



Savings and Credit Groups: An Empowering Strategy for Reducing Poverty

Introduction

World Neighbors began working with savings and credit groups in Nepal in 1988. As a part of a program to support our partner in the construction of drinking water systems the community formed user groups to discuss the drinking water situation and to contribute money each month to a maintenance and repair fund. After several years, World Neighbors realized that members of the group were struggling with debt to money lenders while their fund far exceeded what they needed to maintain the drinking water system. So the community transformed their user groups into self-managed savings and credit groups. Members of the group made monthly contributions which they immediately distributed to each other in the form of low interest loans. These groups were effective for a time, but the members – all men – couldn't agree on how to manage the fund and eventually depleted it. Women in the community, however, saw the potential of this pooled money and began a group themselves. Their success was astounding. Not only did these groups, which came to include men, overcome debt exploitation by moneylenders and improve their individual livelihoods, but eventually they accumulated sufficient capital and interest revenue to make regular contributions that help support a non-profit hospital in the Ramechhap district in the central region of Nepal. The accumulated capital, all generated from local savings and interest, has reached \$447,487.

Since then, World Neighbors has been incorporating savings and credit groups into many of its programs around the world. The formation of savings and credit groups is frequently used as a strategy for mobilizing local assets to achieve collective development goals. However, supporting women-only groups is often a primary component of World Neighbors approach to addressing gender equity, since women-only groups have the effect of increasing women's status as they are increasingly able to contribute to community well-being, as well as providing a very positive first experience for women to the power of collective action.

World Neighbors developed this approach to savings and credit with our partner Tamakoshi Service Society (TSS) in Nepal. This program initiative to strengthen the capacity of savings and credit groups has achieved significant results:

- ◆ Formed more than 500 groups with over 11,000 members, mostly women, mobilizing \$234,000 per year
- ◆ Helped at least 55 of the savings and credit groups register with the government as primary credit unions
- ◆ Helped 150 communities to construct gravity flow drinking water systems and 20 small irrigation systems, reaching over 27,000 people
- ◆ Supported freestanding and mobile health clinics serving over 20,000 patients in outlying villages
- ◆ Helped over 1,300 poor farmers to plant, protect and use several thousand multipurpose tree and grass species for fodder and fuelwood
- ◆ Helped 14 of the most marginalized indigenous groups construct primary schools

With the prospect of expanding programs into the Terai region of Nepal, World Neighbors explored the factors of the TSS program approach that enabled such success. The self-management aspect of the approach, combined with financial and organizational management skills was found to be the key. Not only does this approach increase group member's incomes so they can meet their basic needs, and often escape exploitation by local moneylenders, it empowers people, particularly women and fosters collective action. In 2001 World Neighbors initiated eight new partnerships in the Terai region of Nepal and in the state of Bihar in India using savings and credit groups as the community entry point for integrated program development. Within six years the contributions from these groups have helped local non-profit NGO health clinics to achieve sustainable self-reliance, as well as to fund a range of other community development projects such as drinking water systems, retaining walls and biogas generators.

Though the elements of successful groups vary somewhat across different regions of the world, World Neighbors savings and credit groups have several common characteristics. This issue of WNIA highlights the basic elements and factors critical to the success of this approach.

GROUP FORMATION

Step-by-step group formation

Based on World Neighbors experiences in Nepal and India

Establishing the relationship

Choose the community

Generally partner communities should contain a high number of extremely poor or marginalized groups such as ethnic minorities, the houses should be fairly close together to facilitate meeting and group work, the community should be free from major quarrels, and should consist of only a couple of castes. The community should also be willing to participate – forcing group activities on a community will result in failure.

