). The *carte* comprises 30 squares representing the 30 days of the month. The members are registered and given a card. Each member voluntarily fixes an amount he is willing to deposit daily, according to his financial capacity.

The initiator keeps the booklet with personalised registration forms safely. The participant deposits a fixed amount daily; the initiator notes the amount in a column next to the day of the week and signs to confirm. The member must keep the card safely since it is the proof of the deposit. In case of loss of the card, the two parts on the transaction will reflect in the registration booklet. The member can acquire another card and continue the transactions. When needed, he can recover his savings using his identity card. Initiators of the *tontine à la carte* will rarely require proof of identity for the member who has lost his membership card because the initiator and the members know each other and often live in the same neighbourhood. So, although the card or the registration forms are used as a tool to identify members, it is rather an accounting document, held by the initiator. After a four week (30 days) period, the depositor can withdraw his money (the whole amount hitherto deposited), minus a wager to cover printing costs and the risk of saving (a kind of banking commission and fees). At withdrawal, the card is discarded. If the participant wants to repeat the operation, he buys a new card. The *Bwakisa carte* can last as long as there are members willing to participate. In case of emergency or by mutual agreement, it is possible for the client to withdraw a portion of his/her savings. The initiator of *Bwakisa carte* will advertise for it, very generally through word of mouth. In Kinshasa's commercial districts, *Bwakisa carte awa* are advertised – which means ‘Come to make savings here’. [3]

Bwakisa carte introduced a mobile savings collection method to operate in larger geographical areas. It uses a field outlet or mobile individual representative to collect savings and serve withdrawals from areas of high density activities such as petrol stations, automobile garages, workshops, painting units, motor-parks and market places. This method displays the adaptability of the *Bwakisa carte* to the economic and financial behaviour of people (Pampetelalo, 2014).

The *Bwakisa carte* has a firm grounding in the local tradition, with three major advantages and disadvantages; (1) Most members of *Kobwakisa* carte use it for savings, in order to face difficult periods; (2) The system is simple and flexible (it accepts any amount of money). (3) The saver can borrow some products in the initiator's shop. The disadvantage is that the saver loses twice, without knowing it. Indeed, while the *papa* or *maman carte* takes advantage of different deposits to buy goods, resell them and make profits for him/herself, the saver not only bears the effects of inflation but also pays a ‘put’ or commission (called *Mutu Moko*, literally *One head*) to the initiator without receiving any (other) service from him. In most cases, the *Kobwakisa carte* system is initiated by owners of non-financial enterprises which, in Kinshasa, are called ‘Ligablo’ for people living around the shop.

The *Bwakisa Carte* is generally informal. However, some Savings and Credits Cooperatives (SACCOs) have tried to formalise it. These formal institutions hired some young people to work as collectors. These persons walked door-to-door to take money from adherents and bring this money to the SACCO, which increased the volume of savings from poor persons, and eventually develop particular credit products adapted to the needs of this category of people.

From a financial inclusion perspective, formalisation of *Kobwakisa* carte allows those people outside the reach of MFIs to have (free) accounts and access loan products (most often through the group-lending methodology).

The 'Moziki' or Socio-professional Tontines

Moziki is a very selective tontine that is mutually organied by friends. The membership is 12 people or less because each member must benefit from the discount (cashing) once in the year. Membership registrations depends on the number of members considered sufficient to collect large amounts and less than the number of time units fixed for the draw (*ristourne*) [for example, if there are 10 members and the discount is monthly, it can admit at most two other participants to have a complete annual cycle] (Ependa, 2002).

Moziki works with cash. Members are obliged to disclose what money collected will be used for. The use of the collected funds is monitored by a member of the association designated for that purpose. A special case of *Moziki* is that of community work. In the suburbs of Kinshasa and at the village level, groups are constituted (for example, among farmers) with the purpose to carry out heavy community work (grow a field, clearing fields, gutters, hygiene housing, etc.) that an isolated individual cannot afford to complete independently. An example of *Moziki* is the one in Kinshasa with teachers, executives, women or mothers in business. Mozikis include veterans, civil servants, artisans, fishermen, alumni of a school or a university, etc. People in diaspora also establish *Moziki*. In this case, the funds are deposited in a bank. When a sizeable amount is reached, it is given to the Chief of a village as diaspora participation to the development of the participants' villages. This kind of *Moziki* is highly beneficial to the development of the members' villages (Bidubula, 2011; Ependa, 2002).

Geographical Tontines 'Likelemba'

Compared to *Moziki*, the *Likelemba* are not selective tontines. Members are linked by geographic proximity or according to a territorial division. Organisationally, they are less structured. They handle small funds because the project is individual and not based on the mutual knowledge of the members. At the beginning of a payment cycle, one can be part of it, even if he/she is not familiar with it, as long as he is sponsored/recommended by a former member of the group. There are no new members unless there is a defection. In a *Likelemba*, a person can make more than one contribution. This means that one person can contribute twice or more in the same cycle, which gives her/him the right to be paid more often than the others. There is no meeting, except at the end of a cycle where the members meet to celebrate their success. Compared to *Moziki*, it's only one person who assumes all the functions. The person in charge of a *Likelemba* collects the funds, fixes, after individual consultation, a schedule of the discount and the amount of the stake. It is from that person that the beneficiary of the rebate will receive his funds. At the end of the cycle, the person in charge, who is often a senior, the owner of a dwelling, well known in the neighbourhood (which guarantees that he will not flee with the contributions), will evaluate the past cycle and inform members about two things, about the good or bad members, who can be excluded from the organisation, and on the modalities of the end of their *Likelemba* cycle. Then the old structure dissolves automatically, and a re-composition of volunteers creates another *Likelemba* with a reverse schedule compared to the one they just followed. *This inversion of the calendar is a practice that has been introduced to ensure that members are fairly exposed to the effects of monetary inflation.* According to Bidubula (2011), *Likelemba* is the most represented form of SGs encountered in DRC. They have inspired other forms of organisations such as Mutuelles de solidarité (MUSO), VSLA, etc.

Mutual Systems of Solidarity

Inspired by traditional Rotating Savings and Credits Associations (ROSCAs), mutual systems of solidarity are similar to *likelemba* (or *likirimba* in Swahili) with the difference that they provide for savings accumulation, credit and social insurance, and are mostly rural based. [4] In practice, a *MUSO* is organised around two boxes: a 'green box' for savings and a 'red box' for social insurance (and possibly a third 'blue box' for refinancing). Originating from Senegal and inspired by traditional forms of collective savings, MUSOs were introduced in South-Kivu and North-Kivu (two provinces of the Eastern DRC) in 2002, by SIDI (Solidarité Internationale pour le Développement et l'Investissement), via Louvain Développement, two international NGOs. The two NGOs worked with ADI-KIVU to implement the programme on the ground. In 2011, there were about 1,000 *MUSOs*, with approximately 16,000 members (of whom 64% are women) (Bidubula, 2011). According to well-defined rules of operation described in a constitution, each member of the union contributes two fixed sums of money at regular intervals – usually weekly or monthly – one to the savings and credit box and the other to the social insurance box. The MUSO is a mechanism to manage cash flow through self-organisation of the members of a community based on democratic rules (Bidubula, 2011; Le Polain, 2013). The group members decide collectively which shocks will be partially compensated by the social insurance (red box) at formation. Events insured are generally similar to those for which the network provides assistance, i.e. childbirth, wedding, funerals and sickness. In South-Kivu, the average sum contributed to the red insurance box is USD 0.80, but may rise to $5 in some groups (Bidubula, 2011). Beyond the compensation provided for in the constitution of the MUSO, members can also agree collectively on additional special donations to the member in need. If a member needs a lump sum of cash, he or she can request a loan from the MUSO. Supplied with fixed and regular contributions, the 'green box' develops into a credit fund once it has accumulated sufficient resources. Loans are granted to members only and, unlike credit in MFIs, are not conditional on the provision of collateral: interpersonal trust and the proximity of members suffice for granting the loan. The 'green box' shares similarities with Accumulating Savings and Credit Associations (ASCAs) or VSLAs found elsewhere in Africa (Collins, Morduch, Rutherford, & Ruthven, 2009).

The *MUSO* is an appropriate tool to build the capacity of poor rural households for three main reasons. First, the introduction of this system allowed farmers to harvest mature products (through access to credit to meet urgent expenses) and from which they could obtain a higher price. The *MUSO* reactivated the social ties wiped out by the wars, and it made it possible to structure groups of farmers wishing to associate. Finally, MUSO makes it possible to reduce inequalities within groups and thus becomes a tool for *strengthening women's economic and social participation*.

Village Saving and Loans Associations

Increasing numbers of NGOs have embraced the SGs to achieve financial inclusion. In DRC, CARE have launched the *Tuungane* programme (VSLA, financial education and gender awareness) in the Kivu (Maniema, North-Kivu, and South-Kivu) as a women empowerment tool from 2010 to 2014. Particularly in Maniema where an evaluation study (Challenges Consulting-CARE DRC, 2014) was conducted in 2014, the VSLA initiative appeared to be an outstanding success.

Literature on Savings Groups in DRC

Universities have not engaged systematically to deliver theoretical scientific knowledge about SGs. SGs have interested researchers focussing on the informal sector, or in socio-political issues and the way they affect the living conditions of the Congolese from Mobutu to present. Applied research addresses SGss and recovery from (sexual) violence, SGs and women empowerment, and the impact of SGs on a certain community, especially impoverished people.

Trefon (2002) deals with *Likelemba* and *Moziki* as *social organisations which are clearly representative of changing patterns of solidarity* (in Kinshasa) because they reveal how people get things done despite political obstacles. The *Likelemba* and *Moziki* particularly common in Congo's major cities like Kinshasa and Lubumbashi also exist in rural areas.

Likelemba and *Moziki* have the same goal: economic and mutual assistance based on moral and cultural values (Omasombo, 1992). The *Moziki* has broader social implications than the *Likelemba* which theoretically focusses on credit and finance. The *Moziki* system is not limited to finance and credit as it organises collective work. Responsibilities of keeping various accounts of the association and organising meetings are those of a person called *maman* or *papa moziki*. Different categories of people are involved in these associations. School children do *Likelemba* with their pocket money, and at the end of the week one of them receives the money collected. Civil servants, teachers and craftsmen have the same system. The most significant group, however, is the urban traders, mostly women at the large markets, are members of one or more groups of *Likelemba* or *Moziki*. There are some wholesale traders among these women, but the majority of them are petty traders. The great number of women involved in small trade in Kinshasa can be ascribed to the need to earn money for their households. The majority of these traders depend on this informal financial system to finance trading activities based on the distribution of local foods and manufactured consumer goods.

There are several reasons for the popularity of the *Likelemba* or *Moziki* as an informal financial system in Congo-Kinshasa. They address the economic and social needs of members (easy to join the group, rules and procedures easy to understand, emphasis on social networks and easily accessible). They are highly effective because transactions costs are low and the costs to collect unpaid loans are almost non-existent. The risk of default is almost non-existent due to strong social pressure. These associations are also very popular amongst Kinshasa's money changers (*cambistes*). Although the main goal here is savings, these associations function as a financial support group that helps members in need of cash for their money-exchange activities. Solidarity is strong between the money changers in a *moziki* or *likelemba* given the high degree of risk of their work. They can make huge losses by misjudging the direction of exchange rates. Two strategies exist to assist members, each member contributes to a special fund, or one or two members lend money to reconstitute working capital. It is in the context of these 'personal confidence networks' that De Herdt and Marijsse (1999) have suggested that Kinshasa's *cambists* of today are 'reinventing tomorrow's capitalism in Congo'.

A second interesting non-academic research by CARE (2013) documents and analyses the socio-economic re-integration of survivors of Sexual and Gender Based Violence (SGBV). The purpose was to establish the strength of its model used in VSLAs, especially in the participation and protection of women in a post-crises context such as North-Kivu. The report showed that VSLA proved to be a powerful tool for livelihood, poverty reduction (access to food, health and education to children, social engagement of members, etc.) and women's empowerment.

In 2014, CARE assessed another VSLA project in Maniema (another province in DRC). The initiative proved successful in releasing families out of extreme poverty and putting them on the road to self-managed, productive lives where finances are controlled, children go to school and aspirations are realistic – and achievable. This occurred without resorting to debt. CARE identified rising member confidence – knowing members can rely on a financial umbrella protecting them from insolvency. SGs have also integrated persons with disabilities in Kinshasa (World Vision's report realised by Honda, April 2013, by Hitomi (2013)). The WV took these persons, taught them to organise and manage a SG, and eight months later, they had very small flourishing enterprises – *sewing, shoe repair, salon and photocopying.*

Pampetelalo (2014) investigated the effectiveness of *Bwakisa carte (Kobuakisa carte*) as a savings collection strategy and its impact on poverty reduction in Kinshasa. The *Bwakisa carte* that operates outside the regulatory framework (Qadir, 2005; quoted by; Pampetelalo, 2014), in the Sea Port Obma, where the urban poor, especially women and children from all over Kinshasa came to do daily trading and buying goods, facilitated their enterprises. Approximately 90% of people trading at this place are poor, but the majority use *Kobuakisa carte*.

South-Kivu: Savings Groups

Located in the East of the DRC, South-Kivu has been the scene of successive conflicts since the 1990s. In this fragile context, international NGOs seeking to move beyond humanitarian assistance toward development programmes, engaged with SGs. Poor communication infrastructure and a general distrust of conventional MFIs – some leading MFIs having gone bankrupt in recent years – render the decentralised approach which characterises SGs' models particularly attractive. Informal financial services are the primary model for the savings and loans in the DRC (Start Centre, 2017). By the end of 2014, nine international NGOs were promoting SGs in South-Kivu (ADI-KIVU, GALE, CELCE, CARITAS, ASOP, GRADEM, CADI, PIFEVA).

One SG consists of a group of 15–30 people who agree to meet up and save regularly. Joining the SG is voluntary but governed by the principle of self-selection. Members' contributions are pooled into two distinct funds. The credit and savings fund is the larger fund and pools recoverable savings and turns them into short-term loans for members. The social fund pools regular but unrecoverable contributions to assist members temporarily in need. Each group usually decides in advance the types of emergencies and life-cycle events leading to financial compensation under this social fund (usually granted for wedding, childbirth, hospitalisation and funerals). All financial operations take place during meetings only in order to allow members to monitor and have control over fund management. To allow safety, all contributions are deposited in a metal box which is secured by multiple locks. Keys to the locks are kept by separate group members to avoid opening outside the scheduled meeting. SGs are already accepted by community leaders and local authorities, but are not formally registered.

Drawing on qualitative research conducted in South-Kivu (2013 and 2014), Le Polain, Sterck, and Nyssens (2018) revealed the existence of economic, social, moral and cultural roots influencing SG participation. By paying interest on loans, members perceive their model to strengthen the accumulation of capital, allocate scarce capital resources efficiently, and remunerate and incentivise savings.

A SIDI (2017) report found that the impact of MUSO on its members (the *Musoniers*) in North-Kivu (DRC) was reinforcing social capital. Members are carefully self-selected when establishing. Social cohesion provides the guarantee to loans' reimbursement. In North-Kivu, exclusion of persons based on unsuitability to a certain group gave rise to a wide diffusion of MUSO in the same village (549 *Musoniers* per village). Beyond traditional social capital (family, friends, self-help groups, etc.), the *Musoniers* generally have limited access to savings, credits and insurance services which would enable them to strengthen their financial position. *MUSOs* strengthened members' ability to accumulate productive assets, albeit only 3% of *Musoniers* were able to buy new assets. Women make up the majority of *MUSO* members, who reported stronger solidarity, social capital and financial collaboration.

Case Study DRC: Credit and Savings with Education Groups and Impact of Women Economic and Social Empowerment in DRC

Objectives and Problems

Credit and Saving with Education Plus (CSE+) is celebrated as a specific product with a high potential for women and other vulnerable and marginalised people's empowerment in developing countries. It has been promoted and primarily tested by Freedom from Hunger (FFH) and *Pro Murger* in Latin America. CSE+ was first brought to the DRC by the UNDP and UNCDF to deliver financial services to marginalised populations in rural and urban regions. The idea of CSE+ is based on the paradox that the best guarantee that a poor or vulnerable person can give to obtain credit is savings. This is a paradox since these poor/vulnerable people are precisely excluded from the formal financial system because they are unable to save enough. However, the fact was that poor women engaged in the same activities (very small business, crafts…) or even having a job (although poorly paid) often pool savings to make weekly contributions to build a fund, such as a *Likelemba*. Accumulated the week to be given to one of the members, this fund proved insufficient compared to what a more professional financial institution could give by keeping the fund constituted as guaranteed. It is within this framework that development organisations, in this case UNDP, have developed group loan products for these categories of savers, products that are accompanied by financial literacy training. The logic of the operation is that a guarantee fund is given to a cooperative or an MFI; then this institution develops group credits for these women. Before obtaining the credit, members had to undergo training on the constitution and security of savings, the preparation of expenditure plans, the evaluation of credit needs, the risks related to credit, the planning of credit repayments, small business management, etc. Although the cases presented focus on savings, the CSE + product case is relevant because it is a credit product that is based on the savings of the poor. This is a way to illustrate a rational use of group savings, which is to give access to more formal credits and hence improve poverty alleviation.

This case study evaluates the economic impact of the CSE + on members/beneficiaries, especially women in their households and in society in general, as well as the impact of state regulation.

The data used in this study were collected through focus group interviews, in three regions: Bas-Congo, South-Kivu and North-Kivu in four main credit and savings cooperatives which were experiencing the CSE + product through UNDP and UNCDF technical and financial supports. A total of 36 focus groups were organised with members of credit organisations. In total, 274 people participated in the focus groups. The topics covered the reasons for joining the credit groups, the perceived advantages and disadvantages of the CSE + product and especially the impact of the CSE + product on women. Interviews were conducted in local languages (Lingala, Swahili, Kikongo, etc.). The majority of focus group participants were women, or 55%. The latter were more represented in the focus groups organised in *Beni/Butembo* and *Uvira* (73% and 90%) than in *Mbanza-Ngungu* and *Inkisi* (38% and 39%).

The Case

The CSE + product is a specific product developed by FFH in Latin America. The objective of the product is to *combine financial products with non-financial products in order to meet the financial needs of poor or very vulnerable populations, women in particular, excluded from MFIs and conventional banks*. This product is based on the principle of group loans and joint liability as collateral and is inspired by current practices in the environment in which it operates. CSE+ was introduced in the DRC in 2009 by the UNDP and the UNCDF to promote financial inclusion. The product was implemented by four SACCOs (CAMEC *Mbanza-Ngungu* and CAMEC *Inkisi* in Bas-Congo, MECRE-BENI in North-Kivu and SACCO *Kalundu* in South-Kivu), with the financial support of the aforementioned organisations consisting of a total grant of USD 25,000 per cooperative (USD 15,000 for the credit and USD 10,000 for the operation). It is based on the principle of group loans and solidary collateral. The CSE + product primarily targets low-income but economically active populations to assist them to access a credit facility without prior savings to develop income-generating activities (IGAs). Beneficiaries of the CSE + product also benefit from training – management training in particular – which ensures both the profitability of the activities financed and the professionalization and the collective and individual growth. By 2012, four years after its launch, there were

297 beneficiaries at CAMEC Inkisi, 171 at CAMEC *Mbanza-Ngungu*, 3013 at COOPEC *Kalundu* and 5505 at SACCO MECRE-BENI. After the first semester of 2013 alone (7 months from the beginning), there were respectively 543, 121, 3,921 and 1,561 beneficiaries. The present study attempts to assess the contribution of this specific group product by focussing on the data collected during the final evaluation of this project 2013.

Perceived benefits of the CSE + on the socio-economic well-being of members. The product has generated varied benefits in the lives of the beneficiaries. According to several beneficiaries, the CSE + has allowed them to acquire sustainable assets and means of investment:

> Access to the CEE + programme allowed me to buy a motorcycle that allows me to move easily to the fields.

Access to the CSE + allowed other beneficiaries to buy a field and even a house for women and specifically for widows who could not obtain these assets otherwise:

> I am a widow and I lived in my house with my children. Since the access to CSE+, I have been able to build a small house for myself.

CSE+ enabled beneficiaries also to expand the size of their business activities and increase their income:

> With access to the CSE + program, I am now able to buy in bulk also paying cash and benefit from price discounts… This allows me to sell in detail while also realizing large margins…

Other members, especially those who work in agriculture, say that they are now able to use additional labour thanks to the income generated by the activity financed by the CSE+:

> Since my access to CSE + program, I have increased the cultivated area because I am now able to resort to a paid workforce…

CSE + significantly improved access to education and health, respectively for children and all household members, as well as improving parents' social image as evidenced by the following statement:

> Access to the CSE + program (third cycle) allowed me to pay my child's fees at one time, which have avoided them being chased from class…/… which gives us a pride as parents.

> Access to CSE + product allowed me to pay for the medical care of my child who suffered for 5 years…

Improving the Condition of Women

The results indicate that access to CSE + enhanced women's empowerment by breaking social barrier between men and women. In some communities, women could not sit at the same table as men, but now they are respected and considered as seen in the next statement:

> Women were marginalized before and could not enter the same group with men, or sit beside them. Now it's possible to see men and women in the same group. All work together in harmony and work becomes easy. I feel that I am achieved and people envy me.

The data reveal also that access to CSE+ allowed women to access capital, start an activity, generate additional income and obtain assets formerly reserved to their husbands.

> Access to CSE + allows me to buy loincloths and gives me an individual pride and even creates jealousy vis-à-vis the neighbourhood. [5] I was a beggar before. To eat, I had to beg. Since I joined this program, I became independent and I can now feed myself without much problem.

> We are now able to feed the whole family and even buy clothes not only for ourselves, but also for our husbands. We now know how to solve financial problems related to our households without waiting for the – sometimes improbable – help of our husbands. They come home and they find everything ready. They find meat on the table when they have not left the money for this expense…

The feedback confirms that access to the CSE+ has also improved the image that women have of themselves in the community:

> The credit we receive is comparable to a soap that cleans our hearts and which brings us peace…/…We are no longer dependent on our husbands… This money gives us value within families and society. We have become wise women, as the Bible says, they feed and care for their families. Women have become active agents.

SG experience with state regulation:

> To assess the regulatory environment in the DRC, various stakeholders explained the interaction with the regulators in the DRC – Central Bank of Congo, Government, NGOs (local as well as international), telecommunications operators, financial institutions and local authorities. In the DRC, academic institutions have begun neither to interact with SGs nor to produce academic research on these institutions. The insights for this case study were gained from interviews and questionnaires addressed to SG members, leaders, as well as some formal institutions' managers. These surveys have been conducted in August–September 2018 for a report commissioned by ELAN-DRC. (Adam-Smith International)

Relations with the Regulator

The interviews we conducted with VSLA members in *Bukavu* and *Goma* highlight with respect to three matters:

(1) The state is at the root of the problems of extreme poverty of the Congolese population exacerbated by the poor governance that of financial institutions.

(2) The state did not protect the population against inefficient banks. Banks and MFIs emerged, collected money from the population and disappeared with impunity.

(3) Even when the population tried to organise itself through the SGs, the state imposed too stringent formalities and taxes, which complicates the SG operations.

On the poverty of the Congolese people for which the state is responsible, one respondent stated:

> It has been more than 6 years since I finished school, but I cannot find a job. Now I organize myself through this small informal business, but the income I get is not enough to be deposited in a bank, and even if I deposited them there, the bank never gives credit, so it's useless, but if the state could give people jobs, I might have a sufficient salary that would regularly go into a bank account. In these conditions, the only solution that remains is what it is to get together in small groups to save together and lend to each other!

Members see SGs as the only avenue to access financial services.
Another member states:

> I am a primary school teacher; and my salary is banked. But the state pays me so badly that I am like a poor unemployed person. With a little money that my husband gave me, I try to make some “deals”, and what I earn I fructify through Likelemba that I do with other teachers. But it's still too hard to live like that, the state should still help us to work decently, and at the end of the month we check in the bank we realize that there is money ‘is easier.

The second problem is linked to the fact that the DRC had weak financial institutions the last 20 years. A bank called BCD operating in Kinshasa and *Bukavu* during the 1980s and 1990s, simply disappeared. During the same period, a investment bank called “Dutch” entered the DRC with permission of the Central Bank of Congo and settled in Eastern Congo. It offered very attractive interest to savings deposits to attract clients. The population rushed to the bank, but it disappeared in less than a year. The next institution was a MFI (Cooperative) that existed for a very long time, and then went bankrupt, and no member could retrieve deposits.

Against this macabre history, a member of a VSLA states:

> When we know that in the face of the abuses of financial institutions, the state abandons the victims, how do you want to have confidence in the state?

Another member reinforces his disapproval of the state's negligence towards financial institutions in these terms:

> Even when the Prime Minister decided to “bankarize” our wages, if I had the choice I would refuse, until the government gives us guarantees. [6] In addition, how do you bankarize a salary of 70000 francs Congolese? (USD 43.75).

Finally, VSLA members feel the DRC state failed to protect them against predatory formal financial institutions, which create unfavourable conditions for the operation of VSLAs. VSLAs have to register as non-profit associations – a long, tedious and expensive process. VSLAs preferred to function as informal structures and therefore cannot open accounts with banks. VSLAs are subject to taxes, even though their operations, far from producing profit, are limited to alleviating the misery of the population in difficult circumstances.

Relations with NGOs

The majority of VSLAs surveyed were established or promoted by development NGOs such as CARITAS, CARE International, IRC, etc. A survey conducted for ELAN-Adam Smith International (Bugandwa, 2018) reveals the following (see Table 1):

Table 1. Type of Initiator * Provinces.

			Provinces					Total
			Katanga	**South-Kivu**	**North-Kivu**	**Oriental Province**	**Kasai**	
Type of initiator	NGO and/or local associations	Frequency	177	22	37	39	24	299
		% Among type of initiator	59.2%	7.4%	12.4%	13.0%	8.0%	100.0%
		% Among provinces	90.3%	59.5%	46.2%	92.9%	92.3%	78.5%
		% of total	46.5%	5.8%	9.7%	10.2%	6.3%	78.5%
	Female individual	Frequency	8	13	14	2	1	38

			Provinces					Total
			Katanga	South-Kivu	North-Kivu	Oriental Province	Kasai	
		% Among type of initiator	21.1%	34.2%	36.8%	5.3%	2.6%	100.0%
		% Among provinces	4.1%	35.1%	17.5%	4.8%	3.8%	10.0%
		% of total	2.1%	3.4%	3.7%	0.5%	0.3%	10.0%
	Male individual	Frequency	11	2	23	1	1	38
		% Among type of initiator	28.9%	5.3%	60.5%	2.6%	2.6%	100.0%
		% Among provinces	5.6%	5.4%	28.8%	2.4%	3.8%	10.0%
		% of total	2.9%	0.5%	6.0%	0.3%	0.3%	10.0%
	Other	Frequency	0	0	6	0	0	6
		% Among type of initiator	0.0%	0.0%	100.0%	0.0%	0.0%	100.0%
		% Among provinces	0.0%	0.0%	7.5%	0.0%	0.0%	1.6%
		% of total	0.0%	0.0%	1.6%	0.0%	0.0%	1.6%
Total		Frequency	196	37	80	42	26	381
		% Among type of initiator	51.4%	9.7%	21.0%	11.0%	6.8%	100.0%
		% Among provinces	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
		% of total	51.4%	9.7%	21.0%	11.0%	6.8%	100.0%

Table 1 shows that there are more than 50 SGs in North- and South-Kivu without assistance of NGOs. This is expected, since long before the *Mata Masu* in Mali, and its popularisation by CARE and other NGOs, community finance existed as *Likelemba*, *Maman Musiki*, etc. (see our literature review). What is new is the way CARE organised these structures to enhance financial inclusion.

Notes

1. The concept of 'member' fits better to the Savings and Credits Cooperatives (than that of 'Customer') because of the legal form of the 'Cooperatives'. In this kind of institutions, Each person who has an Account 'owns' a share of the whole capital.
2. Lingala is one of the four national languages in the DRC. It is spoken in the West of the Country, and little in other Provinces, essentially by soldiers and policemen.
3. Literally, 'Come and throw your card here!'
4. Swahili or Kiswahili is the language which is spoken in the East of Democratic Republic of Congo, and in other countries in the East of Africa (Kenya, Rwanda, Burundi, Tanzania).
5. Congolese traditional piece of clothe wore by women. In the Democratic Republic of Congo, this piece of cloth has a symbolic meaning. Men usually by it to their wives when they give birth. So, as women did not control household resources, the rare occasion to have a loincloth (Super Wax), is to get pregnant and give birth. CSE+ can be seen to have freed women from this burden.

   6. In 2012, the Congolese Prime minister decided to pay Civil Servants in bank accounts. Banks receive listings of public personnel that should be paid, then these personnel can go the counts and withdraw their wages. It is this phenomenon that was called 'bancarization'. Although it allowed a certain control of public payments, the success of bancarization remains very mixed; its impact on financial inclusion has not been proven, and the phenomenon created much insatisfaction to the concerned public servants (Namahanga Arhahamwoba, 2017–2018; Master Thesis at Catholic University of Bukavu).

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Chapter 9

Savings Groups in Urban Ethiopia

Konjit Hailu Gudeta, Atsede Tesfaye Hailemariam and Bantie Workie Gessese

Keywords: Urban; social capital; migration; economic opportunities; empowerment; entrepreneurship

Introduction

The global phenomenon of savings groups and credit cooperatives have around 100 million members worldwide (Greaney, Kaboski, & Van Leemput, 2016). These groups develop from the informal indigenous savings group known as Rotating Credit and Saving Association (ROSCA) and prevail in most African countries. Savings groups gradually incorporate the most vulnerable groups in society, as they provide access to finance to financially excluded individuals and communities in rural developing economies (Allen & Panetta, 2010). In the absence of public welfare systems and insurance markets, savings groups meet the financial needs of impoverished individuals seeking additional sources of income to augment food and non-food expenditure such as health, housing and education (Alvi & Dendir, 2009). Savings groups address and meet the credit needs of poor entrepreneurs and women in developing countries (Marti & Mair, 2009). These groups contribute to self-help, poverty reduction, social transformation and empowerment, delivering positive and statistically significant effects on women's economic, social and political empowerment (Carinne et al., 2017).

People living in urban areas are better served by banks and microfinance institutions in comparison to the rural areas, but a significant portion of middle class and/or urban poor still have difficulty accessing formal finance through these institutions (Gebre-Egziyabher, 2010). One of the reasons is limited access to the pre-requisite collateral, which is inaccessible to a significant number of urban dwellers.

International Non-Governmental Organisations (INGOs) explored a number of initiatives in Ethiopia to promote savings-led economic and social empowerment programmes for women and other vulnerable groups. Some of the initiatives implemented are stand-alone projects that only include savings groups, while others include integrated projects involving additional aspects such as health and food security initiatives. These programmes primarily target the 'ultra-poor', primarily in rural and/or peri-urban parts of the country. Their goals, approaches and strategies share a similar overall objective of helping members of the groups 'save, lend and re-invest their own pooled resources' (PCI, 2012).

Academic work on savings groups in urban parts of sub-Saharan African countries is limited. Most studies address saving groups in rural communities in Ethiopia than the urban phenomenon (Abebe, 2014). Ethiopia is one of the fastest growing economies in the world, yet is still one of the poorest countries (UNDP, 2019), with GDP per capita for the fiscal year 2017/2018 reported as US$863 (National Bank of Ethiopia, 2018). Ethiopia is one of the least urbanised countries in the world, with only an estimated 19% of its population urbanised. However, the rapid transformation and development, especially in the capital city Addis Ababa, is attracting more and more rural–urban migrants who seek better economic opportunities (Gebre-Egziyabher, 2010; Gebru & Paul, 2011). Migration into urban areas, when not matched by economic opportunities, will transfer poverty from the rural to urban domain. The literature identifies savings groups as one mechanism through which excluded individuals become economically active, by gaining access to finance. The evidence, however, is yet to be verified empirically, in particular in urban parts of sub-Saharan Africa.

This study will explore selected cases of saving groups in the urban Ethiopian context and the contributions of participation in such groups to individual members, households and beyond. It will contribute to the existing literature on saving groups, which, for the most part, focusses on the rural context, showing the distinct characteristics of urban savings groups.

Savings Groups in Ethiopia – Background

The National Bank of Ethiopia reported a 7.7% growth in Ethiopia during 2017/2018. The country is the second largest in Africa, next to Nigeria, with an estimated population around 109 million in 2018 (UN, 2019), and is home to more than 90 ethnic and linguistic groups. The age structure of Ethiopia is 47% of the population between the age of 0 and 14 years while 53% are between 15 and 65 years (CSA, 2017). Ethiopia is home to a number of informal saving groups, cited in academic literature and organisation reports. This section presents the most common types of savings groups identified.

Iquib: A Rotating Savings and Credit Association

The most common type of an informal ROSCA is referred to as *iquib (*sometime spelled as *ekub or iqquib*). It is one of the traditional informal savings groups, widespread both in urban and rural parts of Ethiopia. *Iquibs* are reported to have been started by the Gurage ethnic group in the 1930s, to assist members with cash shortages, while starting and running businesses (Lavine, 1965, cited in Mequanent, 1996). An *iquib* is a form of rotating savings group where members contribute a specified amount of money in a pre-determined period (daily, weekly, bimonthly or monthly). On the agreed date, members gather to draw a lottery, with the winner receiving the collected sum of money. This practice is repeated until all members are granted the same amount of money, depending on the draw made during each gathering (Anely, 2017). *Iquibs* may be formed in homogeneous groups (such as women, business owners, farmers in same neighbourhood, employees in same organisations, etc), while in other cases they may be heterogeneous, with individuals from different backgrounds (Kedir & Ibrahim, 2011). *Iquibs* can also vary in size depending on the economic status of members (with different income levels) as well as the reason for which the association has been established (e.g. to buy household durables).

In developing economies, such as most sub-Saharan African countries, where a significant proportion of the population still lacks access to formal financial services, indigenous informal savings and credit groups such as *iquibs* serve to mobilising resources (Kedir & Ibrahim, 2011). Anely (2017) identifies *iquibs* as entrepreneurial networks facilitating the exchange of resources and work based on trust among members. This secures members and serves as a mechanism to limit risk of default (Biggart, 2001).

Savings and Credit Cooperatives – Collective Savings and Borrowing Groups

These are semi-formal financial institutions, which may create links between the informal financial institutions, such as the *iquib,* and the formal ones such as microfinance institutions and/or banks (Aredo, 1993). The first savings and credit cooperatives (SACCOS) were formed in the 1960s (Tesfamariyam, 2015) in a country with a long history of collective savings provided by informal institutions such as the *iquibs*. In 2013, the Federal Cooperative Agency of Ethiopia, reported the existence of 7,154 SACCOs (Addis Ababa Savings and Credit Cooperative Union, 2019). Some operate in urban areas involving mostly employees of public institutions, while others mobilise savings and facilitate loans with the aim of improving the lives of those in rural areas, mostly women. In Addis Ababa, there are 1,230 SACCOs (AASCCU, 2018). SACCOs in urban areas are savings and credit cooperatives and consumer cooperatives, while SACCOs operating in rural areas are mostly agricultural cooperatives that aim to enhance the livelihood of members who primarily depend on agriculture.

Village Savings and Loan Association – Savings Groups

Most commonly known, especially in rural areas, are the voluntarily and self-organised groups that operate as village savings and loan associations (VSLAs). Members (mostly women) meet weekly to save money and borrow against their savings. As most VSLAs operate in rural areas where members depend on agriculture, the funds obtained through such associations are often applied towards an improvement of their ‘agricultural livelihoods’. Various NGOs facilitate the organisation and functioning of VSLAs in rural Ethiopia. CARE Ethiopia is considered the main actor, supporting around 5,206 savings and borrowing groups (Mackie, Brown, Smith, & GebreEgziabher, 2015). These associations focus on savings and loans as well as resilience development programmes, which address issues such as women's economic empowerment (through providing them opportunity for savings and credit facilities), climate change adaptations, nutritional support and the like. VSLAs are a group of 15–30 people who save together and take small loans from those savings. It is a member-managed group.

Iddir – A Burial Society

Iddir is an association of individuals primarily formed to provide social welfare services (e.g. in cash or kind) at the time of a member's funeral. Aredo (1993) describes *iddir* as a semi-formal financial institution where individuals contribute (save) money accessible at the time of need. *Iddir* is defined by Maun (1987, pp. 6–7, cited in Aredo, 1993) as ‘an association of individuals that have some social and/or familial ties such as family members, friends, neighbours with the objective of providing support and financial assistance during difficult circumstances’. *Iddir* members meet at a pre-determined time (usually every month) to contribute money. Such associations operate on the basis of ‘reciprocity and trust’ (Tigist, 2000, cited in Teshome, Zenebe, Metaferia, & Biadgilign, 2014), whereby individuals who were supported during times of crisis (such as the loss of a loved one) are expected to extend similar support to other members. These societies are not saving and lending groups but provide insurance services for individuals who made regular contributions (i.e. savings) to be paid during crisis.

Economic Outcomes of Savings Groups

In rural Ethiopia savings from *iquib* are allocated for the purchase of food, clothing and household goods (Aredo, 2004). Although *iddirs* are in urban and rural Ethiopia, they are more active in urban areas where cash is available (Tommasoli, 1996). Kedir and Ibrahim (2011) found that ROSCAs in urban Ethiopia indicate middle class exclusion from financial services, who are often forced to resort to informal ROSCAs (i.e. *iquib*) for their financial needs. Urban people save through ROSCAs to smooth consumption, buy consumer durables such as automobiles and furniture (Kedir & Ibrahim, 2011) or settle debt (Tommasoli, 1996). Saving in *iquib* generally improves participants' living standard (Getasew, 2017).

Iquib offers an ideal network to collect cash for entrepreneurs requiring capital for business start-up and business expansion (Bisrat, Kostas, & Feng, 2012). A larger *iquib* is associated with increased investment in business activities (Aredo, 2004). Some traders' *iquibs* in the capital, Addis Ababa, have become permanent financial institutions (Aredo, 2004). ROSCAs have become commercialised, where organisers and members draw specific benefits (Bouman, 1995). *Iquibs* operate as networks for entrepreneurs to expand their businesses and support their families (Anely, 2017). Most large- and medium-sized business owners prefer *iquibs* rather than other financial services because of low transaction costs. (Agegnehu, 2012; Aredo, 2004; Bisrat et al., 2012). Muslims prefer to save in *iquib* because their religion forbids interest on bank deposits (Kedir & Ibrahim, 2011). *Iquibs* empower women by providing financial flexibility/independence (Kedir & Ibrahim, 2011). Many women entrepreneurs in Ethiopia rely on *iquib* for start-up finance (Solomon, 2010; Stevenson & St-Onge, 2005).

A household survey by Kedir and Ibrahim (2011) in Ethiopia found that individuals facing restricted access to household credit predominantly turned to family and friends rather than informal saving associations such as *iquibs*. Informal savings groups/associations perform a significant role in mobilising financial resources (Anely, 2017; Aredo, 2004; Bisrat et al., 2012). Abebe (2014), investigating the potential of local institutions in enhancing the livelihood of households in rural parts of Ethiopia, found that those households with access to rotating savings, microfinance and similar services have better chance of improving their financial capital than people without such networks. Individual access to rotating savings and/or funeral associations and labour-share (attained through traditional associations) enhanced the physical capital of livelihood assets, improving the welfare status. Group work experiences and the trust developed in savings groups lead to engagement in other income generating activities, facilitating a transition of the associations into more developed cooperatives.

