

Let's Look Before We Leap

Challenging Our Ideas on How Savings Groups Work

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Abstract

What assumptions do savings group advocates and practitioners hold about how groups work, and are they justified? As NGOs promote ever more savings groups, they cite a list of benefits: access to funds for emergencies and investments, profits on savings, and strengthened social ties. At the same time, they generally follow a set of “golden rules”: pay out annually, charge interest, target women. Yet, the benefits are only realized when a number of factors fall into place, and the rules don't always make sense in different contexts. Savvy NGOs, promoters and group members are already questioning these assumptions and adapting policies to better meet their needs; more could do so. In this paper, we question some pervasive assumptions about savings groups, providing counter-examples and lessons learned from our own experiences, those of practitioners in the field, and published literature.

Keywords

- Microfinance
- Microsavings
- Savings groups
- Seasonal cash flow
- ASCA
- ROSCA

Introduction

NGOs of all shapes and sizes have vigorously promoted savings groups in the past decade or more. Heralded as a simple tool to promote thrift, consumption smoothing and responsible borrowing, the savings group model has taken on a talismanic quality for many NGOs. But do we fully understand how the groups work – or don't?

Traditional or indigenous savings groups have been found around the world, often going back for generations. In the most simple and common variation, the ROSCA (Rotating Savings and Credit Association), members meet regularly to contribute a small amount to a group pot, which is then given to each member in turn. Slightly more complex, ASCAs (Accumulating Savings and Credit Associations)

allow members to store up, lend out or invest group funds rather than handing them all over to one member at each meeting.

This paper focuses on *promoted* savings groups, a type of ASCA. Promoted by NGOs with the help of trained facilitators, these groups now include almost 10 million members world-wide (SG2015).¹ Also called Village Savings and Loans Associations, Savings and Internal Lending Communities, and a number of other names, these groups are informal, self-managed entities in which members make small regular savings contributions to a group fund that may be used for loans or income generating activities. Accumulated funds are then redistributed to members during a “payout” or “share-out” at the end of the cycle. Advocates claim that groups provide access to funds for emergencies and investments, profits on savings, and strengthened social ties. Promoters generally follow a set of “golden rules”: pay out annually, charge interest, target women. Yet, the benefits are only realized when a number of factors fall into place, and the rules don’t always make sense.

In recent years we have seen the release of a series of long-awaited RCTs (randomized control trials) on the impacts of promoted savings groups, including seven studies conducted in Africa on groups promoted by CARE (IPA, 2012), Oxfam America/ Freedom from Hunger (BARA and IPA, 2013), Catholic Relief Services (Ferguson, 2012a-e; Ferguson 2013), International Rescue Committee (Annan et al, 2013, 2011) and DanChurch Aid (Ksoll et al, 2013; Lonberg and Rasmussen, 2013). Taken as a whole, these RCTs show mixed or limited impacts in several areas, including asset ownership, business outcomes, health and education. Particularly surprising to many advocates is the lack of strong evidence pointing to changes in women’s empowerment and social capital (Gash and Odell, 2013). Granted, social impact can be tricky to measure quantitatively, and the time period of the RCTs may have been too short to capture longer-term effects; still, the studies raise some important questions.

Perhaps one reason for these underwhelming results is that we are all making assumptions about how savings groups work, and in reality, some of these assumptions – if tested – may not withstand the scrutiny. Are members truly able to access their funds when they are most needed for investment or consumption? Are loans actually available when emergencies or opportunities arise? Does charging interest really result in profits for members? Responsible NGOs, thoughtful promoters and savvy group members are already questioning these assumptions and adapting group policies accordingly. Often it takes a few cycles for groups to gain the necessary confidence and skills. For every example of a disconnect between needs and practice, there are examples of groups who have adapted successfully,

¹ This paper does not focus on millions of self-help groups (SHG) that have formed in South Asia, often with the support of an NGO, bank or government organization. SHGs are typically linked to microcredit through banks, and usually do not share out on a regular basis. The large international NGOs like CRS and CARE have gone to great pains to distinguish the work of their promoted savings groups from that of the self-help groups.

often in creative ways. Our goal in this paper is to raise up some of these questionable assumptions and share lessons learned in order to shorten this learning curve.

