Microfinance: The Savings Group Model

Dawn Berkelaar

Introduction

One key aspect of those who live in poverty is a lack of options. Personal finances are one area in which lack of options can have a huge impact on a family and community. Sometimes income and/or expenses are irregular, leaving folks vulnerable. The opportunity to borrow a small amount of money can be extremely helpful when school fees are due, a family faces unexpected medical expenses, or the time is right to expand a small business. However, the very poor do not have access to traditional banking services, and may be vulnerable to exploitation by people offering highinterest loans.

World Vision is using a model of microfinance called Savings Groups. Savings Groups, also known as Village Savings and Loans Associations, are run by group members and focus on saving money rather than borrowing it. The concept was begun by CARE in Niger in 1991 and has grown exponentially; Savings Groups now have 4.6 million members in 54 countries.

In this article we share information about Savings Groups and details about how to set one up. The information is from their very helpful website: http://worldvisionmedia.ca/asca/ . The website has video resources that can be viewed online or downloaded. A promotional video gives an overview of the difference Savings Groups can make in communities. A short video for each of the steps of a successful meeting (steps are listed below) gives opportunity to see a Savings Group in action. Two videos of case studies illustrate a few ways in which Savings Groups have benefited individuals and their families. Videos are currently only in English, but are being translated into French and Spanish. A training manual in pdf format (Village Savings and Loans Association Savings Groups) is also available on the site.

Figure 1: The start of a Savings Group meeting in the Philippines. The chairperson (standing) welcomes the group. Photos in this article are from World Vision, used with permission.

What are Savings Groups?

Savings Groups are a group of people who work together to save money, lend their savings to each other and share the profits. Savings Groups are simple, transparent, independent and locally run. They allow members to provide their own savings and credit services at negligible cost, while retaining earnings and investment in their own communities.

Having access to credit is vital in any community. It helps people build their businesses and provide for their children. Savings Groups are making this possible in some of the world's most remote and impoverished communities.

For groups or communities with few if any financial savings options, there are many advantages to the Savings Group model.

Simple. Savings Groups are easy for group members to implement, understand and manage, because of the structured approach and methodology.

Transparent. Built in checks and balances foster security, confidence and financial transparency.

Service the Most Vulnerable. The world's poorest people have the least collateral and the least access to credit. Savings Groups bring financial services to their communities.

Provide Social Benefits. A Savings Group includes a Social Fund in addition to a loan fund (more details are given later in the article). In addition, evaluations have linked the introduction of Savings Groups to the empowerment of women, resilience to emergencies and the development of a stronger community.

Inexpensive to Set Up. After the initial training, Savings Groups are run and grow under the direction, and through the investment, of their members.

Self-sustaining. Groups are often fully independent in about a year, and enjoy a survival rate of over 90 percent in the long term.

Self-replicating. In World Vision's model, one or two group members are selected and trained to become trainers (Village Agents) for new groups.

Establishing a Savings Group in your Community

The main roles played by World Vision staff are to explain the core concepts to the members of the community, train the groups in the step by step method (described below), help facilitate the initial meetings and provide regular monitoring and support. After the leaders and the attendees become comfortable with the simple sequence of events that make up a meeting, World Vision staff can step aside and allow the members to confidently take control of their Savings Group and financial futures. Members of the group can also be trained to train others who can begin their own groups. In this way, Savings Groups are self replicating.

Early on, members of a group choose leaders and draft a constitution that specifies items such as how often the group will meet; what interest rate will be charged; what loans maybe used for; and what will be the value of a share.

A Savings Group Meeting

Here we summarize information about each step of a Savings Group meeting. The steps should be followed closely. What makes the Savings Group model work so well is its simplicity and the logic of how it is structured.

Short videos on the World Vision site show each step of a meeting in action.

Step 1: Opening the Meeting. The group meets once a month or more often if preferred. A group has a maximum of 25 members, but families are welcome to come and observe. Responsibilities for different aspects of the meeting are divided among several members. A chairperson welcomes the group; a record keeper takes attendance; and three key-holders are required to open the steel box that contains the group's money. Another member acts as box-keeper, and two money counters sit before a "fines" bowl and a "money counting" bowl. (Fines are given by the group based on agreed-upon rules that are included in the group's simple constitution. For example, showing up late to a meeting might result in a fine. The fines are added to the group's savings.) Having many members involved in key aspects of the meeting (Figure 2) ensures that money stays secure and that the process is open and honest. After attendance is taken, each member is given their passbook with a record of their transactions.

Step 2: Daily Savings. This is an optional step that enables group members to save small amounts of money between meetings. The money box has a slot in the lid where money can be deposited into a special savings compartment. If a group member deposits money in the box between meetings, he or she is given metal tokens (each worth the value of one share) and the number is stamped in an exercise book by the record keeper. After the box is opened at the start of a meeting (Figure 3), members turn in their tokens and are given their savings in exchange. The transaction is crossed out in the exercise book. Members can now use those savings during the meeting.