Individuals in low-income households who do not have the discipline to save with banks and microfinance institutions join savings and credit societies/groups to motivate commitment and discipline to save (Bisrat et al., 2012). This is an effective mechanism, since defaulting dishonours a valued individual and/or familial reputation (Biggart, 2001). Compliance discipline (regular contributions) is an important trait of savings group membership (Bisrat et al., 2012). Cooperatives have also assisted in providing access to income-generating activities and services that assist the unbanked to access near-bank services. They made a significant contribution to poverty reduction and growth, in particular in rural areas (Emana, 2009; Tesfamariam, 2015).

Social Outcomes

Savings groups deliver other social advantages. Women benefit differently from membership. Since women participate on an equal basis with men in formal (savings and credit) organisations, they build confidence and improve gender relations in the household and beyond. This sensitises participants on the normative gender roles in the society. In savings groups, members will reflect on different harmful social and cultural norms and practices. This understanding contributes to reduce harmful practices from the household and the community in general. Savings groups, in developing economies, improve food security in rural areas (PCI, 2012). Women are empowered by assuming leadership and/or organisational roles in the group, especially where their spouses are also a member of the savings group. Savings groups (such as *iquib* and *iddir*) provide for both economic and social activities. The social fund is often used to support group members at times of crisis, such as medical and funeral expenses (Aredo, 2004).

Kebede (2018) indicated that diverse social networks help build the social capital of individuals in the form of information and resources, in particular for those operating in the informal economy. Although Ethiopian *iquibs* are primarily financial intermediaries, they also facilitate socialisation and risk (insurance) services to its participants (Aredo, 2004). Often the social motives outweigh the financial motives for small *iquib* participants (those who contribute a relatively small amount of money) (Agegnehu, 2012). Members are more interested in the social dimension (regular meetings, sharing their life challenges, etc.), since the groups foster cooperation and solidarity with friends and fellow members. Members show a willingness to give up a pot, to members in more desperate need (Agegnehu, 2012). A needy person can also set up small or medium size *iquib* by requesting to be the first to collect from the pool and then become the chairperson (Aredo, 2004). There are women-only *iquibs* that diversify their portfolios by participating in cooperative farming schemes, trading in grain, insurance, state contingent lending activities and conflict resolution arrangements (Aredo, 2004).

Study Context and Approach

The study context is Addis Ababa, the capital city of Ethiopia and home to 25% of the country's urban population. Addis Ababa is one of the fastest growing cities in Africa. The city contributes about 50% of the national GDP and had 14% economic growth in 2015 (World Bank, 2015). The rapid urbanisation follows high rural–urban migration, prompted by the search for better economic opportunities (Gebru & Paul, 2011). The national unemployment and poverty levels in Addis Ababa are an estimated 23.5% and 22%, respectively (World Bank, 2015).

The study uses a qualitative case study approach to explore two distinct cases that show the saving and lending experiences of urban women and men in Addis Ababa. We selected four groups and/or institutions to show the different experiences of the groups.

We collected primary data through 12 in-depth interviews with officials and/or leaders and ordinary members of saving groups. Two officials work at Women in Self Employment (WISE) and the Addis Ababa Saving and Credit Cooperative Union (AASCCU). To learn about *iquibs*, interviews were conducted with leaders of two *iquibs*. In addition, three members of

SACCOs organised by WISE, two members who are employees of SACCOs and who have used services of AASCCU and three members of informal *iquibs* were interviewed. All interviews were conducted after receiving the consent of participants. The audio-recorded interview was transcribed *verbatim* and coded. We collected secondary data from publications and reports of the two institutions. We used a monthly newspaper published by WISE, '*Tarikenlawgacheu*', (literally translated as 'let me tell you my story') that tells the life stories of SACCO members, brochures and biennial reports of AASCCU to supplement the interview data.

The following section details two cases in the study on saving groups and saving experiences in urban Ethiopia. Case one describes the saving experiences of (mostly poor) urban women. The second case shows the savings and lending experiences of the first Savings and Credit Cooperative in Addis Ababa.

Case Study Ethiopia 1: Women's Entrepreneurship Development through SACCOs: The Case of WISE

WISE is a non-governmental organisation based in Addis Ababa. It is an intervention initiative for poor, self-employed women and girls mainly engaged in home-based production and small-scale trading activities, as well as unemployed women who wish to start their own micro-businesses. WISE assists these women and girls to initiate or expand their micro-enterprises by organising them in SACCOs. Currently WISE assists 85 independently organised SACCOs. Members of each SACCO have the right to decide on the minimum amount of compulsory weekly savings and the rate of interest on loans. WISE established a union of the cooperatives to ensure the sustainability of financial and non-financial services. The union provides this kind of support when WISE ceases to give direct assistance to the cooperatives. The union and SACCOs are effective, sustainable and profitable as compared to other SACCOs that benefit from similar packages of financial and technical support (Haile, 2015).

The organisation works in partnership with various governmental and non-governmental as well as private and community-based institutions. The case study of WISE is based on four in-depth interviews with three successful SACCO members and leaders of the union.

Background of Members

Prior to joining the cooperative, members were from an economically disadvantaged segment of the population. Some were school dropouts due to difficulty in covering the cost of schooling, or in order to take care of family members after the death of a parent. Among the married members, some were forced into marriage. One of the interviewed women said, 'I got married due to my economic problems and you face a lot of nasty things when you move in with such terms'. Some of them had a challenging married life. They were overburdened with demanding family responsibilities such as taking care of their husbands, children and dependents as well as shouldering domestic roles. They had to work as street vendors or in an open market selling fruit, vegetables and other food items to sustain their family and that of the extended family members. They had no savings nor access to credit because society considers them poor, helpless and has no confidence in their ability to repay.

Members came to learn about WISE's services through information provided by the offices of the smallest administrative units in Addis Ababa (locally known as *'kebele'*) and close neighbours, sharing news and information during the coffee ceremony. First, the women thought WISE was a charity organisation providing aid to poor women and girls. At the first meeting with the staff of the organisation, they realise that WISE is engaged in supporting them to initiate and expand their micro-enterprise operations. This is done by organising them in SACCOs and training them. They then received access to loans to start or develop their businesses. The fact that the organisation is not giving money as handouts did not make the women feel helpless or dependents.

Trainings and Business Development Service

The organisation provides members business skills, health education, leadership and management, life skills, financial education, literacy and numeracy and technical skills training through the SACCO. This experience was life-changing, especially to the less educated women. One of the interviewees said, ‘the 12-day self-empowerment training changes you from deep inside’. Besides the business training she said,

> …when the experienced trainers [of WISE] teach about [our] daily life, [we] come to tell them about [our] private affairs that [we]would not dare to tell to anyone else and to discuss freely.

This shows that the WISE training and support went a long way beyond addressing the economic challenges of members.

Financial Service

WISE promotes financial inclusion by organising women in their own SACCOs. The organisation supports the SACCOs by providing financial services such as interest-free loans to the cooperatives. Members can access credit (with interest) through their cooperatives. The cooperative provides a loan up to 5 times the amount each member has saved. Most of the members started their micro-enterprises with a Birr500 loan (US$92 at the time) they took from their cooperative after completing the training and contributing to weekly savings. WISE members managed to grow their micro-businesses into small enterprises using loans they accessed through their cooperatives. This has helped open employment opportunities to those hired by the women in their growing enterprises. Accessing a loan through the cooperative is much easier, especially for women who live in poverty and do not have kin (e.g. extended family members) that trust them enough to lend them money. A WISE official reports that, currently in most of the SACCOs the highest loan extended was Birr 100,000 (US$3,450) and Birr 300,000 (US$10,345) from a primary cooperative and a union, respectively. The union handles and updates the financial statement of every SACCO member using specialised software developed for this purpose.

Moreover, SACCO members receive loans to cover the down payment for condominium housing units, building and renovation of their houses and for their children's school expenses. In addition to these benefits, 10,000 members received loan-based micro-insurance coverage facilities through Ethio Life and General Insurance Company. The micro-insurance serves as collateral for low-income borrowers who do not otherwise qualify for a loan. The insurance provides full coverage in the event of death of the insured borrower before the debt is fully repaid. Additional benefits include funeral expense of Birr 1,000 (US$35) per insured person. It also covers losses arising from accident and disability, illness or maternity. Furthermore, access to health funds through *Yetena Iddir* (health micro-insurance) helped women to combat problems in business operation caused by ill health of the major operators themselves.

Follow-up and Counselling Service

The manager and staff of WISE are always available to discuss anything related to members' business and life. One of the interviewed women said,

> …whenever we face something difficult there are WISE's staff who happily consult us. They ask us about our psychological well-being, our social and personal life and about our family. I can't tell you how amazing it is, it makes us happy. So, that is why I say they live our lives on our behalf.

Members value the follow-up, both on their business/economic operations and personal life. A study by Haile (2015) highlights the importance of the WISE training and follow-up services in changing women's socio-economic conditions.

Economic and Social Empowerment

The financial and non-financial services the SACCOs provided their members have empowered women to start and grow successful businesses. All the interviewed members responded that they now have autonomy to make decisions on their business and family affairs. One interviewee said, ‘I used to think I was inferior; but now I can use my house or my car ownership certificates as collateral and I also have a lot of people who would give me collateral'. This testifies to the use of asset ownership as collateral to expand her business, building personal confidence and being worthy of trust to borrow.

Members can also create jobs for their family members and others. One of the women interviewed transferred her beauty salon business to her siblings, who she previously had to support. She then engaged in a garbage collection business and passed it over to her employees while she moved to venture in 'bigger' business endeavours. The drivers and the assistants in the taxi service business of one of the interviewed women are her brothers and cousins. Her father collects daily cash generated from the service and helps her in keeping her accounts. She said, 'all of them get paid for their hard work and for taking care of my property as if it is their own'.

A woman whose husband and daughter are employees at her business mentioned that no gender bias exists when it comes to handling responsibilities – 'Everything in the house is everybody's responsibility'. Entrepreneurial activities transformed them from dependents to breadwinners, a role that was traditionally ascribed to men. A survey conducted among 1,000 randomly selected SACCO members organised by WISE indicated that 82% of the sampled respondents feel that their success in their business has contributed to positive changes in their quality of life, improving self-confidence, decision-making and participation in matters that affect them (Retta, 2011). The training programme, staff follow-up and loan service through SACCOs were the three most important factors that contribute to the success of WISE's intervention.

Case Study Ethiopia 2: A Union for Larger Loans: The Addis Ababa Saving and Credit Cooperative Union

The Addis Ababa Saving and Credit Cooperative Union (AASCCU), the first savings and credit cooperative union in the country, was established in 2003, with 38 primary SACCOs in Addis Ababa focussing on serving member cooperatives beyond the financial capacity of primary cooperatives (Federal Democratic Republic of Ethiopia, 2016). AASCCU extends up to Birr1,000,000 (US$34,480) five-year loans to members at 13% interest. The union has grown, registering 265 primary savings and credit cooperative societies with an estimated 114,523 members from the 265 SACCOs in the city of Addis Ababa. AASCCU was established with an initial capital of Birr200,000 (US$,897). The union is currently operating with Birr9,300,000 (US$320,690) (AASCCU, 2019). It has more than 10 permanent staff.

AASCCU mobilises savings from member cooperatives in the form of shares, time deposits and regular deposits from member primary cooperatives as well as dividends from its investment. It does not have the right to mobilise savings from the public as a non-regulated entity in Ethiopia. Currently, with the technical and financial assistance of USAID, AASCCU has formulated a five-year strategic plan. It is finalising the implementation of a software project for its Accounting Systems and Operations as well as for member cooperatives. It is also working to establish central financial facilities for housing projects of members in Addis Ababa. AASCCU has recognised that housing problems constitute its members' major challenge. [1]

Membership

The AASCCU is an association of member primary cooperatives in Addis Ababa. It does not accept individuals; rather it accepts primary savings and credit societies as members. Cooperatives are established by paying a one-time registration fee and/or through purchases of shares. The member societies are either society/community-based or institution-based. Society-based cooperatives are those established among individuals who are not necessarily working together but who choose to come together with a common cause, for instance women's group, youth groups, etc. The bigger ones accept members from any part of Ethiopia. Boards of directors govern these societies by dealing with the administrative and loan related issues. Since member associations can be found geographically dispersed in the city, a board of directors to oversee the overall operation of the SACCO is important.

Institution-based societies, on the other hand, are those formed by employees of the same organisation to serve the savings and credit needs of members in that organisation. Members work in the same place/institutions, and they elect a seven-member management committee, with a chairperson, a deputy chairperson, a secretary and treasurer to manage the activities of the cooperative society. A three-member control committee oversees the management committee. In either situation, the ultimate governing body of the SACCOs remains the general assembly of the cooperatives.

Once the general assembly of SACCOs decides to join the union, the SACC buys a one-time membership registration of Birr1,500 (US$ 52) and buys at least 10 shares in the Union (with a price of Birr1,000 – US$35 per share). The newly joining SACCO is required to save 5% of its regular monthly savings with the union, deposited monthly or quarterly. Although member SACCOs are expected to save the 5% of the savings they collected from their individual members, an official at the AASCCU disclosed that, 'some members do not comply with this and bring us whatever they decide to save with us due to mainly financial constraints'. There is no mechanism with which the union can control and act, although 'we know that they collect much more than what they bring to us'. This has constrained the AASCCU's capacity to provide better services to the members of SACCOs. In case of financial constraints, applicants will be on a waiting list for up to six or more months to get the required loans. The AASCCU has a zero default history as members use their loans for asset creation.

Institutional-based SACCOs offer greater benefit that will be extended to them from the organisation from which they are based. This may be in the form of free office (workspace) to perform the SACCO activities, thus having all utility expenses covered. In most instances, such SACCOs use the organisation's internal auditors/finance employees to administer their accounts and conduct audits free of charge. Cooperatives get free audit services and periodic inspections from the Cooperative Office of the City Administration. Society-based SACCOs will have to bear similar expenses from the revenue they generate, which, in comparison, may put the institutional SACCO in a better position. However, as learned from the interview, there are society-based SACCOs that are strong and exemplary in their performance and thrive even in the most difficult circumstances to serve their individual members. An example cited by the interviewed official was an all-women SACCO, known as '*Awach*' (literally translated as 'Feasible') that involves 92 roadside vegetable-selling women who were identified as the poorest of poor, on outskirts of Addis Ababa. These women have grown their SACCO to become a member of AASCCU. This happened as the women's capacity to borrow exceeded the lending capacity of their primary cooperative.

Unions as Financial Services Providers

AASCCU provides credit services to members of SACCOs and mobilises savings from primary cooperatives in the form of regular savings at a minimum interest rate of 7% or a negotiated time deposit at 10% or more. It also earns income by printing and selling common working documents such as receipts and passbooks to members. The various types of savings include regular membership savings (the 5% savings collected from member SAACOs), voluntary savings (administering savings of member SACCOs and/or their individual members), time savings from member cooperatives and cooperatives' contingency savings. In addition, the union provides individual loans to members who need credit beyond the loan ceiling of their respective primary SACCOs to finance durable goods. AASCCU also provides a life insurance to members taking out loans in case of death or extraordinary situations limiting their ability to repay the loan.

The Union lends individuals up to Birr1,000,000 (US$34,480) when applicants present a business plan showing how the money will be used. Individuals who took out the first loan will be refinanced with the same amount of money once they have repaid 50% of the initial loan. In addition to presenting a business plan, individuals are required to present collateral to access loans. One distinct characteristic that distinguishes the lending process at the Union from other financial institutions such as banks is that the collateral required from the borrower does not necessarily have to be owned by the individual. A property registration/right of their extended family member(s) (e.g. brother, sister, etc.) if willingly presented by the family members(s), serves as a guarantee for the loan. This, according to officials at the union, encourages working individuals unable to borrow from a bank to access money that will help them to buy assets (e.g. house or car) or establish their own businesses.

An official at AASCCU emphasises the prevalence of SACCOs among savings organisations stating that ‘these days SACCOs are in every organisation, because they see the value they bring to employees and other members'. An employee with a young family, employed by a public institution, shared how he benefited from membership in SACCOs at his institution and AASCCU. With money he borrowed from his primary cooperative, he bought a car, which he later used as collateral to access a loan from AASCCU to make a deposit on an apartment. He disclosed that the money he uses to pay back the loan is almost an equal amount of money that he used to pay for rent. Thus, once he finishes paying back his loan, he will have a debt free asset that he 'may use as collateral towards future entrepreneurial activities'. Another employee of an organisation borrowed from the Union to help expand his wife's small retail enterprise.

The interviews highlighted how SACCOs assisted the middle-income earners to solidify their status if not move up to higher stratum and the urban poor seeking to exit poverty and aims to move upward into the middle class. One official at AASCCU puts her experience as

> …we work with various government and international non-governmental organizations. There seems to be a misconception about poverty in urban areas. Most people often assume that poverty is only in remote and rural areas. However, you do not believe the level of poverty you see here in the city, right in front of our eyes. Cooperatives and our Union are contributing to reduce that. Cooperatives are untapped sources that will help tackle this challenge in our city.

This illustrates the potential of using cooperatives and unions to design tailored products/services able to address the financial needs of the underserved population.

AASCCU works to design financial products appropriate to economic empowerment of members. Establishment of Addis International Bank, the Micro-Insurance Project, Central Financial Facility, etc. were initiated in this direction. However, the role of SACCOs for poverty reduction in cities such as Addis Ababa does not appear to be recognised by public officials at different levels, including the regulatory body of financial institutions i.e. the National Bank of Ethiopia. AASCCU's request, for instance, for land to build its own headquarters in Addis Ababa to provide a better service to members was not addressed by relevant government offices.

Challenges

Interviewees noted that there is a general lack of awareness about the services of savings and credit societies and in particular on AASCCU's services and role. Some primary cooperatives are stronger than AASCCU in extending loans to their members. There appears to be a growing interest by weaker cooperatives (SACCOs) to join AASCCU to access loans. According to the officer, ‘some seem to mistakenly consider the Union as an extension of a government agency and decide to stay away from membership’. As a result, soliciting membership from additional primary credit and savings societies was considered a major challenge to the union. Although there are more than 1,120 credit unions in Addis Ababa, only 265 have become members of the union. As the major source of loanable funds for AASCCU is the savings that it collects from the member primary SACCOs, expanding its member base will enable it to provide better services to individual members. Since the number of primary SACCOs, their savings at the union and the number of individuals seeking the services of AASCCU do not match, there is a long queue to access loans from AASCCU. On average, an applicant has to wait more than six months and in some cases up to 1.5 years to get their request processed/accepted. The union currently gives priority to applicants with urgent needs, such as individuals who won a lottery for government housing, those seeking emergency medical care and/or vulnerable groups seeking to go into self-employment.

The cooperation proclamation allows four tiers of cooperatives: primary cooperative, cooperative unions, cooperative federation and a league. Currently, only the first two operate in Ethiopia. Although some regions took the lead in establishing a regional federation, there is still no national federation that will give a collective and/or strong voice to the unions and their concerns. The interview revealed that there is interest in and a dire need for collaboration towards a national federation. Establishing this, according to an officer at the union, will

> …enable them to influence policy, legislation, regulation etc… that are currently inhibiting the operations of the cooperative unions and will ultimately help them to mobilize more saving and ultimately provide better service to members.

Another challenge was the regulatory framework for SACCOs and their union(s), which is similar to other types of cooperatives (e.g. agriculture based), and the specific nature of the financial cooperatives (i.e. SACCOs) is not adequately addressed. Another challenge is that there is a high turnover of officials in the regulatory offices. Once a new official tries to understand and appreciate the role of cooperatives, they may be replaced by another person who may lack experience with cooperatives and their services.

Conclusion

This study explored the role of savings groups in urban Ethiopia. The case studies illustrate how informal and formal savings groups and a SACCOs union operate serving members' finance needs and beyond. Savings groups contribute to the economic well-being of members in urban Ethiopia. The economic contribution of savings groups ranges from smoothing consumption to providing the capacity to purchase durable goods (e.g. furniture) and expensive goods (e.g. cars) to the extent of enabling them to finance (in some instances partially) new business enterprises. This was found to be in most cases of women SACCOs organised to change the lives of vulnerable and/or economically less active women. Such economic benefits are also shared by members of *iquib* and SACCOs that accessed loans from AASCCU. Although the women started with small amounts of savings to start micro-enterprises, the saving and loan services they used over the years helped them to grow and expand their businesses to small enterprises also opening employment opportunities to others.

Similarly, the study revealed the social contributions of savings groups as they help to bring members, in particular those organised informally and under smaller SACCOs, closer and they support each other, caring and being there for one another at times of need. Such support was not particularly prevalent in all-women neighbourhood *iquibs*. That is because the women already have a close social network in the community/neighbourhood that also includes (most) of the members of their *iquib,* where they provide similar social support to that reported in the other savings groups. AASCCU, serving as financial service provider, fills a gap that other formal financial institutions (such as banks) could not fulfil. Employees experience this as most valuable, as well as other SACCO members who have access to services of AASCCU.

Note

One of the authors was a member of the board of AASCCU for three years (2016–2018).

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Chapter 10

Ghana: *Susu*, Village Savings and Loans, Credit Union, Rotating Savings System

Christopher Boachie and Eunice A. Adu-Darko

Keywords: *Susu* ; self-help; capital market; rotating; village; credit union; empowerment

Introduction

The origins of savings groups (SGs) in West Africa and Asia date back to the nineteenth century (Agrawal, 1999; Seibel, 2001). They were typically common in Ghana, Nigeria and India but popularised by CARE (Cooperative for Assistance and Relief Everywhere) Niger in the 1990s. People with shared interests join to contribute or save a specific amount on a regularly agreed basis with the view to pool funds for economic goals. Consequently, the group has access to credit based on a collective agreement. Ledgerwood and Rasmussen (2011) describe SGs as an improved form of the traditional ASCA (Accumulating Savings and Credit Association). SGs give their members a safe place to save, provide them with the chance to borrow in small amounts and on flexible terms while providing affordable basic insurance services. SGs are a global phenomenon (Allen & Panetta, 2010). Between 2009 and 2015, Ghana reported an estimated 480,000 SG members in about 18,600 SGs. In Ghana, these SGs were able to mobilise about US$360.6 million (gbcghana.com, 2017).

The SG model seeks to complement poverty alleviation efforts by ensuring access to financial services where they are virtually non-existent in

Africa (Demirguc-Kunt, Klapper, Singer, & Van Oudheusden, 2015). These groups build social trust and local leadership, encouraging self-help, mutual support and the feeling of being capable of financial independence (Flynn & Sumberg, 2017). Typically, for developing countries such as Ghana, many of the members of various SG types are rural-based with very little formal education (Cameron & Ananga, 2015). Administrative and transactions costs of SGs are significantly lower than in the formal financial sector. As members are unable to access the capital market, membership of SGs is the only avenue to capital.

Ghana has different SG delivery modes: susu, credit union, village savings and loan (S&L) schemes and Rotating Savings and Credit Associations (ROSCAs). One common feature is that all the members in the group have access to the pooled fund at one point in time (Cameron & Ananga, 2015; Flynn & Sumberg, 2017; Miracle, Miracle, & Cohen, 1980). Their main goal is the accumulation of savings and provision of credit through the formation of associations. SGs typically consists of 15–25 self-selected individuals who meet regularly to save with amounts based on each member's ability. Groups then pool the savings to make loans on which they charge a relatively high service fee or interest rate which in turn increases the loan fund. Member's S&Ls are recorded in individual passbooks or one central ledge (Ledgerwood & Rasmussen, 2011).

Ghana's financial sector was liberalised during the structural adjustment programmes of the 1980s, followed by an influx of microfinance institutions, S&Ls associations and non-bank financial institutions by the 2000s. Ghana currently has 29 commercial banks made up of both local and foreign banks, 140 rural and community banks, 423 forex bureaux, 484 microfinance institutions, 70 microcredit institutions and 12 financial NGOs. There are also several S&Ls associations and finance houses or non-bank financial institutions. All these institutions are subject to regulation of minimum capital requirements, capital adequacy ratios, prudential oversight and functional description by the Bank of Ghana which exercises the oversight responsibility. SGs always constituted a part of the Ghanaian society, albeit at an informal level (Bank of Ghana, 2018; World Bank, 2012).

Savings Groups in Ghana

Microfinance, S&Ls associations and credit unions have adopted the SG approach to mobilise funds. Cooperatives such as the *Kuapa Kooko* credit union of *Asunarfo* North Cocoa Farmers Union in the cocoa-producing areas of the *Brong-Ahafo* region of Ghana, Women's World Bank as well as *Advans* Ghana offer products to registered savings associations (www.advansghana.com, 2018), and many microfinance institutions run SG schemes for market women and other petty traders. Only a few banks have products that encourage micro-savings (Asunafo North District Assembly, 2013; Obeng, 2008; www.ifc.org, 2017; www.wwbg.com.gh). Ghana has various SG models – Village Savings and Loans Associations (VSLAs), ROSCA, credit unions, *Susu* associations, cooperatives and some self-help groups (Cameron & Ananga, 2015; Flynn & Sumberg, 2017).

The formal SGs have links to external capital through a bank, official investment strategies and keep written records, but the majority operate on a mutually agreed internal organisational process (Aga Khan Development Network, 2010; Entz, Kasgard, & Salomons, 2016; Ledgerwood, 1998). SGs have different names in Ghana. In the Akan language, *Susu* means ‘small small’, to indicate the daily saving contribution paid by those economically active poor who join the scheme. *Susu* (this means ‘plan’) rotates. *Nanemeiakpee* (this means ‘friends should meet’) also rotates and primarily consists of women traders (See Miracle et al., 1980). The structure of such groups originated from Yoruba, Nigeria.

Susu collection is a system in which a person (e.g. a trader, an artisan, etc.) decides to make a daily contribution, and the *Susu* collector collects it for an agreed period, usually a month (31 days). The *Susu* collector is remunerated with a fee (Rutherford, 1999). *Susu* collectors can be persons from different socio-economic and occupational groups running micro and small businesses in the informal sector (petty traders, farmers, salaried workers and artisans) who are excluded from mainstream banking. *Susu* is a form of ROSCAs and can be formed by a group of 10, committing to contribute, e.g. \$100/month for a year; the beneficiary would receive \$1,200, sufficient to buy a used car or make a deposit on a home.

The *Susu* places a premium on group solidarity, evident in the selection of a leader whose responsibility is the management of group savings. A typical *Susu* consists of five members contributing $50 monthly to pay out $250 every five months. In an effort to capitalise on *Susu* collectors' intimate knowledge of clients, S&Ls Companies, a type of non-bank financial institution in Ghana, mostly private companies, introduced a pilot programme to provide funds to *Susu* collectors to lend to their clients (Steel & Andah, 2003). The following components of *Susu ar*e identified:

- *Susu* collectors;
- *Susu* associations or mutualist groups;
- *Susu* clubs;
- *Susu* companies.

Susu associations or mutual groups can either be a ROSCA or an ASCA. They meet regularly (weekly or monthly) to contribute a fixed amount that is allocated to each member in turn. ASCAs lend to members or support members in a certain circumstance like the death of family members, accident, health cost, etc. A *Susu* club is the combination of '*Susu* collectors' and '*Susu* association arrangement' in which members save towards a target amount over a 50 or 100 weeks cycle. These clubs charge a 10% commission on each payment including an additional fee when the targeted amount is advanced as a credit to a member before the due date. *Susu* companies are registered businesses whose employees collect daily savings. They advance loans twice the amount saved after a minimum period of six months. These savings initiatives constitute the bedrock of Ghana's financial system Owusu (1993), as these savings could be tapped from the informal sector.

VSLAs were popularised by CARE in the northern part of Ghana. VSLAs address poverty by making credit available to the rural poor. These associations typically consist of 15–30 self-selected members who have individual passbooks and attend weekly meetings. Members/shareholders are identified by their passbook. They follow very simple accounting procedures. Members make savings deposits into a common pool and can also borrow from when needed at moderate interest rate. The accumulated funds are proportionally distributed to all members after 8–12 months. Savings are safe and flexible (Allen & Panetta, 2010; Innovations for Poverty Action, Country Brief, 2012). A prominent VSLA is the Prosperous

Cocoa Farming Communities (PROCOCO) which seeks to stimulate a savings culture and financial literacy of rural cocoa producers. A total of 2,180 farmers (909 men, 1,271 women) have been financially empowered through the establishment of 89 VSLAs (Innovations for poverty Action, 2012). Disbursed loans are applied towards agricultural activities and related businesses.

Some ROSCAs are fixed-fund associations which operate like banks. Each participant contributes savings at regular intervals, which is disbursed at the end of a term (the group decides on the term) as a lump sum. The right to the fund rotates until the fund has been received by everyone. The rotating savings *Susu* system is more common in the non-commercial economic sectors in Ghana. In both rural and urban areas, the rotating system is patronised by wage earners on a monthly basis. The number of ROSCAs grow daily (IPC, 1988) – wage earners, farmers in rural areas have become significant contributors to rotating SGs. They use their 'handouts' to purchase productive inputs and trading goods. When the savings pool was used, another starts, but the cycle can be adapted in case a member suddenly has an opportunity to buy important items necessary for his work (IPC, 1988). Members of ROSCAs have definite economic goals.

Credit Unions in Ghana

Credit unions were introduced into Ghana in September 1955 by Roman Catholic fathers working in the northern part of the country (www.cuagh.com). The credit union is 'a free association of people with a common bond who save and lend money to one another through co-operative principles of productive and provident purposes'. This common bond is described as residential, occupational or associational. There are, therefore, Parish Credit Unions, Community Credit Unions and Workplace Credit Unions in Ghana. Church members are normally associated with the Parish Credit Union while the employees, both private and public, participate in Workplace Credit Union. The credit unions are regulated by the co-operative law and guided by a set of bye-laws. They are managed and controlled by annually elected committees known as Management, Supervisory, Loans/Credit and Education Committees. Credit unions make daily collections, similar to the *Susu* collectors – daily or monthly, depending on the type of union. The unions require a minimum savings contribution, operate a deposit account and provide credit to members (Adusei, 2013; Oteng-Abayie, Owusu-Ansah, & Amanor, 2016). Ghanaian credit unions assist individuals with start-up capital and, thus, facilitate micro-businesses.

The first credit union was formed in *Jirapa* which is located in the north. The idea of credit unions was developed by an Irish Canadian known as Rev. Father John McNulty. In 1960, after the appointment of Bishop Dery as the Bishop of Wa, Pope John XXIII encouraged Credit Union formation within the parishes *Wa, Kaleo, Ko, Lawra, Nandom, Daffiama* and *Tumu.* The Bishop encouraged the President of Ghana, Dr. Francis Kwame Nkrumah, to encourage the people to join a credit union movement in Ghana. Membership was considered a privilege and honour. In 1967, all the credit unions in the north merged into a chapter, to which the white fathers acted as advisers. The credit unions in the south followed suit. The Ghana National Union and Thrift Association was established in 1968 – the forerunner of the Ghana Credit Unions Association (CUA) Limited. The CUA is the umbrella body of all credit unions and creates an enabling environment for technical and financial services to the members. It supervises the 165 credit unions in Ghana by the end of 2017. Some credit unions use ATM platforms and other technologically driven products. In 2018, CUA announced its intention to launch a mobile banking service, CUANET, with some credit unions (Akossey, Graphic.com.gh, 2018). CUA introduced Credit Union Software (CUSOFT) a management information system that compiles and publishes data on the Credit Unions.

Savings with Mutual Assistance Groups

Mutual SGs in urban and rural Ghana extend their operations beyond mere savings mobilisation. Savings mobilisation is a strategy to achieve other socio-economic goals. The *Nanemei Akpee* (Society of Friends) in Accra and the *Amasachina* groups of northern Ghana aim to advance members' socio-economic interests. These groups consist of people who share some common characteristics such as ethnicity (in large urban areas), occupation, acquaintanceship, etc. The contributions are referred to as dues to signify the variety of uses these can be put to. ‘The aggregate deposit of a group, or some portion of it, maybe earmarked to buy something, or finance a project, of benefit to the entire group, such as building a school, a road or a bridge’ (Miracle et al., 1980). Aryettey (1998)'s study of *Amasachina* groups in rural northern Ghana identified three dimensions of their activities.

(1) Business associations rendering mutual support through, e.g. the reduction of operating costs or market control against competition;
(2) Mutual assistance in case of personal emergencies, e.g. in the payment of hospital bills or the finance of funerals and weddings;
(3) Community development, e.g. through participation in the construction and financing of clinics, dams, roads and schools (IPC, 1988).

Membership depends on acceptability to the executive committee. Applications are vetted to ensure that the groups are well organised and efficient. Prospective members wanting to join *Amasachina* groups generally submit the following reasons – safekeeping of money; mutual trust of members; strong orientation towards community development; clear leadership structure; and elaborate control mechanisms.

Social and Economic Outcomes of Savings Groups

SGs act as a tool to address financial inclusion, teach financial discipline and planning, support entrepreneurs and employment, etc. (Flynn & Sumberg, 2017). Cameron and Ananga (2015) find that VSLAs help members to pay for education, promote health care, nutrition and household decision-making. The *Susu* system primarily helps clients to accumulate their own savings over periods ranging from one month (*Susu* collectors) to two years (*Susu* clubs) and access credit. RCBs and S&Ls companies participate in pilot programmes by providing funds to Susu collectors to lend to their clients (GHAMFIN, 2007). Recently commercial banks and RCBs introduced and marketed *Susu* as savings products and sent salaried or commissioned agents to collect *susu* contributions. This assisted the banks in reaching the lower-income brackets and women, who constitute 65%–80% of the clients of these *Susu* schemes (Obeng, 2008; www.care.org, 2016). The combination of specialised categories of licenced financial institutions and traditional structures helped to mobilise savings from lower-income households and gave them access to financial services that are part of the formal, supervised system.

The VSLAs assist members to save and borrow to fund their businesses for economic empowerment. This was confirmed in a study of five districts in the northern region with 175 villages and 5,000 households between April and June 2008 (Innovations for poverty Action, 2012). In the central region and upper west regions in February 2013, 52 adults in SGs testified to the advantage of the SGs (Cameron & Ananga, 2015). In August 2016, a similar study by CARE confirmed VSLA members improved their income by 27%. PROCOCO Ghana helped farmers to improve their access to financial services by 65%, with nearly three quarters of farmers holding cash savings at the end line. Women especially are taking advantage of VSLAs as a platform for economic opportunity and saving, with 91% of women participating in SGs. Eight times more families are saving for their businesses and twice as many are saving for emergencies (CARE, 2017; justhopeinternational.org, 2018; CARE, 2017; justhopeinternational.org, 2018).

Credit unions in Ghana contributed to strengthen credit management, saving mobilisation, service delivery and product development. This was confirmed by the 1991 African Economic Research Consortium Study of the Community and Parish Credit Unions of the Upper West and Upper Regions where the unions have an average of 560 members, especially during 1972–1982, when banks were highly dysfunctional (www.cuagh.com; Aryeetey & Gockel, 1991).

Socially, SGs are instrumental in changing behaviour and teaching the benefits of financial planning and discipline and education, especially of women (Cameron & Ananga, 2015; Flynn & Sumberg, 2017).

Women's Empowerment and Savings Group: A Raging Debate

Access to financial services in Ghana serve to make poor women more confident, assertive and better equipped to overcome cultural inequalities. It builds economic capacity to facilitate transition from subsistent activities to market-based activities (UN, 2005). Microcredit programme, such as VSLA in the northern part of Ghana, is credited for its role played in empowering the poor.

A critical aspect of women's empowerment is agency as defined by applying three dimensions of agency adapted from the Women's Empowerment in Agriculture Index (WEAI) to assess female agency: women's participation and decision-making in groups; women's comfort with public speaking; and women's decision-making in their households (World Bank, 2012). Kwarteng-Amaning and Sarfo-Mensah (2019) found in the northern and upper east regions of the northern Ghana that among 240 smallholder women farmers, only 95 did not belong to any SG. Members of SG (72.4%) cited increased access to loans, access to emergency support (62.1%), while 55.2% cited greater access to farm inputs with 32.9% indicating their ability to acquire capital assets as benefits from VSLA membership.

When asked

> ‘How much input do you have in making decisions in your group?’ the majority of women (55.2%) participating in VSLAs indicated they had most to all say (rating of 4 or 5 on scale of 1–5) in group decisions compared to 9.5% of their non VSLA counterparts. During the various focus group discussions, it was mentioned that the governance structure of the VSLA has made women more active in group decision making, both in mixed and women-only VSLA groups. It was emphasized that increased leadership roles by women in the savings groups has been vital and enhanced women's group decision-making power, and are able to challenge some structural barriers (such as male dominance) in their various groups, even aside from the VSLA. (Kwarteng-Amaning & Sarfo-Mensah, 2019, p. 139)

Research by the Council for Scientific and Industrial Research of the Savannah Agricultural Research Institute (CSIR-SARI) found that differences in agricultural productivity in northern Ghana resulted from women's lack of financial power. A partnership between CSIR-SARI Tropical Legume project Phase III and a non-governmental organisation (NGO), Social Enterprise Development Ghana (SEND-Ghana), established Village Savings and Loans Associations (VLSAs) in five districts in northern Ghana. The overall outcome of the partnership is significant empowerment of the women, as stated by Mrs. Patience Ayamba, Programme Coordinator for SEND-Ghana – 'We have seen women participating more in decision-making at the family level and even at the community level, with increasingly more women taking up leadership roles', she says. 'With this model, we have seen men willing to support their wives in the household'.

Women's Financial Inclusion

Despite growth in Ghana's financial sector since 2010, access to formal financial services remains low. In 2017, 54% of women had an account with a formal financial institution, compared to 58% of the general population and 62% of men (World bank, 2011). Henry Kerali, World Bank Country Director for Ghana, noted that despite an increase in overall access to financial services, women are less financially included than men.

State strategies to improve financial inclusion in Ghana include the June 2017 training workshop for 30 members of the technical committee on financial inclusion in Ghana which is a government body comprising senior staff at the Ministry of Finance, Bank of Ghana, Ghana Microfinance Institutions Network (GHAMFIN) and all national financial regulatory bodies (National Pensions and Regulatory Authority, Securities and Exchange Commission, National Insurance Commission). It is significant that the report noted that,

> During the field visit, participants were amazed by the fact that rural people are able to contribute GHC 25.00 per week (USD 5.60) continuously for one year and can access loans to the

tune of GHC 4,000.00 (USD 950) every quarter. Participants appreciated the discipline and level of social cohesion among the SG members. (Noel da'Cruz, UNCDF @ gh.one.un.org)

Official steps were subsequently taken to recognise SGs and support them (*Noel da'Cruz, UNCDF* @ http://gh.one.un.org). These included the appointment of a Technical Committee on Financial Inclusion to ensure that SGs are included in the national strategy.

School Enrolment and Sustained Education in Ghana

Primary school enrolment for both boys and girls and secondary school enrolment for boys increased significantly, attributed to the presence of SGs. Out-of-school teenagers interviewed in the upper west region community reported that they were at least partly responsible for their own educational expenses. When SGs were established, they could ask their parents for assistance (Cameron & Ananga, 2015). People used the higher income and loans to send more children to private schools. In another study in Ghana, in 2015, few children progressed beyond junior secondary school, none went to private schools and very few had private tuition (Cameron & Ananga, 2015).

Profile of Informal Savers

Primary school children are known to deposit a full-day's pocket money with a chosen member of a *Susu* group at school once a week in order to collect their entire savings at the end of the school term. The lump sum is often used towards their end-of-term celebrations or the acquisition of toys or clothes. Junior civil servants, teachers and artisans often set up savings clubs at their workplace through ROSCAs. Miracle et al. (1980) report members of a group of secondary school teachers in Cape Coast using their accumulated funds to purchase refrigerators. Fish traders along the coast in Ghana also established clubs for mutual assistance through which part of their contributions is used to finance fish purchases and control fish supply (Lawson & Kwei, 1974).