Let us be clear: we are not saying that savings groups are bad. On the contrary, we think they show a lot of promise. By providing financial services in places where few attractive alternatives exist, they can help households manage their cash flow, accumulate useful lump sums, respond to shocks, and take advantage of unexpected opportunities. They may help members build social capital and physical assets and invest in income generation, health and education. But many things have to go right for members to enjoy these benefits.

As NGOs continue to expand the savings group methodology, we encourage scholars and practitioners to continue exploring and questioning how these groups work and how they may be improved. Many are already doing so, often with an impressive level of thoughtfulness and honesty. In this paper, we question some pervasive assumptions about savings groups, providing counter-examples from the literature, our own experiences and those of practitioners in the field, and pointing out gaps in our understanding that merit further consideration.

Common Assumption: Groups make their own choices

One of the beauties of the savings group model is that members are empowered to make their own choices and to design group rules in the way that makes the most sense to them: from electing leaders, setting savings requirements and choosing payout dates, to establishing loan policies, interest rates, and fines. Unfortunately, this doesn't always play out in reality. Groups often blindly accept policies suggested by promoter or NGO, or stick to default options that don't make sense in their particular contexts.

Research conducted in El Salvador provides just one example. In this study, 198 interviews and 278 surveys were conducted with both non-members and members of approximately 25 savings groups that had been functioning for 1-3 years. Over one-fifth said they held their payouts in December because "that's what the partner/promoter told us to do," or "that's the way we started", despite the fact that this date made little sense given their personal savings goals and seasonal cash flow (Jahns, 2014).

Compulsory savings and strict loan repayment schedules are other policies where groups may be hesitant to make their own decisions. The RCTs generally found that increased savings did not come at the cost of decreased consumption spending. This is good news; however, this risk is always present when groups insist on regular payment even during times of hardship. Some group members in El Salvador indicated that occasionally they were forgoing needed expenditures on food or medicine in order

to make their savings deposits. While encouraging discipline and more efficient use of household resources may be a good thing, reducing consumption to uncomfortable or dangerous levels is not – and yet some groups continue to do so rather than change their rules. At least one group recognized this problem after a few cycles, and decided on their own volition to stop saving during the hungry season and then resume saving at harvest time (Jahns, 2014). Likely, over time, other groups in the program will also take stock of their savings policies and take the initiative to adjust them if necessary. CRS, Oxfam and CARE have documented similar hungry season exemptions in Africa. *The challenge is empowering groups to reflect on their needs and make these decisions earlier.* After all, problem-solving is key to group evolution: groups that are unable to adapt and create their own solutions will be sentenced to an existence confined by the agent who formed them or the initial rules they fixed into place (Wilson, 2013).

Outsiders can exert influence on groups in other areas as well. Some NGOs and donors are constantly seeking new ways to make the model more “sophisticated”, encouraging groups to adopt mobile banking or link to formal financial institutions. For some groups, these options could indeed increase their security and financial access, but for others, they merely add an additional layer of complication and risk. Says Mabel Guevara, an expert on savings groups in Latin America, “Lately there’s been a lot of talk of making groups ‘bankable’, but some members tell me they aren’t interested. The big question is, who decides to link the groups – the NGOs, or the groups themselves?” (Guevara, 2014). If groups are indeed empowered to make their own choices, practitioners must be willing to back off and let them do so.

Common Assumption: Savings are available when needed

The premise behind any claims of positive impacts of savings groups is that members can access financial services as needed to soften the blow of a household crisis, take advantage of business opportunities, or cover other lump sum expenditures when they arise, especially at times when alternate funding sources are scarce. However, if payouts occur at the wrong time, loans are not available, or members have to walk long distances or wait weeks until the next meeting, this assumption falls apart.