Step 3: Share Purchasing. Members build savings by purchasing shares of the Loan Fund. The value of a share is set by the group at a level that allows all members to buy at least one share per meeting on a regular basis. At this step of the meeting, the group is first asked to recall the balance of the loan fund from the previous meeting. The money counters count and report the amount of money in the loan fund bag, and the group confirms. Then each member at the meeting is called forward by number to purchase shares; he/she must purchase a minimum of one and may purchase a maximum of five shares. The number of shares is recorded in the member's passbook (usually with a stamp, where one stamp represents one share; see Figure 4). Group members clap in appreciation when a share has been purchased. A member can also withdraw shares at this time; the value of shares withdrawn is always equal to the original purchase price. If shares are withdrawn, the same number of stamps are crossed out in the member's passbook.

Figure 2: In a Savings Group, several members take responsibility for different aspects of the meeting. These include (from left to right) a chairperson, record-keeper, boxkeeper and two money counters.

Figure 3: Three different Savings Group members each have a key for a separate lock on the lock box. The box cannot be opened unless all three locks are opened.

Step 4: Loan Repayment. During this part of the meeting, those who have borrowed money previously identify themselves. They are called one at a time by number to give their payments. The record keeper uses the borrower's passbook to verify the amount owed, and the money counters count the money and place it in the money counting bowl. Payment on a loan cannot be less than the interest rate (usually 10% of the loan per month, which may seem high, but people are basically lending to themselves and the interest income stays within the group). The record keeper enters the amount paid, and recalculates the loan total. If a balance is remaining,

Figure 4: A member's passbook is stamped to indicate the purchase of shares.

the service charge is calculated and added. The borrower signs the statement in the passbook. If the balance is $0, the record keeper makes an announcement, the loan is crossed out, and group members clap.

Step 5: Calculating New Loan Fund Total. After all transactions are completed, a new total is calculated for the Loan Fund. The money counters combine money from the “fines” bowl and the money counting bowl. They count and report the new balance, which is confirmed by the record keeper.

Step 6: Loan Taking. Any member that wishes to take a loan does so at this time. The chairperson invites requests for loans. A maximum loan is three times that member’s savings. The group decides how much each borrower will receive. A member must repay one loan before taking another. Typical repayment time is three months. Before taking a loan, the group member must make a verbal request, sharing how much they would like to borrow, the purpose of the loan, and the date by which they expect to repay the loan. Requests are discussed and decisions are made about each loan. The record keeper calculates the value of all loan requests and reports to the group. The total amount of loans requested must not exceed the available money in the loan fund.

Once amounts have been decided on, the record keeper calls borrowers to the front by number, one at a time (Figure 5). The loan amount and service charge are entered in the member’s passbook. The record keeper instructs the money counters to give the loan amount to the borrower. The borrower counts the money and signs the passbook, then makes a verbal statement to the group about the total loan amount and the date it is due. Once all loans have been processed, the money counters count the money in the money counting bowl and report the total to the group. The Loan Fund money is put in a drawstring bag in the cashbox.


Figure 5: A Woman receiving a loan

Step 7: The Social Fund. The Social Fund is an emergency insurance fund that members can draw on during difficult times. The use of the fund is decided by all members. Each may draw from it if needed, but each must also contribute. At this part of the meeting, the record keeper asks the group to recall the balance from the previous meeting. The money counters remove the money from the Social Fund bag, count it and report the total.The two amounts should match. The record keeper calls on members to give social fund contributions. All members must contribute the same amount. The money counters confirm the amount as each member makes his or her contribution. A member who owes a previous contribution is asked to give that as well.

After all contributions are made, the record keeper asks for any requests from the social fund. A member requesting money identifies him/herself and presents the reason. Group members discuss the request; if approved, the member receives money from the money counting bowl. Then the money counters count the remaining money and report to the group. The record keeper confirms the balance and asks the group to remember the amount. The money counters put the Social Fund money in its drawstring bag and then in the cashbox.

Step 8: Totaling Balances. The record keeper notes and announces the Social Fund balance and the Loan Fund balance. Group members are required to memorize those two totals to ensure the transparency of the process. The box keeper puts everything back inside the cash box, and the chairperson asks the three key holders to lock the box.

Step 9: Closing the Meeting. Once the box is locked, the floor is opened up to any topics members may want to discuss, whether about the Savings Group or the community in general. It is an opportunity for members to share with and learn from each other, and to engage with the community. Finally, the date and time for the next meeting is announced and the meeting is ended.

Closing the Group

At the end of a cycle (often one year), all of the money in the cash box is divided out based on members' contributions. This is when people see a return on their investment, with income generated from fines and interest paid on loans. Savings grow, usually by a minimum of 30% but often higher. Once the money has been distributed, a new cycle begins.

For more information about the Savings Group model of microfinance (including where to locate a lockbox and template for the passbook), contact Pieter van der Meer at pieter_vandermeer@worldvision.ca .