Urban traders dominate informal SGs. These traders (mostly women at large markets) use *Susu* operations involving daily collectors. Retired persons also form associations for mutual assistance, using their accumulated funds credit extension. The Veterans Association of Ghana, made up mainly of retired Second World War military personnel, is a case in point.

In rural Ghana, informal savers are equally diverse – 'teachers, policemen, administrative officers and bankers' were identified (IPC, 1988). The fact that bank officials were involved points to the importance of informal savings operation. Large numbers of farmers and traders participate in different SGs. The farmers are more interested in mutual assistance groups, while traders preferably joined the single-collector *Susu* system.

Leveraging Digital Technology among the Unbanked

In many high-income economies, debit and credit cards are used at point of sale (POS), but few people in developing countries have access to that form of payment. Many have a mobile phone, which allows leapfrogging directly into mobile payments.

The Ghana Interbank Payment and Settlement System (GHIPSS), a subsidiary of the Bank of Ghana, launched a cross-network mobile money transaction. The system is known as Mobile Money Interoperability (MMI). MMI has led to the development of ACH Direct Debit, GhIPSS Instant Pay and gh-link transactions. These digital payments are increasingly popular with SGs.

Case Study Ghana 1: FinTech and Savings Group in Ghana

Background

Financial technology (FinTech) influences the structure of the financial industry in Ghana. This case illustrates FinTech in the Ghanaian savings context. FinTech operators are licenced by the central bank, Bank of Ghana, which is the regulator of all financial service activities and institutions in the country. In 2018, the Bank of Ghana found 71 FinTech companies in Ghana (Bank of Ghana annual report, 2019). FinTechs such as iPay Solution and Bloom Impact have niched themselves in the microfinance sector as providers of fast and easily accessible short-term loans.

Susu SGs use mobile money as a means to deposit and mobilise savings. FinTech's financial products and services offer SG the use of mobile money to mitigate the cost and inconvenience involved in either physically going to a point to make payment or collecting contributions. That reduces the risk of *Susu* collectors abusing contributions. SG members contribute through their mobile money wallet into the central fund via the FinTech mobile account. This has become so popular that some institutions have also built and developed software to mobilise savings. Indeed, some SGs have developed their own software to mobilise savings. This has enhanced transparency and privacy. The use of smartphone apps in savings is fast gaining momentum and is undermining the stronghold of the traditional SG (Bloom Impact, 2019).

FinTechs furthermore facilitate access to other financial services to SGs. Enterprise Insurance in Ghana processes both premium collections and claims through mobile mechanisms. The use of such FinTech products exposes the SG members to micro insurance and even pension contributions. SGs, being informal, are typically made up of individuals who would ordinarily not contribute to a formal pension fund. However, financial institutions that offer FinTech enabled products like MTN and iPay Solution are able to help SG members to contribute to formal pension plans and secure their future often with small amounts. FinTech enhances savings mobilisation, whereas complementary benefits in the form of other financial products that would have been largely inaccessible.

Ghanaian SGs benefit from FinTech products in various ways: insurance premium payments through direct debits from banks to the insurance companies who respond by SMS to their clients via FinTech; contributions to Social Security and National Insurance Trust (SSNIT) pensions; microloans to a maximum of Ghana Cedis 1,000 = US$180, can be given through mobile money; *Susu* collectors use FinTechs.

The *BezoSusu* platform allows customers to create their personal *susu* and a group *susu* accounts where they can save either daily, weekly or monthly, thus establishing a savings and credit history leading members to access formal financial services (Benzosus, 2019). Users of *BenzoMoney* can make deposits conveniently and securely using mobile money and consequently receive SMS alerts. The system automatically deducts money from and deposits money into users' wallets based on the goal they created. Customers can buy products and pay for services, such as purchasing electrical appliances and paying for school fees in instalments or obtain access to loans, investments, insurance and pensions based on customers' savings and credit history.

SatF leverages on SGs and other informal savings mechanisms as a channel for the delivery of digital financial services such as savings, credit and insurance. With $1 million worth of grant support from *SatF*, Interpay is digitising the savings mechanisms of SGs in Ghana via Interpay's US$-based Maximus App. Maximus' features include: a group wallet linked to the bank account of the group to enable management of all transactions from the various Mobile Money wallets; full access to transaction history by all parties; automation of recurring payments; group-level account management and in-field account opening capabilities; SMS notifications on account activity (such as notifications of cash movement from the account); voice notifications in local languages (SatF Interpay, 2019).

Case Study Ghana 2: Savings Group Bank Linkage Programmes in Ghana: The Case of Fidelity Bank

Financial inclusion involves the delivery of financial services, including banking services and credit, at an affordable cost to disadvantaged and low-income groups outside the banking system (Chhabra, 2015). Financial inclusion seeks the participation of vulnerable groups such as low-income groups, based on their savings and payment record, credit insurance, pensions, etc. (Singh et al., 2014). One institution that has made considerable effort at promoting financial inclusion is Fidelity Bank Ghana Limited. Fidelity Bank was issued with its universal banking licence on 28 June 2006, under the new License Act 2004 (Act 673) (Appiah-Adu & Boachie, 2017).

The Ghanaian Central Bank put pressure on the banking sector to enhance financial inclusion through branches and ATMs. Currently over 90% of the financial service institutions in Ghana have introduced comprehensive measures to include the low-income earners and the poor people, especially in the rural areas. The formal financial system offers a diversity of services including access to savings, loans, insurance, payments and remittance facilities (Kelkar, 2014). Banks are advised to extend basic banking 'no-frills' accounts, either with 'nil' or very low minimum balances, and low charges, to enhance financial inclusion, as well as charges that would make such accounts attractive and accessible.

Staff of the financial inclusion department of Fidelity Bank were interviewed to establish the strategies Fidelity Bank implemented to link SGs to bank products. To ensure the relevance of Fidelity's comprehensive range of products and services, management consistently reviews the demographic composition of its customer base.

The Inclusive Banking Department of Fidelity Bank is the lead provider of banking services to the mass market in Ghana. The strategy focuses specifically on an innovative account, the Smart Account and an innovative sales and distribution strategy, using high-end technology. As part of its efforts to improve its financial inclusion drive, Fidelity Bank met with its stakeholders to brainstorm, solicit ideas and review its financial inclusion agenda with a focus on Inclusive Banking and Agency Banking. The consultative meeting had representatives from Fidelity Bank, Financial Sector Deepening in Africa (FSDA) and Genesis Analytics to deliberate on how to improve access to formal banking for over 15 million people – that is about 48.96% unbanked people in Ghana. Fidelity Bank launched its Agency Banking model with its flagship product, the Smart Account, to provide basic financial services to the unbanked and under-banked population.

Fidelity Bank introduced a number of initiatives towards Ghanaian financial inclusion. The bank entered into a partnership with GIZ to distribute over 10,000 leaflets on basic banking services such as savings, insurance and credit to people from all walks of life. Financial inclusion requires financial literacy, and this inadequate knowledge about the formal financial system had to be addressed. Through its 'future of banking' seminar series, financial literacy seminars targeted at tertiary students, Fidelity Bank educated students on how technology is changing the face of banking, exploring local and global trends such as Agency Banking, mobile money, mobile banking, and reduced know your customer (KYC) requirements that are allowing financial services to reach more people and dynamically transform how individuals and social units conduct financial transactions. The Bank opened monopoly clubs in schools to inform scholars about finance, transactions and finance as the foundation of trade and investment. Fidelity Bank, thus, disseminated information on financial services and general banking concepts to various target groups, such as school and college going children, women in rural places and urban poor, senior citizens, etc. The bank extended financial education – the need for savings, advantages of banking with formal financial institutions, various financial products offered by banks relating to deposits and advances, other financial services through electronic mode such as ATMs, smart cards, mobile banking etc., and methods of calculating of interest on savings bank accounts, fixed deposits etc. These programmes enhanced an awareness of customer rights.

Fidelity Bank was the first bank licenced by the Central Bank of Ghana to introduce an Agency Banking model. This involves the setting up of a small branch with very restricted services. Fidelity Bank offered a Smart Account to a customer base of over 700,000. This account targets SGs. The interviewees confirmed that the smart account improved savings habits. Fidelity Bank currently has over 3,000 agents strategically located nationwide to service these Smart Account holders. These agents include pharmacies, supermarkets, utility vendor points, grocery shops among others. In line with its resolve to increase Ghana's bankable population ratio, Fidelity Bank is streamlining its financial inclusion agenda with focused input into its Inclusive Banking and Agency Banking strategy.

The bank also organised a workshop focused on the Agency Banking Officer/Manager as a trainer. Participants were taken through various sessions including the attributes of a good trainer: the role of trainers in promoting development interventions such as financial inclusion. They also centred on the topics of financial inclusion, literacy and wellness.

To simplify banking operation to the low-income group in both rural and urban areas, the KYC procedure for opening a bank account was simplified, by asking only a photograph of the account holder and selfcertification of addresses. This can be done in 5 minutes, through 75 branches, 110 ATMs and over 900 agents. Meanwhile, it has also opened its 76th ATM at the Hope Presbyterian Church at *Sakumono* in Accra, the capital city, to serve the church and the entire community because of its strategic location. Almost all banks in Ghana now are targeting SGs after realising the importance of their contributions to the bank's overall performance.

Conclusion

If women empowerment is likely to be achieved through SGs, then credit availability, leadership training, effective use of input machinery, management of income and the ability of women to speak up must constitute the core of the empowerment process. Even though, the primary goal of SGs is to provide credit, there must be a systematic process table to address the remaining elements to achieve women empowerment.

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Chapter 11

Savings Groups in Guinea-Bissau

Ismael Mendes de Medina, Filipa Monteiro and Ana Pinelas Pinto

Keywords: *Abota* ; agriculture; banks; microfinance; family; financial capacity

Introduction

Guinea-Bissau is a country in West Africa, with an area of 36,125 km^2 and an estimated population of 1.6 million, more than one-third of which lives in urban centres. The capital, Bissau, has a population of approximately 455,000 people, contrasting with other cities such as Bafatá, Gabú and Canchungo, which do not have more than 35,000 people. In addition to Bissau, the country is divided into eight administrative regions: Bafatá and Gabú in the east, Tombali, Quinara and Bolama Bijagós in the south and Biombo, Cacheu and Oio in the north.

Guinea-Bissau is a member state of the Economic Community of West African States (CEDEAO) and a signatory of the West African Economic and Monetary Union (UEMOA), having adhered to the CFA franc currency in May 1997. Its economy is largely driven by agriculture, which contributes to approximately 40% of the gross domestic product (GDP) of the country and employs a large proportion of the workforce (65% of the active population) (BCEAO, 2011a). It is a country with very low socio-economic development, even by African standards. The financial sector is not very developed; there are five licenced commercial banks holding more than 90% of the market share, with branches in Bissau, Gabu, Canchungo, Bafatá and Buba (BCEAO, 2011b).

The near absence of conventional commercial banks in the interior of the country encouraged the emergence of the microfinance sector, which is a natural alternative to finance activities performed by a population excluded from the banking sector. This chapter explores the emergence of the microfinance sector in Guinea-Bissau, why it has failed to develop, leaving the opportunity to informal savings groups, such as the *Abota*.

The Emergence of the Microfinance Sector in Guinea-Bissau

Historically, entities looking to fund small projects had recourse to non-governmental organisations (NGOs) that would fund certain projects/initiatives, provided they met the required standards. From 2008, the role played by these NGOs was transferred to institutions called *Sistemas de Financiamento Descentralizado* ('SFDs'), which are regulated by Law No. 9/2008 of 26 August 2008 (the 'SFD Law'). [1] The SFD Law stipulates the procedures relating to the constitution, organisation and operation of SFDs, particularly the requirements for obtaining SFD qualification and for being deemed disqualified as an SFD institution. The operating rules are based on principles of cooperation and require SFDs to have a specified share capital and be managed by at least four bodies (General Assembly, Board of Directors, Credit Committee and Fiscal Council). In addition, the SFD Law lays out the conditions for the merger between two or more institutions (e.g. Board of Directors' prior approval) and other corporate restructuring transactions. In order to operate as an SFD, an institution needs to obtain a licence from the relevant regulator. SFDs may be incorporated as: (1) companies with a financial purpose, (2) cooperatives or (3) mutual societies (the preferred form, given the simplicity of the process).

Today, the microfinance sector in Guinea-Bissau is dominated by licenced SFDs, whose purpose is to provide financial products and services to the general public, including credit, savings products, means of payment and transfers. SFDs demand less formal and financial requirements from clients than a conventional commercial bank and charge very low interest rates. Only an ID is required to open an account with an SFD, and initial deposits amounts are significantly lower when compared to those practiced by commercial banks. Therefore, SFDs cover a large portion of the population, particularly in rural areas where poverty and illiteracy levels are higher. It is precisely in rural areas that SFDs are more relevant, given the distances involved and difficulties of access by road and public transportation to the towns where a commercial bank's branch is located.

To support the emergence and development of the microfinance sector and viable microfinance institutions and savings groups, the Guinean Government created a regulatory agency called *Apoio à Emergência e Desenvolvimento da Microfinança* ('APED-MF') with the following goals: (1) contribute to the enhancement of the microfinance sector by promoting and providing better practices at the stakeholder level (e.g. Government, Central Bank and the technical operators), (2) promote and increase access to financing services to the poor in order to help them develop income-generating activities and (3) enter into partnerships and collaboration with private entities and organisations involved in the microfinance sector (APM, n.d.; Ministry of Finance, 2013). Also, in 2013, the Guinea-Bissau Government and the Kuwait Fund for Arab Economic Development ('Kuwait Fund') entered into a tripartite agreement with the commercial bank, Orabank, resulting in the establishment of the following agencies:

(1) Agency for the Promotion of Microfinance ('*Agência de Promoção de Microfinanças*' – APM): coordinates, monitors and executes the tripartite agreement and finances initiatives/projects in the area of food/nutrition;
(2) Agency for the Supervision of Savings and Microfinance Activities ('*Agência de Supervisão de Actividade de Poupança e Microcrédito*' – ASAPM). [2]

These agencies are considered critical for the development of the microfinance sector and promotion of community savings in the country.

For a period following its inception, the APM conducted the following activities: (1) training its staff in the microfinance field; (2) planning study missions and exchanges with similar institutions in West Africa; (3) granting Internet access and transport for evaluation of projects in the field;

(4) promoting awareness-raising campaigns and financial education on saving techniques; (5) encouraging partnerships between SFDs, commercial banks, financial institutions and insurance companies; and (6) developing a microfinance sector database. Unfortunately, most of the above listed activities stalled because of limited financial resources.

Most savings initiatives in Guinea-Bissau to date have failed due to the political instability of the country, the lack of knowledge of microfinance, the low technical level of the SFD staff, inadequate information and management systems and the lack of liquidity of SFDs. Also, market conditions make it difficult to comply with credit obligations and create the right environment for savings.

This failure has in turn led to the emergence of informal savings groups, based on solidarity and other similar values.

Informal Savings Groups in Guinea-Bissau

The *Abota* is an informal contract under which each party contributes equally to a common fund and collects the total amount of the fund in turns. In essence, the *Abota* works as follows: a group of individuals, typically between 10 and 70 people, agree on delivering a previously agreed monetary sum (equal for each member), on a periodic basis which may be daily, weekly or monthly, to a designated individual within the group (the 'Beneficiary'). The *Abota*'s president/treasurer collects from each member and submits the total amount collected to the beneficiary. By way of example, 10 bank employees can come together and agree to deliver to the president/treasurer of the *Abota* an amount of 10,000 West African CFA franc (roughly US$16,06) on day 3 of every month. The treasurer/president, in turn, delivers the total amount received of 100,000 West African CFA franc (roughly US$16,06) to one of the 10 members, who has been chosen to be the beneficiary. Each month, this amount is handed over to one member (for savings or financing, as the beneficiary may choose, depending on particular needs and plans) until everyone in the Group has received 100,000 West African CFA franc (roughly US$16,06). The cycle then restarts, with the clear understanding that no member of the group can become a beneficiary for a second time unless and until each member has benefited from the distribution of the total amount. For the services provided, the president is generally remunerated by the beneficiary the moment the latter receives the total *Abota* contribution.

Abota is a word of Guinean creole origin that means *quota*. This type of 'social contract' already existed in the Guinean community before the arrival of the Portuguese in the fifteenth century. In fact, rural communities coordinated efforts to perform agricultural activities requiring collaboration. The Portuguese introduced the use of currency into the Guinean economy, creating a demand for money to acquire certain goods and afford funeral and marriage ceremonies. Families lacking financial capacity to fulfil these basic needs started creating *Abota* groups to finance the related expenses. Each member of the group contributes to the common fund by paying a quota, and the total fund could be used by a member in need. Traditionally, the *Abota* was mainly practiced in rural areas between women because, according to local traditions, women were responsible for taking care of the home and managing domestic expenses. Given that households consisted of many individuals and that men typically have more than one family, a man's salary was not sufficient to cover all household expenses. Therefore, women had to devise alternative sources of income to pay for education, furniture, burials and wedding ceremonies, and saw in the *Abota* a way to meet these needs. Today, the *Abota* is common in working-class families, and across all genders, in both rural and urban areas. The practice of the *Abota* evolved over time, but the name and main principles have remained unchanged.

Although the informal group is not regulated, the *Abota* plays a crucial role in improving the living conditions of vulnerable Guinean families. It represents the most important savings and financing tool in the country. It is particularly attractive compared with the formal credit institutions, with high interest rates and bureaucratic process to obtain credit. The *Abota* is widely regarded as a simple, practical and efficient way of generating savings and providing credit to finance business ventures and ceremonies without accrued interest costs. It allows families to meet their most basic financial needs, such as funding for education, furniture and to pay for unexpected expenses.

The *Abota*'s main disadvantage is its significant risk of default. As this activity is not regulated, it is difficult to resort to domestic courts when one of the members fails to comply. Usually, disputes that arise from time to time among the members of an *Abota* are resolved through mediation or other alternative dispute resolution methods.

The success of the *Abota* has triggered the emergence of other similar informal savings groups such as *Mandjuandade* or *Abota of objects* (both the subject of case studies below).

Conclusion

Historically, the insurgence of *Abota* groups in Guinean society helped women to increase their household income and become more independent from their husbands. The *Abota*, thus, played an important role in the development of the domestic economy. The *Abota* has proven to be an effective savings group with a significant impact on Guinean society's daily life. The *Abota* has been extended because of its simplicity and informal nature, and today, it is practiced across genders, ages, social classes (e.g. salesmen, professors, doctors) and population residing both in urban and rural areas. These informal savings groups plays are important for social inclusion of the Guinean population, since they provide financial support to vulnerable people otherwise excluded from credit from formal financial institutions.

Case Study Guinea-Bissau 1: DIVUTEC – The DFS as a Driver for Savings

DIVUTEC: From NGO to DFS

DIVUTEC is a savings and credit cooperative in Guinea-Bissau.

DIVUTEC was established in November 2004 as an NGO. NGOs are duly regulated in Guinea-Bissau. To accomplish its main goal of alleviating poverty in rural areas, particularly among women and the youth population, DIVUTEC promoted actions focussing on long-term sustainable development, particularly in rural and suburban areas. It is one of the few surviving micro-finance institutions and, therefore, constitutes an interesting case study.

In light of the fact that DIVUTEC promotes a project aiming at generating savings in, and providing credit to Guinean families, it created an autonomous, self-managed DFS entity called *Mutualidade de Poupança e Crédito* ('MPC'). MPC is regulated by Law No. 9/2008 of 26 August 2009 regulating all DFS entities and provides the following services to its members: (1) training and technical assistance for those carrying out income-generating activities; (2) savings-related services and grants of credit; (3) assistance for members wanting to prepare business plans; and (4) other services that may improve its members' activities. In order to obtain a credit grant from MPC, members must open an account with the institution and provide a guarantee. Applicable interest rates and the required guarantees are symbolic when compared to conventional commercial banks (DIVUTEC, 2018a).

The DIVUTEC drafted a 2018–2021 Business Plan for the MPC, and its implementation is being monitored by its Supervisory Body. This business plan is divided into the following components:

(1) Analysis of DIVUTEC's current situation and forecasts, including the analysis of threats and opportunities related to the Guinean market and its environment such as competition, potential partnerships and the larger macroeconomic environment, as well as analysis of the institution's strengths and weaknesses;
(2) Strategic management, focussing on goals, strategies and activities to be carried out during the planning period; and
(3) Four-year financial forecasts for 2018, 2019, 2020 and 2021, including the projected financial data expected during the planning period (DIVUTEC, 2018b).

The DIVUTEC management had to implement the following recommendations for this business plan to succeed:

(1) Hold training sessions to explain the business plan and the impact of its execution;

(2) Convene a General Meeting to inform members about the existence of the Business Plan, its objectives and main elements;
(3) Analyze the activities undertaken at the end of each quarter, comparing financial statements with the relevant projections and preparing quarterly reports;
(4) Governing bodies to hold, at the end of each semester, a joint meeting to evaluate the implementation of the Business Plan and make any adjustments that may become necessary;
(5) At least once a year, management to present a brief report to members with the progress made in implementing the Business Plan (DIVUTEC, 2018b).

Since its creation, MPC has funded its operations with its own capital and a 2015 financing from the Kuwait Fund through the Guinean Agency for the Promotion of Microfinance. However, due to the country's political instability, which in turn adversely impacts the national financial and credit system, the profitability of the MPC project has been seriously compromised. Nevertheless, it is one of the few microfinance institutions currently operating in Guinea-Bissau.

As for all DFS entities in Guinea-Bissau, MPC's financial condition is vulnerable given that their main source of income is interest earned on credit grants. In most cases, the principal loan amount and interest are not fully paid out, and as such, DFS cannot survive financially over the longer term. MPC struggles to provide the credit services it was created to provide. In an ideal world, the Government would provide training and guidance to members and would punish defaulting members. In this case, there generally is no judicial enforcement of payments.

The majority of DFS were unable to cope with the weaknesses of the Guinean financial system and are no longer in operation. MPC has managed to survive primarily because of its ‘soft’ strategy towards defaulting members. In fact, instead of initiating lengthy judicial proceedings with uncertain outcomes against such members, it has chosen to make members aware of the advantages of paying their debts and to award them the possibility of being granted new and higher credits when they have a good payment track record. This strategy has proven to be successful and could be used by other similar savings groups in the country.

Case Study Guinea-Bissau 2: The Abota of Objects and the 'MANDJUANDADI' Groups

The 'Abota of Objects'

Over the years, the *Abota* has evolved, and today individuals who are members of *Abota* groups practice a modality called '*Abota of Objects*'. This is similar to the regular *Abota*, but the payment made to the beneficiary differs, as it is made in kind and not in cash. As is the case in the regular *Abota*, in the '*Abota of Objects*' each member periodically delivers his or her respective contribution to a member of the group (usually, the president). However, in the '*Abota of Objects*', the contributions made by all the members provide the beneficiary with an amount in kind, instead of a sum of money. Thus, at the end of each cycle, the beneficiary, together with the president and with another group member whom the president may choose, go to the market, a furniture store, etc., where the beneficiary chooses the goods they intend to acquire up to the amount equivalent to the contributions made by the *Abota* members and to which the beneficiary is entitled. The president or his assistant shall pay for such purchases using the amounts collected from the group.

In an *Abota of Objects*, the beneficiary never has physical contact with the accumulated money and only chooses the goods needed. As with the usual form of *Abota*, the president and the assistant are remunerated for the services provided. The same people who form *Abotas* also engage in *Abota of Objects.* Historically, this modality of *Abota* was created because members (usually women) wanted to furnish their houses or acquire specific objects/articles (namely jewellery), but were not in a position to afford such articles. The *Abota of Objects* is the ideal type of saving mechanism for these purposes.

The Mandjuandades Groups

Traditionally, '*Mandjuandades*' groups started as groups of women, usually neighbours and/or relatives, holding frequent meetings to sing, dance and talk, usually about their private lives (relatives, friends, feelings). These meetings were escapes from issues of everyday life, places where these women got to know each other better, share experiences and find comfort in discussing private matters, such as misfortunes, marital problems, etc. Within these communities, events such as deaths, weddings and childbirth are costly and difficult to afford. *Mandjuandade* groups show solidarity and provide support to the member of the group in need of financial support to cover any such expenses. These groups started sharing the weight of the expenses among members.

Mandjuandade groups accumulate their own funds or hold a reserve of funds to finance these activities. The devised a system of quotas whereby each member contributes cash or in kind in advance, which is subsequently allocated to one of the members to finance some of the above-mentioned costs. The funds raised are used to keep the group together and also to fund its members. Whenever the purpose is to fund a specific member, repayment is not expected, since this help is provided for solidarity reasons. Inspired by the *Abota* model, the fund created by the *Mandjuandade* group is destined to first cover the group's expenses, such as the purchase of work materials and food, with the remainder being used to support members of the group without expecting repayment (in case of misfortune) or as a loan (in case of events, such as celebrating a wedding or a birth). Contrary to what happens in other *Abota* groups, in these groups members who suffer a misfortune or are planning a celebration are not only helped with cash or goods but may also request loans without accrued interest. When a member of the group requests a loan, the amount, term and payment conditions are determined by the *Mandjuandade* group leaders.

Mandjuandade is formed by groups varying between 20 and 60 (or more) people. *Mandjuandade* groups are organised as follows: (1) Queen (female element); (2) *Mamé* (means ‘mother of the group’, the oldest female element of the group); (3) Treasurer; (4) *Meirinha* (female figure assisting the Queen); (5) King (male element); (6) Count (male element in charge of logistics – purchasing materials and managing the group's equipment); (7) Secretary; (8) Main Member; (9) Second Member; (10) Third Members; and (11) remaining members of the group.

The most important members in the *Mandjuandade* management are the Queen, the *Mamé* and the Treasurer as they are in charge of financial matters. The other members take care of social matters. In the majority of the cases, individuals in the *Mandjuandade* group, both men and women, have limited education. Many do not have stable employment and are housewives, *bideiras* or temporary workers with limited household income. As with the *Abota*, by entering a group of *Mandjuandade,* these individuals gain a chance to save and/or have access to informal credit to finance their business ventures. Although they started out mostly as women's associations, over the years, men joined frequently in *Mandjuandade* groups – currently present in all *Mandjuandade* groups.

Mandjuandade groups have a great impact on the respective communities culturally because their members organise several social activities that are open to non-members. Members of these groups enjoy financial benefits and can, therefore, support their families and provide a good education by investing in their children studies.

The biggest obstacle faced by *Abota* and *Mandjuandade* savings groups is that these are totally informal and their members do not pay taxes or social security contributions, which generates high levels of uncertainty for the future. Notwithstanding the lack of regulation and informality of these savings groups, they deliver positive outcomes.

By way of example, the *Mandjuandade* Groups' Association was recently created with the purpose of creating an umbrella entity uniting all of Guinea-Bissau's *Mandjuandade* groups. There is hope that this is the first step towards future organisation and regulation of this sector, aiming to meet minimum requirements to access credit from banking or microcredit institutions.

Case Study Guinea-Bissau 3: 'Resilience Groups' – The New Savings Groups in Guinea-Bissau

'Resilience Groups' is a project organised by the Food and Agriculture Organization of the United Nations in several African and non-African countries to mitigate poverty in rural areas and among vulnerable communities. Based on this project, 'Resilience Boxes' were created in Guinea-Bissau in 2017 and implemented by the National Network of Working Women ('*Rede Nacional da Mulher Trabalhadora*' – RNMT) and the Women's Association for Economical Activities (‘*Associação de Mulheres de Atividades Económicas*’ – AMAE).

‘Resilience Boxes’ are a form of savings groups similar to the *Abota*, but with some particularities and more formalities. These groups focus on women who work in agriculture and sell products in street markets, and typically consist of approximately 30 people who form an organisation where each member of the community is invited to make savings on the basis of a pre-agreed amount. They meet on a weekly basis where each member declares how much he or she was able to save during the week. Registries are made in books containing each members' names and corresponding sections completed each week of the year. In these meetings, disciplinary measures such as the payment of fines for unjustified absences or delays, the use of cellphones during meetings or other infractions to rules established in the group's ‘rules of procedure’ may be taken.

By way of illustration, if a member of a group in the community of Bissora (a town in northern Guinea-Bissau) agrees for each to save 250 West African CFA franc (approximately IS$0.42) per weekday, each member completes his/her booklet to record daily savings, and in this case, the total amount of savings at the end of the week would be of 1,250 West African CFA franc (approximately US$2.03). This is considered a high amount in some communities.

The Resilience Box is used as a safe and contains three locks. The key to each lock is kept by a different member, and the box is kept by a fourth member. Accordingly, there are four interdependent ‘guardians’ of the safe. The safe contains three bags of different colours, each for one of the following causes:

- The ‘Solidarity Box’ supports members with the most pressing problems, such as funeral expenses, deaths of close relatives, serious illness, accidents and natural disasters, as well as baptisms and marriages, etc. Contributions are made in amounts by prior member agreement;
- The ‘Credit Fund’ represents savings made in cash by its members as well as benefits obtained from loans and fines paid by members;
- The ‘Eventual Special Funds’ are to fund emergency expenditure and other unexpected expenses not included in the rules of

procedure.

All savings are shared at the end of one year, which marks the end of a cycle. This ‘end of cycle’ day involves preparation as each member receives not only the amount saved but also the interest accrued over loans made and fines applied. All are evenly distributed, except for the amounts included in the Solidarity Box, which are retained for the next annual cycle. The amount received from this year-end distribution must be used to increase a source of income (i.e., either to increase crop fields or to increase the number of products to be resold). The project implementing entities, the NGOs RNMT and AMAE, ensure that funds saved and distributed at the end of each cycle are used for the stipulated purpose.

Since these groups are based on association, each savings cycle implies the democratic election of a board that shall ensure the proper functioning of the group and respect of the rules set out in the rules of procedure.

‘Resilience Boxes’ benefit from the training and empowerment of the supervisory NGO, in particular, their board members and members receiving advice on how to allocate the group's savings. The facilitator, a member of the ‘Resilience Box’, liaises with the community and the NGO. The facilitator visits fields and ensures the attendance of members at the meetings, especially during the cashew and tillage season (rain season).

The main advantage of Resilience Boxes is efficiency and profitability. Below are quotes from members we interviewed with respect to Resilience Boxes:

> Better than saving money at home.

> Thanks to the tracking mechanism I was given a better orientation to increase my production, and this increased my income.

> It contributes to the development of communities and the change in women's thinking regarding the management of their economies.

Resilience Boxes operate as 'a bank' that operates within the community. Members have the right to credit without bureaucratic intervention or providing collateral. In addition to the money saved, members share the interest accrued and penalties charged during the year. Another positive aspect of this form of savings is the associative basis that regulates the group and consequently secures more security to members. However, even though Resilience Boxes are a form of savings similar to the Decentralised Financial Systems ('SFDs'), over the years many have failed and lost forfeited the trust of members. There are also limitations to this type of savings groups, as groups cannot exceed 30 members, because of the control mechanism in the system.

Resilience Boxes have proved to be very efficient forms of savings, not only from an individual perspective but also at the community level, since they are useful and efficient tools for profits, contribute to the development of the community and have an inherently social function. In fact, the weekly meetings are not only meant to collect the money saved, but they also serve as a forum for discussing the problems of the community and how to deal with them. These meetings strengthen and unite the communities.

Notes

1. See BO No. 34, of 26 August 2008, which is the sole statute regulating *Sistemas de Financiamento Descentralizado* (SFDs) in Guinea-Bissau.
2. Both agencies were established as a requirement set by the Kuwait Fund for the donation, as stated in APM (2016). I – Relatório de Execução de Fundo Kuwaitiano de Boa Vontade (ASAPM, n.d.).

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Chapter 12

Savings Groups in Kenya: A Contextualised Literature Review on Savings Groups in Kenya

David Mathuva

Keywords: *Chamas* ; financial intermediaries; urban; investment; rotating; lending cycle; technology; middle class

Background

Savings groups (SGs), initially conceptualised as rotating savings and credit associations (ROSCAs), were explored in the conceptual works of Ardener and Geertz in the 1960s (Ardener, 1964; Geertz, 1962). The awareness of informal financial services gained traction in the 1980s and improved further in the 1990s with the work of Besley and Coate in the 1990s (Besley, Coate, & Loury, 1993). SGs are viewed as a simple financial intermediation model where members agree to contribute specified amounts on a periodic basis (FSD-Kenya, 2015).

The Consultative Group to Assist the Poor (CGAP) views SGs as a form of accumulating savings and credit associations (ASCAs) of about 15–25 members whose aim is to save and borrow on a periodic basis. SGs go beyond savings and credit: some have longer-term investment strategies, while others are welfare-based. Many SGs are transitioning from welfare groups to investment groups with clearer goals of pooling resources to invest and grow their portfolios (KAIG, 2016). Ledgerwood and Rasmussen (2011) recognise some informality in SGs in the manner in which they record their transactions, since, apart from maintaining individual passbooks or a central ledger, some SGs use memory-based systems that require no paper records.

The countries in Africa with the highest numbers of SGs are Tanzania, Kenya, Uganda and Mali (Ledgerwood & Rasmussen, 2011). The ROSCA participation rate in central Kenya ranges from 45 to 50% (Kimuyu, 1999). Johnson, Mule, Hickson, and Mwangi (2002) found that 49% of the respondents were members of a ROSCA. Anderson and Baland (2002) find that in 57% of the households in Kibera slums in Kenya, at least one person was a member of a ROSCA. Research on ASCAs is rather limited, largely owing to the 'complexities' involved in operating an ASCA. Johnson et al. (2002) find that only 9% of the respondents belonged to independent ASCAs and 6% were members of managed ASCAs. Most research focuses on ROSCAs and little on welfare or clan groups (WCGs), ASCAs and *Chamas*. A FinAccess Kenya Survey in 2016 reveals that the participation in ROSCAs increased from 29.3% in 2006 to 35.8% while the participation in ASCAs increased from 5.4% in 2006 to 15.2% (CBK, KNBS and FSD, 2016).

In Kenya, the local name for such associations (i.e., SGs) is *Chamas*. A *Chama* is a group of individuals with a shared goal, coming together, with a self-governing mechanism, to pool resources (time, skill, expertise, talent, labour or capital) to achieve their aspirations. Shared goals and aspirations are key to the success of a *Chama*, which is characterised by self-organisation, self-governance and social ties. *Chama* is seen as a highly flexible people-oriented organisation capable of changing its objectives in response to its operating environment. *Chama* can also suspend its operations, only to resume after some time. The *Chama* can mutate from one form to another, without much bureaucracy.

The Kenya Association of Investment Groups (KAIG) defines a *Chama* as 'any collection of individuals or legal persons in any form whatsoever including but not limited to societies registered under the Societies Act, Partnerships and Limited Liability Companies, whose objective is the pooling of capital or other resources with the aim of using the resources for investment purposes' (KAIG, 2012, 2016). The more widely used word for 'Investment Group or Club is *Chama*'. People joining a *Chama* are bound by a mutual denominator: attend the same church, socialise, live in the same neighbourhood and attend the same school, among others (KAIG, 2016). This mutual social connection helps in executing activities to achieve their common shared goal.

Types of Savings Groups in Kenya

SGs in Kenya are classified into two types: the formal SGs are called savings and credit cooperative societies (SACCOs) and other incorporated investment groups or associations (Fig. 1). The other groups of SGs are the informal associations that can either be WCGs, ROSCAs, individual accumulated savings and credit associations (ASCAs), managed ASCAs and investment clubs, popularly referred to as *Chamas*. WCGs, ROSCAs and SACCOs are among the oldest SGs and are important vehicles in mobilising savings, especially at the local level (Gugerty, 2007). However, compared to other informal SGs, the WCGs are not considered financial intermediation vehicles.

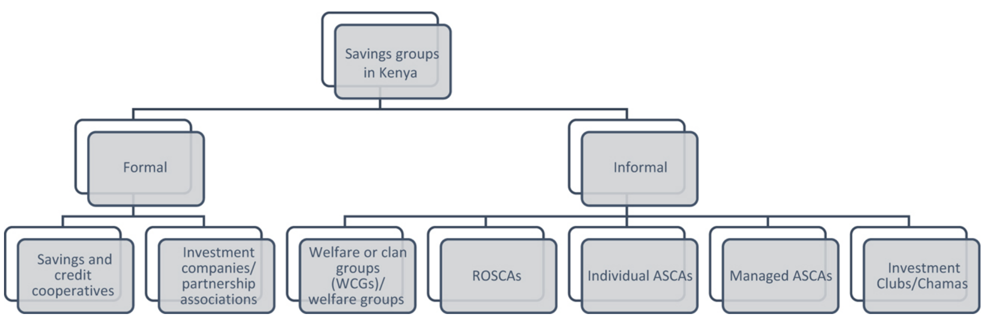

Fig. 1. Types of Savings Groups (SGs) in Kenya. *Source:* Author's own work.

The formal SGs such as the SACCOs or investment companies and associations are required by law to register (i.e. the Cooperatives Act, the SACCO Act and the Companies Act). In Kenya, SACCOs are further regulated by the SACCO Societies and Regulatory Authority (SASRA) and the Commissioner of Cooperatives. All SGs registered as companies are regulated by the registrar of companies. In case of a partnership, the Partnership Act regulates operations, overseen by a registrar. Depending on the perceived benefits and strategy, members of the informal SGs can decide to register their outfit as either a SACCO, company or a partnership association.

WCGs provide financial support to members and their kin in the case of a misfortune, say illness or death or even a special celebration, such as a wedding (Johnson et al., 2010). In a WCG, there is normally a fixed monthly contribution from members of the clan or a particular grouping, typically around Kshs. (Kenyan shillings) 100 per member. [1] Additional contributions are expected from members whenever there is a misfortune or a celebration for one of the members. ROSCAs, on the other hand, are the traditional merry-go-rounds.

ASCA members agree on the minimum amount to save, accumulate the funds for a certain period of time (9–12 months or longer) and then use the savings to lend to members who need loans at a specific interest rate (e.g., 10% per annum) until the money in the pot is exhausted. Once members take out loans, they are expected to repay within a specified period. Once the lending cycle ends, members earn a 'return' on their funds in the form of interest charged on the loans, and a new cycle begins. The original savings are either retained in the ASCA or paid out to the members alongside their returns. Fig. 2 illustrates how ROSCAs and ASCAs operate:

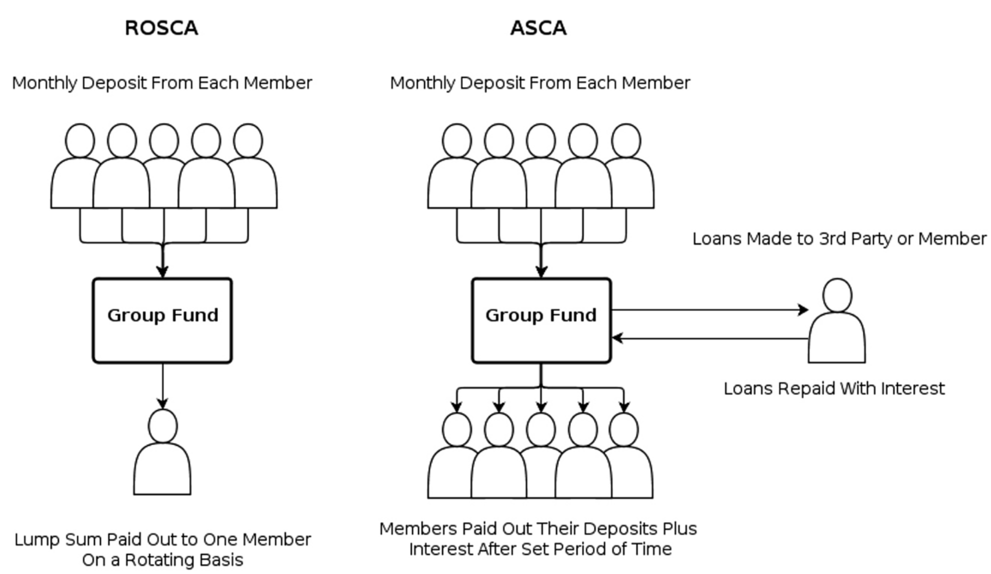

Fig. 2. How Rotating Savings and Credit Associations (ROSCAs) and Accumulating Savings and Credit Association (ASCAs) Operate. *Source:*

Adapted using: http://investeddevelopment.com/2012/04/the-benefits-of-informal-savings-groups/.