Figure 1: Seasonal cash flow

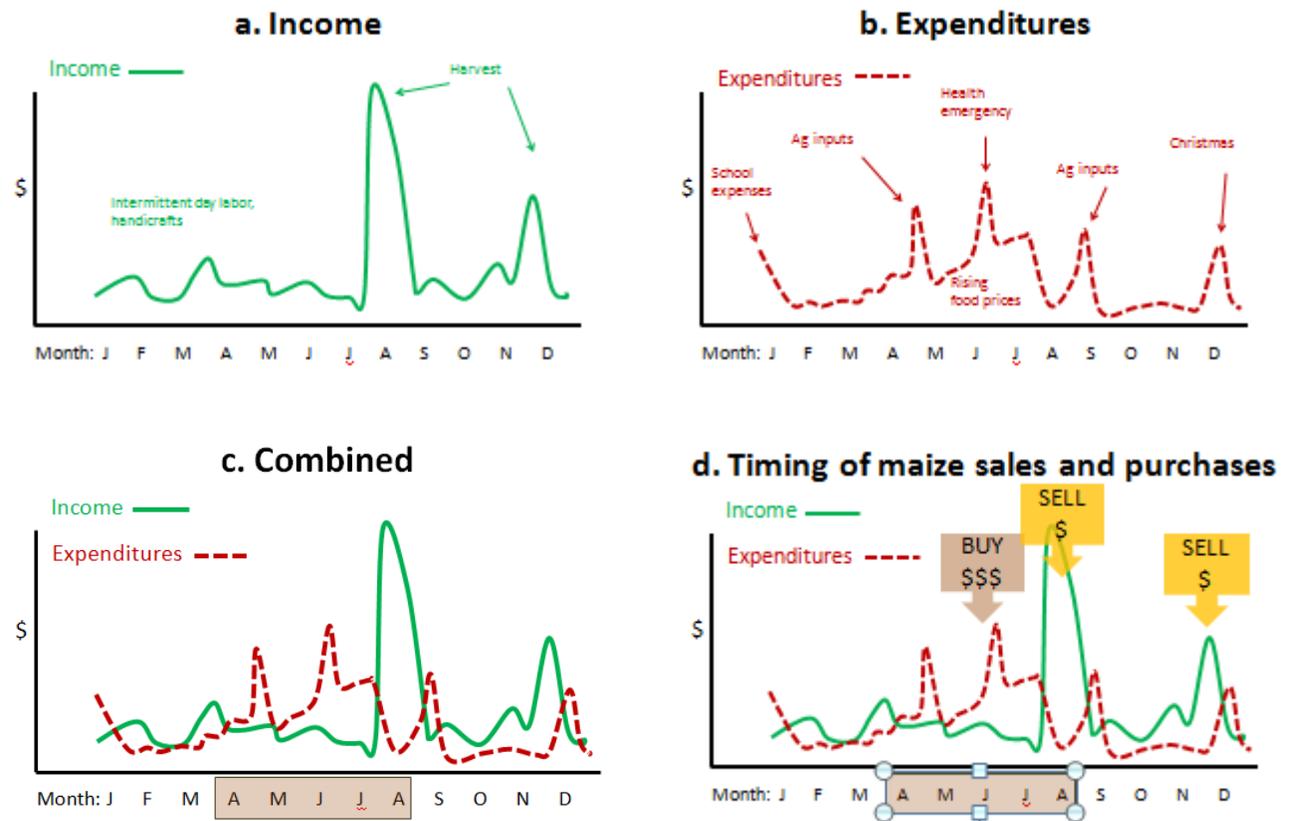


Figure 1: Seasonal Cash Flow

A stylized model of seasonal cash flow in the study communities, clearly demonstrating the lack of alignment between seasonal income and expenditures. As is typical for rural communities, income is concentrated in one or two harvest seasons (a). Expenditures are found in lump sums throughout the year (b). Of particular concern are agricultural inputs in the first planting season in May, and rising food prices in April through August, when most families have used up their own maize reserves. Overlaying income and expenditure curves clearly reveals that families are particularly vulnerable during the hungry season in April through August, when expenditures far exceed incomes and households are least likely to have cash on hand to buy food or cope with emergencies. Household financial practices exacerbate the problem: households are most likely to sell maize during the harvest season, and buy maize during the hungry season, when prices are 1.5 to two times higher (d).

Source: Jahns, 2014

Let's start with savings. The El Salvador study revealed some puzzling trends. Respondents said they particularly value their groups as a potential means of smoothing consumption, providing a place to turn in case of illness or food shortage. Such emergencies are more likely to happen during the hungry season (approximately April–August), when cash and food reserves are low, prices are high, and people

have fewer options available for coping with shocks. To make matters worse, farmers also face their largest predictable expenditure—fertilizer — during this period (see Figure 1). Thus, savings groups could be most likely to reduce vulnerability or promote income generation if members can access their savings sometime during the months of April through August.