Meet with the community

The initial meeting is often with the village leaders to explain the program and the importance of meeting with the entire community. If they agree then subsequent meetings involve the entire community. Several meetings are held to explain the benefits of group formation for savings and credit. These benefits include:

- ◆ Freedom from moneylenders
- ◆ Power of collective action for community development and advocacy
- ◆ Training/skill building
- ◆ Linkages to other resources: banks, government, other NGOs, other groups
- ◆ Support from local NGO for development activities such as health clinics and sustainable agriculture
- ◆ Increased incomes
- ◆ Increased status – particularly for women

Organize a cross visit

Cross visits are a compelling tool for new groups to learn from the experience of other communities who have already successfully undertaken savings and credit initiatives.

Establish relationship boundaries and expectations

Communities may expect the organization to fully manage the development initiatives. Therefore it is critical to the sustained involvement of the community to be clear from the outset that the role of World Neighbors and its local partner is to facilitate the initial set up of the groups and to provide practical training on group management as well as skill building for development activities, but that the groups are to be managed by the members. Additionally, it is imperative that they understand that it is a long term process to which they must contribute time and resources and advocate on their own behalf to outside agencies.



World Neighbors and TSS staff meet with villagers under a mango tree

Developing group cohesiveness

Name the group

Choosing a name facilitates solidarity and eventual registration with the government.

Appoint leaders

Communities choose their own group leaders for positions such as president, secretary and treasurer. The groups go through an exercise to identify characteristics of a good leader and then are encouraged to choose group leaders based on that list. The lists they create often include characteristics such as: respected and respectful, some literacy and analytical skills, patient, good listener, non-discriminating, has time to contribute, and is open and transparent.

Develop group rules

These groups often become a powerful force motivating social change. Social rules foster accountability that goes beyond the financial aspects and cultivates a shared vision for their future. All members should participate in developing the social rules for the group - these often include:

- ◆ No physical or verbal abuse of other members
- ◆ Containing animals so they don't ruin crops
- ◆ No drinking
- ◆ No gambling
- ◆ Maintain a clean and hygienic household

Decide on group size

Self-managed savings and credit groups seem to do best with 15 to 30 members. Often groups start with a smaller number because many people in the community are reluctant, feeling they don't have money to spare, or they are distrustful. However, once they see the success of the initial group, they want to join. Some groups allow new members but require their first deposit to equal the sum of the payments other members have contributed as of that time. For example, if founding members have been contributing five rupees a month for five months, then a new member must contribute 25 rupees to join the group. If a group decides not to allow new members, then another group can be formed within the same community. However, it is important for the local NGO to facilitate coordination of development activities between these two groups.

Decide on meeting dates and times

The supporting NGO should encourage the community to identify a meeting time when the most people could attend. This may be done by conducting an exercise that highlights the times that different groups of people are doing various tasks both daily and seasonally. This helps to reduce the potential for excluding certain groups based on the meeting schedule.

Establishing transparency in fund management

Determine how the funds will be managed

It is critical to fostering trust among members that the groups establish clear and transparent processes for managing their funds. Below are several of the most critical processes. In addition to these the group should determine policies and penalties for meeting attendance, savings contributions, interest rates and loan repayment.

Contributions

The amount individuals will put into the pooled savings each month is often based on the amount the poorest members are able to contribute. Many groups start with only 5 rupees (US\$ 0.08). Even this small amount adds up so that within only two months they are able to start giving small loans, e.g., to purchase poultry. As the group savings increases from interest, they are able to give larger loans, e.g., for the purchase of pigs. As their individual incomes increase, the group may decide to increase the amount each member contributes.

Loan distribution

Groups also need to develop a system for prioritizing loan distribution. This promotes fairness in decision making, and, with encouragement from the NGO, advances a broader development agenda. Most groups prioritize as follows:

- ◆ Most needy are given priority access to loans
- ◆ Emergency food needs (generally going to poorest members)
- ◆ Emergency healthcare
- ◆ Income generating activities
- ◆ Household needs
- ◆ Education

Record keeping

Record keeping requires a minimal amount of literacy. Many women's groups do not have any literate members. They have overcome this barrier by hiring one of their sons or the school teacher to keep their books. Groups generally pay the record keeper a minimal amount for their service. The problem of illiteracy has led some partners to conduct literacy training with these groups. It has also led many of these groups to advocate for equal educational opportunities for girls, and to use their community development funds to build latrines at the schools – often a necessity for girls' attendance.