Investment clubs or groups are a relatively recent phenomenon in Kenya. They are commonly referred to as *Chamas*. *Chama* is a Swahili word that means 'group' or 'body' of individuals (usually with a common or shared objective) (KAIG, 2016). Where the *Chama* is registered, it can take the form of a SACCO, a company or a partnership. There are, however, some informal *Chamas* where members contribute periodically as agreed. Most *Chamas* (especially those in urban areas) are an adapted form of an ASCA. Members (who share a 'common bond', mainly a social bond), agree to contribute a fixed amount of money to a pool (KAIG, 2016).

The members may have formal by-laws or a constitution to govern the affairs of the SG. The constitution outlines the objectives of the SG. This type of SG can be formally registered as a SACCO, company or as an association. The members in this SG benefit from the returns generated through investing the accumulated funds as per the dictates of the constitution, which is signed by all members. Funds contributed can be invested in the stock market, foreign exchange, real estate, a business venture (e.g., an agribusiness or Uber cabs) or cryptocurrency, among other investment vehicles. Members can also borrow from the SG, which is typical of an ASCA. According to the FinAccess Survey of 2016, people taking out ASCA loans increased from 1.2% in 2013 to 5.4% in 2016, while those taking *Chama* loans decreased from 3.8% in 2013 to 2.9% in 2016 (CBK, KNBS and FSD, 2016). This illustrates the popularity of ASCA loans while *Chama* loans are deemed expensive and may have more stringent requirements.

Origin and Cultural Connotations of Savings Groups in Kenya

Chama (also referred to as *Kyama* by some tribes) has deep roots in the Kenyan culture and by extension the African culture of solidarity (Jellicoe, 1968). *Chamas* trace their roots way back to pre-colonial eras where mutual aid societies and ROSCAs were established in urban environments to maintain group cohesion and preserve kinship networks. The initial unions comprised local branches of the Luo and Kikuyu and were established in major Kenyan towns, spreading to neighbouring countries in East Africa (Bouman, 1977). Mombasa, a coastal city of Kenya, recorded over 500 voluntary associations (Jellicoe, 1968).

The use of the name *Chama* gained traction in the 1980s and 1990s, as a result of the *harambee* idea, which means 'all together'. Originally, *Chamas* were viewed as women-driven micro-SGs whose aim was to pool and invest savings by East Africans. Owing to the flexibility in *Chamas*, and the transformation in terms of sophistication and operations, men began participating in *Chamas* by:

- Forming their own *Chama* groups;
- Joining their spouses' *Chamas*; or
- Participating in the wife's *Chama* by contributing via the wife.

In the rural Western Kenya, Nairobi, Anderson and Baland (2002) and Gugerty (2007) find that women dominate ROSCAs. In Central Kenya alone, Johnson et al. (2002) finds that 66% of the women were ROSCA members compared to men. Informal SGs operated by men are better organised (Johnson, Malkamäki, & Niño-Zarazua, 2010). Literacy levels played an important role involving people in *Chamas*. More sophisticated *Chamas* consider investing in digital currencies such as cryptocurrency and businesses and investments such as Uber, stocks, forex and bonds. Membership in either a ROSCA, ASCA or *Chama* is voluntary. Running an ASCA or a *Chama* could be demanding because it requires bookkeeping and some form of a governance structure, though the organisation may be informal at times (Ledgerwood & Rasmussen, 2011).

Objectives of a *Chama*

SGs provide an alternative savings mechanism to users of formal banking services (CBK, KNBS and FSD, 2016). SGs are a useful and efficient mechanism of accumulating small amounts towards other purposes. In addition to strengthening the social bond among members, SGs enhance discipline and create opportunities to learn from others and provide much needed peer support. A majority of SGs in the form of *Chamas* have demonstrable exclusivity and consist of members with shared characteristics and values.

The number of members in a *Chama* varies from 5 to 20 or more. Depending on member preferences and the reason for the existence of the *Chama*, members influence admission. This is perhaps to retain that social collateral which is one of the best guarantees of security and stability for the SG. Those joining an established *Chama* bear the cost of entrance and are often charged some ‘goodwill’, alongside the pre-screening performed before they are allowed to join.

Due to the level of informality inherent in *Chamas*, it is difficult to estimate the exact number of *Chamas* in Kenya, with FSD hinting at a possible one in every four adults in Kenya being a member of a *Chama* and KAIG estimating a total of 300,000 *Chamas* managing Kshs. 300 billion (US$3.4 billion) in assets (FSD-Kenya, 2015; KAIG, 2012, 2016). According to Johnson et al. (2010), 53% of adult Kenyans belong to at least one informal SG and 35% of Kenya's population relies on informal SGs to access funds. In aggregate, the informal SGs in Kenya mobilise about Kshs.60 billion annually, which represents approximately 3.7% of the gross domestic product (GDP) in 2006.

The FinAccess survey in 2016 shows that the percentage of individuals using informal financial mechanisms (8.7%) outweighs formal financial institutions such as banks (8.1%) and SACCOs (2.7%) (CBK, KNBS and FSD, 2016). The FinAccess survey shows that informal financial mechanisms are used frequently, on a daily (3.9%), weekly (36%) and monthly basis (54.8%). This demonstrates that the informal financial mechanisms play a vital role in savings mobilisations for the various member needs. Johnson et al. (2010) observe a higher utilisation of ROSCAs compared to over 300,000 informal SGs as depicted in Fig. 3:

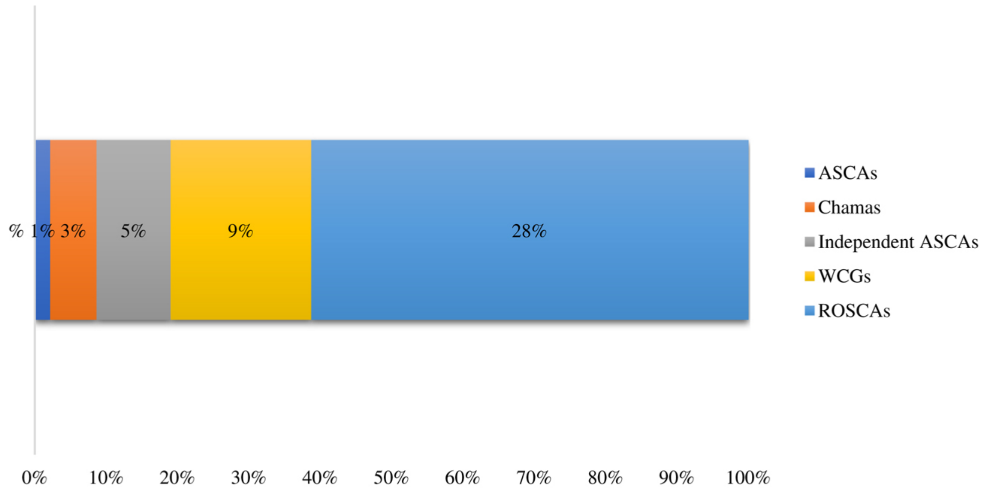

Fig. 3. Usage of Informal Savings Groups (SGs) in Kenya. *Source:* Johnson et al. (2010).

A 2013 FinAccess survey by FSD shows that about 25% of the adults in Kenya at or above 18 years (5.6 million people) used a ROSCA or ASCAs to save or to borrow (CBK, KNBS and FSD, 2013). This is lower than that reported in 2009 and 2006. A fairly even percentage of the SGs is distributed in both urban and rural areas covering about 25% of the population. Young people are active in SGs, with only 14% of individuals at the ages of 65 years using them. Interestingly, SGs are used by the more educated population, as opposed to the notion that SGs are for the less educated (CBK, KNBS and FSD, 2013). This calls for an examination of whether literacy would explain the formality or informality of SGs.

In Kenya, a higher portion of the SG members are women at 31.6% while 18.3% are men (CBK, KNBS and FSD, 2013). Gugerty (2007) finds that the proportion of women in the ROSCA is about 77%. This illustrates the role gender plays in SGs. A typical modern-day *Chama* could be formed as an ASCA, for savings, insurance, investment club, a traders' association, a cooperative or for a special cause. Typically, *Chamas* are formed by:

- Individuals who, owing to their shared characteristics, agree to contribute and pool funds for a specific purpose. These could be high school friends (an alumni association), university friends, teachers working in a specific jurisdiction, individuals connected to the same organisation, etc;

- Traders in the local market who agree to pool funds daily, to deal with their economic needs, deal with shared market challenges while building their social bond;
- Mobile money operators or individuals working in the tech industry to address industry-specific dynamics and tap into opportunities;
- Producers such as farmers or pastoralists with a shared view on their socio, economic and cultural welfare;
- Dealers of perishable products (e.g., flowers, *miraa* [khat]) to deal with market conditions;
- Those in the diaspora pooling resources for specific purposes such as real estate development, healthcare or charitable services;
- Groups of women in a certain jurisdiction (e.g., housewives, women in a church organisation) aspiring to build on their social ties while improving their economic well-being;
- Young people aspiring to save for their future.

To effectively meet its objectives alongside its savings and investing mandate, *Chamas* engage in a variety of other socially oriented activities including, but not limited to:

- Taking up group insurance covers for members, their families or their businesses;
- Setting up a benevolent fund that caters for any eventualities or calamities a member may suffer;
- Having a party or a 'goat-eating' get-together where members' families, friends and business associates might also get invited;
- Having training sessions to increase knowledge in any agreed area for the members done by outsourced professionals;
- Doing or exchanging business services with the members as opposed to sourcing from outside the group;
- Having group visits to members' life events like weddings, anniversaries, birthday parties and contributing towards these occasions;

- Engaging in a socially responsible activity like visiting a children's home, donating books to a local library or school, offering investment skills at a local prison etc.

Risks and Benefits Associated with Savings Groups

The popularity of ROSCAs among the bottom of the pyramid and those in the rural areas is attributed to the low rates of default and less risk associated with the SGs (Klonner, 2003). Reported cases of default in Western Kenya are minimal, and in some cases, gifts were used to make up for the default (Alila, 1993). Nelson (1995) also reports 23 default cases in central Kenya where members in a ROSCA negotiated for settlement at a later date.

Another potential reason for the relatively lower risk with ROSCAs is the African culture where debt is viewed as a social relation and helps keep closer ties among those in debt (Klonner, 2003). In the case of bidding ROSCAs, Klonner (2003) observes that members are allowed to insure themselves against idiosyncratic risks while Calomiris and Rajaraman (1998) argue that some ROSCAs have embedded insurance components. In case a ROSCA collapses, the amount at risk is usually lower per member compared to an ASCA (Klonner, 2003).

Despite the benefits, Muturi (2012) argues that participation in ROSCAs is costly due to the opportunity cost of time spent in meetings. ROSCA members have, however, dealt with this challenge by way of dedicating a convenient meeting venue and very specific time period when they are to meet.

ROSCAs have social commitment properties and assist members with self-discipline (Gugerty, 2007; Ambech & Treich, 2007). People join SGs especially ROSCAs and ASCAs to mobilise savings and promote a disciplined savings culture (Johnson et al., 2002). The discipline associated with ROSCAs is manifested by member contributions, punctual attendance at meetings (some groups impose penalties on late attendance and late contributions), repayment of loans taken (in the case of ASCAs) and the fact that one is allowed to exit the group at the end of the cycle. It is also a way of building social networks in addition to moving funds away from the households to avoid potential misuse. Some of the benefits associated with SGs include (KAIG, 2016):

- Lower risk levels;
- Discipline and structure;
- Diminish or eliminate fear of investing;
- Build lasting friendships;
- Learning experience; and
- Create a source of wealth.

Savings Groups and Technology in Kenya

The vibrancy, growth and development of SGs in Kenya incentivised a number of applications to support their activities. Below we describe a number of the applications in the market:

- *The* e-recording app *and the e-kit developed by FSD Kenya*: The e-recording app has been designed to improve the transactional data capture during meetings and enhance transparency and security of each SG's collective transaction history. The e-kit is an android-based app that contains a number of training modules (lessons) in form of interactive videos along with quizzes to reinforce knowledge of the content.
- *The Chango app*: The app is named *Chango*, which means ‘contribution’. *Chango* closely resembles *Chama* for groups. *Chango* are the contributions from the *Chama* members. The app focuses on three qualities: transparency – all your money is visible at all times; accountability – all your groups in one page; and ease of use – great for group/*Chama* contributions. The *Chango* app can: (1) manage members (all members in the user group), (2) aggregate member contributions, (3) view contributions (track your contributions), (4) cash out, (5) send statements, (6) deliver notifications and (7) update settings (managing your profile).
- *Chamasoft*: This is a bookkeeping tool for *Chamas* in Kenya. It automates *Chama* operations and eliminates the need for keeping

close tabs on Excel worksheets. *Chamasoft* automates member invoicing, keeps updated statements for each member, grants real-time access to information by members and has a cash book module.

- *Chamapesa*: This stands for '*Chama* money'. The app has functionalities such as those of the Chango or e-recording apps.
- *SmartChama*: This is a cloud-based system created for *Chamas*. It enables financial transactions via the app.

Commercial banks have also developed banking solutions, such as Bank of Africa's e-*Chama* to enable *Chamas* to transact their business without having to visit a bank. Other formal SGs such as cooperatives have also developed *Chama* savings and loan products to attract them. Some brokerage firms have also designed investment packages for *Chamas* so as to attract the over US$ four billion of *Chama* savings into the formal financial system. Digital solutions were developed for the *Chama* ecosystem to take care of both the supply and demand sides of *Chama* operations. There has, however, been a push for legislation of certain aspects of *Chamas*, to eliminate some of their competitive advantages.

Case Study Kenya 1: *Ustaafu Poa* Women's Savings Group

Ustaafu Poa started in 2014 as a rotating savings association *(Chama)* with members contributing Kshs. 5,000 (US$50) per month. The name '*Ustaafu Poa*' is a Swahili word which means good retirement. The women wanted to build their own homes for a peaceful retirement. That was part of their retirement planning. In 2016, the group was registered as an association. It comprised 20 women aged between 30 and 45 years. The women in the group are qualified secondary school teachers in Kiambu County in Kenya and have university degrees. Among the 20 members were 11 women who were married with children. The women were drawn from the same school, Senior Chief Koinange Secondary School in Kiambu, except two who were from Loreto Girls in Kiambu and St. Teresa Girls High School in Eastleigh, Nairobi.

The SG operates in a peri-urban area which is characterised by coffee farming and real estate developments in Kiambu County. Average monthly salaries of the teachers range between Kshs. 30,000 (US$300) and Kshs. 70,000 (US$700), and all the teachers are affiliated to the Teachers Service Commission. The group has three officials: a chairwoman, treasurer and secretary. The group maintains a bank account which is operated by the three leaders as trustees. The group has by-laws (the constitution) which govern their affairs. One of the by-laws stipulates that 15% of a member's savings will be retained upon resigning.

By 2015, the group had mobilised approximately Kshs. 200,000 (US$2,000) in savings. The aim of the group is to develop the member welfare. Members contribute Kshs 5,000 (US$50) for registration and Kshs. 1,000 (US$10) as commitment fee. New members pay a goodwill fee. They charge the goodwill depending on the time a new member joined the *Chama* and the needs of the group. If one joined two years after the *Chama* was formed, the member may pay a fixed goodwill of Kshs. 20,000 (US$ 200) which is determined by members. In 2016, the group changed from a rotating savings association and decided to invest in land. The group meets once per month and keeps a record of the matters discussed as part of their minutes. Those members who do not attend the monthly meetings are fined Kshs. 500 (US$5), and those who attend late are fined Kshs. 300 (US$3). The meetings are usually on any Saturday of the month from 5 p.m. to 7 p.m.

At the beginning, members contributed Kshs. 5,000 (US$50) which went to one of the members through a ballot process. In total, a member would get Kshs. 100,000 (US$100), although sometimes the amount would be less because of those members who did not contribute in time. Such members received less when their turn came since they failed to contribute earlier.

The ROSCA nature of *Ustaafu* changed in 2016 to an investment SG. The members of *Ustaafu* identified some land in which they could invest. The land was valued at Kshs. 5,000,000 (US$50,000) located at a place called Ruai. Only 14 members invested in the land. By then, six members had left the group and were refunded. The six members left since they had built their own houses and were not interested in buying land. They only wanted a rotating savings association, and since the focus of the group changed, they opted out.

The idea behind buying the land was to build houses as homes for the members. Members contributed towards the purchase of an acre of land. By then they had mobilised Kshs. 200,000 (US$2,000) in savings. Since they needed much higher capital, they borrowed Kshs. 5,000,000 (US$50,000) from K-Rep Bank. The choice of the bank was due to the low-cost structure of the loan. Each member contributed Kshs. 60,000 (US$600) per month and repaid the loan within a year. By then, only eight members were left in *Ustaafu*. The next project was the subdivision of the land, for which Kshs 29,000 (US$290) was required. By the time of writing the case, the subdivision was in process and members are to contribute an additional Kshs. 22,000 (US$220) for the allocation of title deeds.

Some of the challenges faced by *Ustaafu Poa* group include:

- Members are not able to contribute money on time to repay the loan;
- Lack of openness by officials with respect to the financial stewardship of the group. At times, there was lack of information on the financial position of the group;
- Member withdrawal from the group which meant a heavier burden on the members who remain, especially if they have an investment to contribute to;
- Inability to venture into bigger investments owing to limited funds at member disposal.

Any excess savings by members after purchase of land and the subsequent contributions for subdivision and title deeds were refunded to the members as they re-strategise on their next move.

Case Study Kenya 2: Momentum Investment Savings Group

Momentum Investment is an SG ('*Chama*') established in May 2014 by four young men who were classmates at the University of Nairobi in Kenya. The group is yet to be formally registered, although the members agreed to either register it as a company or an investment cooperative. The idea to form a '*Chama*' was born after completing their university studies. They worked in industries, ranging from consulting to self-employment. Initially, three of the four members took the roles of a chairman, treasurer and secretary. Members contributed Kshs. 10,000 ($100) every month towards a variety of investment opportunities, as ratified by the members. Membership grew to nine when the *Chama* decided to develop a set of by-laws to govern the affairs of the group. The by-laws restricted membership to a maximum of 12 members. The membership is diverse, but members are known to each other since the additional members were introduced by the existing members into the group. All members have an undergraduate degree as a minimum with some holding a master's degree and one with a doctorate. The members are aged between 30 and 34 years with the average age being about 32 years.

Membership into the *Chama* is defined by payment of a registration fee of Kshs. 1,000 US($10). New members must pay a goodwill payment of Kshs. 5,000 (US$50). All members must contribute to the activities of the *Chama* by performing the tasks assigned to them, report to the group during the monthly meetings and make regular contributions of Kshs. 10,000 (US$100) per month. Non-attendance of meetings is fined Kshs. 1,000 (US$10), and latecomers pay a fine of Kshs. 500 ($5). This forms part of the club's income. In 2018, these penalties were abolished, and active participation and attendance since dwindled.

Objects and Operations of the Momentum Investment Group

The object of the group is to invest in high-return investments. Momentum members meet monthly at an agreed location. The annual general meetings of the *Chama* are held in February of each year, and members discuss the performance of the *Chama* among other agenda items.

The primary objective of Momentum is wealth creation through diversified and viable investments with reasonable returns. To achieve this objective, the by-laws stipulate that the club can invest in any of the following:

- Viable land, real estate and related projects;
- Capital markets (shares, bonds, real estate investment trusts [REITs], etc);

- Alternative investments in unit trusts, mutual funds and related investments;
- Foreign exchange;
- Commercial undertakings (e.g., a business);
- Fixed or savings accounts with interest;
- Pension fund products, among other investments.

Members decide on investments on a need basis, guided by the following principles:

- No investment will exceed more than 25% of the club's funds;
- Diversification of investments;
- Investment decisions must be approved by two-thirds of members; and
- Investment period is at least 2 years unless there are compelling reasons for liquation.

One of the strengths of Momentum is the social bond and trust among its membership. The majority of the members have a business orientation, which is useful when making investment decisions. Investment decisions flow from proposals, discussions and consensus. For every investment decision, at least two of the *Chama* members are tasked to oversee and report to members on the progress.

When the *Chama* agreed to start an Uber ride-sharing business, three *Chama* members registered the car in their names and one of the members managed the operations of the ride-sharing business, on a rotational basis. A number of *Chamas* have ventured into similar businesses, whereby members decide to run a business and designate select members to manage the affairs of the business for a fee. This is driven by the need to run a variety of initiatives (diversification) or as a way of experimenting with different investments to gauge which one will yield higher returns. Such initiatives are active investments and require commitment by the responsible member. Non-performance of investments lead to a search for better performing opportunities.

Investments of Momentum

As of 2018, the total asset base of the club amounted to Kshs. 2,467,510 (US$24,675.1) with a surplus of Kshs. 327,615 (US$3,276.15) being reported. Over the last 4 years, Momentum has invested in the following investment vehicles:

(1) Shares of listed companies

(2) The members agreed to invest Kshs. 750,000 ($7,500) in shares of three listed companies on the Nairobi Securities Exchange. Members did a due diligence investigation on the most profitable companies and settled on three companies. The members have since earned about Kshs. 60,000 (US$600) in dividends. Members consider investment in shares as a passive investment vehicle and, hence, decided to hold the shares for the longer term.

(3) Special savings

(4) Momentum invested Kshs. 301,000 (US$3,010) in an Investment Company, SUMAC, where the funds could earn interest. The interest offered is 10% per annum which the members considered reasonable and is aligned with the by-laws. By 2018, the total interest earned on the savings amounted to Kshs. 60,000 (US$600). Further interest is earned on the deposit of the club account which amounted to Kshs. 61,121 (US$611.21) as of 2018.

(5) Investment in foreign currency

(6) One of the Club members runs a foreign currency trading business. Momentum set aside Kshs. 300,000 (US$3,000) for trading in foreign currency. The member assigned responsibility for the investment, reported regularly on the returns.

(7) Investment in cryptocurrency

(8) Owing to the upsurge in cryptocurrency transactions, members invested Kshs. 50,000 (US$500) in cryptocurrency as a start and see how the investment performs.

(9) Investment in Uber business

(10) Momentum invested Kshs. 906,395 (US$9,063.95) in an Uber business. The investment is considered an active one and requires

closer management by the members. As a result, one of the members was assigned to manage the business and is paid a small management fee out of the income generated by the business. By 2018, the Uber business had generated about Kshs. 191,648 (US$1,916.48).

Apart from the investments described above, the club offers loans to the members at 0% interest per month. However, this is not part of the primary mandate of the club.

It is the vision of the group to grow its asset base and expand its investment portfolio, specifically in real estate.

Some of the challenges faced by the group include:

- Dwindling contributions by members;
- Lack of consistency in organising meetings, non-compliance with by-laws;
- Investments in active investments which has yielded low returns leading to erosion of member funds;
- Operational challenges faced by investment in the Uber business;
- Lack of a strategic direction for the club;
- Blatant disregard to the by-laws (low attendance rates to club meetings);
- Lack of time by members to take an active role in the affairs of the club;
- Non-participation by some members in investment research;
- Failure to conduct election of club officials to bring new leadership.

Conclusion on Savings Groups in Kenya

SGs in Kenya are operated under the general concept of *harambee*, which means ‘all together’. The *harambee* spirit has enabled Kenyan SGs to weather a lot of storms, and many have survived better than the more established formal mainstream organisations. Kenyan *chamas* provide alternative mechanisms for pooling savings and have a relatively lower risk compared to ROSCAs. SGs go beyond ordinary savings and credit. Some

SGs have longer-term plans incorporating investments while others have shorter-term horizons such as welfare groups.

SGs display heterogeneity and diversity in their operations, procedures and methodologies. There is diversity among SGs in Kenya, from those that are formally incorporated to those that are informal; from rural to peri-urban; and from small groups to larger groups. What keeps SG members together is not merely the savings they accumulate but also the closer ties that have been built over time and made stronger as time goes by. A common goal is improvement of individual and communal welfare. It is because of the vibrancy inherent in SGs in Kenya that formal financial institutions such as banks are targeting them to expand their clientele.

A 2016 FinAccess survey captures this trend: 41% of Kenyan adults are members of SGs compared to 32% with bank accounts (CBK, KNBS and FSD, 2016), despite the risks involved, such as sustainability risk, unreliability and risk of loss of savings in case members default. The question still remains: what makes people remain in SGs despite the risks inherent in them? The most compelling answer is the desire to create, build and nurture relationships and develop close ties with strong identity and a sense of belonging.

Note

At the time of writing the paper, the exchange rate was US$ 1 = 100.5 Kenyan shillings (Kshs.).

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Chapter 13

Savings Groups in Mozambique

Graham Sherbut, Tiago Borges Coelho and Eugénio Gujamo

Keywords: *Xitique* ; *Groupos de Poupança* ; poverty; household; financial inclusion; private sector; technology

Introduction

The fostering of economic and social development in Mozambique's remote rural areas remains a considerable challenge. While Mozambique was, until quite recently, lauded for achieving high annual rates of economic growth (well above 5% from 2001 to 2015), few benefits from this growth have accrued to the rural communities where the majority of the country's population resides. Most rural households remain dependent on subsistence agriculture, the sustainability of which is in peril due to changing climatic conditions and poor land stewardship practices. Households' need for financial resources (savings and loans) to improve their resilience to shocks, to acquire improved agricultural inputs, as well as to pursue opportunities for diversified livelihoods is critical. In the absence of a strong economic base conducive to the active presence of formal financial service providers (including microfinance agencies), savings groups have emerged as the key modality through which financial inclusion is extended to many rural Mozambicans. How have these groups evolved and what role do they appear to be playing in generating meaningful change?

This chapter reflects on the historical development and contemporary reality of savings groups in Mozambique. Beginning with a general background on the evolution of savings groups over time, from the traditional *Xitique* to the emergence of Village Savings and Loan Associations (VSLAs) following the country's civil war (1977–1992), the chapter then provides a brief review of the limited literature available on savings groups in Mozambique. The chapter presents two cases on topics of scholarly interest in the Mozambican context: (1) the degree to which savings groups appear to contribute to positive social and economic outcomes and (2) how the creation of savings groups can be made more sustainable and innovative through the leveraging of technology and private sector engagement.

Background: The Development of Savings Groups in Mozambique

Traditional savings groups, known as *Xitique* (drawn from Portuguese interpretations of select local language terms for 'contribution' or 'to contribute'), have existed in some form well before Mozambican independence in 1975. *Xitique*, operating as Rotating Savings and Credit Associations (ROSCAs), are typically made up of between 4 and 10 self-selected members – usually (though not exclusively) female – and often composed of those who operate in a common social space, such as among co-workers, churchgoers or market traders (de Vletter, 2006; João, 2017). These members contribute fixed sums daily, weekly or monthly. The money is paid out on a rotating basis to one member of a group at a time according to a collectively determined schedule. There are many different types of *Xitique* arrangements, including some that operate in-kind rather than with cash (de Vletter, 2006). While expanding its presence in recent years, the geographic spread of the *Xitique* has traditionally been somewhat limited, being most common in Southern Mozambique and in the country's major cities (INDER, 1998).

It was not until the mid-1990s, following the end of the civil war and the scaling up of activities by international non-governmental organisations (INGOs) to assist with post-conflict reconstruction, that savings groups were introduced more widely, particularly in the country's heavily populated rural areas. This period also coincided with the time that the Mozambican government began taking tentative steps to introduce market-oriented economic reforms, including those aimed at promoting private savings and investment. CARE International was among the first (and most successful) INGOs to lead the rollout of savings groups. Drawing on the success of its VSLA methodology in West Africa, CARE introduced this same approach – termed as *Poupança e Crédito Rotativo (PCR)* (Rotating Savings and Credit) – primarily in its core programme geographies in Inhambane and Nampula provinces. [1]

While having some basic conceptual similarities to the *Xitique*, the PCR approach was introduced to offer a more structured, transparent and flexible (in terms of its savings methodology) group foundation. In line with the broad VSLA methodology, the PCR groups were composed of elected group management committees, inclusive of group presidents (or chairpersons), treasurers and secretaries. Contrary to the fixed-contribution nature of the *Xitique*, PCR groups allowed members to vary their individual contributions by purchasing a desired number of 'shares', recorded in every member's passbook, at each weekly group meeting (the share-price having been determined collectively by the group prior to the start of their 9–12-month savings cycle). Accumulated savings were stored in a lock-box secured with three padlocks, with the keys held by three appointed members of the group.

Loans are made from the group savings pot, accessible by any member to a value up to three times their savings contribution at the time, with repayment schedules and loan interest rates determined by groups according to their preferences. Group members can make additional contributions towards the maintenance of a group social fund, which is available to members and their households during emergencies. A share-out at the end of a group's savings cycle gives each member the amount of their accumulated savings plus their share of any loan interest. This structured approach was considered essential if groups were to attract prospective members without a history of saving and if groups were to sustain larger memberships – from a maximum of 10 people in the traditional *Xitique* to an average closer to 20–25 members in the PCR groups. [2]

The success of its early savings group programmes in Inhambane and Nampula encouraged CARE to develop its *Crédito para Empresarios Rurais (CRER)* initiative, which utilised action research to identify ideal ways of supporting further evolution of savings groups. The findings of this initiative, combined with a desire to localise responsibility for ongoing VSLA formation, encouraged CARE to launch the *Ophavela* pilot project in 2001 and to support the transition of *Ophavela* into an operationally separate non-governmental organisation (NGO) over the following five years. CARE also supported the emergence of *Kukula* as a distinct NGO partner to subsequently establish VSLAs in Inhambane (Gudz, Mamade, & Momade, 2004). *Ophavela* emerged as a national leader in supporting other agencies, international and local, to standardise high quality VSLA training and support. Over time, additional INGOs, leveraging enthusiastic funding from development donors such as the European Union (EU), Global Affairs Canada (GAC), International Fund for Agricultural Development (IFAD), United Kingdom Department for International Development (DFID) and the United States Agency for International Development (USAID), as well as select private sector institutions, adopted the VSLA model and assisted with country-wide implementation. [3], [4]

National and provincial-level governments noted these developments. The *Instituto de Desenvolvimento de Pesca de Pequena Escala (IDPPE)*, the state body tasked with overseeing livelihoods in the traditional and artisanal fishing sectors, has come to see savings groups as an ideal mechanism to encourage savings among fisherfolk. Government sources refer primarily to PCRs, while those implementing savings groups use Accumulating Savings and Credit Associations (ASCAs) and by communities and group members themselves simply refer to Savings Groups – *Groupos de Poupança*.

The national debate around savings groups has less to do with their utility, which is widely acknowledged to be positive if not necessarily transformational (see Brunie, Fumagalli, Martin, Field, & Rutherford, 2014; Brunie, Rutherford, Keyes, & Field, 2017), and more to do with how to wean the process formation and support away from INGO or local NGO involvement and the donor dependence, towards self-driven market actors. [5] Mozambique, unlike neighbours Kenya or Tanzania, is only now beginning to engage substantially with digital financial services. Past financial institutions, both formal banks and microfinance agencies, only marginally served rural communities where most savings group members reside.

Literature Review

Given the exciting growth of savings groups in Mozambique over the past 20 years, there is a disappointing lack of country-specific scholarly work on the subject. INGO reports and evaluations are seldom scientific, peer reviewed or comprehensive. Brunie et al. (2014, 2017) provide an exception. Through mixed methods (with experimental research designs employed for their quantitative components), they assess the household economic and nutritional impacts of savings groups – albeit drawing on data from a single integrated savings group project, the Supporting Transformation by Reducing Insecurity and Vulnerability with Economic Strengthening Project, known as STRIVE, of 'Save the Children' in Nampula province. Brunie et al. (2017) find significant positive impacts on income and asset ownership accruing to households with savings group members in comparison with non-member-control households. Households with at least one member in a savings group are also more likely to report increased agricultural productivity, having more months of food sufficiency, as well as being better able to cope with sudden emergencies. Little evidence is found by these authors, however, of a link between savings group membership and enterprise development; something these scholars attribute to the lack of a strong enabling environment (little market integration and few business opportunities) in the project's rural implementation geographies.

Brunie et al. (2014) also find a positive correlation between membership in savings groups and increased months of household food sufficiency, as well as improved individual dietary diversity among household members, including children (though these differences in comparison to non-member-control households are small). A common theme from the research is that savings groups, while clearly valuable, can only be transformational if they are complemented by a broader array of development interventions. Beck (2012), providing qualitatively generated evidence from a savings group project implemented by World Vision in Mozambique, also reports positive associations between savings group membership and higher incomes (connected mainly to increased agricultural production making more cash available for group members to purchase inputs). Beck mentions some of the limitations of the traditional *Xitique* – limited flexibility to respond to emergencies (also de Vletter, 2006); savings amounts generated through the *Xitique* are usually too small to accumulate large lump sums. This makes INGO and NGO-supported *Groupos de Poupança*, or ASCAs, important innovations, capable of providing members with the ability to accumulate larger (and more impactful) savings.

Ali, Massarongo, and Massingue (2014) report on interviews with (VSLA) savings group members in Manhica and Sofala provinces, noting that apart from economic benefits, savings group members truly prize the social capital developed through group membership – especially social funds available in emergencies. Since savings groups are often formed primarily as a means to support the economic empowerment of women, it is surprising that none of the cited studies comment on this matter. Brunie et al. (2014) argue that the ability of women to participate in savings groups, to have access to their savings, as well as to choose when to take and how to use loans obtained from the group, depends on existing intra-household gender dynamics rather than on savings group dynamics *per se*.

An immediately obvious gap within the literature is the interplay between savings groups, microfinance institutions (MFIs) and formal financial service providers. While much of the international literature on savings groups assumes a general process of 'graduation' between these different levels of financial intermediation, with savings groups members ideally graduating into enterprise-focussed microfinance clients and then into clients of commercial banks, there is little to suggest that this evolutionary process occurs in the Mozambican context. Discussing Mozambique's underdeveloped microfinance sector, Simonetti, Wuyts, and Wuyts-Fivawo (2007) argue that where MFIs exist, they tend to adopt a value chain approach to lending that targets clients already engaging in small to medium enterprise, few of whom are likely to be (poorer and more marginal) members of savings groups. Taking a critical look at the social performance of MFIs in Mozambique, Psico and Dias (2008) argue that the country's MFIs have seldom prioritised social performance as a goal and therefore display little enthusiasm to engage with savings groups.

While the introduction of digital financial services potentially makes the 'banking' of the rural poor possible even without direct 'on the ground' engagement from MFIs or commercial banks, the relative novelty of these services in Mozambique means that there is very little scholarly work on the topic. A partial exception is Ali, Ibraimo, Massarongo, and Massingue (2014). While not dismissive about the future of digital financial services in Mozambique, these authors argue that these services are heavily undeveloped. The mobile financial services *M-Kesh* and *M-Pesa* are primarily urban, thus unknown to much of the wider population and unsuitable for rural savings groups. While these mobile systems are mainly geared towards payments (e.g. for services like water and electricity), mobile money agents are unprepared to handle the volumes of money that would come with 'banking' large numbers of people and sizeable numbers of savings groups.

The literature considers Mozambican savings groups' dependence on INGOs (or local NGOs) for support. Ali et al. (2014) criticise savings groups' INGO/NGO dependence, and an over-emphasis on development organisations meeting donor-mandated targets, leading to the establishment of weak groups rather than more modest targets focusing on quality. Fumo (2015) echoes this criticism, noting that many Mozambican savings groups rely heavily on INGO/NGO facilitators well into their second and even third savings cycles – rather than becoming fully independent, as intended, after their first cycle.

Case Study Mozambique 1: The Social and Economic Impact of Savings Groups in Mozambique

Mozambican savings groups are grassroots mechanisms towards positive social and economic outcomes. Increased cash savings, when combined with access to loans, is intended to help group members, particularly women, obtain seed capital to develop income-generating initiatives, meet essential household expenses (school fees, healthcare) and develop trust and strengthen social capital at community level. Drawing on a case study of two savings groups in Cabo Delgado – a group called *Nova Vida* in Macomia district and a group called *Futuro Melhor* in Ibo district, by the

Aga Khan Foundation (AKF), it was found that savings groups failed to generate clear economic change, since such change was tied to – as was noted by Brunie et al. (2017) – the enabling environment where savings groups operate.

Within both *Nova Vida* and *Futuro Melhor*, group members claimed an important role for their savings groups in building social capital in their communities. Said one female group member from *Nova Vida: 'Before, we did not really trust one another. The Groupos de Poupança* [Savings Groups] *have helped change this. Because we sit and save together with those from our community and neighbouring communities, we begin to understand one another and build trust'*. The majority of members – 63% in *Nova Vida* and 72% in *Futuro Melhor* – cited their group's social fund, rather than the opportunity to generate savings or access loans, as the primary motivation to join. Said one long-standing male group member, re-elected president of *Futuro Melhor: 'The social fund is vital to our group. Our members feel that they can draw on the support of those around them, which makes them confident and able to deal with their challenges'*.

These perspectives echo the Ali et al. (2014) identification of social interaction and solidarity, rather than material concerns, as key to the power of savings groups in Mozambique. When AKF chose to simplify its savings group approach in 2016, from VSLA to an alternative model without a social fund, members resisted. When members of these two groups were asked about possible future linking of the savings groups to MFIs or formal banks, they were concerned about losing their social fund.

Members of both *Nova Vida* and *Futuro Melhor* also mentioned the role that the bonds of trust established through savings groups had played in facilitating wider co-operation and mutual support. Said a female member of *Futuro Melhor: 'Our community development is led by our VDO* [Village Development Organisation]. *You find that many members of savings groups are also the most active members of VDOs. Through the savings groups, we develop experience working with each other and we want to continue working together in other ways, including for the benefit of our communities'*. A female member in *Nova Vida*, participating in her third savings cycle with her group, concurred: *'We* [group members] *develop habits of cooperation. We want to work together, by sharing labour during the harvest or cooperating to develop proposals for community projects.'*

The comparatively high degree of commitment men and women dedicate towards their savings groups, linked to the fact that they have a tangible investment in these groups' success, fosters mutual trust may otherwise be lacking.

Another social outcome is whether – and to what degree – increased savings and access to loans impact household educational, health and/or nutritional outcomes. Brunie et al. (2014) found that levels of food sufficiency (measured as the average number of months in a year a household has enough to eat) increased for the households of savings group members but decreased for the households of non-group members though the differences were minimal. Children in savings group households consume a wider variety of food groups than children in non-member households (measured through an Individual Dietary Diversity Scorecard).

Qualitative data collected from *Nova Vida* and *Futuro Melhor* revealed similar concerns about the mismatch between savings group payouts and household needs. Over half of members in both groups reported that they used a portion of their group-generated savings to purchase food, while around a quarter of members in these groups reported using group-generated loans for this purpose. It is apparent that food insecurity remains a pressing concern in rural Mozambique and that savings groups supplement cash for food supply. However, as one female group member in *Nova Vida* stated: *‘we are hungry for many months. The group savings and loans help yes, but food is expensive to buy and what we need is more than what money the group provides’*. Savings groups, in other words, are one part of the ‘resilience arsenal’ that men and women can draw upon, but by themselves they are hardly sufficient. Data on health and education outcomes are difficult to analyse, particularly since the poor quality of these services acts as a disincentive to try accessing them in the first place. However, half of all *Nova Vida* and *Futuro Melhor* savings group member households used at least part of their savings, or some of their loans, to cover school fees and/or seek healthcare. This does not suggest that savings groups play any type of decisive role in health or education outcomes, but these data do suggest, once again, that savings groups are part of the ‘resilience arsenal’ that households can draw upon to ensure that accessing these services remains a feasible option.