However, almost all of the respondents (representing 21 of approximately 25 groups) held their payouts in December. Receiving their funds at the end of the year could make sense if members are intentionally saving up for certain seasonal goals, such as Christmas or graduation celebrations, roof repairs, school supplies, or stockpiling maize at low prices during the harvest season. Any of these would be valid savings goals; however, members did not identify these as priorities. Given their interest in consumption smoothing, a flexible payout date or one that coincides with the hungry season would be more useful. A few of the El Salvador groups reached this conclusion on their own after 2-3 cycles and decided to withdraw their savings when needed in case of emergency, or to pay out twice a year (in May and December) (Jahns, 2014). (It should be noted that the study groups were 1-3 years old at the time of the surveys. Given more time, many more groups would likely have reached this conclusion on their own. As it was, after sharing this feedback with the promoting NGO and partner organizations, groups in El Salvador were encouraged to choose payout dates that took into account seasonal cash flow cycles and personal savings objectives. Most of these groups now distribute during the hungry season.)

Researchers elsewhere have reported similar disconnects between payout dates and cash needs. Often payout dates are determined by arbitrary measures such as calendar years, fiscal years, program budgeting cycles – dates which may facilitate bookkeeping for NGOs and donors, but which do little to help groups manage their own seasonal cash flow. Again, more experienced and self-confident groups often adapt with time. Some needs will only become apparent after a few cycles or as circumstances change, and adjustments made accordingly. It would be naïve to expect groups to have all the details figured out from the start. However, some decisions could be better tailored from the outset by facilitating thoughtful discussions of goals and seasonal cash flow within the groups. Our hope is that practitioners and promoters can empower groups to analyze their own needs and contexts and adapt policies earlier on, and continue to facilitate such conversations in follow-up visits as members become more comfortable with the methodology.

Common Assumption: Loans can fill in the gaps

If savings are not available when funds are needed for an emergency, then loans seem the obvious alternative. However, loans are not always an option. The groups in El Salvador, for example, were very hesitant to take loans at the time we surveyed them. Less than a quarter of 120 respondents had ever taken

a loan from their groups – the rest said their groups didn't provide loans at all, or that they had personally chosen not to take one. The most common reasons cited for not taking or offering loans were lack of necessity or lack of interest in loans, lack of trust among members, fear of indebtedness, and insufficient funds in the box. At the same time, only 14% of the respondents said their groups had emergency funds which could provide grants or loans in case of emergency (Jahns, 2014). As the groups have matured, loan rates and emergency funds have increased. A study on savings-led groups in Cambodia also noted loan rates of only 50% of available funds, citing risk aversion and time requirements of leaders (Marx and Chhim, 2015).

We agree that groups should start slowly with loans, which are by nature a potentially risky enterprise. Groups should begin with savings and incorporate loans if – and only if – they are interested and comfortable doing so. At the same time, if groups have identified consumption smoothing and coping with emergencies as a prime goal (as many members have), grants and loans for emergency purposes might be worth considering early on, perhaps holding off on loans for other purposes a while longer.

Even groups that are interested in loans often have a hard time providing them. A study in Swaziland points out lack of availability of funds when needed:

Whether or not the groups' savings and lending activities help families cope with severe shocks is questionable. Savings cannot be withdrawn before the end of the year and are generally earmarked for specific purchases at the onset of the cycle. Loans are available only at monthly meetings, necessitating some planning on behalf of members. The size of these loans is limited depending on the member's perceived credit worthiness and the size of the internal fund. When hit by a serious shock, such as a death or illness in the family, most members continue to draw on loans and gifts from their social networks, borrowing from high-cost moneylenders, or the sale of assets to meet their needs (Zollmann, 2010: 10).

At least one group in El Salvador recognized the need for emergency loans available at short notice. As a group, they have appointed a smaller sub-committee that can be mobilized quickly to approve emergency loans, according to criteria established by the group (Jahns, 2014).