"I wondered myself why I should join. I could put that money in my pocket. But then I realized that 10 rupees can do nothing, but with each of us paying 10 a month we have 220, and with that we can do a lot."

-Women's savings & credit group member, Nepal

Committing to a vision of community development

Identify community needs

World Neighbors seeks to broaden the vision of the groups to see themselves working together to spearhead collective activities and mobilize non-members to address wider community problems. Because savings and credit groups are only one component of an integrated development program supported by World Neighbors in partner communities, a community needs assessment has been conducted. Partners conduct an exercise with groups, referencing the community needs assessment, to identify and prioritize the needs that they would like to address.

Some of the community projects supported by the interest income of savings and credit groups include accessing or improving a water supply, building latrines for the school, building a retaining wall to prevent erosion, constructing roads or building a collective water tank and micro-irrigation system.

Supporting community development projects is a catalyst to empower people in the community, especially the women. Not only are women able to implement projects that are a priority to them, their financial and collective clout also raises their status in the community.

Promote inter-group collaboration

Collaboration among the many groups in a village or region increases the potential for wider development. The formation of structures should be supported to undertake high interest community development activities such as drinking water systems or tree nurseries. These broader structures often operate as follows:

- ◆ Form subcommittees to handle specific activities
- ◆ Meet to discuss the process for implementing an activity
- ◆ Prioritize needs and associated work
- ◆ Coordinate with other parties – local groups, government, larger NGOs
- ◆ Divide labor
- ◆ Request training from supporting NGO

Network and advocate

Networking and advocacy skills are critical to the group's sustainability as they will – over time - require financial support from outside sources or seek to obtain or exercise their rights.

"We have benefited very much. Women's group members are now more active, we can talk, and we can meet in a group. Before the group formation it wasn't like that – we were not so open and could not speak with outsiders; we used to bow to men. But being in the group, we can talk and we have unity. We have revitalized ourselves. As a group we can approach the NGO or the village development committee for resources for the group's programs. We didn't have to build a wall [referring to a retaining wall the group funded], but now our group is stronger than a wall."

- Women's savings & credit group leader, Nepal

FACTORS OF SUCCESS

Money's not enough!

The input of money or other assets is not, by itself, sufficient to alleviate poverty. For example:

- ◆ Investment of a loan in agricultural production will yield no long-term effects if the farmer is using unsustainable agricultural practices that continue to erode the land and deplete the soil of nutrients.
- ◆ Loans that result in increasing family assets are not guaranteed to improve the well-being of everyone in the family, especially women and girls, unless strategies are used to increase the status of women and girls in the household and community.
- ◆ Innovative investment strategies may be undermined by local power structures that feel socially or economically threatened.
- ◆ Sound plans for a new business may be compromised by the borrower's lack of money management and marketing knowledge.

World Neighbors works with communities to create strategies that address their many inter-related problems. Mobilizing assets is closely tied to other development objectives such as expanding agricultural production, increasing gender equity, improving access to healthcare, strengthening the management of natural resources, and building the capacity of local people to carry on the development process after World Neighbors departs.

Community-centered asset mobilization

A key difference in group savings and credit work as opposed to micro-credit and microfinance is that the pool of money belongs to the group and repayments of credit and interest earned go directly back to them to distribute as individual dividends or for group-determined community development activities.

Combined funds in US\$ of 504 World Neighbors supported groups in Nepal and India with 11,145 members:

Year	Total Funds
2001	\$33,671
2002	\$48,741
2003	\$76,517
2004	\$116,832
2005	\$180,316
2006	\$234,002

Group members are relatives and neighbors who are aware of each others' situation when allocating loans and are able to provide much better follow up than an NGO or micro-credit institution located some distance from the community and supporting many other groups. Because the money stays within the group, the members have a vested interest in helping each other repay their loans. If individual

members are having difficulty, other group members can intervene to facilitate repayment of funds borrowed, either by providing counseling on financial or business management, or by extending the repayment date - sometimes with a fine. Additionally, because the money goes to the group - their friends, family and neighbors - members feel a strong sense of commitment to repay loans. All of the savings and credit groups in Nepal and Bihar, India have sustained a 100 percent rate of return.