The role of savings groups in facilitating positive economic outcomes appears somewhat more nebulous. On one hand, many members of both *Nova Vida* and *Futuro Melhor*, particularly those who had been engaged in at least two cycles of group savings, pointed to increased ownership of some household assets, including durable goods like radios, livestock and improved housing materials, such as zinc sheets for roofing. Increased asset ownership, acquired through utilising a portion of their savings, does suggest that savings groups increase the purchasing power of members/households. Stated one male member of *Nova Vida: 'After the share-out, I was able to use my savings to finish my roof, purchasing zinc sheets from Pemba* [the provincial capital of Cabo Delgado]*'*. Meanwhile, a female member of *Futuro Melhor* stated: *'With the loan I took from my group, I was able to purchase 30 chickens. I now make a small income selling their eggs'*.

Similar to what Brunie et al. (2017) found, however, little evidence emerged of savings groups serving as a catalyst for broad-based productive economic activity. Said the group president of *Futuro Melhor: 'It takes a lot of money to start a business here* [in our village]. *I don't think my savings, even after share-out, would be enough'*. Said the group treasurer of *Nova Vida: 'there is no market here. I could start a business, but I do not think I have many options to really make money'*. Finally, as a young female member of *Nova Vida* stated: *'I don't have the knowledge or experience to start a business by myself. I need to improve my skills'*. These perspectives are important when establishing expectations around savings groups and support for prospective entrepreneurs. First, while savings groups do contribute to increases in individuals' average accumulated savings levels, the overall amounts saved by group members in rural Mozambique are still very low – an average of USD 150 per member among those in both *Nova Vida* and *Futuro Melhor* (and only USD 89 for female group members). These amounts may increase, but are too small, particularly given the multiple priorities members face, to really serve as seed capital for new enterprises. Market opportunities in the remote rural areas where Mozambican savings groups operate are low. This is compounded by a lack of market development training and basic financial literacy training, both of which are fundamental to savings group development programmes if these groups are expected to support members to undertake 'productive' economic investments.

Beck (2012) and Brunie et al. (2017) link membership of savings groups to higher income. The annual per capita income of members of savings groups rose 2.1 times as much as counterparts in a comparable control group. Their income from the sale of cash crops rose six-fold more for savings group members as compared to non-group members, suggesting that savings groups performed an important role in providing members with the cash to invest in improved agricultural inputs such as higher quality seed and fertilisers. Savings group members are more likely to develop additional sources of income for their households and to own a wider range of durable goods (Brunie et al., 2017). These groups cannot be relied on too heavily as mechanisms for new productive investments. They are indeed important to assist households to expand their asset base and improve their economic resilience.

Savings groups are not, by themselves, transformational. Their value in Mozambique lies with improving the resilience of their members rather than transforming their economic or material circumstances. They do build social capital. Their contribution to economic empowerment is dependent on a conducive economic context. Savings groups by themselves will contribute little to productive economic investment if markets are lacking, as they are in Mozambique's more remote rural areas, or if group members do not have basic business and marketing skills.

Case Study Mozambique 2: Leveraging Technology and Private Sector Engagement in Mozambican Savings Groups – The Case of SOMA

Savings group development in Mozambique, based on intensive INGO or local NGO support, is broadly successful, but how long will such groups survive? The commonly used VSLA methodology complicates group training and supervision requirements, especially during the initial savings cycle. INGOs'/NGOs' have high operational costs (reaching as high as USD 40-USD 60 per member). [6] This high cost discourages scale-ups in donor investment, as well as prospective private sector actors, such as digital financial service providers, who might otherwise see investment in savings groups as a useful way to develop a market for their services. Without this private sector buy-in, the future of savings groups in Mozambique is likely tenuous, dependent on the ongoing support of cash-strapped governments (at all levels) or INGOs/local NGOs with their changeable programming priorities.

To contain costs and promote savings groups as future consumers of digital financial services, AKF and UX Technologies (UX), a Maputo-based company used a DFID grant and Financial Sector Deepening Mozambique (FSD-Moç) to pilot a new approach to savings group formation and support. This new approach focussed on three core components. First, partnering with Freedom from Hunger (FH), AKF adapted FH's *Savings for Change* methodology and licensed its video-based group training curriculum. Unlike VSL and like the traditional Mozambican *Xitique*, *Savings for Change* mandates an equal savings amount for all group members at each meeting and utilises oral record keeping in place of written pass books. These properties simplified group training and supervision processes for prospective illiterate participants and reduced the need for time-intensive and costly in-person trainings at village level.

Second, rather than facilitating the creation of savings groups themselves, AKF and UX created an independent entity, called SOMA, to establish and train savings groups. SOMA operates as a virtual enterprise (Fig. 1), with minimal permanent staff (only a General Manager and eight trainers of trainers) and no fixed office. It uses mobile devices to nimbly adapt to the field environment in which it was formed and supported savings groups. The projected cost saving was USD 10 per member, an amount that the private sector would likely be willing to bear to acquire actual or potential users of digital financial services. Third, UX created a digital data platform for SOMA to provide a minimum of commercially relevant data required to incentivise private sector actors (financial institutions and other firms seeking a market in rural savers) to engage with SOMA's savings groups, such as approximate geographic location, overall aggregate savings levels and a contact mobile number for the group president.

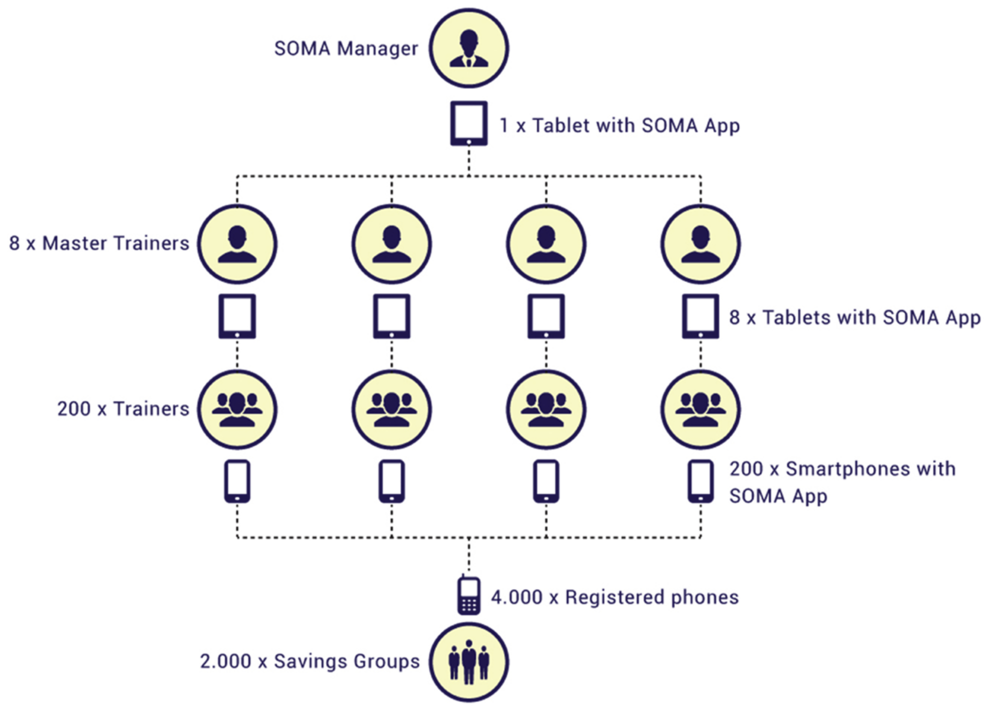

Fig. 1. Organisational Structure of SOMA. *Source:* UX Technologies (2017).

SOMA's pilot phase in Cabo Delgado province (2016–2018) illustrates what lessons can be learned on expections for the role of technology and the private sector in Mozambique's savings group milieu. Drawing on both AKF's and UX's field observations and project reports, the case study argues that both technological innovation and private sector engagement can bring beneficial structural change to how savings groups in Mozambique are conceptualised, established and supported.

The transition from VSLA to *Savings for Change* provided mixed results for SOMA. In one of its pilot districts in Cabo Delgado where VSLA groups were largely absent, the new model found a relatively high level of acceptance. However, in pilot districts where AKF and other INGOs had established VSLAs, there was resistance to adopting a new model that: (1) mandated a set savings contribution rather than allowing for variations in members' chosen savings amounts and (2) utilised oral record-keeping rather than pass books; the latter being seen as more trustworthy by members. *Savings for Change* also met with resistance because there was no group social fund. The later prevented SOMA from gaining buy-in and quickly generating savings groups. This suggests that attempts to simplify a savings group model to contain costs may actually disincentivise prospective members who have become attuned to the perceived benefits of a more complex (and costly) alternative.

SOMA can contain costs through technological innovation. SOMA's trainers of trainers, known as Master Trainers (MTs), used a video package to train savings group promoters, known as Community Agents (CAs), who had to establish groups and earn income through payment by groups upon the successful completion of their savings cycles. The CAs received smart phones to do video-based training to educate savings group members about the requirements and operational processes associated with their groups. In theory, this should have made training – whether by the MTs or CAs – very simple. However, SOMA overestimated the level of digital literacy in its operating environment.

The roll-out of technology was not according to plan. CAs struggled to use smartphones with confidence; the quality of CA trainings varied and SOMA's MTs had to step in to clarify confusion for group members – even when groups were well into their savings cycle. This, combined with the struggle to maintain the smartphones in the field (40% of the phones were not working after the pilot project's first 10 months), negating the efficiency gains and cost reductions expected.

SOMA asked savings group presidents to enter and periodically update the data entered into the platform, using a mobile phone and a USSD gateway linked to Movitel, one of Mozambique's three main telecommunications providers. However, fewer than 5% of group presidents used the USSD interface to regularly update group data. Interviews showed that they saw no identifiable benefit to do so. In remote rural areas with limited access to electricity, data entry was seen as little more than a task that would waste a phone's battery power. MTs often had to step in and enter the data themselves. This limited some of the efficiency gains hoped for.

The implementation constraints did not render the exercise useless – the simplified video-based training package and the USSD-linked digital data platform reduced overall costs of savings group formation. The virtual nature of SOMA, linked to its network of mobile and contextually adaptive

MTs, contributed to a positive outcome. While SOMA did not reach the target cost per member figure of USD 10, it brought costs to below USD 20. This is significant and could potentially incentivise engagement from private sector actors, including those interested in developing a market for digital financial services.

For SOMA, these observations suggest that even though the technological innovation introduced in its pilot phase did not meet all intended objectives, simple technology brings notable added value that even, when appropriately conceptualised and employed, can enhance the formation and support of savings groups in Mozambique.

On private sector involvement, two key, but preliminary, points stand out. First, the per member cost of savings group implementation is important and will certainly be factored into any decision that commercial actors like banks or FinTech firms will take on whether to engage directly with savings group formation. However, cost is not the only metric that matters. During the final months of SOMA's pilot phase, UX supported the entity to begin developing a scalable business plan. Based on feedback received by prospective private sector partners and clients throughout the planning process, it is cost *combined with* an innovative package of services that is most likely to attract the private sector, particularly if these services help facilitate the sector's engagement with rural populations who they otherwise tend not to serve and about whom they have little information. The digital platform, as a product, has been found to be more attractive to the private sector than any value addition provided by SOMA's extension network. This is because the platform provides access to data on rural savers that is otherwise lacking.

Commercial entities in Mozambique appear willing to extend their own reach (even without SOMA's extension support) to engage with these populations. They have failed to do so mainly because they lack the data to understand the prospective market available to them. This is a positive finding in light of some of the literature referenced earlier in the chapter, which posited an overall lack of interest among commercial actors in rural savers. Digital tools including an adaptable platform that allows firms to incorporate their own data needs – perhaps using an extension network like SOMA strictly for data collection rather than for savings group creation – appear to be the ‘value proposition’ that an entity like SOMA can offer if it is to scale-up and become a commercial entity in its own right. While necessitating a re-think of SOMA's initial business model, these observations are encouraging in that they imply a greater willingness among private sector innovators to expand their service outreach and that there is a niche for data-driven organisations like SOMA to fill in providing support.

Second, and less encouraging, is that the private sector finance providers in Mozambique appear to have little interest in the process of actually creating savings groups. This is somewhat understandable given the upfront costs – particularly in terms of training time – required to support groups until they are mature and self-functioning. However, it reinforces the fact that in the Mozambican context, INGOs/NGOs will in future most probably have to do the grassroots work to establish and support savings groups. This support, combined with private sector interest in working with established groups to provide additional financial services, may be how Mozambican savings groups can become more sophisticated and solid building blocks for development.

Notes

1. See CARE International's overview of its savings group and microfinance programmes in Mozambique, available at the following link: http://www.care.org.mz/women.php (accessed 8 September 2018).

2. VSL Associates provides a comprehensive overview of the VSL approach at the following link: http://www.vsla.net/aboutus/vslmodel (accessed 9 February 2019).

3. Barclays Bank is perhaps the most well-known private sector backer of savings groups in Mozambique, having supported CARE and Plan International to jointly implement the (multi-country) 'Banking on Change' project.

4. The Aga Khan Foundation, Plan International, Save the Children, World Vision and Child Fund are five examples of large INGOs that have adopted the PCR (VSLA) approach and have worked to establish and support savings groups in various provinces in Mozambique.

5. See the FSD Mozambique Editorial, accessible at the following link: http://fsdmoc.com/future-savings-groups-mozambique/ (accessed 4 November 2018).

6. This range is based on a self-reported review of savings group budgets from a range of INGOs operating in Mozambique.

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Chapter 14

Savings Groups in Nigeria

Ogechi Adeola, Ifedapo Adeleye, Garzali Muhammed, Babalola Josiah Olajubu, Chijioke Oji and Oserere Ibelegbu

Keywords: *Esusu* ; *Osusu* ; *Adashi* ; *Asun* ; *Oku* ; rural; thrifts; indigenous; ethnic groups; microfinance; financial services

Introduction

Savings are critical in the vast and increasingly complex financial infrastructure in African economies. Along with other important financial offerings such as credit, loans, guarantees, equity and debt, savings represent access to financial resources, mostly in the form of individuals or groups' low-risk capital contributions. Most African communities view savings as a buffer towards financial stability, generally employed to mitigate against short-term financial loss or unforeseen hardships able to compromise living standards and quality of life. In rural settlements, access to capital through formal banking institutions is limited because of low literacy levels, particularly basic comprehension of regulatory requirements to access funds, and low and irregular income. These factors disqualify rural settlers from accessing loans from larger financial institutions. A network of informal financial structures established as rural savings groups comprising of rural inhabitants entrenched in rural economies, designed to collect periodic financial contributions, manage savings and lend micro capital to savings group members, is therefore crucial.

Savings groups existed in Africa long before the introduction of formal banks. Informal savings groups perform their financial operations in a structured and systematic manner acceptable to members. These groups share underlying principles, namely, that regular contributions hold transaction value; trust is a form of currency that is rewarded; and reputation, to an extent, represents collateral that is exchangeable. An important factor that distinguishes informal savings groups from the formal financial institution is the preference and capacity to 'monetise' social value over economic worth. Members of a savings group have several factors in common such as sharing the same profession, living within the same area or same workplace, among others. This proximity also allows members to become familiar with one another, understand intricate behaviour and characters, and build relationships.

While studies have examined savings groups in Nigeria, most have investigated specific tribes and localities in the country. This chapter seeks to document the operations of informal savings groups and a formal institution that adopts the core operational modalities of informal groups. Adopting an exploratory approach, this chapter presents an overview of informal savings groups in Nigeria, exploring interactions between the formal financial sector and informal savings groups, savings groups and women empowerment, the social benefits, challenges and opportunities for savings groups, and the role of government and technology in advancing informal savings groups in Nigeria.

Background of the Study

Few households in developing countries have personal savings that would help them maintain a relatively stable standard of living if they experience a loss of income or unforeseen expense (Abebe, 2017). The lack of financial backup undermines developing countries, including Nigeria's prolonged aspiration to become a 'developed' country. Arosanyin, Olowosulu, Oyeyemi, and Mobolaji (2014) define savings as a percentage of income specified or retained for future consumption, thus implying current and future value in the practice of saving.

Savings serve dual purposes, which are to provide a cushion or security against future contingencies and to provide funds needed for developmental effort (Gedila, 2012; as cited in Abebe, 2017). Despite the importance and the increasing awareness of the need to save, actual savings mobilisation in Nigeria is very low (Nigeria Deposit Insurance Corporation – NDIC, 2015). There are different savings opportunities, ranging from formal savings (e.g., bank savings, microfinance), which is preferred by the educated and salary-earning Nigerians, to informal savings (e.g., piggy bank savings, thrifts), preferred by those of irregular or low incomes.

Thrifts are one of the earliest forms of indigenous financial services (Seibel, 2006). A thrift, managed by a thrift collector, operates in neighbourhoods and marketplaces and is favoured by communal dwellers. Thrifts are indigenous microfinance banking systems built on trust and integrity. Akinloye (2014) reported the experience of a thrift collector who attributed the patronage of thrift collectors to the inaccessibility, language, protocol and bureaucracy that marginalise illiterate and low-earning individuals from the formal financial system in Nigeria. The thrift collector states thus:

> Many of the people I deal with don't want any hassles, which the banks are known for. They are not interested in providing passport photographs, filling forms, and all that. They are not interested in financial jargons sometimes used by bank workers. I understand their language. I speak the Yoruba language and if necessary, Pidgin English. They don't have to come to me to make deposits. It is my duty to go and look for them – either at their homes or at their workplaces.

Overview of Informal and Formal Financial Institutions

Before the advent of formal financial institutions in Nigeria, savings groups, formed and coordinated by an appointed individual, were prominent. As in most developing countries, Nigeria has a dual financial sector of formal and informal institutions (Adeleke, 2014). The informal financial sector is the non-market financial institutions including moneylenders, ROSCAs (rotating savings and credit associations), accumulating savings and credit associations (ASCAs) and cooperative societies that are not formally regulated (Adeleke, 2014). Informality does not, however, connote illegality. This sub-sector serves the lower end of the market with unregulated, unsecured, unorganised and small short-term savings and loans, mainly operating in rural areas through household ventures and microenterprises. Such informal financial activities are ancient economic institutions that predate the formal system in Nigeria (Lawal & Abdullahi, 2011).

The formal financial sector consists of highly regulated bank and non-bank financial institutions. Non-bank entities include insurance companies, pension funds, microfinance banks and cooperative societies. These institutions are regulated and supervised by Nigeria's Federal Ministry of Finance, the Central Bank and Pension Commission, amongst others.

The mode of economic transaction is the key distinction between informal and formal sub-sector. The formal sector transactions are largely recorded, organised and regulated and offer formal contractual financing options. On the other hand, transactions in the informal sector are generally unregulated and unrecorded with deposit mobilisation and lending being executed on a small scale (Soyibo, 1997).

Overview of Informal Savings Groups in Nigeria

Nigeria's savings culture dates back to the sixteenth century (Lawal & Abdullahi, 2011; Seibel, 2004). The culture of savings is common among all Nigerian ethnic groups, with variants in savings strategies across groups. Table 1 provides a nomenclature of savings groups among Nigeria's major and minor ethnic groups.

Table 1. ROSCAs across Ethnic Groups in Nigeria.

Name	Tribe	Region
Esusu	Yoruba	Southwestern Nigeria
Isusu, oha, ogbo	Igbo	Southeastern Nigeria
Etibe	Ibibio	South South Nigeria
Oku	Kalabari	South South Nigeria
Asun	Ishan	South South Nigeria
Etoto	Ibibio	South South Nigeria

Name	Tribe	Region
Osusu	Edo	South South Nigeria
Adashi	Hausa	Northern Nigeria
Dashi	Nupe	North Central Nigeria

Sources: Nwabughuogu (1984), Jerome (1991), Adebayo (1994), Boman, Tijani, and Orji (2018), Ola-David and Osabuohien (2018), and Oluwoyo and Peter (2019).

Although Nigeria's precolonial ROSCAs did not have the same structure as modern banks, they performed the same role then as banks do today. They could perform those banking functions efficiently because they were culturally rooted, and people had faith in them (Falola & Adebayo, 2000).

ROSCAs play an important role in mobilising domestic savings in rural Nigeria because of the absence of financial intermediaries in those areas. The major reason rural dwellers joined a ROSCA was to invest their savings into productive activities such as financing agriculture. Jerome emphasised that without ROSCAs, the rural poor would continue to be indebted to moneylenders. ROSCAs in rural areas serve three functions, as they (1) promote a savings culture/thrift habit; (2) mobilise rural savings and (3) make loans available to members (Jerome, 1991). In a historical analysis of savings groups in Nigeria, Adeleke (2014) classified informal financial markets as ROSCAs and ASCAs. These two entities are distinguished by their patterns of savings collection and disbursement to individual savers. ROSCA members make regular contributions to a pool of funds which are then distributed in whole or in part on a pre-agreed rotational basis among group members (Ardener, 1964). The major feature of this savings pattern is its regularity and rotation of contributed funds among members. Adashi, Isusu or Utu, Esusu/Ajo and others as listed in Table 1 are examples of ROSCAs.

For over five decades, ROSCAs and ASCAs have spread from Nigeria to other West African countries such as Liberia, Ghana and DR Congo (Seibel, 2004). These savings prototypes not only predate the formal and modern savings institutions and platforms but also serve as the foundation of the savings culture among Nigerians and other West African countries (Yunusa, 1998). Over time, the ROSCAs and ASCAs metamorphosed into community banks due to high operational efficiency within community structures. In 1992, the Federal Government set up the National Board for Community Banks to oversee the activities of the banks. Although some of the associations transformed into community banks, others retained their operational status in the informal sector. A significant number of commercial banks closed their rural branches after the introduction of Nigeria's 1986 structural adjustment programme. The community banks filled the vacuum created by commercial banks. The community banks are self-sustaining and are managed by the community or a group of communities (Ayadi, Hyman, & Williams, 2008).

The Yorubas call ASCA, Ajo, and the person in charge of the collection is referred to as Alajo. The Alajo enters into an agreement with savers who pay a fixed sum of money at regular intervals (daily, weekly, bimonthly, monthly or on every market day) and withdraw their savings at the end of an agreed period or any time the money is needed. The Alajo, who is the pivot that drives the system, serves as a mobile money platform/bank for their customers. Unlike the modern banking system where savers take their savings to the bank, the Alajo moves around to collect savings from customers. The mode of the Alajo's transportation is a function of the geographical distribution and number of the customers (Adebayo, 1994). The Alajo is automatically entitled to a contributor's first contribution no matter how much is contributed. Both the ROSCA and ASCA collectors engage mainly in savings collections. While ROSCA gives out loans in the form of rotational contributions, ASCA sometimes provides soft short-term loans or other forms of credit to savers.

In addition to the ROSCAs and ASCAs, there are individual moneylenders who are in the business of money lending at an agreed interest rate but seldom engage in savings collection (Lawal & Abdullahi, 2011). These lenders do not only give out cash loans to borrowers but also engage in purchase agreements with vendors. They are businessmen who make a living from the high-interest earnings on loans and credit, which can be as high as 100% per transaction. The Yoruba tribe of Nigeria calls this practice *Sogun-Dogoji* ('turning 20 to 40').

There are savings and credit associations and credit unions that operate like modern-day cooperatives, collecting deposits and giving various forms of loans to members of the association or union. They are regarded as semi-formal financial institutions and are neither controlled nor regulated by the formal banking regulatory authority (Lawal & Abdullahi, 2011).

Interaction between the Formal Financial Sector and the Informal Savings Groups

Informal financial organisations continue to serve certain segments of the population, especially those in rural and semi-urban settings. The informal sector is largely exempted from government regulations because of their mode of operation and low start-up costs. When formal financial institutions were introduced under colonial rule, the modern banking system was soon regulated. Today, the formal and informal financial institutions co-exist, meeting different needs of the Nigerian public (Seibel, 2004).

In a study involving commercial banks and registered thrift and credit societies in Lagos State, Falusi (1988) found that credit and thrift societies were established to promote financial assistance and economic interest. Commercial banks do not offer incentives to those societies since few of them are registered entities, but are in the names of their trustees. Ten out of 16 commercial banks that participated in the survey did not manage accounts for any thrift and credit society.

While most banks in Nigeria do not recognise thrift associations or have a loan facility to support associations in this category, Falusi (1988) discovered that the country's thrift collectors do not apply for bank loans, because they had access to sufficient financial resources to meet their needs, lacked an immediate need to apply for loan, had no ideas about how to invest the loan and had no loan requests from members. Most savings groups rely on their membership strength to sustain their business and, therefore, have infrequent financial dealings with banks.

Soyibo (1996) conducted an extensive study in nine Nigerian states (Lagos, Oyo, Edo, Kwara, Kogi, Kano, Ondo and Kastina) from the south-west, middle belt and the far north. The study focussed on the links between informal and formal financial sectors, and the findings were similar to Falusi's (1988). Soyibo found that most informal financial institution operators, such as thrift collectors, have bank accounts to secure their deposits. On average, informal Esusu collectors make 11 deposits, about three times a week, and 2 withdrawals per month, and informal operators in urban centres interact with banks more often than those in rural areas.

Nwoko and Ajayi (1990) examined the structure and savings potential of Esusu among Yorubas in Oyo State, Nigeria. They estimated 19,800 Esusu, with an average of 85 Esusu societies per local government area (LGA) and membership strength of 895,050 (34.41% of the rural population) in 1979. In 1989, this increased to 19,979 and 86 societies per LGA with 1.069 million members (31.19% of the rural population). The total savings generated monthly increased by over 700 percent between 1985 and 1989. Commercial banks introduced programmes for rural banks to access the sizeable savings pool, a move that linked rural savings generated by the informal sector with the formal banking sector.

The degree of interaction and integration between formal and informal financial institutions was weak (Adeleke, 2014). Stronger inclusion can be effected through the strengthening of the formal and informal financial sectors (Abifarin & Bello, 2015; Akinlo & Emmanuel, 2014). Enhancing Financial Innovation and Access (EFInA, 2010) reported that although most people who engage in informal banking have a positive perception of banks as a safe place to keep their money, they are of the opinion that banks are only for savings and are not supportive of customers' personal interests. These individuals believed that banks do not give loans to poor people, but target the rich.

The key difference between informal and formal savings groups is whether their activities are regulated and supervised by a statutory sanctioned institution. Formal savings groups such as cooperative societies and unions are regulated by the National Co-operative Financing Agency of Nigeria (CFAN). CFAN functions in terms of the 2004 Nigerian Co-operative Societies Act. CFAN is supervised, and its activities are regulated by the Federal Director of Co-operatives, a federal officer under the Federal Ministry of Labour (CFAN, 2018). Cooperatives are expected to register, define their mission statement and objectives and report the number of members, as well as perform an annual audit of their financial statements. This contrasts starkly with informal savings groups which are completely unregulated.

Assessing Economic Outcomes of Savings Groups' Initiatives

Despite the prevalence of savings groups in Nigeria and in West Africa, the literature is limited on the economic outcome of dense compared to sparse savings groups, as well as the contribution of savings groups to women's empowerment, especially in Nigeria. The findings of Soyibo (1996) revealed a significant improvement in loan-seeking behaviour of informal financial institutions, compared to the dissimilar findings of Falusi (1988). According to Soyibo, 20% of the entire sample had applied for loans an average of two to five times, with a success rate of 100% for Esusu collectors and 40% for savings and credit co-operatives.

The rationale for the formation of ROSCAs includes self-help efforts, mutual help, economic gains and the inability to access more formal banking service (Olubiyo & Hill, 2000). The ROSCAs surveyed in Nigeria's Kwara and Kogi States were all involved in both savings and lending activities to its members and sometimes the larger community and were usually formed around peer groups or occupational colleagues (artisans, traders, farmers, food vendors and civil servants). Furthermore, Olubiyo and Hill's (2000) study corroborate the earlier study of Jerome (1991) that there were no restriction on the specific use of loans. The manner in which funds were used was left to the discretion of the borrower. The main concern was with delayed loan repayments caused by the economic downturn, the high cost of materials, poor market produce due to crop failures, the incidence of natural hazards and ill-health. Loans to members were usually twice or thrice the credit amounts in their accounts, which is more than what formal banks were willing to lend.

Eboh (2000) studied the prevalence of informal financial intermediaries (e.g., savings and credit associations) in rural areas in Nigeria. The study concluded that informal institutions were successful over time mainly because they dealt with lending risks and coped with constraints better than formal banking and development finance institutions. Informal savings groups successfully navigated around the problems of information asymmetry, high transaction costs and lack of collateral. Information asymmetry problems are reduced by exploiting locally available information about the reputation, indebtedness and wealth of the prospective borrower through repeated and low-cost social and economic interactions within the community where members reside.

Esguerra and Meyer (1992) emphasised the role of collateral substitutes in informal financial markets. Unlike the norm in formal banking practice which emphasises physical collateral with clear and individual property rights, ROSCAs have overcome information asymmetry problems partly by directly linking loans to savings deposits, interlinked contracts, third-party guarantees and social sanctions. The deposit-loan link was mainly used as a screening device for borrowers who are not perceived to be serious or capable of loan repayment.

Eboh's (2000) study of informal savings and credit associations in two rural communities (Okija and Enugu-Ezike in the old Anambra State of Nigeria) found that in order to qualify for a loan, the borrower was required to be up-to-date in savings contributions and participation in the group activities. Burlando and Canidio (2017) averred that the ability of savings groups to provide credit to its members, especially those who are financially vulnerable, depends largely on the composition of the group. During the establishment phase, a savings group would find it difficult to meet members' loan requests, but later could do so comfortably. Members' financial capability affected the speed of funds accumulation; the poorer the members, the slower the rate of accumulation. Likewise, belonging to a dense rather than a sparse savings group has a small but significant adverse effect on the households' financial welfare. This is because, in sparse groups, vulnerable households are less able to access loans if an unexpected expense or investment opportunity should occur.

The direct causal relationship between savings groups and economic development in Nigeria is unclear. Mohammed, Abdullahi, Abdullahi, and Omonoyi (2015) and Nwoko and Ajayi (1990) affirm that savings groups contribute positively to the economic growth of Nigeria, specifically among 500 financial sectors operating in Abuja, Kogi and Niger States. On the contrary, Oleka and Eyisi (2014) dispute that with respect to traditional financial institutions in Oji-River LGA of Enugu State, Nigeria. The major challenges faced by these informal financial institutions include poverty mentality, illiteracy, high inflation, poor infrastructure, lack of access to credit, social safety nets and limited information dissemination (Mohammed et al., 2015).

Savings Groups and Women Empowerment

ROSCAs have a positive impact on women (and men) entrepreneurs since it is their source of working capital. Koning (2013) reported a positive impact of savings groups on women in the context of financial inclusion. Most of the women do not consider banks suitable to meet their needs even if they have a bank account. They prefer the convenience of informal financial institutions in Nigeria. Women preferred ROSCAs because their income streams are smaller but more consistent than men (Johnson, 2014). Men's earnings were more irregular and in a lump sum. As a general rule, men were less inclined to the use of ROSCAs because they were responsible for paying school fees and buying agricultural products – expenses that occur at certain times of the year. It was also reported that social sanctions of shame for defaulting on payments affect women more than men.

Nigerian savings groups were instrumental in mobilising savings and loans to female entrepreneurs, helping them to take advantage of entrepreneurship opportunities that offer a sense of purpose and meaning in life. Such outcomes are portrayed in the following two examples:

- *The Poret Group (Plateau State, Nigeria)*: The Poret group is located in Daika Village in the Panyam district of the Mangu LGA of Plateau State (Nurudeen, 2017). Spurred on by a local ideology they called *Yaghal Kyen*, which means 'we must achieve something at the end', the women took their destiny into their own hands by forming a village savings and loan association (VSLA) to help themselves with loans to buy land, access farm inputs, cultivate land and pay their children's school fees (Nurudeen, 2017). Daika Village is an agrarian community with two commercial banks and four microfinance banks. However, accessing bank loans was cumbersome, a complicated process and at high-interest rates. This acted as a disincentive (Nurudeen, 2017). Many of the Daika Village women testify that the VSLAs were advantageous to their lives, enabling them to expand their farms, renovate their houses, pay their children's school fees and buy fertiliser and farm implements. VSLAs in rural areas fostered female entrepreneurship and enhanced access to finance, which assisted them in resolving financial challenges.

- *Beyond Credit*: Beyond Credit is a technology-driven financial services company that provides insurance-backed loans, business support and savings services to microenterprises in Lagos State, Nigeria's urban commercial city. They focus solely on female entrepreneurs who are at the bottom of the pyramid by providing them with financial education, insurance backed loans and a platform for savings and support groups (www.beyondcredit.com.ng).

Women at the bottom of the social and economic pyramid are usually financially illiterate and unable to access the finance needed to expand their businesses or enter into entrepreneurship. Beyond Credit fills this financing gap by providing financial training that includes planning and budgeting for their businesses. The women are placed into support groups of six entrepreneurs that ensure responsibility of timely loan repayment with a recorded success rate of 99% to date.

Beyond Credit offers fast credit – within a week, no collateral, no passport photograph or photocopy of documents is required and convenient repayment terms, empowerment/training programmes, additional loans for assets and school support for existing customers, and insurance covers against fire, disability and debt for the loans.

Social Benefits of Savings Groups

Though there is no concrete evidence in the literature to confirm this assertion in Nigeria, as noted by Mwangi (2015) in Kenya, it appears that men and women join informal savings group in part because of the social support they receive from members in times of life difficulties – death and sickness. Some groups even make it mandatory for their members to visit afflicted persons and failure to do so can attract a levy. ROSCAs such as Esusu, VSLAs, ASCAs (Ajo) and registered co-operative societies/savings unions generally credit their successes to the communal nature of most traditional Nigerian societies, especially in the rural areas. The Nigerian society is highly communal and multi-ethnic with people deriving their sense of belonging from the tribe to which they belong. Esusu is very successful among the Yoruba people, because community collaboration is embedded in traditional Nigerian societies. Both Esusu and Ajo are traditional Yoruba financial institutions that predate Nigeria's colonial era (Adeokun, Adewale, & Oloke, 2014; Bascom, 1952).

The Yorubas displayed collectivism and group association, rooted in mutuality, cordiality, trust and understanding, culminated in a sense of community directed towards farming, hunting, the building of houses and finance. One can infer from this that Esusu grew out of this culture. Members of the same family, community, compound and trade/occupation formed Esusu groups (Osuntogun & Adeyemo, 1981).

Challenges Faced by Savings Groups

Akinsaya, a thrift collector in Ibadan, stated that informal savings groups may suffer from delayed payments, poor governance, incompetent management of funds and theft (Akinloye, 2014). People with ulterior motives took advantage of the weak system by setting up a savings group, collecting funds from members, taking big loans from members and then defaulting on payments. Essia, Mba, Ebokpo, Ekpo, and Obaji (2013) conducted a research on the outreach, social roles and sustainability of self-help groups (SHGs) in Cross River State, Nigeria, and found poor group governance, default by members, poor bookkeeping and member conflicts as the major problems of most savings groups in the state. Only a few savings groups are qualified to be called SHGs because of their links with the government, commercial banks, member savings, lending and sustainability. Examples of qualified SHGs in Nigeria are the Community Women Association of Nigeria (CWAN), Lift Above Poverty Organization (LAPO) and Community Development Trust Fund (CDTF).

Technology and Savings Groups

In a bid to redefine the Nigerian banking landscape, link the informal and formal sectors, and initiate technology-based services into ROSCAs (also known as E-ROSCAs), Diamond Bank set up the Diamond eSUSU platform. The Diamond eSUSU offers two plans: Group Savings and Personal Savings. This secure platform supports a contributory and rotating saving scheme for groups of up to 12 people (friends, family, colleagues or strangers) who can plan collection dates and enjoy the benefits of bulk payments with interest-free borrowing.

Diamond eSUSU platform was not specifically established for existing savings groups. It is a mobile app designed for individuals to create and manage rotational savings club. The platform was launched to facilitate a savings culture by employing a method similar to ROSCAs while circumventing the risks of ROSCAs (trust issues and fund misappropriation). Unlike the traditional ROSCAs, the Diamond eSUSU platform appears not to be designed for illiterates (invariably those living in rural settings), but for literates who can operate a contemporary mobile phone using Internet connections. The main similarity between the Diamond eSUSU and the traditional form of ROSCA lies in the rotational savings features, with the former being enabled by technology.

On 9 August 2016, Access Bank upgraded its digital solution platform, 'PayWithCapture', in a bid to make its digital banking application fast, convenient and hassle-free. It was meant to redefine the old thrift or mutual contributory financing schemes: 'Adashi', 'Ajo' or 'Esusu'. The expanded features in the upgraded version include a USSD service *901# (a communication technology that connects mobile phones to the Internet) allowing users to perform most of the digital functions without requiring Internet access. The aim is to deepen financial inclusion and enable Nigerians in remote areas to send or receive money, unlike regular online banking applications. Users can set up a savings club through PayWithCapture. Savings clubs, popularly known as Ajo or Esusu, enable members to save jointly with friends towards a unified goal as the funds can be pooled and rotated amongst all group members and thereafter given to one person (Access Bank, 2016).

Despite these technological initiatives, little is known about the usefulness of E-ROSCAs in rural areas, characterised by high illiteracy and lack of access to Internet facilities or mobile phones. Nevertheless, middle-class and urban residents can also enjoy the benefits of this scheme.

Government and the Informal Sector

The Nigerian government employed various measures to enhance the performance of the informal sector. Premised on the principles of a traditional rotational credit system, between 1990 and 1992, the Nigerian government established Community and Peoples Banks to provide loans and other financial services to the poor and informal enterprises, while the whole community acted as guarantor for loan repayment. Unfortunately only 10% of the informal sector workers knew how to take advantage of the new services, and loans went to people who did not actually qualify (Nwaka, 2005).

The Small and Medium Enterprise (SME) Development Agency of Nigeria (SMEDAN), which is similar to the Small Business Administration (SBA) in the United States (to develop small business enterprises as it partly guarantees loans to small businesses; Oluseyi, Solomon, & Adekunle, 2013), guaranteed loans. SMEDAN underperformed below public expectation. Microlending in rural areas provided accessible financial resources to upcoming entrepreneurs (Akpabio, 2008). Microlending does mitigate poverty (Ozekhome, 2019) by creating employment opportunities. Community banks contributed to the informal economy, especially in rural settlements (Okoye & Okpala, 2000).

Conclusion

The practice of informal savings in Nigeria is diverse in mode and operation. While overviews of some critical issues such as regulation, structure, risk, access and empowerment which highlight the current state of informal savings groups were discussed, these issues need to be examined through a narrower lens.

Case Study Nigeria 1: Women Empowerment through Credit Access: The Case of Centre for Grassroots Economic Empowerment (CGEE)

http://www.jdpcijebuode.org/micro-financecgee/

> One beautiful thing about women is that there is no money that is too small for them to manage. When you give women little fund, they know how to manage and make something out of it. Mrs Florence Ogunnupebi, CGEE. (TELL, 2014)

This case study focusses on savings groups as facilitators of access to credit for women in the low-income bracket in the urban areas of Nigeria. Using the Centre for Grassroots Economic Empowerment (CGEE), Abeokuta Ogun 'State as a case study', it addresses the economic and social outcomes of savings groups in South West Nigeria.