Other researchers also discuss the unavailability of loans, in particular during the early and late stages of the savings cycle. Bankable Frontier Associates (BFA) notes that

the need to limit savings cycles [to promote transparency and provide opportunities for adjustments] limits the *credit* window as well. Because of their cyclical nature, SGs have relatively little cash at the beginning of a SG cycle, when accumulation in the savings pot begins anew. Additionally... SGs often halt lending several weeks prior to the end of each cycle to collect all outstanding credit in preparation for payout. Not only does this put SG funds at risk of theft at the end of each cycle, but it also shrinks the window for member borrowing (BFA, Focus Note 1, 2014: 8).

In response to this problem, some groups have decided to roll over a portion of their savings to assure that loan capital is available throughout the cycle. (We discuss this more in the section on payouts below.) At the very least, researchers on community-based finance programs in Cambodia recommend rolling over the social (or “emergency”) fund so that it continues accumulating, rather than redistributing that money during payouts (Marx and Chhim, 2015).

We have (hopefully) learned from the microcredit movement that pressuring people to take loans before they are ready can lead to serious problems, particularly if such loans are intended for business investments and then spent on urgent consumption needs instead. However, loans with reasonable repayment terms might be very appropriate for members facing an emergency, reducing the need for asset sales at distressed prices. Still, such loans are only helpful to the extent that they are available when most needed.

Common Assumption: Groups strengthen social ties

Another very basic assumption held by advocates is that groups necessarily lead to greater solidarity or increased social capital among members. This seems to be true in many cases - there is some compelling qualitative evidence - but we can’t just assume it always holds. Scholars, promoters, and practitioners often seem reluctant to consider the very real possibility that groups may at times hurt social ties instead. Sometimes we sensed that group members were simply repeating the “party line” when they told us they had stronger friendships or greater self-esteem as a result of being in a group. After all, poor people are people like everyone else, subject to the same likes and dislikes, petty quarrels, long-standing resentments, and ungenerous gossip. Why should we assume that people who happen to live near each other will automatically coalesce into a harmonious group, or that by simply spending a few hours together every week they will inevitably become close friends?

Though most of the 120 participants interviewed in El Salvador said they valued the social aspects of group membership, and enjoyed more trust and friendship with their neighbors, there were a few notable exceptions. Poor accounting, lack of transparency, disagreement over the uses of funds, and perceived unfairness in the division of responsibilities and profits from group income generation activities led several people to leave groups or express resentment about other members (Jahns, 2014).

A study in Kenya had similar findings:

Regardless of whether the group is a VSLA, [untrained] ASCA, or ROSCA, respondents tell us that the financial benefits of the group are far more important than the social benefits, which are just a bonus feature for most.... Some – particularly in ROSCAs – feel social benefits are negligible, and they find the idea of having to spend time at a

meeting to be a costly imposition on their time and mostly an unpleasant experience. The social nature of groups is also a major cause of problems in groups. The two problems reported in ASCA groups were defaulting members ... and lack of transparency among members. Members told us this leads to all kinds of gossip and ‘backbiting’, which makes some members leave groups or potential members avoid them altogether (Zollmann, 2013: 8-9).

Granted, many people are very happy in their groups and manage to avoid such problems. However, if our first mandate as development practitioners is “do no harm”, we cannot downplay the possibility of negative social consequences of promoting savings groups.

Some writers consider the effect of savings groups on the broader community, particularly in cases of ethnic or political differences. Experiences with savings groups in Burundi after the genocide suggest that groups can form along and reinforce ethnic fault lines (McMahon, 2012). We have seen similar phenomena in India’s northeast and in Sri Lanka. Could such homogeneous groups deepen the breaches between communities?

Some supporters suggest that mixed groups could counteract ethnic divisions, but asking people with long histories of conflict and mistrust to form groups around financial interests may be unreasonable. At the same time, Guevara reports some interesting examples among refugee groups in Ecuador fleeing from conflict in Colombia (Guevara, 2014). Despite the atmosphere of distrust in these communities affected by violence, people chose to participate in savings groups. United by their situation as refugees and their need to obtain legal status in their new home, they grew into cohesive groups that have opened a space for other community action. Scholar and practitioner Melita Sawyer reports similar positive examples in refugee communities in Sudan (Sawyer, 2015). *In short, things are not as simple as we think: savings groups can weaken trust among friends and strengthen trust among enemies ... and everything in between.*

Common Assumption: Interest is profit

A common intonation among advocates is that members have the chance to earn interest on money that would otherwise lay idle. In fact, some promoters suggest groups charge interest rates as high as 10% per month, and groups often follow that advice (for example, see BARA and IPA, 2010: 85). If all members borrow equal amounts over a reasonable period – three months for example – then all members would split the interest money equally and “profit” equally during the payout. But what if members borrow different amounts during a cycle? How should they divide the collected interest earnings? Some distribute the interest earned in proportion to the total amount each member borrowed during the cycle – with heavy borrowers receiving a greater share of the accumulated interest payments.

