GOOD PRACTICE PRINCIPLES FOR SAVINGS GROUPS IN THE DRYLANDS OF THE HORN OF AFRICA[1]

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Introduction

Savings Group (SG) approaches have developed over the past 20 years into a fairly standardized methodology. The approach was first introduced into the arid and semi-arid lands (ASALs) of the Horn and East Africa around 10 years ago, and is currently being implemented by a number of international and national NGOs, including several ECHO DRRAP partners. They are generally referred to as Savings Groups although in Kenya different organizations have given it different names, Village Savings and Loans Associations (VSLA), Group Savings and Loan (GS&L), Village Community Banking (VICOBA), savings and internal lending communities (SILC). The main principles are that community members mobilize their own resource and access loans from personal savings. Capacity building is done with community members who then develop their constitution and agree on savings mobilization modalities, frequency of savings, loan procedures and governance. The groups operate within a period of 12 months which is referred to as a cycle. At the end of each cycle the group carried out an action audit also referred to as share out or liquidation. All the savings and interest earned in the year are shared out as per the group constitution and a new cycle is constituted. The group then pools it's savings by buying shares in the group, and when they have put in an agreed amount they can qualify for a loan to start a small business or meet a sudden cash need (e.g. school fees). The interest paid as the loan is returned is also shared out among all the members.

In the drylands of the Horn and East Africa, savings groups have been shown to increase diversification of income - leading to increased resilience to drought. Case studies have shown the varied and significant benefits from the approach, ranging from attracting youth out of cattle raiding towards engagement with economic enterprises in Karamoja, to enabling group members in Tanzania to pay for school fees during times of drought. The approach has also provided a useful basis for the establishment of private animal

[1] These good practice principles were drawn up for and reviewed during an ECHO DCM partners meeting in ILRI, Addis Ababa in May 2011 and edited by Vanessa Tilstone, MLC Manager and Helen de Jode, Consultant, REGLAP. They were revised in 2013.

health services in numerous locations. In Ethiopia, savings and loans combined with functional literacy and business development skills was shown to increase women's confidence to engage in individual business ventures, as well as to engage in meetings and other community events (CARE Ethiopia, 2009).

Standards for the approach have been developed and are outlined in a number of documents, including CARE's Field Operations Manual (VSL Associates, 2007). These good practice principles are based largely on this Manual and recent experience in implementing the approach in the ASALs. Using these good practice principles is particularly important given that high rates of losses within VS&L groups that have occurred in these countries. For example, a study by CARE (Nyanza Province of Kenya) showed that 17% of VSLA members, and 23% of non members, knew someone who had lost money through the scheme.

Despite the potential of savings groups there is also a need to develop complementary programs to provide an enabling environment for business development in the ASALs. It has been found that limited access to markets and insecurity can undermine the functionality of savings groups as it limits opportunities for investment or livelihood diversification. Business development skills and financial literacy also needs to be developed using the various good practice manuals around e.g. A Facilitation Guide for Small Business Management Skills that was developed by the Enhanced Livelihoods in the Mandera Triangle Programme (ELMT)[2], CARE's Selection, Planning and Management (SPM) of IGAs manual[3] and ILO's Start Your Business Manual[4].

Good practice principles

1. **<u>Expertise of trainers / facilitators</u>**

   a) Establish minimum standards for training using one of the training manuals mentioned below.

   b) Establish a standardized method of paying facilitators with other organizations and development actors working in specific areas of operation.

   c) Ensure sufficient skill in business development skills is present and if necessary include in business development skills and functional literacy in support.

2. **<u>Sustainability</u>**

   a) Groups should be autonomous and self-managing, with implementing institutions only facilitating and not trying to manage the fund. This promotes self-reliance and long term sustainability.