This study employed a multi-stage sampling technique. Through a purposive sampling technique, CGEE was selected because its operations are in line with the research theme (Women Empowerment Through Credit Access). Using a convenience sampling technique, three Credit Officers (COs) were selected. Convenience sampling was employed because, for personal reasons, some respondents were unwilling to participate in the research. Twenty-six respondents from the CGEE savings groups were interviewed: 23 members and 3 group leaders. All respondents were females. The mean age of COs was 27; group leaders, 45; and group members, 49.43. Twenty of the respondents were married, two divorced, one widowed and three were single.

The study used both structured and unstructured interviews to garner information from respondents. A questionnaire was drafted to include two sections: Section A gathered demographic information, and Section B contained 13 questions about women empowerment and the social capital outcomes of being a member of a particular savings group. The questions were adapted to suit the respondents' language choices.

Settings/Location

The study was conducted in the Abeokuta metropolis of Ogun State, Nigeria. Abeokuta is the largest city and capital of Ogun State in South West Nigeria. It is located on the east bank of the Ogun River, about 77 kilometres north of Lagos. Agbon, Omoniyi, Adeosun, Abdul, and Agbon (2013) carried out a study among 120 fish sellers in Abeokuta – 39.2% of the women were responsible for their families' finances, and only 28.3% of the respondents were able to meet their family's needs. Despite venturing into a profitable business, only 12.5% of the respondents had access to credit. To overcome the shortages, the Food and Agriculture Organisation (FAO) (2003) suggested microfinance programmes to empower women.

The CGEE is an office of the Justice, Development and Peace Commission (JDPC) of the Catholic Diocese of Ijebu-Ode. The Centre, a non-governmental organisation (NGO), was registered under the Corporate Affairs Commission (CAC) in April 2007 to support the empowerment programmes of JDPC through poverty alleviation among farmers, women and youths in cooperatives.

According to JDPC's Director, Rev. Father John Patrick Ngoyi, ‘Granting loans to women by the JDPC, a church-based institution, is a way of contributing to the eradication of poverty in our midst’ (Balogun, 2016). The CGEE targets small-scale farmers and poor women, in the case of the latter, giving out ‘soft loans’ (low or no interest, lenient terms) to improve the living conditions of the women in the southwestern zone (Balogun, 2016).

CGEE commenced operations in Ijebu-Ode, Ogun State, and as at 2018, has 70 branches that provide financial services to farmers, women and women entrepreneurs in the southwestern part of Nigeria.

The vision of CGEE is the ‘total empowerment of the poor and socially excluded in the south-western part of Nigeria’.

The mission of CGEE is ‘to promote a savings culture and provide micro credit facilities that will enable the poor and socially excluded in south-west Nigeria to expand life sustaining small scale businesses’.

Organisation and Structure

Headquartered in Ijebu-Ode, Ogun State of Nigeria, CGEE's operations presently extend to all the major towns in the southwestern part of the country. The 70 CGEE branches render five major types of services:

- Microfinancing
- Savings mobilisation

- Loan disbursement
- Client marketing strategy input
- Local Technical Service Provider (LTSP) appointed by UNDP
- Training field for MFI and other NGOs appointed by the Central Bank of Nigeria (CBN)

Of all these services, microfinancing, savings mobilisation and loan disbursement are the most popular. The efforts to promote a saving culture and provide microcredit facilities enable the poor and socially excluded (women) in southwestern Nigeria to expand life-sustaining small-scale businesses. All services rendered by CGEE are women-focussed.

Modus Operandi

Loan Disbursement

CGEE utilises a group-lending strategy which allows members of a group to assess and grant loans to individuals belonging to the same group. There is no collateral, as group guarantees are accepted as collateral (TELL, 2014).

The CGEE renders loan disbursement services through COs who oversee about 20 groups each. These groups are comprised of 25 members each, all from the same location, and each group has a woman group leader or head known as Iya-Egbe.

The chart below shows the indirect communication system between COs and group members through the group leader.

To qualify for a CGEE loan, the applicant must belong to a particular group, must have been saving at least ₦100 (US$0.28) in her CGEE savings account weekly and should have a guarantor. [1] Loan disbursement is a straightforward process for existing group members who have already established credibility in loan utilisation, but new members have to perform another route:

- New members must find a group with fewer than 25 group members.
- The group leader introduces the new member to the CO.
- The CO orientates the new member on CGEE goals and registers the new member. The registration fee is ₦1300 (US$3.60). ₦300 (less than US$1.00) is for a registration card while ₦1000 (US$2.80) is forwarded into the new member's CGEE savings account as an initial deposit.

Once a new member completes the registration process, she becomes a member of the group but is not entitled to any form of credit until certain criteria have been met, which are:

- Save a minimum of ₦2000 (US$5.60) for two weeks.
- Obtain a loan form, which will be processed for two weeks.
- Save a specified sum, less than ₦5,000 (US$14.00) within four weeks and present her guarantor to the CO, after which she is given the loan for which she applied.

As a ‘first-timer’, the maximum loan a new member can apply for is ₦60,000 (US$166.67). The maturity time is six months, and the interest rate is 5% with repayment of the principal and interest due every week or month, depending on agreed terms and conditions. Typically, the repayment is not made at the CGEE office; the CO meets with the groups at selected locations, and the payments are collected there.

Challenges: Risk Identification and Mitigation Strategies

A loan default is a typical challenge faced by savings groups. CGEE rarely experiences this risk as the COs are responsible for loan defaults. The COs pass this responsibility to the group leaders who share it among group members. As COs disburse loan, they have the right to deprive any group of credit if any of its members default in loan repayment.

If a member defaults on a loan facility, the group leader can ask members to raise money to cover for the defaulter or ask the member(s) wanting to obtain a loan to provide the cover. This task can be very tedious and time-consuming if the defaulter has absconded, leaving them with the task of searching for the guarantor of the defaulter. To mitigate this situation, according to CGEE's terms, a guarantor should be a relative to make it easier to track defaulters. Sometimes, however, new group members will bring guarantors who falsely present themselves as relatives, which makes it difficult to locate loan defaulters if the guarantor absconds.

An Assessment of Social Outcomes

CGEE facilitates a savings culture among members of the groups. It is compulsory for a group member to have a savings account with the organisation. In order to reduce the stress of going to the office to make a cash deposit, the COs work with the group leaders who accept a member's savings card and savings amount and drop it with the group leader at the next meeting. Savings amounts are flexible; members can save as little as ₦100(less than $1USD); however, the agreed-upon amount must be deposited every week. Group members assist each other by raising funds among themselves to cover for defaulters on their weekly payment, especially when someone else in the group needs to obtain a loan.

Participation in these groups facilitates social networking. CGEE organises leaders' meetings to learn more about their operating environment. Group members organise an end of the year party for themselves since they see themselves as one big family.

CGEE's contributions to society go beyond the obvious social benefits and extend to developing leadership capabilities in women. In a 2014 interview with *TELL Magazine*, Mrs Florence Ogunnupebi, a coordinator of CGEE, stated:

> At CGEE, we don't only focus on the money, we pay special attention to the training and proper education of our members, especially in the areas of financial management, leadership development, and how to strengthen family unity. We try to enlighten them on political issues and on how they can be involved. We are happy to say that some of our women have grown to become women leaders in their wards.

Assessing Economic Outcomes of CGEE's Initiatives

CGEE's initiative has fostered cohesion amongst women and encourages women entrepreneurship in southwestern Nigeria. By 2016, CGEE had assisted more than 150,000 women with soft loans (Balogun, 2016). These loans amounted to individual loans of up to ₦500,000 ($1,388.89USD). In the south-west branches, CGEE has 350 COs who have 400 to 480 members each; a total of 140,000–168,000 members. The organisation encouraged them to apply for loans, and in case of any unforeseen circumstances that may affect their business, the organisation is ready to go beyond the set standards to render assistance.

Case Study Nigeria 2: Leveraging on the Indigenous Savings Concept for Savings Products Development: The Case of Boctrust Microfinance Bank Limited

https://boctrustmfb.com/

> Women are the major customers of the Ajo Plus Account. The men, on the other hand, do the small-small account, possibly because most of them do not have the level of discipline possessed by the women to save certain amounts daily. Mr Bosun Okusaga, Managing Director of BOCTRUST Microfinance Bank

This case study investigates how Boctrust Microfinance Bank Limited encourages savings by tapping into the informal sector through innovative products. It leverages traditional concepts enshrined in the values, norms and shared beliefs of the people – in this case, the Ajo and Esusu concepts. Boctrust offers the Ajo Plus Account, an accumulated savings scheme.

Ajo is the Yoruba word for ASCA. An Ajo is an informal savings group. An individual enters into an agreement with a savings collector, pays a predetermined amount of money to the collector at fixed, regular intervals (daily, weekly, bimonthly, monthly or every market day) and withdraws all contributions at the end of a fixed period or whenever the need arises.

Because contributors can decide to withdraw their money at any time, an Ajo is often a more attractive plan than the Esusu model, which requires contributors to wait for their turn to access their savings.

Boctrust Microfinance Bank Limited is a financial institution certified by the Central Bank of Nigeria (CBN) to provide social and economic support to the lower middle class, working class and the economically active poor. Boctrust MFB creates an avenue for savings and access to credit and financial advisory services to individuals and organisations, including micro, small and medium enterprises (MSMEs).

Boctrust offers a variety of investment, savings, loan and advisory products designed to meet individual and business needs, including the needs of the economically active poor and young MSMEs. Their investment platform provides two options for potential investors: a Sapphire account, which requires a monthly deposit of ₦200,000 (US$555.60), and the Emerald account, which requires an initial ₦100,000 (US$277.80) deposit and, of the two, earns a higher interest rate. [2] The loan products include retail asset acquisition; corporate salary advance; sales, lease and buyback; overdraft loans and short-term bridge loans. Financial advisory services include mortgage and microinsurance reviews and counselling. Boctrust's savings product provides three options for customers: the regular account, *small-small account* and the *Ajo Plus* Account (see Appendix for the features of the three accounts).

We relied on a review of the literature, primary research and consultations/interviews with Mr Bosun Okusaga, the Managing Director of Boctrust Microfinance Bank Limited and Abosede Ejenarho, the Operations Manager.

Boctrust Microfinance Bank Ajo Plus Account

The Ajo Plus Account is a daily contribution savings plan for a number of months. Savings can be withdrawn at any time. The minimum daily contribution is decided by the individual and there is no limit to contributions. Boctrust charges one day's contribution as their monthly commission. Savings can be made at any of Boctrust's corresponding bank branches (Diamond, Zenith and Stanbic).

The Managing Director of Boctrust, Mr Bosun Okusaga (Bosun), explained that the Ajo Plus Account was borne out of the need to create a system whereby people can save in small amounts and establish a cash flow mechanism to support future endeavours. The Ajo Plus Account operates like the local Ajo principle: a customer is issued a card in which their daily contribution is recorded. Boctrust markets its product in different regions and marketers serve as the Ajo collectors. These people go into the streets and markets to collect daily contributions from contributors who are mostly market women and petty traders. The marketers charge the first day's contribution, just like the local Ajo collectors. If a client contributes ₦1,000 (US$2.80) daily, the Ajo Plus marketer's monthly charge is ₦1,000(US$2.80).

The Ajo Plus Account has several benefits. Unlike the local Ajo operations, clients usually receive an SMS alert or USSD alert at no cost when a marketer collects their contribution. Every client is insured with an amount between ₦200,000 (US$555.60) and ₦1,000,000 (US$2,778.00), including certain health insurance benefits. Boctrust assures clients that their money is in safe hands, a guarantee not synonymous with informal savings groups, since the Alajo (the local Ajo collector) may abscond with clients' savings, rendering him or her untraceable. A clear differentiator is the employment of technology for improved customer service and to ensure the safety of funds. According to Bosun:

> We go to them on a daily basis to take the money from them, just as the Ajo people do. We give them a card. As soon as they pay the daily contribution, it is recorded in the card, and we ensure the money is posted that same day, and they receive an SMS alert to that effect. We are deploying a technology whereby we can post immediately, and they get an instant SMS alert to ensure the safety of their money; safety is the difference between us and the local Alajo.

The Operations Manager, Abosede Ejenarho (Abosede), who had prior experience in the local Ajo collection business, confirmed Bosun's submission:

> The local Ajo collector can run away with their money, while the bank cannot run away. If the bank is about to fold up, we have the Nigeria Deposit Insurance Corporation (NDIC) who provides support for the bank such that they can be able to pay their customers. Also, if the Ajo Plus marketer decides to run away with the people's money, the bank will save the situation by being responsible for the contributor's money.

Customers receive SMS alerts as soon as the marketers collect their daily savings. The card on which the daily contribution is recorded offers guidelines to the customers on how to save using the Ajo Plus Account. The card is the customer's property. The marketer's role is similar to that of the managing director of a region to which they are assigned, and they report back to the bank after collections are made. The marketers are rewarded when they meet expected targets. Boctrust Microfinance Bank serves as a corporate backer to the marketer and can intervene in disputes with clients.

Ajo Plus Account holders can get short-term loans through the ROSCA system, otherwise known as Esusu. Customers who want to access loans must have first saved for a full month and some days of the following month (between 5 and 10 days depending on the policy of the microfinance bank). At the end of the previous month, the customer would have collected their accumulated savings for that month. Thus, the contribution for the first few days in the following month serves as a security deposit, which includes various charges. Once a loan is disbursed, the Ajo Plus marketer visits the customer daily for contributions towards the loan repayment, which must be completed in one month.

Success and Challenges of Ajo Plus Accounts

The Ajo Plus principle has been very successful. Most of their clients have taken loans to implement laudable project. The example of a family was given which has various business lines through their savings with Boctrust. However, the bank experienced losses through non-repayment by Ajo Plus marketers. Fortunately, the customers did not lose their savings since the bank stood as a surety for the defaulting Ajo Plus marketer.

Group Lending

Boctrust provides for group lending, particularly for market sellers. This is different from the Ajo model and operates more like the Esusu model. Such groups are led by the market leaders (*Iya Oloja* or *Baba Oloja*) who mobilise a number of people interested in a loan. They invite the Ajo marketer to open a group account for them. The group has to pay upfront fees, including a service charge, recharge card fee, etc. The Ajo marketer then disburses the loan, repayable in six months. Each person in the group signs an agreement that in case of default, they accept collective responsibility to repay. Group members must also save with the bank, to which they will subsequently have access to.

Social and Economic Outcomes

The Ajo plan has become a tool used by members to cushion themselves in hard times. The Boctrust Ajo Plus assists members during cash flow constraints. Members put their surplus cash towards future purchases to improve their quality of life. As the successes of fellow members become apparent, it inspires others to follow suit.

Conclusion

Most thrift contributors would rather save with their thrift collectors than with banks. Most thrift collectors prefer depositing savings contributions with the association on a daily basis to saving with other financial institutions. Thrift collectors generally conduct other financial transactions, including personal savings accounts, with commercial banks.

In summary, this case study has defined the limits of formal financial institutions when compared to Boctrust, which has effectively provided members with interest-free loans, motivated members to save and offered convenient financial services.

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[1] Indicative exchange rate at the time of case study (2018/2019).

[2] Indicative exchange rate at the time of case study (2018/2019).

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Appendix

Types of Savings Accounts Offered by Boctrust Microfinance Bank.

Source: https://boctrustmfb.com/savings/.

A: Regular Account

This encourages individuals, microenterprises and cooperative societies to grow their savings and simplify their transactions.

Features

- Minimum opening balance of ₦1000 ($2.80 USD) to ₦5000 ($13.90USD)
- Account holder can save or withdraw from the account at anytime
- Minimum account balance of ₦0 to ₦500 ($1.40USD)
- 1.5% interest rate per annum (savings account only)
- Interest will not be paid if more than three withdrawals are made in a month

Benefits

- Easy and convenient
- Easy access to loans
- Serves as collateral for loans
- ATM cards to account holders
- Access to mobile banking and online banking
- SMS alerts on every transaction to confirm account balance
- Easy cash deposits at correspondence banks – Diamond Bank, Stanbic IBTC Bank and Zenith Bank

B: Small-Small Account

Savings for personal/family project (e.g., vacation, festival and ceremony).

Features

- Minimum opening balance of ₦1,000 ($2.80USD)
- Flexible contribution (daily or weekly) of ₦1,000 ($2.80USD), ₦2,000 ($5.60USD), ₦5,000 ($13.90USD), ₦10,000 ($27.80USD)
- Attractive interest rates
- No withdrawal until after a minimum of 30 days
- 3% interest rate per annum

Benefits

- Can serve as collateral
- Promotional gift items (standing fans, microwaves, electric kettles, mobile phones)

- SMS alerts on every transaction to ascertain your account balance
- Easy cash deposits at our correspondence banks – Diamond Bank, Stanbic IBTC Bank and Zenith Bank

C: Ajo Plus Account

This is a product for those who want to contribute daily for a number of months and can be withdrawn as needed.

Features

- Minimum daily contributions determined by the saver
- No limit to contributions
- Savings at corresponding bank branches
- The bank's monthly commission is a day's contribution

Benefits

- Easy and convenient to make deposits
- Convenient withdrawal system
- Easy cash deposits at corresponding bank branches – Diamond Bank, Stanbic IBTC Bank and Zenith Bank

Chapter 15

The Change Dynamics of *Tontine* in Senegal

Edoé Djimitri Agbodjan, Mawuli Couchoro and Germain Lankoande

Keywords: *Tontine mutualiste* ; reciprocity; grassroots organisations; rotating; household expenditure; social capital; empowerment

Introduction

Saving groups, known as tontine, are widespread and diverse in Senegal. Tontine schemes in francophone Africa, including Senegal, can be classified into three categories: mutual tontine (*tontine mutualiste*) based on a principle of mutual welfare, commercial tontine based on the principle of profit and financial tontine based on the principle of interest bearing loans (Lelart, 1990, 2002). Kane (2010) argues that, in Senegal, 'there are significant variations in organisation, membership criteria, motivations and use of the funds' based on where tontine groups are located, their underlining principles (reciprocity, profit) and their objectives (Kane, 2010, p. 20). To name this diverse phenomenon, the French word *tontine* is widely used alongside with alternative names such as *nate*, *tegg*, *tegge*, *pide* or *ndon*. *Nate* is a Wolof word which means 'to measure something'; for instance, the word can be used to describe a tailor taking measurements of a customer. *Pide* is a Fulani (*haalpulha*) word which mean 'fence'. Finally, *ndon* and *tegge* are respectively Serrer and Wolof names which mean 'to put something down'. The Wolof words *nate* and *tegg* are the most common names of saving groups in Senegal. These words mainly refer to Rotating Savings and Credit Association (ROSCA) and do not distinguish how the group is organised or whether it is informal or not.

The phenomenon raises several questions. Why is there such a variety of synonyms in the local languages to define the phenomenon? Are there any differences? What is the breadth of the phenomenon in Senegal? How are tontine groups formed and dismantled? How do they function? How have they evolved over time?

Although the phenomenon is widespread, literature on saving groups in Senegal is limited. The baseline of these studies is provided by research conducted within the University of French-Speaking Networks (UREF), part of the Association of Partially or Fully French-Language Universities (AUPELF). [1], [2] This network has focussed its research on African businesses finance through the non-banking channel, analysing various circuits of savings to shed light on their effectiveness or potential in the financing of enterprises. The network, which included about 50 researchers from 15 countries, put together specialists from a variety of disciplines, primarily management and economics, but also sociology, political science, etc. (Lelart, 1990, p. IX). The book entitled *Tontine*, *an Informal Practice of Saving and Lending in Developing Countries* (Lelart, 1990) is a seminal publication of this research group. Also, worth mentioning is the book *Savings and Social Links: Comparative Studies of Financial Informalities*, which was published in 1995 by Jean-Michel Servet and Maxime Akpaca. The authors compared informal financial practices across developing countries and analysed the issue of exclusion, as well as solutions that could be put forward. More recent studies on the subject in Senegal delved into how tontine is used in various geographical context to maintain relationship with relatives or to meet social and economic needs (Kane, 2010; Semin, 2007) and how women use their money to manoeuvre through social and economic constraints (Guérin, 2008; Moya, 2004). The literature agrees on the capacity of a tontine to adapt to its environment and to peoples' needs. However, the dynamics of the phenomenon are not well known. What aspects of the phenomenon changed over time? What caused these changes? Indeed, studies on tontine have widely focussed on the explanation of how tontine schemes function at a given time and not on how they evolve from one given state to another.

To shed light on the temporal dynamic of tontine in Senegal, our research delves into the changes to tontines brought about by technology and their connection with the formal financial sector. The study uses a case study approach. We conducted five interviews and two focus groups in Dakar, Camberene and Guediawaye. Interviewees are entities such as a digital platform provider, MaTontine, a mobile money network provider, a microfinance institution, a meso-finance institution and a professional association of decentralised financial institutions and two female tontine groups.

The first section of this chapter reviews the available literature on the main characteristics of tontine. The second section will present two case studies derived from the interviews. By contrasting these case studies with the existing literature, the section will highlight the main changes of the phenomenon, the factors and rationales reflected in these changes and some prospects for future research.

The Ascent of Tontine in Senegal

Tontine schemes could be found in Senegal since the precolonial era (Adebayo, 1994; cited by Kane, 2010). It was part of the barter system as well as the monetisation of transactions which had been underway during the precolonial era. The medium for tontine groups at that time was manpower or cowry, which is the distinction between work tontine and monetary tontine. During the colonial era, however, tontine groups spread out as a reaction to the implementation of cash crops and European currencies (Kane, 2010).

The 1980s mark a real turning point in the development of tontines in Senegal. Tontine, especially monetary tontines, rapidly spread across Senegal, thanks to the combined impact of the directed lending, banking sector crisis and the structural adjustment policies. Indeed, throughout the 1970–1980 era, bank loans were disbursed to meet government needs and those of the elite, religious leaders and political leaders. The State intervened in the banking sector, imposing ceilings on interest rates and forcing banks to target specific sectors or businesses. That was ‘financial repression’ (McKinnon, 1973; Shaw, 1973), where the majority of the population was excluded from the formal financial sector. By targeting individuals with large savings, banks took on excessive risk with a large loans disbursed to a restricted group of people. Only 10% of the active population had access to these commercial banks (Kane, 2010, p. 9). This concentration of credit to a small portion of the population at the exclusion of small savers decreased the quality of the banks' loan portfolio. Facing high delinquency rates and unable to be refunded, six banks went bankrupt in the 1980s. [3] Other banks were restructured. [4] Some clients lost their deposits. Mistrust increased within the sector yielding two types of reactions. On one hand, banks became reluctant to provide loans and put in place excessive prudential measures to control the opening of bank accounts and lending. On the other hand, individuals looked for or developed alternative financial solutions to overcome the limited access to financial services. To solve the crisis, the state introduced liberalisation policies. These policies provided room for new banks and new financial mechanisms, such as the decentralised financial institutions.

The spread of tontine at this period was facilitated by the structural adjustment policies at that time. Senegal experienced a debt crisis in the 1970s, which mandated country to implement structural adjustment policies in the early 1980s. The country rescheduled its debt with the Paris Club in 1981, 1982 and again in 1983, reflecting its limited capacity to service both private and public borrowing (Callaghy, 1984, p. 63). The weak domestic economy experienced reduced the fiscal income and development programmes implemented in the pre-crisis years' accumulated debt. At the turn of the 1970s, the economic and political situation in the country was dire (Dieng, 1996), with the slowdown of agricultural production, rising public expenses and the surge of imports to meet the demand created by the acceleration of urbanisation. The crisis reached the groundnut basin, pushing inhabitants to migrate towards the ‘peripheral regions’, whereas social and political tensions arose, especially in Casamance (Dieng, 1996). [5]

Traditional structures, associations and grassroots organisations, faced with a vacuum created by the retreat of the States and banks, had to perform functions of protection, distribution and investment. Saving groups thus resurfaced across rural and urban areas to compensate for the collapse of banks, especially agricultural banks (Kane, 2010). International NGOs launched several projects to provide individuals with financial services. Some of these projects would go on to become the main microfinance institutions of Senegal, such as ACEP (*Alliance du Crédit et de l'Epargne pour la Production*) or PAMECAS (*Programme d'Appui aux Mutuelles d'Epargne et de Crédit du Sénégal*). For individuals and NGOs, tontine systems gained attention because of their flexibility and simplicity, as well as accessibility. From the researchers and policymakers perspective, they also gained attention because of their potential to fund businesses and their links with the formal financial sector.

The Nexus of Tontine and Formal Finance under the Guise of the Informal/Formal Dualism

The idea that tontine might have some links with the formal financial institutions assumes that two separate distinguishable sectors co-exist (dualism) – researchers had to distinguish the formal financial sector from an informal one. Dupuy (1990) distinguishes formal and informal financial practices by illustrating the distinction between the informal and the state sectors. The formal sector gravitates around the State and represents large industrial or commercial enterprises and administrations. The formal financial sector is represented by the credit institutions, banks and institutions which identify themselves with the public authorities. The informal sector includes all the productive activity, crafts and small businesses (Dupuy in Lelart, 1990, pp. 31, 32). While this contrast is very clear at the theoretical level, this distinction nevertheless suffers when it is contrasted with facts. Many gateways are thrown open by actors themselves between the formal and informal spheres, allowing each to benefit from the dynamism of the other. By the same token, Servet (2006) argues that there is often a certain level of formality within the informal practices, and vice versa. It is thus paramount to go beyond the dualist approach, which contrasts both spheres, and look at the level of formality/informality within each (Servet, 2006).

There are two types of linkages between the tontine and the formal financial sector in Senegal: the flow of money on one hand and the exchange of know-how and best practices on the other hand. Regarding the exchange of know-how, some authors argue that the solidarity, trust and flexibility, as well as the debt repayment collection strategy that is used in the informal financial services, might represent a significant source of inspiration for innovation within the formal sector (Servet & Akpaca, 1995; Servet, 2006). Regular visits, the profile of money collectors, their behaviour, the amount of deposits and the name of the institutions are all elements that can be 'copied' by the formal sector. In addition, tontine is a framework for technical upgrades in that it allows individuals to acquire the financial discipline required by formal structures. There are three reasons for individuals to join these tontines: barriers to access to credit, the simplicity of the procedure in place in the tontine and the social pressure in the tontine nurturing financial discipline to save (Kane, 2010, p. 40). Concerning the flow of money, informal savings circuits benefit from the new liquidity generated by the banking system, and vice versa (Dupuy, 1990, p. 32). Kane (2010) cites the example of the *Reseau de Caisses d'Epargne et de Crédit des Femmes de Dakar* (Grand Yoff) to illustrate how the know-how of women involved in tontine helped implement a formal financial institution. The network was created by the NGO ENDA-Graf which pulled together 13 tontines groups totalling 103 women. The savings collected allowed the group to get loans worth three times the value of their initial savings from ENDA-GRAF. The group had three categories of savings: basic savings, savings for housing and savings for the pilgrimage to Mecca. The basic savings are withdrawn on the eve of religious festivals such as Korité, Tabaski, Touba's Magal or the Tivaoune's Gamou. However, the savings for housing, once collected, are deposited in a bank account. Regarding the savings for the Mecca pilgrimage, deposits are made until the end of the savings cycle. At the end of the process, a number of pilgrims will be chosen randomly according to the total amount of money saved. Moreover, Kane (2010) shows that women tontines in the market of Tilène are paramount for the success of MFI such as FDEA (*Femmes Développement Entreprise en Afrique*), as stated by Khadi, a member of the MFI:

> If it were not for the two tontines in which I participate, I could not certainly respect the payment deadlines set by my MFI. I tell myself from the outset that the money of the two tontines is destined to pay the credit I received from the MFI. Moreover, as soon as the withdrawals are received, I pay the money without delay to my mutual. It is the constraint of regular payments inherent to the tontines that makes it easier for me to pay my debts on time. (Kane, 2010, p. 212)

Private deposit collectors play a significant role in channelling funds from the informal sector to the formal by saving the money they collect in bank accounts. By doing so, they reduce transaction costs for both banks and the individuals who entrust them with their money.

It appears, therefore, that once the formal/informal dichotomy is relativised, tontine appears as a breeding ground for innovation, a cultural and financial support to the formal sector and vice versa. As Dupuy and Bloy wrote, 'the phenomenon of informal financing should not be seen as the remnants of a traditional society archaism. The current dynamism of these financing arrangements shows that they cannot be reduced to an imperfect and underworked form of a standard banking intermediation model' (Dupuy & Bloy, in Lelart, p. 66). It is therefore possible to argue that the two sectors act complementary to support entrepreneurship.

Tontine, Entrepreneurship and Market Participation

The literature explain how tontine supports entrepreneurship and how it allows its members to access and be involved in markets. As part of the French National Centre for Scientific Research's (CNRS) activities, Dupuy (1990) conducted fieldwork in Casamance and demonstrated that there is a strong correlation between the level of integration of an individual into the market economy and his/her participation in tontine. As shown in Table 1, most members of tontine groups are economically active. They are employees (90%) or/and run an activity in the informal sector (64%).

Table 1. Breakdown of Membership in Tontines According to the Type of Activity.

Women			Men		
Employee	**Informal Sector Worker**	**Jobless**	**Employee**	**Informal Sector Worker**	**Jobless**
90%	64%	22%	66%	40%	12%

Source: Dupuy (1990, p. 44).

Dupuy thus concludes that tontines support individuals to define their own objectives and to develop a personal strategy to meet their needs. Similarly, Moya (2004) states that tontines allow individuals to plan their expenses, by helping them channel savings towards specific expenses (purchase of fabrics, various goods, investment). The fact that the bet is paid generally the day before or the day of the planned expenses means that the chance that the money is used for different expenses is rather low (Moya, 2004, p. 9).

In addition, the homogeneity of the professional profile of members of a tontine allows to define the periodicity of payments as well as the rules of operation according to the cash flow cycle of their activities. Indeed, the number of members conducting the same activity represents an average of 85% in tontine groups (Dupuy, 1990, p. 45). This homogeneity of members is balanced by the diversity of tontines, which according to Lelart (1990) would be infinite. This homogeneity of members sets up the periodicity of payment as well as rules of operation according to the cash flow cycle of their activities.

This homogeneity of tontine members is balanced by the diversity of its forms, which according to Lelart (1990) is infinite. Using data from 884 members of tontine groups and 237 managers, in 1985, Dromain (1990) highlighted various organisational schemes of tontines, members' selection criteria and the role of the manager/leader. Kane's (2010) qualitative approach showed that the rules of operation vary according to the type of tontine groups, which vary according to their locations. He distinguishes three types of tontine based on geographical criteria: workplace tontine, marketplace tontine and neighbourhood tontine. Within neighbourhoods, tontine group members are selected according to their ethnic affinity, trustworthiness and social or cultural norms such as those applied to the caste system in Senegal (Kane, 2010). Within the tontine at workplaces and markets, there seems to be no discrimination based on the ethnicity (Dromain, 1990). These tontine groups are mixed with members coming from various ethnic backgrounds, and the same group includes males and females. The main criteria for the selection of members is their financial capacity to pay. Very often these tontines are set up by an organiser, who has a good reputation and the capacity to mobilise others. The person in this leading position can make decisions on the size of the tontine, the amount, the periodicity, the amount of commission that he/she will be paid and the order of disbursement of deposits.

Dupuy argues that although tontines contribute to financing income-generating activities (33%), a larger portion of its funds is channelled towards household non-productive expenses (60%) or individual needs (54%) (Dupuy, 1990, p. 45). On the contrary, Dromain (1990) rejects the view that the tontine saving is used primarily for non-productive purposes and concludes that informal savings could be part of the solutions to compensate the deficit of domestic saving for investment and growth. Nevertheless, this difference of opinion illustrates the heterogeneity of the phenomenon as Lelart put it. It is therefore extremely difficult to freeze it in predefined categories. Its primary strength is its ability to adopt the changing 'colours and shapes' of its social, cultural and economic environment. It is in this way that tontine is firmly rooted in economic and social realities and therefore serve as an instrument to develop both financial capital and social capital.

Tontine, Social Capital and the In-group/Out-group Dilemma

Tontines can reproduce/reinforce forms of exclusion or inclusion already prevalent in a society. By joining a tontine, people seek to satisfy their desire to belong to a group or community (Kane, 2010). This is particularly true for neighbourhood tontines as a member stated below.

> I participate in neighbourhood tontines because I want to be what my parents, my neighbours and my friends are. I think,

> it's a good idea to meet in turn with each of us to discuss the useful things, to amuse ourselves and to force each other to release a small, negligible savings that will allow us to have a large sum. By this system, most of us manage to buy little by little kitchen equipment (bowls, dishes, glasses, basins, etc.) clothes and fashionable shoes, and toilet effects. Others draw their dues for *piye wudere* during family ceremonies. The money can also be used to settle unforeseen events: medical bills, transportation, and hospitality to visitors. (Kane, 2010, p. 27)

To meet its members' expectation, neighbourhood tontine reproduces the social hierarchy in the neighbourhood. The tontines of the district of Thilogne consist of individuals of the same caste (*Rimbe*, *Nyeenybe*, *Horbe*, *Torobbe*, *Burnaabe*, *Sebbe*, etc.). When the members are mixed, rules are set up to respect the hierarchy within the society.

> You have to be careful with the *Horbe* because they do not know who they are. [6] When we participate in the same tontines with equal contributions, they will not hesitate to say that they are now our equal. The experience of our neighbourhood association, *Diokere Endam*, is here to confirm it. They and their men told themselves that, since they were participating in a democratic association, the Rimbe and Nyeenybe had to serve them and draw water for them when they had to organize their family ceremonies. This is inconceivable for us Rimbe. We can agree to cooperate with them in the neighbourhoods and only if they agree to stay in their place. (Houleye, woman, 32 years old, cited by Kane, 2010, p. 23)

In contrast, tontines with an economic purpose transcend hierarchies and social differences, purchasing power being the main criterion for membership. It is a cadre of information, experiences and know-how sharing, a means to securing the support of others for the 'bad time'. It is rooted in the practices of reciprocity and sociability by using relationships of kinship and neighbourhood as stepping stones. These relationships are based on trust with a specific measure of punishment, incentives and other measures to prevent abuses and mistrust (Kane, 2010).

The local words used to define tontines allow us to grasp the social rationale behind the phenomenon. N*ate*, *pide* or *ndon* refer to actions 'to measure something' or to 'a fence' or 'to put something down'. Tontine, like money, which is a unit of account for goods and services, reflects the 'social valuation' of an individual by bringing together people from the same status, activity or neighbourhood. When tontine is defined as a '*pide*', or fence, it refers to the border that surrounds its members from those who do not belong to the group. As a *ndon*, it is a pledge of trust and a proof of confidence that strengthens the bond between members. In this ambivalence, tontine appears as an instrument with great potential to strengthen women's capacities and their empowerment in the face of gender inequalities.

Tontine, Solidarity and the Women Social Empowerment

The place of women in tontine groups is one of the most explored issues in research on Senegal. Women represent the majority of tontine group members in the country. The predominance of women over men can be explained by the pivotal role they play in reciprocal schemes. For Moya (2004), women are the main actresses of the circulation of money, because they oversee ceremonies such as weddings, baptisms, funerals, religious parties, etc. To support each other in performing these activities, they form associations called *mbotaay* in *wolof* community and *piye woudere* in *Haalpulaar* community. *Piye woudere* are solidarity groups designed to assist the implementation of family-related festivals or ceremonies. Tontine allows members of these associations to access the resources to implement the rituals. While, in the case of marriage, men forge an alliance between the two families in accordance with Islamic principles and rules at the mosque, women are assigned the responsibility to welcome guests and prepare meals (Kane, 2010, p. 13). This role of Senegalese women could be one of the reasons for the current predominance of women in tontines.

Guérin (2008) provides a significant contribution to this analysis on how tontine can connect to female empowerment in the Senegalese society.

She compares Senegal and southern India, to propose an explanation of the articulation between the micro and macro elements. At a micro level, the analysis looks at how the monetary transactions of women are connected to their rights and duties (obligations) within household. At the macro level, she shed light on the influence and the weights of institutions, namely matrimonial institutions and those that govern access to resources and jobs. The study looks at Wolof small traders of the Thiès region. Wolof Society is a typical 'lineages' model that provides women with a degree of financial autonomy. With the lineages model, the basic unit is not the family, but a nucleus composed of the mother and her children. While fathers hold the economic responsibility and must protect the family, including providing the 'daily expenditure' intended for family food, women have the duty to procreate and assume the upbringing of children. To provide women with the means to fulfil their duty vis-à-vis their nucleus family, they are given the right to use designated parcel of land which is separate from that of their men. They have full property rights for the products and revenues derived therefrom. This initial division of labour and responsibilities within households evolved over the past decades, thanks to changes in social norms and the progress of individualisation. Structural adjustment policies squeezed job opportunities for men. As a result, many women provided more for the survival of their family, fulfilling duties that were initially the responsibility of the men. Women faced increasing instability of marriages, the preponderance of polygamy and more generally the redefinition of so-called community memberships. Because of these changes, the financial autonomy of Wolof women grew significantly within households with a higher number of women involved in commercial activities.

Through tontine groups, women gain the financial means to respond to their growing responsibility within their household and communities. By gaining access to money through tontine, they also acquire room to manoeuvre and more public spaces.

However, the status and the process of adaptation of each woman differ, creating a heterogeneity of arrangements and trajectories – each woman represents a specific case. Analysis of these individual cases reveals that the financial circuits and practices women used are subtle and complex. These financial circuits allow the women to reproduce, update and sometimes modify the intimate and social relations in which they are embedded. They also enable them to interpret, adjust and sometimes bypass the norms. Each individual case reflects the weight of existing norms and institutions in each context, especially matrimonial alliances, property rights and access to the labour market. These financial practices (savings, credit, etc.) are thus an essential ingredient of the positioning/repositioning of women vis-à-vis their men, co-wives, neighbours and other family members, in a permanent game of cooperation, conflict, compromise and resistance, under the constraint of social norms, daily survival and family obligations (Guérin, 2008, p. 7). In doing so, tontine allows the individual to become part of the dynamics of societal change and modernity.

Tontine, between Tradition and Modernity: Values, Norms and Shared Beliefs

By capturing characteristics of its social context (Lelart, 1990), tontine provides individuals and groups with the resources to respond to social demands and to cope with the changes induced by modernity (Kane, 2010). It provides individuals with a root in their tradition and a connection to the modernity defined by increasing urbanisation, monetarisation, etc. In the wake of the push for monetarisation of transactions, the development of monetary tontines goes hand in hand with the increasing monetisation of family donations once dominated by in-kind exchanges (Kane, 2010). These obligations lead people to use the tontine to gather the resources necessary for these donations and compulsory counter-donations. In his article entitled '*Excess*, *Game and Irony*. *Money and Women's Giving in Dakar*', Moya (2004) argues that there is no more a sphere of the social life where money does not intervene. The author recalls that five major events give rise to important ceremonial expenses of the Dakar society of Thiaroye: marriages, deaths, religious ceremonies, departures to and returns from Mecca and births. The amounts of money used during these ceremonies contrast with the financial capacity of the persons who spend.