In both of the above cases, it makes little sense to talk of this money as “profits” or “earnings.” As BFA and others point out, “In reality, since all funds are member generated and external lending is discouraged, we can consider [interest payments] as additional savings for the member, resulting in a “zero-sum” situation in which members receive, as payout, what they have contributed cumulatively, and no more” (BFA, 2014: 9). In these cases, one wonders why groups even bother charging and collecting interest from members at all. Calculating interest owed and tracking interest payments merely add an unnecessary layer of complication to a system in which accurate record-keeping is already a significant challenge. Instead of painstakingly calculating, collecting, dividing and returning interest payments to members, groups could skip charging members interest entirely. Members wishing to receive bigger payouts at the end could simply increase their savings shares.

Common Assumption: High interest means high profits -- for everyone

But, are interest payments usually distributed according to amounts borrowed? Another common method -- more in line with mainstream banking -- is to distribute interest earned according to shares (savings) owned by each member. In this case, whether and how much a member earns on her savings depends on how much she and her fellow group members save and borrow. Imagine a member borrows frequently for consumption. In comparison to others, she is considered poor, since she must prioritize food and health expenditures over income generating investments. Assuming the group divides net interest income at the payout according to number of shares each owns, this member may not benefit in the same way that “mostly savers” might benefit: she pays a lot in interest but receives very little back. These nuances are often lost in stories reporting 30% or more returns for savings group members. Specific programs would do well to reach back into group passbooks to calculate exactly how individual members fared on returns to total amounts paid in, not savings alone. Better understanding might affect how best to promote group determination of interest rates.

Many advocates may argue that it is obvious that net borrowers and net savers must earn different returns on their savings. However, it appears that many group members do not fully understand this: for instance, we’ve had net borrowers tell us that they are pleased to be earning money on their savings, when in fact they are not doing so. (To the extent that savings groups may present a lower-cost alternative to other loan providers, net borrowers may still be better off than they would be without their groups, but not because they are earning returns on their savings.)

A recent study by Bankable Frontier Associates clearly demonstrates that who borrows and how much makes a difference. To illustrate the “fallacy of high returns on savings for all members”, they

calculate returns on investment for a hypothetical group of six people (see Table 1). This group charges 10% interest per month on a 3-month loan, and collects a total of \$216 in interest payments from members during the cycle. At the end of the cycle, interest earnings are distributed according to shares owned by each member. In this case, each member saves the same amount (\$120 total) and earns \$36 of interest (\$216 divided by 6) – a respectable 30% return on investment. But what is her return on the *total* amount of money she has paid into the group? That depends on how much she has borrowed.

Table 1: “Interest Generation” of Sample SG and Members

| | Savings | Total loans | Interest paid | Share-out value | Return on savings | Return on total paid in |
|-----------------|---------|-------------|---------------|-----------------|-------------------|-------------------------|
| Member 1 | \$120 | \$240 | \$72 | \$156 | 30% | -18.75% |
| Member 2 | \$120 | \$180 | \$54 | \$156 | 30% | -10.34% |
| Member 3 | \$120 | \$150 | \$45 | \$156 | 30% | -5.45% |
| Member 4 | \$120 | \$60 | \$18 | \$156 | 30% | 13.04% |
| Member 5 | \$120 | \$50 | \$15 | \$156 | 30% | 15.56% |
| Member 6 | \$120 | \$40 | \$12 | \$156 | 30% | 18.18% |
| Group | \$720 | \$720 | \$216 | \$936 | 30% | 0% |

Source: BFA, 2014

For example, if a member saves \$120 in a savings cycle and borrows \$40, she ends up paying interest of \$12. At payout time, she receives \$156, a 30% return on her \$120 of savings and 18.18% on the total amount she paid in during the cycle (\$132). She fares well. But another member in the same group, who borrows more, suffers. She saves the same \$120, but borrows \$240 over the course of the cycle. While she also receives a 30% return on her savings, she earns a *negative* 18.75% on the total amount she has paid in over the cycle (\$192) (BFA, 2014). One member’s gain is another’s loss, especially if there are extremes between net savers and net borrowers. If net borrowers represent the poor members, or if members are pressured to take loans they don’t want just to keep the box funds low, this is troublesome.