Nepali villagers install a community water tap

Community resources may be very limited at the initial stages so the input of resources may be necessary to spark community development projects. However it is crucial that this be done in a way that avoids dependency and fosters empowerment. TSS has developed a set of guidelines by which they will provide resources to a community:

- ◆ Facilitate collaboration among multiple self help groups for decision making and management of projects to be implemented.
- ◆ Only provide outside resources that spark the mobilization of local resources, including volunteer work, leadership, local organization, and some funds, to undertake collective action to solve community problems - for TSS, one example is to finance external materials for drinking water system, but to require the community to obtain access to water source, arrange to transport the materials, dig the trenches, lay in the tubing, obtain gravel and sand, and set aside funds for maintenance. Other examples of providing "catalytic support" which get things going but requires significant inputs and decision making by communities include: literacy classes for women, metal toilets, traditional birth attendant (TBA) training, saplings, livestock - generally a male animal that is used to improve the breed, reproductive health education in high schools.
- ◆ Outside resources should only be given when it is critical for the success of the project, and beyond the capacity and resources of the community.
- ◆ Require groups to provide a matching contribution of resources needed to enable project implementation, including labor and maintenance fees.
- ◆ Provide materials rather than cash. By providing materials you ensure quality and reduce the risk of the external resource being misused.
- ◆ Provide training and cross visits for community leaders and volunteers because they provide inspiration and motivation that are a key factor for success. However, do not provide incentives for attendance at meetings. Cover only food and transportation costs.
- ◆ If seed money is given to start savings and credit groups or small businesses, provide this as a loan - the borrower must repay the money after they earn profit.

Key characteristics of World Neighbors savings & credit approach

- "Savings and credit" groups are created in conjunction with other development activities, such as agricultural improvements, constructing drinking water systems, diversifying incoming-generating activities, or improving access to healthcare.
- Groups are comprised of community members who contribute their own resources (usually money, but some groups, particularly those with a strong focus on improving agricultural production choose to pool seeds, tools, livestock, etc.) to the group assets.
- Each group provides loans and sets its own community-appropriate interest rates, with repayment returning to the group itself instead of to an external nonprofit, moneylender or other entity.
- Groups define their own rules, structure and roles. For example, a group focused on raising and selling small animals may require that loans for those purposes only be approved if the borrower plans to or is using effective marketing and sales techniques.
- Facilitate communication among couples and the community to engender support for group success, and spark social change that leads to more equitable community decision-making and leadership. Both men and women should participate in and lead either separate or mixed groups. These groups are particularly powerful for women - through success in the management of assets and distribution of loans, women's status in the community and household improves, and opportunities for participation in decision-making forums and leadership increase.
- Loans are linked to training relevant to the use of the loan, such as sessions on sustainable agriculture, improved livestock management, building grain storage units, or marketing handicrafts.
- Groups are trained in basic bookkeeping skills and literacy to facilitate the management and growth of group assets, and criteria for receiving credit is often linked to support in related areas that will improve the production or success of income earning opportunities.
- Groups and borrowers are trained to recognize opportunities for increasing family well-being through the appropriate investment of loans. For example, loans may be used to plant vegetable gardens that increase a family's nutritional status as well as provide additional income.
- Advanced groups are encouraged to form cooperatives to increase their total assets and open up the possibility of investing in larger community projects, such as medical clinics, local merchandise stores, water systems and schools.
- Groups learn the power of collective action for leveraging additional resources, eventually including bank linkages and influencing community and government leaders, and advocating for service or public resources.