The example of Mother D. illustrates this point. 'Although her household has, in the best case, a monthly income of 100,000 FCFA (1,000 FF), Mother D. had 50,000 FCFA (500 FF) at hand, the morning of the *ngente* organised at the birth of the first son of her eldest daughter. The same evening, she distributed 1,300,000 FCFA (approximately USD 2,100)' (Moya, 2004, p. 7). How can such an amount of money be brought together in one day, in a context of extreme poverty? The lack of money, combined with the pressure to give, places any liquidity holder under a continuous pressure of requests from all those around him/her. It is often difficult not to respond to this demand. The only solution is to put the money aside, to make it inaccessible. Savings are often stored away in the guise of mutual indebtedness relationships, thanks to tontines. It is then possible to reject demand for help 'with good will' while keeping one's savings, sometimes in considerable amount, for a specific purpose (Moya, 2004). The tontine thus allows individuals to respond to the requirements of societal expenditures at their will, while limiting the dictatorship of the 'unpredictable' (Moya, 2004, p. 9). In other terms, it provides individuals a means to focus on their own desires as opposed to the traditional solidarity mechanisms which put emphasis on the collective goals. Tontine is, therefore, ambivalent. On the one hand, it can reflect the tradition and existing norms and values. It contributes to redefining values and norms of the society, meeting the expectations of those who long for equality. The statement of Hawa, a 39-year-old woman from a low caste, is self-explanatory: 'Tontine has nothing to do with castes. What is important is the ability to regularly pay the contributions. I do not see why we would refuse the participation of someone who is honest and can help mount the required amount until the end of the tontine. It's absurd! In any case, our tontines have nothing to envy to *Rimbe* and *Nyeenybe's one*' (Kane, 2010, p. 24). The ability of a tontine to contribute to defining new values and rules makes it a tool of modernisation.

Tontine at the Core of Modernisation: The Urban/Rural Divide

The fact that tontines are part of the modernisation process is reflected in its rural/urban divide. Senegalese tontines are primarily an urban area phenomenon (Dupuy, 1990; Kane, 2010). In the simple rural tontines, members know each other, no written rules are set, members are looking for a triple dividend (money accumulation, knowledge development and experience sharing) and decision is made upon consultation. These tontines are led by a *mère-natt* (the mother of tontine) and a secretary in charge of keeping the book of transactions. They often hold a common fund which is nourished by the first contributions as well as financial penalties paid by absentees, latecomers or those who disturb meetings (Kane, 2010). On the contrary, the urban area tontines are more complex. They are organiser-led, where members do not know each other. The organiser plays a leading role in defining the rules and mobilising the members. The anonymity allows individuals from various social status levels to join, based on their creditworthiness.

Case Study Senegal 1: The Use of Technology: The Case of MaTontine

The surge of technology-based tontine schemes reflects their dynamic ability to adapt. Technology is becoming more important in the Senegalese financial sector. Global Findex reported the adult population (aged 15+) in Senegal with mobile money accounts grew from 6% in 2014 to 32% in 2017. MixMarket noted, 'new mobile money services launched by Société Générale de Banques au Sénégal (SGBS) and Expresso have added to the expanding sector in Senegal'. An initial analysis using by Interactive Dashboard for Senegal, developed with support from UNCDF MM4P, shows that mobile money access points more than doubled from 2016 to 2017, helping to serve growing client demand (Koide, 2018). Senegal also stands among the countries with the best Internet coverage, and quality of the connections, in West Africa. Technology also penetrated tontines. Initiatives such as MaTontine, a digital platform start-up, are an epitome of the phenomenon.

MaTontine is a digital financial services platform, launched in 2016, with the goal to ease access to financial services for the very poor to promote entrepreneurship and alleviate poverty. [7] The business operates in partnership with a meso-finance institution and an insurance company. [8] This tripartite partnership allows Case A to provide loans and insurance to members. The three partners collaborate in the identification of existing tontine groups through their community managers. These groups are then structured around a maximum of 15 members.

Through technology, five major innovations were introduced into the traditional tontine. First, the model reduces the waiting time required to receive one's contributions back. It improves access to liquidity for individual members by providing them with the ability to receive loans before their turn. Each member is eligible for the loan after three contributions. These small loans, with an average value of $165, are disbursed by the meso-finance institution, following recommendations made by the start-up, which must first conduct a member needs assessment and credit analysis based on the biometric data it collects. As opposed to these micro loans, the meso-finance institution is responsible to manage the entire process of large loans, from the analysis of the application to the repayment. Second, the platform has increased asset security by preventing the group leader from accessing members' deposits. It has also increased the confidentiality of transactions as it is the platform that randomly selects the winner and informs the winner of the decision. It also reduces the time and costs of transport and transaction required by traditional tontine mechanisms by offering each member the opportunity to make a deposit via electronic currency. Finally, the system automatically provides access to a formal account where members can deposit their winnings. MaTontine has a digital profile of members, which makes it easier to track and assess their credit capacity. Table 2 summarises the differences between technological tontine and more 'traditional' devices based on this model.

Table 2. Key Differences between Technology-based Tontine and Traditional Tontine.

Traditional Tontine	**Tontine with Technology**
The money being placed with the group manager can be stolen	The money is secured in a bank account and is not accessible to anyone
All members know who wins the turn	The platform notifies the winner only

Traditional Tontine	Tontine with Technology
Members must travel to the manager's place in order to deposit their money at a given moment	Members use mobile money to pay, and they can do it at any time before the deadline
Each member must wait for his/her turn to get his money back	The member can receive a loan ahead of time
There is no fixed interest rate to be paid by members except the value depreciation of the money collected over time	Members pay 12% of interest rate on loan received

The value of the model in the eyes of the target population is reflected in the very strong growth of membership since its launch. The start-up was successful in recruiting tontine groups. In total, 1,500 members were recruited in one year of activity and the firm targets 50,000 members by 2021.

The success of the model depends on the ability of developers to overcome challenges and take advantage of business opportunities. Senegal offers an enabling environment through its quality infrastructure, its mobile network, electricity, political stability, etc. Initially, it suffered from the lack of a regulatory framework specific to digital finance (fintech) start-ups. The industry operates under the authority of the Central Bank as other banks and microfinance institutions. It was closed in 2017 by the Ministry of Finance for lack of authorisation, reopened in 2018 after executives reached an agreement with regulators. The success of such a project requires 'in-depth knowledge of the regulations in order to anticipate problems that may arise'. In Senegal, only banks and microfinance institutions can perform financial intermediation activities. As such ability to negotiate partnership with other players in the financial ecosystem is essential to success.

Although technology platforms can potentially improve the way tontines work, they do not alleviate all information asymmetry problems. To overcome these issues, MaTontine collects biometric data on the customers. However, beyond that, access to information about members and community dynamics requires the development of a good relationship with the leaders of the tontine groups who have a thorough knowledge of their community. This requires proximity and presence on the ground despite the availability of a technology platform. This work is carried out by business developers committed to building networks in the field thanks to their social and interpersonal skills as well as a good knowledge of members of tontine groups. This field scheme is complemented by the actions of the members of the Board of Directors, who can guide decisions and influence the arrangements in favour of the project.

Case Study Senegal 2: Tontine Connection with the Formal Financial Ecosystem of Senegal

To explore the connection between tontine and the financial ecosystem, we interviewed representatives of a meso-finance institution, a microfinance institution and a representative of the professional association of decentralised financial institutions. We explore this connection at macro, meso and micro levels. The macro level refers to the place of tontine in the agenda of the regulators and policymakers. The meso level refers to connection with network or federation of financial institutions, whereas the micro level refers to the inter-institution relations.

Tontines interact on different levels with the Senegalese formal financial ecosystem. On a macro level, i.e., at the regional and national policy and regulatory level, it has little presence. Given that it is deemed to be part of the informal sector, it is not explicitly included in the regional financial inclusion policy and strategy document of the Central Bank (BCEAO). The strategy targets people excluded from the formal financial sector and people with low levels of financial education, SMEs, women and young people (section 35 and 37, p. 17). By ignoring tontines, the Central Bank perpetuates its policy drive to 'formalise' the informal sector. When the strategy defines financial inclusion as the 'permanent access to financial services and the effective use by the WAEMU population of a diverse range of affordable and responsive financial products and services' (Article 43, p. 18), it implied that these products and services are provided by formal arrangements.

The neglect of formal integration of tontines at the level of promotion and supervision contrasts with the multiple direct and indirect interactions between microfinance institutions and tontine groups. These interactions can be ‘passive’ or ‘active’. The portfolio of some microfinance institution includes groups of tontines, without the institutions having an explicit strategy to recruit, organise or monitor them. The members meet in informal groups to save for a specific event, using the MFI as a channel for transmission or deposit security. These groups are organised and managed by their members themselves without the microfinance institutions interference. They perform projects that are completed over a life cycle of 10 to 12 months.

The case of the meso-finance institution mentioned above illustrates one of the most proactive interactions between tontine and the formal financial institution. Within this category, tontine is the cornerstone of the service delivery strategy. The MFI explicitly develops the intentions and performance indicators in terms of number of groups/members of tontines targeted.

The Innovation

The money flows from the tontine or the MFI to tontine and vice versa, driven either by savings or a loan. There are three cases. In the first, the financial flows are driven by a formal loan (Fig. 1): the flow is yielded by a tontine manager who is himself already a member of a formal institution where he applied and obtained a loan. In this case, the impact of tontine on formal financial inclusion appears to be less. The same is true when the leader of the tontine alone plays the role of depositor by collecting the bets of the members (Fig. 2). In the third case, tontine members seek to secure their savings from a formal institution in anticipation of future spending. The number of accounts increases with the rise in the number of tontines or its members, all things equal (Fig. 3).

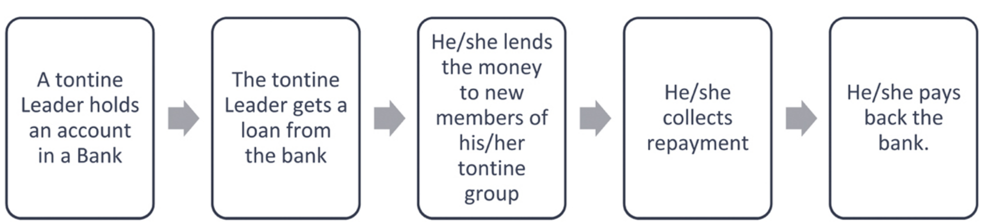

Fig. 1. Bank–Tontine–Bank Lending-based Financial Flow.

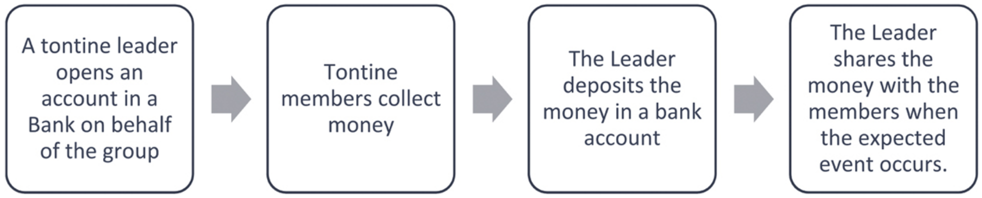

Fig. 2. A Tontine–Bank–Tontine Saving-based Financial Flow Led by a Leader.

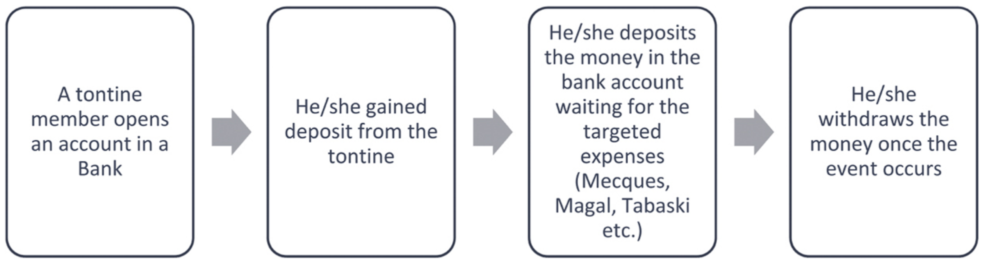

Fig. 3. A Tontine–Bank–Tontine Financial Flow Led by Individual Members.

In the first model, connecting with tontines helps banks recruit new depositors. By recruiting one tontine leader, the bank accesses the entire community connected to him/her. This helps reduce the cost and time to recruit individual members. Within one month of activity, the meso-finance institution recruited 14 groups which gathered 200 members since December 2018. Based on this success, the group plans to increase the number of its recruiters and business developers to reach 50,000 customers by 2024, an objective that seems attainable, according to our respondents.

In the second model, tontines allow the banks to tap into domestic savings otherwise inaccessible. Many tontine members have a bank account. The microfinance institution of our case study reports 30,000 groups of tontines as members of its portfolio, with each group consisting of an average of five persons. The full amount saved is unknown because of weak reporting and monitoring system. In the case of meso-finance institution, each member collects between 5,000 and 15,000 FCFA monthly. With a group of 20 people, the savings amount to 300,000 FCFA per group on a monthly basis.

Tontine is also a powerful means to manage risks. The MFIs manage to share the risk of default among all members instead of just one individual. Through the tontine leader, MFIs have access to information on the members and the community that they would not have otherwise. To do so, the institution recruited business developers and community managers. The community managers serve as a focal point in communities such as Pikine, Guédiawaye. These community managers are women used to manage tontine groups or work with women.

Finally, in the third model, the tontine accelerates the recruitment of new applicants. Thus the the bank accesses the community connected to him. In one month of activity, i.e., in December 2018, the meso-finance institution recruited 14 groups, for a total of 200 members. Building on this success, the company plans to increase the number of its recruiters and salespeople to 50,000 customers by 2024. This model has the potential to promote inclusion if it is backed by an incentive to individual savings.

Conclusion

Senegalese tontine diversification demonstrates its ability to adapt to the dynamics of the economic and social environment, as well as to the changing needs of individuals. Tontines are diverse in organisational form, trading instruments, rules and operating principles, geographical distribution, etc. Tontines offer an effective channel for financial inclusion through collecting saving and financial education. It can act as a catalyst for financial inclusion, women's empowerment and social capital development. Partnerships between microfinance institutions, technology companies, insurance companies and tontine groups can accelerate the inclusion, especially when the mechanisms are backed by savings incentives. Tontine can help MFI effectively implement its financial and non-financial activities such as training or awareness programmes, etc.

Financial inclusion will not bring an end to the tontines. Many members of the tontine have one or more bank accounts. This reality raises questions: why do they always engage in tontine activities when they already have a bank account? Why do they not save directly into their individual bank account? The responses corroborate some comparative advantages of tontine as a savings mechanism over formal sector schemes. It often presents a complementary solution and not a substitute for formal financial services because of its embeddedness into social, economic and cultural realities. This social character of tontine is such that even in the case of the use of technological platforms, the success of process requires the development of close relationships with members to access information and to build trusting.

In the context of increased competition and pressure to improve financial inclusion, many MFIs question whether they should be more active in targeting tontine groups. And yet, choosing this option is difficult because of the lack of data on tontines. It is therefore paramount that research fills this gap by providing in-depth data on the depth of the phenomenon. Examples of data required are the volume of transactions, the number of tontine groups, the profile of members and leaders in terms of literacy level, managerial skills, geographic distribution, gender distribution, etc.

Notes

1. L'Université des réseaux d'expression française-UREF.

2. Association des universités partiellement ou entièrement de langue française – AUPELF.

3. Assurbank, Banque Nationale de développement du Sénégal (BNDS), Société financière Sénégalaise pour le Développement de l'Industrie et du Tourisme (SOFISEDIT), Banque Sénégalo Koweitienne (BSK), Société Nationale de Banque (SONA Banque), Union Sénégalaise des Banques (USB).

4. It was the case of the Compagnie Bancaire de l'Afrique Occidentale (CBAO), the Société Générale de Banques du Sénégal (SGBS) ….

5. The groundnut basin is the largest agricultural region in Senegal. In 1995, it represented 65% of the total rural population of the country and 62% of its useful agricultural area in 1998 (Bignebat, Céline et Sakho-Jimbira, Maam Suwadu, 2013).

6. *Horbe* is a lower caste to the *Rimbe* and *Nyeenybe*.

7. The platform was launched in 2016 by Bernie Akporiye and Dr Tosan Oruwariye.

8. A meso-finance institution is a financial institution which specifically targets small and medium enterprises with loan size bigger than those provided by microfinance institutions.

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Chapter 16

Savings Groups in South Africa

Grietjie Verhoef and Karen Hidden

Keywords: *Stokvel* ; middle class; investment; financial inclusion; social capital; entrepreneurship; high end; regulation

Introduction

South Africa's population is around 58 million, of which 12 million people (23.5%) are considered financially excluded, with 9% informally served. Currently a large number of people operate in the informal economy as unemployment is high, especially among the youth (Statistics South Africa, 2018). Despite political policies since 1990 to address social inequality, political corruption intensified growing inequality. Black economic empowerment policies of the new democratic government served party loyalists. The most vulnerable and destitute increasingly struggle to make ends meet. At the same time a growing Black middle class emerged and has taken advantage of business opportunities to grow personal wealth (Southall, 2014, 2017; Vale, 2000).

In South Africa the informal savings groups are known as *stokvels,* a phenomenon associated with informal group savings and Rotating Savings and Credit Associations (ROSCAs) (Irving, 2005; Schulze, 1997; Verhoef, 2001b). These voluntary informal associations were born from a need to create a secure existential environment, by organising a trustworthy environment for saving. Savings became the tool to address subsistence needs. The important development of recent years is the sustained prevalence of *stokvels*, not only among the poor or low-income earing members of society but more specifically among middle-income earners. *Stokvels* are no longer only to make life easier, but to make a life on the high road. The *stokvels* are known under different names such as *gooi-gooi, umgalelo, mahodisana* and *umshayelwano* (Burman & Lembete, 1995; Swanepoel, 2012). These names will be discussed further in the chapter. Whilst these names are often used interchangeably, the current literature review will utilise the name *stokvel* to refer to all the different manifestations of such informal savings organisations.

Research indicates that whilst the percentage of adults with a bank account (77%) has remained largely unchanged since 2016, the percentage of South African adults using some form of informal financial service such as *stokvels* has increased from 56% to 63% (FinMark, 2018). With an estimated annual total of R49 billion collectively saved by approximately 11 million members belonging to around 820,000 *stokvels* in South Africa, these associations have the potential to act as drivers of significant growth in the national economy (Bolton, 2018; NASASA, 2018). [1]

Stokvels and their link to the formal financial sector, women empowerment, social capital and economic outcomes as well as their transition from rural to urban environments are ubiquitous within the context of South Africa. Two dominant themes appear to run simultaneously in each section: the function of stokvels as a mechanism for empowerment, specifically for women, and the role and importance of trust.

History and Typology

Whilst the literature remains relatively silent on the exact date *stokvels* emerged, the first reference to *stokvel* surfaced during the nineteenth century in the Eastern Cape at English-speaking settler farmers' 'stock fairs'. The informal pooling of savings became known as *stokvels* amongst the local population (Lukhele, 1990; Verhoef, 2001a, 2001b). These stock fairs of the English settlers in the remote frontiers of the colony allowed Black farmers and labourers to socialise, exchange ideas and gamble whatever resources they had to purchase livestock. These events evolved into more regular meetings, independently of the cattle auctions, and into informal savings and credit associations for Black people living outside the traditional rural community in an urbanised environment (Irving, 2005).

To gain insight into the rise of stokvels and their significance in multiple spheres within the South African landscape, it's important to understand the historical interplay between traditional cultural dynamics and the past absence of financial security for Black women in South Africa.

In the traditional black African society authority and property ownership resided with the husband, but the woman organised a ‘house’ (the social structure of the woman and her children with the husband, as was done by all the other wives of the husband). In the ‘house’ (in Nguni known as *indlu,* in Sotho known as *lapa*) the women exercised organisational responsibilities towards the homestead and her children. It was the woman and her children who worked the fields. She owned no property privately nor the proceeds of her labour in the fields. All belonged to her husband. The woman was subordinate to the mother of the husband, both in life and death. If the husband passed away, the woman remained subordinate to her mother-in-law. A woman's subordination meant that the rights over the woman passed from her father to her husband and the mother-in-law. The activities controlled through this traditional authority were both reproductive and productive. At the death of the husband, the woman did not inherit the land she cultivated, but the communal land went to her children (Bozzoli, 1991; Hoernlé, 1950; Mayer, 1971; Preston-Whyte, 1974). Women's rights in the traditional context restricted economic agency. Women were not non-entrepreneurial, but ownership of her enterprise (primarily agricultural) remained outside her control. In theory, women could acquire land through purchase, but that was officially discouraged (Mayer, 1971; Sansom, 1974). Women could also not accumulate any personal wealth. If an African woman aspired to embark on independent economic endeavours, or simply live an independent life outside the traditional ‘house’/homestead, moving to the towns and urban areas was the only opportunity she could pursue. It was in the urbanising South Africa of the 1920s and 1930s that many African women reverted to the voluntary rotating savings associations to address existential needs as well as fostering social cohesion.

In a practice that is still prevalent today, *stokvels* in urban areas originally took the form of a social gathering, such as a tea party attended by women. Each member would take a turn hosting the gathering of members, and those who attended the event were expected to present the host with a gift (Schulze, 1997). It is from these informal social meetings that *stokvels* evolved into saving clubs, burial societies and money-lending entities. Coming from traditional rural areas and transitioning into an urban context, many African people were unfamiliar with western banks and therefore felt an affinity towards *stokvels* into which they could gradually align themselves. The well-established banking sector in South Africa was British and Dutch. The first London-incorporated bank opening branches in South Africa was the Standard Bank (1861) soon to be followed by other imperial banks. In 1888 the Dutch Netherlands Bank opened for business and by the 1920s the banking industry was dominated by these banks. These banks were commercial enterprises with a firm prudential culture, and elitist. To have a bank account was not a right, but a privilege. Only those who could afford the costs of an account maintained one. Only those clients with a sound financial record accumulated savings and assets and could afford the interest on loans, qualified for credit (Jones, 1996).

Those outside the banking sector were not excluded on the basis of race, but on the basis of financial reputation. Many white people did not qualify for such bank accounts, nor for credit. A growing demand for financial services led to the establishment of new banks, such as the Volkskas Bank, established by Afrikaner capital in 1934. Poor people, white and black, were not bank clients, but resorted to other sources of saving and credit, such as community banks (*volksbanke*) or friendly societies, a popular means of mutual social support (Gosden, 1973; Hopkins, 1996).

African people, especially women in the non-traditional urban environment, turned towards *stokvels* as a means for accumulating savings with the aim of borrowing or accessing credit (Schulze, 1997; Matuku & Kaseke, 2014). In addition to acting as a system for black communities to pool their capital, *stokvels* provided migrant labourers with an opportunity to form valuable and viable social networks (Van Wyk, 2017). *Stokvels* proliferated across the South African landscape, both in rural and urban contexts, as people moved around.

The Formation of the National Stokvel Association of South Africa

In 1988 the National Stokvel Association of South Africa (NASASA) was established. The association is a self-regulatory organisation, authorised by the South African Reserve Bank (SARB; the central bank). It was initially set up to represent the interests of the *stokvels* across the country, whose practices were seen to be in contravention of the Banks Act. Between 1988 and 1990 NASASA successfully represented *stokvels* who were deemed to engage in illegal activities, namely receiving deposits without being registered as deposit-receiving institutions. The South African banking system is a highly sophisticated financial system, regulated by successive statutes since 1942, as overseen by the SARB, established in 1923. The regulatory authorities were sympathetic towards assisting and safeguarding operations of *stokvels*, seeking to find the appropriate legitimate route to assist and encourage the entry of members of such informal savings association into the formal banking system. The magnitude of amounts circulating in the *stokvel* network simply mandated proper and prudential oversight. The SARB stated that it did not wish to enforce formal sector requirements on successful and well-functioning informal sector organisations, but sought to encourage them to grow through formal recognition and assistance (Finance Week, 21–27/1990:45). NASASA subsequently worked with the SARB in preparing the amendment of the legislation.

In January 1994 the government issued Exemption Notice No 2173, with the approval of the Minister of Finance, allowing informal-based groups to pool funds and utilise them for the benefit of their members, on the condition that a bond exists between members within the group, relying on self-imposed regulation to protect the interests of the members. Further recognition of the informal savings activities of *stokvels* led to the amendment in 1996 of the Deposit-taking Institutions Amendment Act, No 42 of 1992, to provide for the existence of informal savings associations. The act declared *stokvels* to be considered entities falling outside the definition of a commercial bank and could, therefore, be viewed as self-governing legal bodies operating outside the regulatory framework covering banks.

Stokvels had to be affiliated with NASASA and members were allowed to make deposits with the understanding that the *stokvel* itself could not hold more than R9.99 million (US$7,09m) at any one time (FinMark Trust, 2010). *Stokvels* that exceeded this amount were required to register as a mutual bank and legally fall under the Mutual Banks Amendment Act, 1994 (Act 25 of 1994). The Exemption Notice 2173 is subject to revision. In 2006 the common-bond notice was amended to exclude pension fund activities by *stokvels*. *Stokvels* were explicitly prohibited from undertaking activities of pension fund organisations as defined in the Pension Fund Act, No 94 of 1997.

These developments not only brought the informal savings industry within the regulatory domain of financial services in South Africa but also fostered a relationship of mutual understanding between the SARB and NASASA, as representative of the *stokvels* in the country.

Today, NASASA continues to be an active advocate for serving the needs of *stokvels* across South Africa. NASASA actively negotiates interaction with the formal financial sector and calls for access to credit for s*tokvel* members. Whilst NASASA's attempt to drive financial inclusion is admirable, their efforts have met with mixed reviews (Verhoef, 2001b). Attempts to direct individual savings into *stokvels* and then into the formal financial sector have had limited success, with millions of Rand circulated outside the formal banking sector in unregistered *stokvels* (Naong, 2009).

Geographical Reach and Naming Classification

Stokvel membership traditionally came from people living in the same geographical areas (Van Wyk, 2017), largely based on personal relationships and trust between these individuals and their respective communities (Matuku & Kaseke, 2014; Van Wyk, 2017). The aspect of personal trust and reliance on established relationships of kinship or friendship are universal across the international manifestation of informal savings groups.

The provinces Gauteng, closely followed by Limpopo, are the areas with the highest geographical concentration of such informal savings organisations. Combined with the North West and KwaZulu-Natal provinces, these four provinces account for 70% of the *stokvels* in the country (Townsend & Mosala, 2009). The name variations for these savings groups depend primarily on the region and local language. In Kwa-Zulu

Natal, where the largest proportion of Indian people live, savings groups in those communities are referred to as *chita*, in Hindi and *chitu*, in Tamil. In the Eastern and Western Cape savings groups are known as *umgalelo* or *gooi-gooi*. *Umgalelo* is an isiXhosa word that means ‘pour in’ and gooi-gooi is an Afrikaans word that means the same. *Umgalelo* and *gooi-gooi* are a variation of pooling of funds, synonymous with *stokvels* as defined. In the Free State and parts of Gauteng, Sesotho-speaking individuals refer to savings groups as *mahodisana*. *Mahodisana* means ‘pay each other’, alluding to the rotation of payment. Nguni-speaking individuals call it *muholisano*, similar to the Sesotho-speaking communities.

Regardless of their naming classification, the literature indicates that *stokvels*, burial societies and additional forms of commercial savings groups all exist in the realm of informal social security, and are integral elements adding to the ‘rich fabric of social security’ (Triegaardt, 2005, p. 7). Furthermore, Matuku and Kaseke (2014) consider *stokvels* to be an example of mutual aid arrangements created to respond to gaps in social protection and provide communal assistance to the groups' members. Becoming a stokvel member is not as simple as paying a membership fee. Potential members must apply and are then subjected to a screening process. An applicant is screened by investigating her/his relatives, friends and other associates. Fundamental to membership is trust, honesty and transparency when applying to join the group.

Although the banking sector in South Africa considers *stokvels* to be informal, (Calvin & Coetzee, 2010), they are well organised and generally administered by a constitution drawn up by its members and following specific guidelines (Mphahlele, 2011). Although members might be trustworthy, have confidence in each other and are well acquainted with each other, certain safeguards are put in place to ensure that individuals do not breach the shared objectives. Most *stokvels* have a constitution that guides the running of the group's affairs. Constitutions differ among *stokvels* and depend on the *stokvel* type and purpose of forming it (Mashigo & Schoeman, 2012). These constitutions teach punctuality (Mashigo, 2007). The Exemption Notice of the SARB made the existence of a constitution and clear rules of conduct mandatory for *stokvels* to be exempted from the regulation of banks or other deposit-taking institutions.

The meetings are formally conducted by an agenda, recorded minutes and office bearers (Chairperson, Secretary and Treasurer). The SARB Exemption Notice of the early 1990s mandates formal organisational procedures. The closer association with bank products incentivised savings activities and were highly effective in formalising operations. These regulatory developments did not shield the *stokvel* community from devious criminal behaviour, but indeed minimised risks of inefficiency, disorganisation or negligence.

The variety of savings groups operating under the umbrella term *stokvels* can be categorised into four key groups: savings clubs, burial societies, investment and credit groups, and high-budget *stokvels* (Holmes, 2018; Verhoef, 2001b). Each of these is expanded upon below.

Savings Stokvels

Savings clubs, or contribution *stokvels,* promote a culture of saving for mutual benefit. Funds rotate to members on a mutually agreed basis (Matuku & Kaseke, 2014). This is usually a constitution, which is the 'self-imposed regulation' required in Exemption Notice 2173. Savings *stokvels* have the largest membership and most members are women (African Response, 2012; Smallhorne, 2013). Savings *stokvels* are formal with regular meetings, fixed contributions and compulsory attendance.

Burial Stokvels

A very strong African tradition is the burial of a deceased with dignity and preferably with her/his ancestors or in the place of origin. To people in urban locations, this has high cost implications. These costs included burying a member from the community far away from the place of death, which included transporting the body, purchasing an expensive coffin and providing meals for the funeral guests. To honour these customs, the people organised burial societies, or burial *stokvels*. Members of burial *stokvels* make fixed contributions to cover these expenses and are typically managed by women. In the event of a death certain processes are followed before payment can be made. These processes include notifying the treasurer of the stokvel of the death; the treasurer then needs to verify that all payments are up to date and that the necessary documents of the deceased are submitted and correspond with the information provided to the members of the stokvel (Ngcobo & Chisasa, 2018).

The high cost of funerals has resulted in people joining multiple burial societies to secure sufficient funding in the event of a death. It has also become commonplace for burial societies to take out funeral policies with established insurance companies. In that case, the risk of administering regular payments is transferred to the insurance company, while the burial society remains the core cohort of trusted members.

Investment Stokvels

Urbanised black South Africans have accumulated more wealth than required to sustain a comfortable lifestyle. People in this financial position are increasingly viewing *stokvels* as a vehicle for long-term investment (Bolton, 2018; Van Wyk, 2017). Investment *stokvels* are formed with the declared intention to accumulate bulk savings for the purpose of profitable investment. These associations target a new dimension of wealth creation. Members make fixed, high monthly contributions. The accumulated funds are invested in high cost goods, such as high-tech television sets, or long-term high-yield investment products, such as equity, or the purchasing of land or other forms of property. These *stokvels* typically seek expert advice about financial instruments and investment opportunities. An example of a response to such demands was the agency of Thabilise Gumbi, a member of an investment *stokvel* in Gauteng. She arranged for financial experts to share their knowledge of financial matters that extend beyond the ordinary savings activities of their *stokvel* (Holmes, 2018).

High-budget Stokvels

High-budget *stokvels* represent a significant transformation in the organisational structure and operation of *stokvels*. The membership consists of persons belonging to a high social standing and usually exceeds 100 members. Members are expected to contribute substantial amounts and, according to Verhoef (2001b), pay-outs are made during extravagant parties where the host charges an entrance fee to all who attend. High-budget *stokvel*s are not a new phenomenon. According to Bähre (2002) the 'BMW 518 *Stokvel'* dates back to the late 1980's where 50 members would each contribute R10,000 per fortnight. Members each received R50,000 at a certain point and used the funds to purchase a BMW 518 vehicle.

Stokvels perform numerous positive roles in society and benefit individuals and communities across the South African rural and urban landscape. Whilst they hold the potential to transform the economic landscape of the country significantly and potentially drive innovation in the financial services sector and even property or real estate sectors, these associations harbour inherent risks. This is the reason for regulatory intervention during the early 1990s (Khoza & Adam, 2005). The context of operation of these non-bank savings associations in South Africa differs significantly from similar savings groups in other parts of Africa. This is the direct outcome of the existence of a sophisticated financial services sector in South Africa since the late nineteenth century. The financial sector is grounded in a firm regulatory framework through the central bank and the latter's adherence to international prudential requirements.

The SARB follows international regulatory principles issued by the Bank for International Settlements (BIS) on monetary policy and financial regulation to ensure domestic monetary stability. The massive growth of the *stokvel* movement caught the eye of the established monetary authority. The central bank acknowledged the magnitude of accumulated savings outside the regulated banking sector. The extension of the regulatory framework to include *stokvels* was an exercise of prudential regulation. SARB actions were similar to its regulation of deposit-taking institutions, such as savings banks, building societies or ordinary banks accepting deposits from the public, seeking to protect the interests of depositors.

To understand the significant role *stokvels* perform, their operations are assessed through different lenses. The following section investigates the functioning of these informal savings associations in different contexts of the modern twenty-first century society, namely their link to the formal financial sector and women empowerment, their reliance on social capital and their role in facilitating economic empowerment outcomes. Each of these dimensions is important, since *stokvels* no longer operate exclusively in the low subsistence social and urban environments, but have taken on a distinct wealth creation dimension.

Stokvels and the Formal Financial Sector

It has long been established that there are positive links between financial sector depth, access to finance and sound development outcomes.

Since the 1990s, the South African government joined the global drive to improve financial inclusion, which is either voluntary of involuntary (World Bank, 2014). Globally, financial inclusion entered the debate about strategies to promote economic growth. A number of central banks sought active strategies to improve financial inclusion in the interest of higher growth prospects (Amidzic, Massara, & Mialou, 2014). The G20 countries and the International Monetary Fund widely supported initiatives promoting financial inclusion (Demirgüç-Kunt, 2014). Financial inclusion can be defined as 'access by enterprises and households to reasonably priced and appropriate formal financial services that meet the needs of enterprises and households' (Beck, Senbet, & Simbanegavi, 2015). In Africa only one in four persons has a bank account, but one in eight has a mobile phone (Rouse & Verhoef, 2017).

The level of financial inclusion in developing countries rallied international campaigns to improve access to basic financial services. The rationale is that access to financial services contributes to economic empowerment. With proof of disciplined savings behaviour in formal banks, people could ultimately qualify for credit, which is the next step towards economic empowerment (Rouse & Verhoef, 2016, 2017). People of colour and women are established clients of the banks in South Africa for a very long time. Any person, irrespective of colour, creed or gender, can open a bank account, if that person qualified for such an account. In practice, many people chose not to enter the formal banking sector because of the costs of managing an account, the lack of proximity of physical bank branches or the ease of access to other forms of savings and credit, especially *stokvels.* Despite the absence of any statutory prohibition, the proportion of unbanked South Africans remains substantial.

There are no legal barriers to the opening of a savings account, but stokvels served members' needs better. The money was readily available and accessible outside a bank. The risk involved in such conduct is apparent. The accumulated savings could be lost, stolen or destroyed. In exceptional cases progressive members, that is members who had learnt about banks and developed confidence in operating an account for the purposes of depositing wages or profits from small enterprises, convinced fellow members of the wisdom of depositing their accumulated savings in a savings account. It was also a matter of trust. Members of *stokvels* sometimes distrusted banks and feared 'risking' their savings with an institution distant from their world of experience. There was also the fear of withdrawal of savings from a personal account, since self-discipline may be lacking. This 'cultural' unfamiliarity with formal banks was not specific to South Africa, but characteristic of the experience across Africa (Lukhele, 2018; Verhoef, 2008).

The cultural dimension of collective group behaviour among black African people in South Africa (and the rest of Africa – see Sawani & Patterson, 2010) is a powerful driver of saving behaviour. Members of *stokvels* trusted their savings group more than banks. All the leading commercial banks in South Africa offered savings accounts to groups, whereby members of a *stokvel* could open an account, managed by the person(s) selected by them. By the mid-1980s the accumulation of savings in group savings accounts in South African banks had risen to astonishing levels. This prompted the Perm to investigate the demand for such facilities. The survey indicated that persons saving in group *stokvels* – either as savings groups or as members of a burial society – wanted to take agency of their savings behaviour – they wanted to decide on the number of signatories on their account, they wanted no charges debited from the account, they wanted a better interest rate than the minimum interest paid on savings accounts, and they wanted a rate that would increase as the balance on the accounts grew. The last request was that an account must remain active despite end of year withdrawal of the accumulated savings. They did not want to open a new account the subsequent year. The first tailor-made savings product for *stokvels* was the Perm's Club Account, launch in 1988 in the KwaZulu-Natal province. The success of this initiative was remarkable: by July 1991 the Perm claimed to have 75,000 *stokvel* groups saving with the bank in Club Accounts maintaining an average of R2,500 balance on the accounts – a number representing 10% of all *stokvel* group accounts (Lukhele, 2018). Since the pioneering bank account for *stokvels*, all the leading banks have developed similar group accounts and invested extensively in educational programmes for members of those informal associations about the advantages of such products (security, interest earnings, accessibility).

To many South Africans, *stokvels* have become more than just savings tools. They encourage a culture of saving (savings discipline), provide a sense of community and accountability to members, all the while acting as a safety net and allowing for much-needed cash injections during hard times. They also serve as a powerful weapon in the fight against poverty and are particularly helpful in uplifting women in communities, as they lead to enablement, which breaks the cycle of dependency (Ngcobo & Chisasa, 2019).

Stokvels and the Urban/Rural Intervention

Historically, stokvels were established within communities residing in rural and peri-urban areas (Coetzee, 1997; Hellman, 1948; Kajimo-Shakantu & Evans, 2007; Van Wyk, 2017). During the mineral discoveries of the late nineteenth century a cosmopolitan community emerged (Hellman, 1948; Schulze, 1997; Verhoef, 2001b, p. 262). South Africa experienced strong urbanisation since the 1930s. In urban areas the migrants' existential needs adapted to the new environment. The 'function of *stokvels* adapted into different kinds of informal voluntary organisations' (Verhoef, 2008, p. 58). The urbanisation process advanced liberating opportunities to women, greater freedom to rural women by undermining patrilocal settlement and male authority, thus enabling 'new processes of community-building' (Beinart, 2012). Women displayed their adaptive entrepreneurial capacity, amongst others, using informal collective savings associations to address the insecurity and construct a support network to survive in the growing cities (Hellman, 1948; James, 2015). 'African women laid the foundation for the development of the most important financial savings institution in the informal sector of South Africa' (Verhoef, 2001b, p. 261; 2008).

More recently, research conducted by the Old Mutual Savings and Investment Monitor (2019), which tracks the shift in financial behaviour and attitudes of South Africa's urban working population, indicates that the number of *stokvels* in urban areas have increased. This development is partially ascribed to rapidly rising affluence amongst black African South

Africans. It is also the result of a sense of increased self-empowerment and dissatisfaction with traditional lenders (such as *mashonisas*).

Current fieldwork indicates the growth of stokvel activity especially towards the acquisition of private property (real estate) and profitable investment. Acting as an avenue for building generational wealth and the dignity that comes with owning a home, research indicates that *stokvels*, solely focused on property investment, are gaining in popularity. A property investment *stokvel* operating in Rustenburg, a city in the North West province of South Africa, has recently bought a 5.8ha piece of land worth R5m ($3.6m), now being prepared for housing development (Mtshazo, 2019). As with the majority of property *stokvels*, this is a long-term investment, delivering returns not directly linked to subsistence, but to the building of assets for future wealth. This case study will be discussed in more detail further in the chapter.

The strong visibility of urban *stokvels* does not mean that the phenomenon waned in rural areas, where relative poverty remains high. The concept of mutuality, intra- and inter-kinship collective action to sustain a basic livelihood, remains a fundamental survival strategy in impoverished rural areas (Buijs, 2002; Kajimo-Shakantu & Evans, 2007; Neves & Du Tit, 2012, 2013).