The authors have observed that many groups adjust for disparities by charging a far lower interest rate on consumption loans than on productive loans, however, this practice is not yet pervasive in the savings group industry. Facilitated conversations with groups to assure they understand the implications of different interest rates could help groups determine what makes the most sense for them.

Common Assumption: Women should be targeted

In microcredit, targeting women is a cornerstone, something no less true in the savings group industry. A 2013 study shows that savings group members make up 75-100% of group membership (Gash and Odell, 2013). Wilson, et al., contend that development agencies target women because they believe women to be poorer than men, better savers (more reliable with a more natural sense of thrift) and better borrowers (more likely to repay their loans). However, “little hard evidence supports these beliefs, and certainly not enough to support such a pervasive, industry-wide emphasis” (Wilson, 2010: 216). The literature does support the idea that women are more likely than men to invest in family health, food, and education (for example, IFAD, 2009). But is it fair that, once again, women must bear the brunt of household management just because they are good at it? Instead of ignoring or circumventing men, savings group enthusiasts could instead try to nudge them into being better family members.

Likely, there is also another, more practical agenda at work in the savings group industry: women are more easily corralled into groups than men. Wilson, et al., suggest that agencies view women as “better participants: more dependable at meetings and submissive to group decisions” (Wilson, 2010: 216). A study of microcredit groups in Bangladesh questions raises similar concerns:

The borrowers and the bank workers have their own views on why women are exclusively targeted for the credit extension program. In the study village, both the Grameen Bank workers and the borrowers acknowledge that accepting women in the program is done because of the “positional vulnerability” of rural women in society. The positional vulnerability is understood and often explained by informants in relation to women’s limited physical mobility and to their culturally patterned behavior (shy, passive, and submissive) (Rahman, 1999: 69).

While many savings groups are a mix of men and women, typically promoters do not diligently search for male members. Why would they, if they share the perceptions above?

But is the manufacture of women’s groups justified? Guevara reports that some men in their communities actually resented being left out of savings groups, until finally the women agreed to train them to form their own groups (Guevara 2014). Sawyer has observed that programs open to both men and women in Benin and elsewhere often have surprisingly high participation from men (Sawyer, 2015). Though some practitioners are rightly concerned that men may dominate in mixed groups, women might do well to have their male counterparts participate. Presumably women stand to benefit if their husbands and sons also learn the habit of savings, of repaying loans, and of making group decisions. And surely, if thrift and participatory governance are good for women, they must too be good for men.

Common Assumption: Payouts should happen annually

One of the most basic rules of savings groups is the importance of regular payouts, usually once or even twice a year. Groups need a way to reconcile accounts periodically: members need to know how much money they have, where it is, and whether records (oral or written) align with actual assets. The annual payout is traditionally considered the easiest way to do so, particularly in areas with low literacy. Some researchers suggest that all groups with fewer than 6-8 literate members should plan to “break” at pre-determined dates -- that is, distribute all capital (savings, interest, and profits) to members and then dissolve, to be re-formed if desired (Matthews and Narasimhan, 2015).

But many groups begin to question this over time – they may change the frequency of sharing out, or decide to forgo it altogether. As noted earlier, some groups are wary of depleting their loan fund -- leaving themselves without recourse in emergencies, or losing an important source of income. Researchers in Cambodia point to the annual payout as a primary weakness of the group model. Acknowledging the oft-cited issues of lack of deposit facilities and inadequate record-keeping skills, they nevertheless claim that these challenges are surmountable. They recommend helping groups build up capital by refraining from redistributing savings and net income between cycles. In particular, they urge groups to continue building up social funds over time as protection against shocks (Marx and Chhim, 2015).

One group we met in Nicaragua decided it was not such a great idea to share out at all. Their group leader explains:

We now just keep growing our fund. It's the most profitable thing to do. Our non-member borrowers have a choice to borrow from very high-priced ‘coyotes’ or to form their own group, which comes with its own costs. They like to come to us. When the time of loans becomes less, we can share out then, but maybe we never will (author's field notes).