Many groups identified illiteracy as a barrier to their success so they spend their evenings learning to read and write



Members of a savings and credit group started vermicomposting to improve their own fields as well as to generate income



These women used their loans to purchase several animals. Through group activities they learned to build pens that capture the animal waste so it can be used as fertilizer and biogas. Their generator provides electricity for five neighboring homes



Savings and credit groups in one district contribute a portion of their profits to support a storefront pharmacy that serves their community

Use of savings and credit loans

Unlike most micro-credit programs, the approach to savings and credit promoted by World Neighbors enables members to decide on their own criteria for the types of loans provided to members. Many loans may not be initially used for "economic" activities. Members may decide to request loans for social purposes, such as education or health, or for pure survival to buy food if their family is hungry. This may seem to work against the idea of wise use of capital. However, in most cases, group members feel they absolutely need such a loan and would otherwise go to a local money lender to obtain it. Another alternative would be for a group member to go on short term migration to a bigger town to earn the money. In such cases, group members would pay much higher costs, in terms of lost production or disruption of the family, or in interest, than what they would need to repay back to the group savings and credit fund.

The chart below (based on records from four randomly selected groups with a total membership of 119) shows the distribution of funds through loans over a six year period. Loan distribution reflects the priorities determined by the group, but also a shift from using loans to meet basic needs in early years, to investing in long-term economic development activities. The program's emphasis on developing sustainable livelihood activities begins to provide returns to individuals so they are able to pay for basic needs with their own money and utilize loans instead to further strengthen their livelihoods.

Avoiding dependency – setting the stage for autonomy

Recognizing the risk for creating dependency, World Neighbors does not typically start a program initiative by providing funds. In most cases, savings and credit groups are started by an initial period of several months of regular savings made by all the members. As much as possible, World Neighbors seeks to support communities in mobilizing their own resources and skills to solve problems. This is considered a vital ingredient to the sense of group and community ownership and responsibility necessary for sustainable development. However, among the poorest communities, asset growth by this method can be quite slow and discouraging.

To encourage more rapid and tangible results that will inspire enthusiasm and wider involvement in the development process, World Neighbors may sometimes provide a modest level of external capital or assets, after new group members have proven their commitment to do regular savings over a period of months. However, in these situations, the group manages these additional external capital or assets and distributes loans together with their own capital. Repayment with interest is made to the group, not to an outside organization. Consequently, the rewards for good group management return to the group in the form of increased assets and status in the community. Once the group's assets grow to a sufficient size in this way, World Neighbors requires the group to transfer the seed money or assets to support another group.

Loan Uses	Number of Loans Distributed					
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Business	319	767	1,543	4,374	6,119	7,231
Agriculture	454	617	973	2,377	3,804	4,264
Livestock	88	192	415	243	1,056	1,132
Household	189	1,002	1,108	1,029	859	447
Health care	116	1,018	1,571	829	527	625
Festival	0	15	87	230	404	236
Home repair	106	48	48	281	342	245
Weddings	0	0	96	67	142	217
Education	0	8	219	300	0	208
Other	1	0	25	96	0	96
Total	1,273	3,667	5,995	9,826	13,254	14,701

Involving the poorest of the poor

One of the challenges for any approach to rural livelihoods is to be able to ensure that the poorest members of a community participate and benefit. A number of mechanisms have been developed by the various savings and credit groups to address this:

- ◆ Monthly contributions are determined by the amount that the poorest member can contribute
- ◆ Poorest members are given priority in loan distribution
- ◆ Poorest members do not have to pay interest (once they have increased their income they usually request to be treated as everyone else in the group)
- ◆ Poorest members are given more time to repay
- ◆ Poorer members can make smaller monthly payments than other members (so as not to keep accumulated savings down), but the loans they may take are based on the percentage of their contribution

Characteristics of each stage of group development

The chart below represents a rough sketch of the indicators used by the savings and credits groups to measure their evolution. Movement from one stage to the next can take months or years. Generally moving a group from the embryonic to the mature stage takes six to seven years.