[2] See http://edu.care.org/Documents/Small%20Business%20Management%20Skills%20-%20Facilitator%20Guide.pdf
[3] http://edu.care.org/TechnicalGuidelines/IGASelectionPlanningManagementVillageAgent.pdf
[4] http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_159401.pdf

b) Grants or matching funds **should not** be provided to savings groups. If groups are also functioning as PFS groups, their research grants should be kept separate from their savings.

3. <u>Group membership</u>

a) Members must be allowed to select themselves, once the concept has been introduced and sufficient understanding has been established. However, in the case of mixed groups at least three of the five committee members should be women in order to avoid marginalization.

b) Group members should live within easy access of the meeting site.

c) There should be between 10 and 30 members per group so that the group is big enough to create a useful pool of capital and small enough to keep meetings manageable.

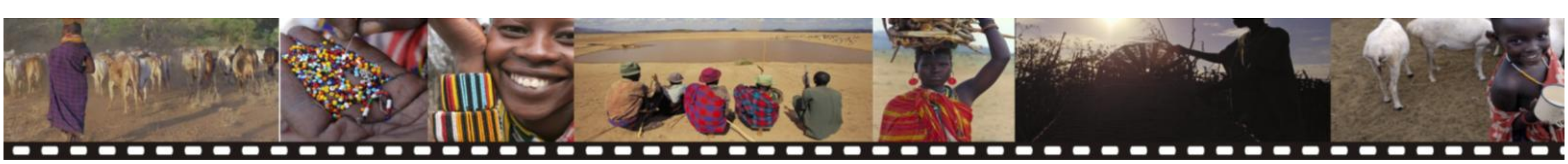
4. <u>Constitution and self regulation</u>

a) Group members should agree on a set of rules/bylaws which are written up as a group constitution and signed by every member, with memory based training used for illiterate clients. A Constitution performs two functions: first it provides a framework for governance, dispute resolution and disciplinary action, and secondly it specifies the conditions for share-purchase/savings, access to benefits payable from the social fund, as well as the length of the operating cycle (between 9 months and one year).

b) All transactions should be carried out in front of the group, at group meetings, to ensure transparency and accountability. To ensure that transactions do not take place outside the regular meetings, a lockable cash box is used (with three separate locks), to prevent unauthorised cash movement and the risk that records might be tampered with.

c) A governing/management committee should be elected each year at the start of each cycle. This should consist of a Chairman, Secretary/record keeper, Treasurer/box keeper and two money counters. These members can be removed with the agreement of the group if there are concerns over their performance.

d) Cash box management – three guardians are selected by the group to hold the keys to the cash box. The cash box has 3 padlocks and at the end of each meeting three people are appointed to keep the keys for that particular week or month depending on the meeting frequency. The key holders must not be group officials. The group should agree the limit on the amount of money that it is safe to hold in the cash box, and agree on an alternative mechanism to store money should it exceed this limit preferably using formal financial institutions to avoid security challenges.



e) Groups should meet at regular intervals—weekly, fortnightly or every four weeks—as agreed by the members.

5. <u>Shares</u>

a) The value of a share should be set by the group. It should be set at a level that maximizes the opportunity of the poorest group members to purchase at least one share per meeting.

b) The maximum number of shares that can be purchased per session must be set – normally up to 10 (latest revision) but this can be changed to 3 where there is concern about elite dominance.

c) Share purchase should be recorded in individual pass-books using a stamp system or other system which allows illiterate people to understand the amount of money they have saved.

d) The "saving cycle" should be between 9 and 12 months, when all loans are called in and cash (inclusive of all interest / other revenues earned, but exclusive of the social fund), is distributed to group members based on their share capital.

e) Once the group re-forms, after the end of cycle pay out, the share prices can be reviewed.

6. <u>Loans</u>

a) 1-3 individual group members should guarantee each loan, with loan size limited to what group members believe each individual is capable of paying back. Alternatively there is individual self screening, and a group constitution.