Stokvels and Women's Empowerment

The role of women in the rollout of *stokvels* across South Africa should not be underestimated, nor the widely acknowledged empowerment function performed for its members (Bozzoli, 1991; Buijs, 2002; Hellman, 1948; Hoernlé, 1950; Irving, 2005; James, 2015; Kibuuka, 2006; Mashigo & Schoeman, 2012; Matuku & Kaseke, 2014; Moodley, 1995; Van Wyk, 2017). The literature on all the case studies in Africa substantiates the same observation. Women constitute the core of voluntary informal savings groups.

In developing countries, most women are engaged in entrepreneurial activity driven by pure survival. This is out of necessity rather than opportunity due to a lack of jobs and a need for additional income (Vossenberg, 2013). During the earlier stages of urbanisation the start-up businesses in which many Black women invested their *stokvel* funds in micro-enterprises, included shebeens (taverns), laundry and sewing services, small grocery shops, also known as spaza shops, and dairy shops. In rural areas women operate most of the micro-enterprises, using collective savings funds for operations, such as the purchase of stock or transport of goods (Neves & Du Toit, 2013).

In the case studies below, the agency of women is illustrated and the transformation of *stokvel* associations into enterprises of extended dimensions is outlined. A recent report conducted by the Finmark Trust (2018) suggests that relationships within households improved thanks to the funding from *stokvels* members were able to support each other financially and plan together. *Stokvels* have a profound impact on the social cohesion and trust within a community.

Stokvels and Social Capital

Operations of s*tokvels* are closely associated with social capital (Irving, 2005; Verhoef, 2008). Social capital is the aggregate of resources, actual or expected, which are linked to having a durable network of relationships of mutual acquaintances or recognition (Portes, 1998). When compared to other forms of capital, social capital is intangible and inherent in the structure of relationships and networks. Social capital appreciates with use, as opposed to forms of physical capital (Sobel, 2002). By repeatedly relying on relationships within a community, people strengthen mutual trust and thereby enhance social capital. This ultimately forms and facilitates the growth of *stokvels*.

Whilst identifying a viable avenue for economic support is one criterion for joining a *stokvel*, creating opportunities for socialising, gaining moral support and a sense of belonging are equally important. According to Arko-Achemfuor (2012), *stokvel* members are organically tied to their groups through social identities and role identities. All the current research confirm the sustained emphasis on a sense of belonging and personal or social support. These associations encourage people to develop and sustain a culture of saving through group conduct – the group incentivises a commitment to save (Mfeti, 2016). Trust cements these networks (Matuku & Kaseke, 2014; Moodley, 2008; Posel & Thomson, 2002; Ramose, 2002).

Economic and Business Outcomes

Participation in *stokvels* has not only become a way of life for most Black people residing in urban and rural communities in the country, but it is also a critical tool of wealth building by becoming entrepreneurs. Long gone are the days when *stokvels* were for 'old women in poor communities' (Holmes, 2018; Mfeti, 2016). The literature suggests that *stokvels* were historically consumptive in nature. *Stokvels* are able to negotiate significant discounts based on the high volume of purchases. This consumption culture gradually extended to more expensive goods. The accumulated savings do not find their way back into the investment pool that formal financial institutions lend out (African Response, 2012; Mfeti, 2016; Zwane, 2019). A significant number of entrepreneurs, living in townships across South Africa, are leveraging off *stokvel* funds to create a capital base used to launch a business (Majoko, 2018). The National Treasury is of the opinion that 60% of *stokvels* focus on investment, 18% are investment clubs and 22% are the so-called grocery *stokvels* (Mfeti, 2016; UCT, 2005).

Whilst a perception might still exist that South Africans, specifically those living in Black African communities, display a weak savings propensity (Aliber, 2001), this is not the case. Old Mutual (2011) found that South Africans do have a culture of saving and *stokvels* contribute significantly to this. In 2017, 53% of all informal savings occurred in *stokvels,* with burial societies the second largest category of savings. Entrepreneurship is an essential ingredient in new job creation, perpetuating the innovation cycle and revitalising regional economies and identity (Silajdžić, Kurtagić, & Vučijak, 2015). However, as suggested by the National Credit Regulator (2011) most aspiring entrepreneurs in South Africa still lack access to financial and social capital. S*tokvels* also fund entrepreneurs and communities, building a sense of pride and a culture of wealth building (Kibuuka, 2006; Mabovula, 2011; Veciana, 2007).

Stokvels in Twenty-first-century South Africa

Stokvels are about so much more than just the circulation of money. They offer comprehensive support for members in times of hardship, are a source of opportunity and social networking and, for many, constitute the backbone of bridging the divide between financial exclusion and financial inclusion. *Stokvels* perform an essential substitute role in managing personal finances and accessing credit. It is estimated that only 41% of *stokvel* members have a personal bank account, and only 45% of members of burial societies have a personal bank account (UCT, 2005). Yet, these people manage their money effectively enough to be in a position to contribute to a voluntary savings group or burial society. The 'new normal' in the South African context, and indeed in almost all developing and developed economies, is this constant balance to survive on an economic and social tightrope amidst a world facing volatility, uncertainty, complexity and ambiguity (VUCA). Whilst certain institutions in South Africa, such as an established financial services sector, free press and relatively sound infrastructure, have a positive impact on the economy and its people, there are negative elements that counterbalance this impact. A weak economy, systemic corruption, high unemployment and subsequent financial exclusion contribute to the disequilibrium. However, reframing this VUCA state by harnessing the power of disruptive technologies, investing in human capital and leveraging off the breaking points in innovation are all mechanisms that assist in building an inclusive society and economy.

A good working relationship developed in South Africa between the informal savings groups, *stokvels,* and the banking sector. This relationship has gained momentum since the Perm directed its attention to the vast savings pools in *stokvels*, and subsequently the SARB's formal recognition and regulation of the sector. This regulation remains partial, since not all *stokvels* are in compliance. The private financial services sector has made considerable progress in aligning with the needs of *stokvel* savers. Both banks and insurance companies adapted their product offerings to support the needs of the *stokvel* movement.

South Africa's 'Big 4' retail banks (ABSA, First National Bank, Nedbank and Standard Bank) all operate special *stokvel* accounts. These are new forms of the Perm's group accounts, which can be opened by *stokvels* as a legal entity. These can be used as an investment, transactional and savings tool for *stokvels*. All the group savings products offered by the retail banks allow members to make deposits, transact online, communicate using text messaging and transact using mobile phones. The use of digital technology in the domestic financial services sector is fully accessible to all members of *stokvel* accounts. Furthermore, these savings accounts are also linked to other financial services accessible through the bank. These include linked investment products, unit trust investments, fixed term deposits, borrowing, and electronic or mobile money transfers as well as insurance policies. The First National Bank's eWallet electronic money transfer product enables people without bank accounts to receive remittances or money transfers, without high bank costs. Subsequently the other banks developed similar technologies, but this did not end with banks. The retailer Shoprite, with an extensive branch network across South Africa and neighbouring countries, followed suit by facilitating transfers and cash withdrawals at the shop till (Lukhele, 2015, 2018; Rouse & Verhoef, 2017). Similar services are also accessible through the Post Office's Postbank's Mzanzi account (www.postbank.co.za).

In line with the growing use of technology to manage finances, innovative entrepreneurs have joined the technology wagon, by launching an innovative online platform called StokFella (Oxford, 2018; Tsele, 2016). Operating as an online *stokvel* StokFella makes it easier for *stokvel* clubs to manage their administration, record-keeping and reminders of monthly payments and claims. Members have access to all this information via their smartphone or StokFella's website. Included in their offering is the option to increase savings by investing funds into a network of investment channels. The use of mobile and online technology characterises the operations of urban-based *stokvels*, especially in the investment-oriented savings groups. The cashless transfer of funds offers security advantages as well as immediate delivery and minimal cost. Since *stokvels* 'have moved from pooling money together for groceries or burials to long-term investments such as property, education and social development' (Cowan, 2018), the innovation in organisation, application and distribution of voluntary savings group structures in South Africa is expected to display dynamic developments in future.

South African Case Studies

The case studies in this chapter are from the modern, entrepreneurially innovative savings groups operating among members of a middle to high income bracket. The goals are not simple savings mobilisation to meet consumption needs, but the create wealth through innovative visions. All the data are in the public domain.

Case Study SA #1: Young Women Business Network

Introduction

Global developments towards more open markets, as well as financialisation (Palley, 2007), created opportunities for financial entrepreneurs. World-wide financial market liberalization stimulated competition. Since the early 1980s, South African monetary policy followed international trends by removing the prohibitive regulation on banks and other financial service providers' operations. The report of the *Commission of Inquiry into the monetary system and monetary policy in South Africa* (De Kock, 1986; RP, 70/1984) removed all restrictions on banking business. These changes offered entrepreneurial opportunities in financial services.

The Niche

NASASA consistently claimed that *stokvels* were excluded from the formal financial services sector. Two elements of this perception were, that the savings accumulated in *stokvels* were possibly deposited in *stokvel* savings products at the major banks, but members felt that they did not benefit reciprocally from loans, as the conditions for borrowing were often too onerous for them to qualify. The second aspect was the idea to establish their own bank as an empowerment vehicle. In the 1970s the National African Federation of Chambers of Commerce (NAFCOC) established the African Bank. In 1994 the Community Bank was formed. In 2005 the Co-operatives Act, No 14 of 2005, provided for the registration of co-operatives, overseen by the Co-operative Advisory Board. The inherent risks in informal savings associations (Coetzee & Cross, 2003) placed borrowers at risk. The Co-operative Bank Act, No 40 of 2007, opened the door to formalising informal lending among members of savings groups. People engaged in such informal lending could establish a co-operative bank, with the regulatory backing of the SARB and the Financial Services Conduct Authority (FSCA) (Mushonga, 2018). By forming co-operative banks, members of *stokvels* could also borrow on terms more suitable to their needs. A niche or entrepreneurial opportunity thus appeared in the environment of *stokvels.*

The Entrepreneur: Establishment, Organisation and Governance

In Johannesburg, a young woman, Nthabeleng Likotsi, used the idea of collective savings as the platform to launch a bank for women, targeting black African women from the *stokvel* environment. She was born in Botshabelo in the Free State, with parents and other siblings engaged in business. She was surrounded by *stokvels* and a diversity of small and medium-sized enterprises. She studied accountancy at the University of Johannesburg, completed a post-graduate certificate in Accounting, and finally rounded her studies off with a Masters' degree in entrepreneurship from the University of the Witwatersrand. It was her understanding of the power of collective savings that brought her to think entrepreneurially about banking. She was not underprivileged, but she understood the need for access to credit to get small and micro enterprises off the ground. The niche was clear. The strategy was a *stokvel.*

In 2009 Likotsi formed a *stokvel* called the Young Women's Business Network (YWBN). This *stokvel* had nine other members, called 'board' members, who shared her vision of creating Black wealth (eNCA, 2016; Masondo, 2018; Moss, 2018). The members joined with a firm understanding of long-term wealth creation through investments. Each member contributed equally, the accumulated savings deposited in a bank account and at the end of the year, the accumulated savings were not withdrawn, but invested in well-performing equity. She said: 'We started saving money using the *stokvel*' (eNCA, 2016). The informal savings group format secured an association of people who trusted each other and shared ambitions. This relationship of trust was fundamental because of the long-term vision of its members. They could not risk disagreement over vision – it was investment for wealth creation, not consumption. Likotsi was familiar with the so-called groceries and Christmas party *stokvels* in the community where she grew up. Her leadership was instrumental in setting the YWBN goals higher, to establishing a bank that could address credit needs, assist small, micro and medium-sized start-up enterprises and thereby contribute significantly to employment creation. Her observation was, 'as black people, we understand what *stokvels* are about, so I thought, let us use that same model. But instead of buying groceries or going on holiday, let us have money and buy shares in companies that want to transform' (Skade, 2016). She understood the centrality of entrepreneurship in job creation, but also sympathised with the perception amongst collective savers that they could not get credit in relation to their accumulated savings. The YWBN investment *stokvel* invited interested individuals to join. The membership increased slowly, but the selection process was stringent, as membership mandated full buy-in into the ultimate goal of establishing a bank. The rules of participation were contained in a constitution, or the statutes of the co-operative. Prospective members had to prove the financial capability to contribute the agreed subscription amount, as agreed by the board. By 2012 YWBN operated as a co-operative, having increased membership to 35 women (Skade, 2016). Members saved R1,000 every month. The first equity bought was in Namlog, a logistics, cargo and freight company operating in South Africa and Namibia (Economist, 2018; Mbanjwa, 2016; Skade, 2016).

Empowering Entrepreneurs

Likotsi was familiar with the regulatory requirements of establishing a bank in South Africa. That route proved onerous at the early stage of development. The alternative strategy YWBN opted for was to transform the original *stokvel* into a co-operative bank. The Exemption Notice of the early 1990s placed a ceiling on total savings that could be accumulated in *stokvels*, before they would be subject to the Banks Act. Cognisant of the vast amount of savings circulating among *stokvels* and ordinary bank accounts, YWBN targeted that market by offering access to credit, or borrowing, through membership. Many new entrepreneurs simply do not have collateral to qualify for loans to start a new business. That was the niche market YWBN targeted. In December 2015, six years after commencing business, the members restructured YWBN as a co-operative institution, moving beyond the *stokvel* profile with a formal license as a financial services co-operative institution, in terms of the Co-operatives Banks Act, No 40 of 2007 (SARB, 2007). The 271 members of the *stokve*l became members of the YWBN Co-operative Bank.

Modus Operandus

Deposit-taking and credit operations were governed by the Co-operative Banks Act. To qualify as a co-operative financial institution, membership was open to all qualifying applicants. Membership was voluntary. The Act stipulated that membership had to be limited to persons of similar occupation or profession, or employed by the same employer, or have a common membership of an association or organisation, and who reside in the same community or geographical area. Access control, or membership admission was democratic. Members had to be educated and trained about their rights and responsibilities, and the co-operative must display concern for the community (SARB, 2017). These regulatory requirements were not difficult to meet, since they overlapped with the ethos of *stokvels.*

In June 2018 YWBN applied officially to be registered as a mutual bank. This application was granted in 2020. The broad women's empowerment strategy of YWBN drove its business. The rationale for being a women's institution is that ‘we control the household and we manage finances very well’, and therefore have inherent abilities ‘to better serve our people, and this way we are better serving them in the financial sector’ (Masombuka, August 10, 2018). The YWBN focuses its marketing on women, but will accept men as members too. The empowerment target remains to have 60% women members (Mbanjwa, 2016; Moss, 2018).

YWBN collects subscriptions from members. There are different categories of membership: individuals, *stokvels,* trusts, limited liability companies and closed corporations. Members pay R10,000 to become a member, plus a monthly contribution of R1,000 as well as R550 annual membership fee. Savings in YWBN are locked in for a minimum period of five years, after which the entire membership will decide at an annual general meeting on the wealth creation path going forward. By 2019 YWBN had more than 420 shareholders or members, which accumulated to more than R4.2 million, invested toward acquiring mutual bank status. Regular monthly contributions are applied toward lending to members (www.ywbn.co.za).

Applications are on prescribed forms and are submitted to the management team. Likotsi is the chief executive officer but is supported by five other employees as well as a Board of Directors, consisting of eight members. The main business is lending to members, since it a mutual financial institution. YWBN charges market competitive interest. The primary target market is Black African entrepreneurs. YWBN plans to take this business across the border to neighbouring countries (eNCA, 2016). Some prominent people in business have joined the YWBN – the CEO of Kia Motors, the CEO of Aspen Holdings (Economist, 2018). The YWBN has indeed progressed from a *stokvel* to an investment vehicle, operating currently in the mutual financial institution framework.

Case Study South Africa 2: Rustenburg Property Investment Stokvel

Introduction

The Africa-wide rise of a middle class systematically challenges aspects of the traditional communal authority, such as ownership of land and other forms of real estate or property. 'Born from a need to create a trustworthy environment for saving, the *stokvel* has gone beyond the role of simply "making life easier" (Mashigo & Schoeman, 2012). Sophisticated high-contribution *stokvels* with a membership including black executives in urban areas is a common phenomenon. In a number of case studies in this volume, researchers noted the growing appetite for property as a source of wealth. The overall innovation in voluntary savings group behaviour is the persistent participation in such associations, despite two fundamentally different elements in the environment of current savings groups. The first element is much higher income levels and standards of living. The second is the expansion of formal financial services through different distribution channels to the formerly unbanked segment of society. These trends contribute in South Africa to a growing number of *stokvels* entering property ownership, development and speculation as the primary goal of the association.

People of colour could not own property in so-called white areas in South Africa since the National Party implemented systematic geographical segregation under the policy of separate development dating from 1948. In

1986 all restrictions on physical settlement in urban areas were scrapped. Since 1986 it was not only the wealthy black Africans who could buy property in the towns and cities (Beinart, 2001; Davenport & Sauncers, 2000; Nattrass, 1982). To own their houses, or to own land, became a growing ambition to many Black people.

Mining Ownership Ambitions

To own a house enhances personal security and stability. As the capital required to purchase houses or property exceeds the savings of most people, borrowing from banks requires guarantees. This lies outside the capacity of many. In the impoverished urbanised communities, the *stokvel* offered one way of moving closer to the dream of homeownership. *Stokvels* offered a vehicle to acquire property – people formed housing *stokvels,* for the sole purpose of saving towards buying a family home (Bähre, 1995; Kajimo-Shakanthu & Evans, 2007; Verhoef, 1999). The next step to enter the property market is *stokvels* operating in high-income social strata, investing in the purchase of land for speculation. One such *stokvel* is the Stokvel Company (Business Report, May 9, 2007). This *stokvel* was registered as a company with the purpose of developing Techno Spaza shops (small grocery outlets also supplying financial services, information and communication technology services in townships). Some *stokvels* took up an offer to purchase shares in such outlets. Such shareholding generated a revenue stream for those *stokvels*. The Stokvel Company also purchased land located in an area which they planned to use for tourism development. Another example is the Property Stokvel Investment Club (Ntsabo, 2018). This *stokvel* started in 2018 and offers two access routes. Any person may join by paying a monthly contribution of R2,100. After two years the accumulated capital was used to purchase property, from which income is to be generated for the members. A second strategy is to use accumulated funds after a given period to purchase homes for members. Members all earn interest on their investments. They are encouraged to contribute whatever amount she/he can invest. Purchasing homes from their own collective investments assist members to buy houses for cash and thereby evade high bond interest rates.

Although rapidly gaining in popularity, it should be noted that *stokvel* schemes have been prone to fraud. Many *stokvel* members have lost their contributions through scams (AFP, 2018; Cowan, 2018; Makana, 2018; Mantshansha, 2018; Motau, 2018; NASASA, 2018, pp. 24–25), but sound advice is available from various sources (Mduduzi, 2018; Schoeman, 2018). Whilst interest in property *stokvels* are on the increase the likelihood of being tricked into a scam is just as high. These risks are not limited to property *stokvels,* but theft from the accumulated funds or the disappearance of leaders happens more often in the online modern open associations, where membership selection is no longer on the basis of long-standing relationships of trust and confidence.

People Struggle to Grasp Opportunity

In the case of the Rustenburg Property Investment Stokvel, ambition meets prudence. A young woman, Lebo Ratema, 32 years old, shared the dreams of many people about investing in property. She was born near Rustenburg, a large mining town in the North-West province. She completed the local township high school and commenced studies through the correspondence university, the University of South Africa (UNISA). She experienced the shared hardships of numerous people in the area. The mining sector suffered adverse economic conditions, trade union activism and unemployment. Lebo articulated the ambitions of many. She is an agent of positive thinking, stating that empowerment is in people's own hands. She observed that whilst some members of her community spent all their earnings and fell into indebtedness, others saved regularly because they wanted to improve their livelihood. Despite adverse economic conditions, few members of the community engaged in constructive strategies to alleviate their plight. Lebo knows *stokvels* well, and rather than blaming others for a miserable life, she believes people can grow financially by taking constructive steps towards wealth creation. Harnessing this knowledge has inspired Lebo to teach people how to control their future through innovative investment strategies. She understood the potential power of collective action to achieve long-term goals (Holmes, 2018; Thanduxolo, 2019).

Women Empowerment: Establishment and Operation

Lebo made the strategic choice to exchange short-term consumption bliss emanating from the run-of-the-mill *stokvel* in exchange for a life strategy to build wealth. The vehicle was property investment. Land had the potential of development, leading to significantly higher returns for the investor. Property ownership was the key to wealth creation.

Lebo worked as an estate agent with the ERA Real Estate agency in Rustenburg where she witnessed first-hand the disappointment of people failing to secure home loans. In May 2018 she started the Rustenburg Property Investment Stokvel (RPIS). As a mother of two children, she needed a regular income to take care of her family, but she wanted more out of life. RPIS offered a vehicle to grow critical mass from individual savings to achieve larger property investment objectives. 'People can make a financial breakthrough through property', she says, 'but they do not understand property as an investment class'. She established RPIS with the support of 30 friends. A constitution outlined the rules of membership, contributions and goal of the *stokvel.* RPIS was restructured as a company, with formal articles of association, submitted to the Company and Intellectual Property Records Office (CIPRO). Membership is now open to persons able to comply with the monetary contribution requirements. The membership target market is middle- to high-income earners. Members buy a share in RPIS at the value of R198,000.00 over a period of three to five years (approximately US$14,058). Each individual member pays R198,000.00, payable in monthly or quarterly tranches. The minimum monthly contribution is R3,000.00 (US$213.00), with a once-off joining fee of R250.00. The accumulated capital is locked in for a minimum of five years. At the end of the term members will decide on the future strategy. If a member fails to contribute according to regular instalments, the person is given three months to correct the position. If an individual does not pay up, their contributions, minus a penalty, are paid back and they are excluded from further participation in the RPIS.

Modus Operandus: Upper Echelon, Modest Links, Big Ideas

Membership of RPIS is currently around 100 persons. These are professional people, such as magistrates, accountants, engineers, judges and teachers, but also includes mine workers and domestic workers. The RPIS has grown its membership to such a level that it became necessary to divide operations into branches, or sub-groups. RPIS now has 'branches' in different North-West province towns, Pretoria and surrounding areas. The rapid expansion mandated a group structure to ensure effective participation and communication among the members. Members in close proximity to each other form a branch and have regular meetings and communication with other branches, in order to sustain the *stokvel* social capital network. The *stokvel* operates democratically as a joint operation. Decisions are taken democratically – by all members jointly, because 'it is our *stokvel*', Lebo reiterates. The membership includes women and men, and includes people from the surrounding geographical area, as well as interested persons who joined online. RPIS uses an online membership application and subscription form. The accumulated savings is banked with one of the leading South African banks. The group uses mobile and electronic technology linked to their bank account to facilitate the receipt and transfer of money. This secures optimal safety to members, but the bank does not sustain a very intimate relationship with its customer.

The primary purpose of RPIS is to purchase property. The most remarkable achievement of RPIS is that it purchased 5.8 hectares of land in April 2019 for R5 million (US$355,000.00). This land is currently being rezoned and the delivery of municipal services are underway so that RPIS can commence the construction of residential property (Mtshazo, 2019; Thanduxolo, 2019).

Socio-economic Benefits

This enterprise offers a vivid illustration of the leadership of women in the *stokvel* environment. RPIS is a vehicle for tangible economic empowerment of all its members, including women. It shows women's capacity to think big and approach empowerment beyond subsistence. This is a significant development, since it fosters economic collaboration between men and women.

Note

1. The exchange rate between a South African Rand (ZAR) and the US$ on 12 May 2021 is ZAR1 = US$0.071; or US$1 = ZAR14.14. ZAR49 billion would be US$3.479 billion.

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Chapter 17

Savings Groups in Uganda

Vincent Bagire and Sheila Namagembe

Keywords: *Ekibiina* ; *ekitebe* ; *kweyamba* ; *agaliawamu* ; credit; microfinance; financial inclusion; empowerment

Introduction

Savings groups (SGs) are widespread in Uganda. The naming and practices may differ. The rationale of SGs is historically rooted in the communal economic stability. People pooled resources to support each other, including labour for agriculture, construction of houses, and hunting, among other economic activities. There are different terms used in local languages to refer to the SGs – *Ekibiina (Luganda) and Ekitebe (Runyoro-Rutooro).* The groups adopt names that reflect their focus or interest or geographical location. In Central Uganda, groups may have different names, such as *Kweyamba (Self-help), Agaliawamu (Togetherness), Tweyambe (Let's help each other) and Tukolelewaamu (Let's work together).* These groups are active across the country in different modes of formation and operations. The majority are informal and not registered. Some groups are active around specific economic activities or events, like harvesting season, gardening or fishing communities. Some groups are informal SGs, others formal. Many of these operate in state-owned organisations. Formal SGs operate according to a formal procedure. Savings and Credit Organizations (SACCOs) are governed by the Cooperatives Act CAP112, SACCO By Laws, Cooperative Regulations 9531 and Tier 4 of Financial Institutions. The Director/Registrar of Co-operatives under the Ministry of Trade, Industry and Co-operatives of the Republic of Uganda oversees the activities of the SACCOs.

There is a growing body of literature on formal tiers of financial institutions, namely Micro Finance Institutions (MFIs) and Deposit Taking Institutions (MDIs), as well as commercial banks course and, more recently, SACCOs. We focus on the scholarly writings about SGs in Uganda. Uganda is located astride the Equator in the East African sub region. It is a landlocked country bounded by Kenya in the east, Tanzania in the southeast across the expansive Lake Victoria and Rwanda further south. To the west, Uganda is bounded by the Congo and Lake Albert, while South Sudan is to the north. Uganda is a constitutional republic divided into districts as administrative units. In 2018 the population was 40 million. Its economy is primary agriculture and the majority of the population lives below the poverty line (Uganda Bureau of Statistics, 2019).

Political instability during the 1970s and 1980s (Hansen, 2013), stalled the development of the financial sector, until the National Resistance Movement (NRM) restored economic stability and a responsive financial sector. Uganda is a member of the East African Common market, which strengthens financial services and internationalisation of business and economic activities. Government policies on financial inclusion, women empowerment, rural financing and direct financial support to women and youth groups contributed to improved financial literacy. The commercial banks, Microfinance institutions (MFIs) and Microfinance Deposit-taking institutions (MDIs) expanded, alongside exponential growth in SACCOs and unstructured SGs. The Financial Institutions Act (2002, as revised) extended regulation to MFIs and SACCOs.

Foundation and History

The general Ugandese name is SACCOs, Village and Savings Loan Associations (VSLAs) and also Circles (collections by one individual at a time). 'These are rotating savings and credit associations (ROSCAs)' (Mine, Stokes, Lowe, & Zoubek, 2013; Thuysbaert, Karlan, & Udry, 2012). The members meet, pool funds and one member receives the pool as agreed on a rotational basis. SGs may have different names depending on their sponsors.

CARE International was instrumental in establishing formal VSLAs in Uganda in 1998, as opposed to the informal setups that existed a long time before. By 2017 there were over 22,000 SGs and close to 741 VSLAs with around 13,327 beneficiaries. The model has since spread to 58 countries in Africa, Asia and Latin America. VSLAs received international support from AVISI, an Italian NGO (Massimo-Lowkki, Walugembe, Ogaba, & Langol, 2014) and the Bill and Melinda Gates Foundation (Mine et al., 2013).

The formation of SACCOs has taken the country by storm in the last couple of years. This was driven by the government policies on financial emancipation and addressing household poverty. The government encouraged communities to set up groups that would be financially supported through a special fund set up and managed by the Micro Finance Support Center. A nationwide financial scheme called *Entandikwa (seed capital)* was a government programme that also supported organised groups by direct government funding. These were mainly groups of women, youth and people with disabilities. Although emphasis was that such money would be reimbursed after growing returns to the group, much of it ended being used by individuals for consumption and not profitable investments. This scheme did not realise its goals. Indeed many people who received funding did not commit it to investment but consumption. The Government later developed another fund, *Bonabagagaware (prosperity for all)*, which was to extend loans to SACCOs for onward lending to their members. This also disappointed. Indeed many groups of people at community and organisational levels have formed SACCOs to support each other in financial emancipation.

Economic Outcomes

Loans and Investment

VSLAs had accumulated savings of up to Ushs. 1,113,185,960 (about US$ 300,861 at August 2018 exchange rates; Massimo-Lowkki et al., 2014). The

VSLAs support the most vulnerable in economic emancipation. Per capita savings contributions amounted to around \$0.5–\$1, per week (Thuysbaert et al., 2012). The loans are mainly for business, food, education and health needs. SGs are beneficial to the members and the community (Mine et al., 2013), specifically towards short-term benefits for welfare, financial support, business development and daily household needs (Thuysbaert et al., 2012). Many individual members managed to set up their own investment enterprises from resources pooled from SGs.

Entrepreneurship and Business

The key Government of Uganda policy framework supporting the establishment of SGs is the creation of wealth for all (*Boonabagagawale*) as set out in the National Development Plan 2010/11–2014/15. The Government extended soft loans to individuals and groups (*Entandikwa*) towards initiating income-generating activities. A Global Entrepreneurship Monitor study (see Walter et al., 2003) found that Uganda was one of the most entrepreneurial countries in the world. Walter et al. (2003) found that entrepreneurship was gaining momentum because of the support from the government framework, functioning institutions and a stable political climate. Many small businesses were set up from funds acquired from microsaving schemes. Most of these are in agro-related businesses such as food sales, market stalls and cultivation. The report, however, noted the high failure rate of enterprises within the first year of establishment (Walter et al., 2003).

Women Economic Empowerment

Women's empowerment in Uganda has become an important focus. Streaming from the government's focus on special groups (women, children, disabled), women economic empowerment coincided with political and social emancipation. An analysis of women empowerment uses a gender lens to assess how resource appropriation and political power engagement benefits women. Lakwo (2007) used the livelihood sustainability framework to assess women's engagement and benefits in economic activities. These policies concerned giving women the financial ability to provide for their needs and family, involvement in economically rewarding ventures and leadership power to make decisions that affect their welfare. The government and civil society encouraged women to form groups to mobilise savings and also receive support. Various individuals and foundations contributed to a revolving fund for borrowing by members. In some groups women agree to save a given amount weekly, monthly or even daily. This is pooled to increase the group's funds and lent out to members at affordable rates. The national human development index shows tremendous achievements in women empowerment (National Development Plan, 2011/12–2014/15). Among the key elements has been a focus on financial inclusion of the women. By their own initiative, although it has not had a structured scholarly scrutiny, most participants in SGs are women, or they are founded by women (Thuysbaert et al., 2012). A study by Beaman, Karlan, and Thuysbaert (2014) found mixed results on impacts of SGs on economic welfare of communities. Among the women, the increase in investment in small enterprise and food security was notable, but less so the accumulation of wealth by assets after two years of the programme. Mindra and Moya (2017) found in earlier studies that social networks have empowered women with information on financial services such as saving, credit, loans and loan terms by different financial institutions.

Social Outcomes

SGs are viewed as vehicles for community mobilisation, political support, team cohesion and economic support. Other scholars study them with respect to improved access to health services (Mutebi et al., 2017). The Ministry of Health was running a project called MANIFEST, using SGs to assist access to health service programmes. Rural access to financial institutions was slow. This triggered the formation of village saving groups to pool funds in 1998. Mutebi et al. (2017) found the general size of SG to be 4 or 5, while Hugh and Staehle (2011) put it at 10–25 members.

Mine et al. (2013) examined two categories of SGs, namely those assisted to establish itself and subsequently nurturing the group, so-called Project SGs, and those that grew from the former, or Replicated SGs. Some

SGs were born out of members' insights after observing and interacting with other similar groups, or were founded by an agent. Generally SGs admit members as long as they meet the criteria specified in their internal documents. The SGs have criteria for savings like age, ability to pay for shares and commitment. In Uganda the age of adulthood is 18. This seems to be the SG required age for admission (Mutebi et al., 2017), and our review of other research did not find any results to the contrary – of younger members in SGs. Mine et al. (2013) noted the rise of multiple memberships, where a member belongs to two or more SGs. They noted that there is no restriction to the number of SGs a person may join. The reasons members gave for multiple memberships was to widen opportunity for bigger loan pools from different groups. Some respondents indicated multiple memberships to borrow from one group to pay an outstanding loan of another group.

Ecosystem of Saving Groups

The growth of SGs in Uganda is anchored in the operations of NGOs and civil society organisations. The role of government in its pursuit of economic growth must also be kept in mind. The groups operate in an agreed structure, regular meetings, a relationship of trust and neighbourliness. Meetings occur frequently to save or share savings, usually weekly and others monthly (Mutebi et al., 2017). At these meetings members review the operations, pool savings, give loans and share out their earnings.

Women benefitted from the expansion of telecommunications across Uganda, enhancing their access to information. Many women own a mobile phone, which improved communication and also the prevalence of SGs. There is no clear evidence of how much this has contributed to growth of SGs, but Mindra and Moya (2017) indicate a positive relationship was established with financial inclusion.

One key aspect of SGs is the need for training in management of the SGs. Bagire, Hojops, and Kakooza (2016) have noted the lack of streamlined management skills across Ugandan organisations. SGs being micro in nature suffer weak management systems. International NGOs

(AVSI, CARE) and Government programmes (Office of the Prime Minister) have offered management training. These offered capacity building, training in technical and leadership skills and basics principles of management. (Hugh & Staehle, 2011; Mine et al., 2013; Ogwang, 2017). The key aspects of the agent training include how to manage members, savings patterns, meetings, managing saving boxes, elections of management committees, rules and procedures. This training is organised in modules spreading over a given period of time to allow for learning and gradual integration of skills and knowledge (Hugh & Staehle, 2011).

Challenges

SGs are challenged by their very nature – existing in poor communities that have less access to formal financial institutions (Thuysbaert et al., 2012). Members suffer the constraint of inaccessibility to formal financing, but they gained confidence in the microsavings mobilised in their own SGs. From anecdotal evidence, SGs are becoming an acceptable model not only among the very low-income earners but also among employees in better earning employment, such as middle level working class and business communities (Lowicki-Zucca, Walugembe, Ogaba, & Langol, 2014). The groups are, however, faced with a number of operational, financing and leadership challenges.

The challenges include difficulties in raising sufficient savings as a pool for lending. The constraint of dishonesty, fraud and theft occur among group members, absenteeism is very common, as is breaking simple operational rules. These are compounded by weak leadership, and lack of basic management skills, among others (Mine et al., 2013). Ogwang (2017) noted the challenge of a lack of savings rendering the group members consumers rather than investors of their earnings. Many individuals use the savings for consumption during the festive seasons to buy food, drink and entertainment. Besides that, some individuals have membership in multiple groups. There are concerns that this practice has led to cyclic indebtedness among the members, making SGs work against their basic foundation goals of fighting rural poverty (Mine et al., 2013). Thuysbaert et al. (2012) found no evidence of asset accumulation and sustained welfare indices. Ogwang

(2017) noted that some groups still charge high rates of 10% per month, leading to some members failing to pay and eventual loss of family assets, conflict and family dissolution. A resolution of these challenges may render SGs vehicles to grow into formal financial institutions.

Case Study Uganda 1: Bridging the Gaps – The SACCO Initiative at Makerere University Business School

This case is a formally registered and regulated SG. SACCOs are a path to financial sustenance among employees.

Academic staff considered forming a SACCO considering inadequate remuneration, the high cost of borrowing from the formal banking institutions and the desire for income-generating projects at individual and group levels. The academic staff at Makerere University Business School (MUBS) agreed to practice what they teach. To improve financial independence, they needed to form a savings and credit scheme to provide a secure and cheaper source of loans and current personal expenditure. This offered an opportunity to apply theoretical knowledge in managing a profitable enterprise. Non-academic administrative staff joined the SACCO. Members formed a committee to register the MUBS SACCO in 2007.

MUBS is a state tertiary institution of higher learning affiliated to Makerere University. It was established in 1997. The School had an enrolment of about 16,000 students in 2019 and 512 academic staff and slightly over 300 administrative and support staff in five campuses countrywide.

This case study explains the establishment and operation of the MUBS SACCO. The statutes opens membership to those who are willing to commit monthly contributions. The goal is to offer affordable loans to members. Membership is open at any time when one wishes to join. Exit, on the other hand, is also open but accumulated interest on the savings of about 12% per annum cannot be claimed immediately. Withdrawal is subject to specified accounting and decision-making processes.

Formation or Establishment

The MUBS SACCO illustrates how members in an institution think and plan for financial sustenance from within their means through pooling resources. The SACCO started in 2007. It was an initiative driven by the high cost of formal borrowing from banks and other financial institutions. Several of the members interviewed for this chapter indicated that they had suffered from high costs of bank loans. The charges were considered excessive. Members looked towards the SACCO as an alternative. Some members harboured scepticism about a lack of adequate loanable funds, the amount at disposal of a member, the returns on investment and likely mismanagement.

Setup and Governance

The SACCO was formally registered with the appropriate government agency, the Ministry of Trade and Industry. The statutes are simple. Operations are simple and avoid cumbersome processes. An executive committee was established, as required by law to manage the SAACO sustainably and report to the membership. Both academic and administrative staff are represented in the management structure. An assistant administrative officer was appointed to handle the day-to-day affairs of the SACCO. The position involves keeping the records, initiating correspondence, keeping the office accessible and providing support to the executive in their role. The position holders have changed twice since its establishment. To minimise the fixed cost of a salary the current holder is also a staff member in the accounting section of the university, hence fully remunerated. The SACCO pays him only a responsibility allowance.

The contributions are voluntary. At first, members would give it in cash monthly. It was later agreed to sign off a direct deduction from one's monthly emoluments paid by MUBS. The School by policy did not have an objection since the contributors would sign a standing authority for the direct deduction and transfer. This was, however, linked to internal allowances that the school was paying all categories of staff not on the government payroll. The amount as already noted was an individual member's choice of how much to commit in monthly remittances to the SACCO account.

SACCO Operations

The SACCO operations are provided for in the statutes. The amount that a person can borrow depends on one's investment portfolio as well as one's gross pay in the School. Members may borrow up to three times their stated gross pay in the university. The security is a post-dated cheque in the name of the SACCO upon receiving funding. For most members the loanable amount is between UGX 2 million and 10 million (Equivalent to about USD 270 to 2700). The payment period ranges between 4 months, 6 months and 8 months. The longest repayment period is one year. Previously, the borrower would deposit cash directly to the SACCO account, at intervals and amounts of his choice. Then he/she would bring the receipts to the administrator and have accounting entries done. But over time, payments were not made on time and defaulters were beginning to emerge. This compromised SACCO's liquidity and consequently, reduced its ability to meet further loan requests.

A recent change in remunerations policy almost cost the SACCO its survival. The direct deductions of staff loans to repay the SACCO loan was from internal allowances popularly called ‘top ups’. This was an allowance by the School to supplement government salaries. When the state harmonised staff salaries in all public universities, the university terminated the allowance and a new arrangement was entered into with members. Members were required to sign a form authorising the deductions to be done directly once their salaries were paid on individual accounts. This was not widely popular but it works best to recover the loans. The leadership has now embarked on a consultative process to identify further investment opportunities rather than the available funds only disposed of for members’ borrowing. This is not only straining liquidity but also brings in a very small return on investment. To grow the SACCO, there is a need to put the funds into more profitable short-term ventures.

Growth and Stagnation

SACCOS have been characterised by both growth and stagnation. Figures from the SACCO secretariat show that from its launch it was quickly embraced. The number of subscribers and the deposits steadily increased. It had an early growth attraction of membership, savings volume, active portfolio and other indicators, like support from management and timely remittances on account. Over the years, the SACCO tended to stagnate. This was the result of policy shifts, loan burdens and the general status of the economy. Default or to delay in completion of their payment became more frequent. This has been solved by reducing the number of borrowers, and the loan amount allocated is lower than before. There have been some governance gaps, with shortfalls on having timely annual members general meetings, auditing, filing returns to the SACCO secretariat and sorting out tax obligations. These are being addressed in order to reinvigorate the SACCO operations to meet its stated mission.

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Index