Stage	Group Characteristics	NGO Support
<i>Embryonic</i>	<ul style="list-style-type: none"> • Lack of awareness of development • Limit number of members • Minimal savings • Lack of capacity to conduct common development work • Lack of capacity to make decisions • Illiterate 	<ul style="list-style-type: none"> • Raise community awareness about development • Provide record keeping and monitoring of books
<i>Seedling</i>	<ul style="list-style-type: none"> • Improving habit for saving • Increased members • Increased savings • Regular meetings • Mobilizing funds for small loans • Improvement of record keeping skills • Members will know total and individual assets • Members are enjoying benefits 	<ul style="list-style-type: none"> • Help communities to conduct regular meetings and maintain records • Facilitate community analysis of needs • Support development activities • Continue facilitation role from embryonic stage
<i>Growing</i>	<ul style="list-style-type: none"> • Able to identify their needs • Increase of income using loans • Capacity to repay loan on time • Good record keeping with minimal outside support • Capacity to prioritize loans • Able to coordinate support from development agencies • Able to request budget for activities 	<ul style="list-style-type: none"> • Provide training on accounts – income and expenditures and management of the group • Facilitate an exchange visit with a successful group • Facilitate group meetings with other development agencies • Help develop a constitution to become a government recognized group
<i>Well-developed</i>	<ul style="list-style-type: none"> • Recognition as a group by authorities • Can register as a user’s group (drinking water) – based on Nepali law • Can implement development activities with very little support • Able to keep all records without any outside support • Able to tell about their success to other villages • Recognized as a CBO by the community 	<ul style="list-style-type: none"> • Continue support provided in previous stages but to a lesser degree • Provide matching support and skills for development activities
<i>Mature</i>	<ul style="list-style-type: none"> • Capacity to become a cooperative • Capacity to bargain with other development organizations • Able to evaluate their effectiveness – monitoring and evaluation • Sustainability of development work • Capacity to influence other communities – provide information, educate them • Leaders capable of networking 	<ul style="list-style-type: none"> • Continue previous support at a reduced level • Facilitate a meeting with other stage 4-5 groups to begin the process of becoming a cooperative • Assist in meeting government regulations for becoming a cooperative • Monitor financial records • Provide ongoing, but reduced support for development activities

Groups have identified the most important factor for moving out of each stage:

- Embryonic:** Raise awareness of development
- Seedling:** Improve habit for saving
- Growing:** Able to identify their needs
- Well-developed:** Recognition as a group by authorities
- Mature:** Capacity to become a cooperative

Contextually appropriate adaptations of this approach have been successfully implemented in World Neighbors programs in Guatemala, Haiti, Kenya, Tanzania, Burkina Faso and Indonesia. To learn more about this approach or its adaptation in a specific context, please contact Natalie Elwell at nelwell@wn.org.



World Neighbors is an international development organization that works with some of the most remote and marginalized communities in ecologically fragile areas of Asia, Africa and Latin America. We transform communities by helping people address hunger, poverty, disease and other challenges that undermine their livelihood, and by inspiring lasting leadership and collective action. Since 1951 we have helped more than 25 million people in 45 countries to improve their lives and their communities.

World Neighbors helps people develop, manage and sustain their own programs. Most programs use locally available resources and simple, low-cost technologies. As people gain skills and confidence, local leaders and organizations emerge to carry on the work, multiply results and participate in coalitions advocating for wider change. World Neighbors role is to strengthen these human and organizational resources for long-term development.

World Neighbors does not determine the focus of the program, but asks people to set their own agenda. Programs include: food security, farming, literacy, health, family planning, water and sanitation, environmental conservation, savings and credit, non-formal education and income generation activities.

World Neighbors In Action is a how-to-do-it newsletter designed for development program workers. We attempt to publish twice a year in English, French and Spanish, and apologize for any lapses in that schedule.

To learn more about World Neighbors publications, please contact us directly or visit our Web site at www.wn.org.

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