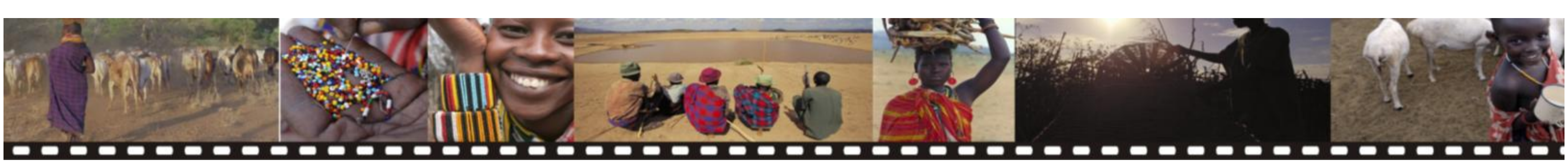
b) The size of a loan that an individual takes out should not be more than three times the value of the shares that she/he has already bought.

c) Repayment schedules for loans should be defined by the group, but are normally tied to repayments every four weeks. Weekly payments are mainly done in urban informal areas; but in the rural areas the loan repayment is done on monthly basis.

d) Loans should be taken in front of all members and must be based on the consent of all the group members.

7. <u>Interest</u>

a) The group members must decide the percentage service charge for loans (normally between 5 to 10% - according to what they can all afford and how much they want to build their fund). This should be written into the group constitution. The interest rate should be evaluated after the end of every cycle when the members may decide to maintain the same percentage, or increase it,



depending on the consent of the majority of members. Interest rates rarely exceed 10% and should be replaced by an administration fee in Muslim communities.

b) The service charge is applied to the balance of the loan at every repayment until the loan is fully repaid. The interest must be paid when due, regardless of whether or not the member repays the loan principal. Loan principal repayments should also be made at regular (four-week) intervals.

c) The period of loan repayment should be well stipulated in the constitution and may be revised from time to time based on economic activities of an area and loan volumes. In most cases the loans are repaid within a period of between one to three months, but the borrower may repay early to avoid further service charges if she/he wishes. When a borrower pays part of the balance due, the remaining balance is treated as a new loan, with the service charge percentage applied to the new amount and due at the end of the next (four-week) period.

Recommendations

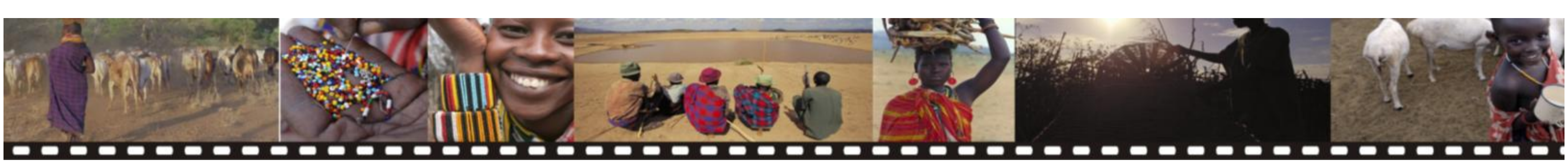
1. Interesting opportunities are arising on the use of groups as collateral for larger loans from banks, especially where wealthier member feel constrained by the limits on loans. Further research is necessary however to ensure all group members fully understand the mechanisms and risks involved and that groups are not exploited.

2. There are increasing opportunities to link savings groups to other community approaches such as PFS, conflict resolution and CMDRR. The mechanisms and links between these need to be further researched in order to avoid confusion and overload.

3. More research is needed into the use of alternatives to charging interest, such as a set fee for loan withdrawal. This is important for Islamic communities.

4. Advocacy and raising awareness also needs to target donors and other institutions to increase knowledge on the potential for savings groups to support Disaster Risk Reduction processes.

5. All organizations should carry out periodic impact assessments of savings groups with reference to whether they have implemented these principles. The conclusions should be documented and disseminated and recommendations on these principles fed back.



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