In Afghanistan, self-formed groups called *itehadia* do not pay out each year, and manage to accumulate impressive funds over time. Qiamuddin Amiry relates the story of Dadbaksch, who started his tribe's *itehadia*:

“After returning from Pakistan and other countries, seventy percent of our people lived in dire poverty. We had to do something about it. Today, our *itehadia* has 4,500,000 Afghani [95,000 USD].” Dadbakhsh had a reason to be proud. The savings group that he started five years ago has amassed nearly \$90,000. He has also inspired more than ten other tribes to start their own *itehadia* (Amiry, 2010).

These are not isolated instances. In Tanzania, the home-spun VICOBA – Village Community Banks – closely resemble the Village Savings and Loan Associations launched and replicated by CARE and other international NGOs. There are thousands of VICOBA, and while similar to VSLAs, they disburse savings only every few years, if at all. They typically give an annual dividend to members based on group profit. As one member asked rhetorically, “Why would we want to dismantle a fund we spent so much time building?” (conversation with Evance Chapindi, 2013). To him, that would be like constructing a shed each year and then disassembling it just when the livestock needed shelter. Why wouldn’t they want funds to continue to work for them? If they share out they disrupt their ability to borrow and earn interest.

A cluster of five of these groups reported that they never joined the groups in order to receive a payout. They joined so that they could borrow. In fact, one member who had entered into a VICOBA well into its second year had no idea that the group would ever share out. She had never even been told what a payout was. She happily contributed her savings, thinking that irretrievable savings were the price she was to pay for the chance to get loans. When the group did share out, this member was stunned. She took the money to travel to Dubai and shop its malls.

While a regular annual payout may make sense for young groups, those focused on saving for seasonal goals, or those facing frequent turnover in membership, mandatory share-outs decrease loan windows and fund size, and may not be the best solution for everyone. The decision depends on how confident group members are with their own record-keeping (oral or written) and fund management, and how they most want to use their money.

Common Assumption: Transparency is paramount

Group members, it would seem, do like watching their money being managed within their individual view, but not always within full view of their neighbors. In the lower townships of Assam, India, members of ASCAs report that privacy has its virtues (Wilson, 2009: 9-12). They would prefer not always to have neighbors leaning in to observe who has purchased more shares this week and who less, who was desperate for a loan and who could not repay one. Contrary to what is often touted as an advantage of savings groups over individual savings – accumulating cash and accounting for it in the open – this transparency is often seen as a grave disadvantage. Members trying to get ahead fear the “Squawk Factor”. Writes Parker Shipton in 1990:

In communities where one has many relatives, as is usual, there is a delicate balancing act and besides any ethical issues involved, the “Squawk Factor”, the potential for

complaints and accusations, must enter every individual savings decision (Shipton, 1990).

A small study of *tandas* –a Mexican form of ROSCA (rotating savings and credit association) - shows members go to great lengths to keep financial matters a secret. In a group of 41 members, all located in the US, only one member knows the identities of all others. Agents at various levels collect the weekly \$200 contribution and forward it on to other agents who then bundle and send those sums onward. At the center of an intricate web of payments and disbursements is Carmen, the Tanda Organizer. Everyone prefers that no one knows who is who. Members don't want their friends, family or neighbors to know that they can stash away \$200 per week or that at some time in the course of 41 weeks, the members will have walked about with more than \$8,000 (Frangos, 2012).

Common Assumption: ASCAs are better than ROSCAs

So far, this paper has focused on promoted savings groups that are categorized as ASCAs – accumulating savings and credit associations -- deemed to be an improvement over the widespread traditional groups known as ROSCAs or rotating savings and credit associations. Stuart Rutherford questions this assumption:

In Niger in 1991 Moira Eknes, an open-minded worker at CARE ...noticed the merits of an indigenous savings-and-loan club, and worked with local people to tell other villagers about it. By now there may be ten million users of clubs of this kind. We are fans of this work, but we have one disagreement with them – they didn't pick the best model! The bidding ROSCA is far more powerful than the ASCA that they promote (Rutherford and Vander Meer, 2014).

True, savings groups can and do offer benefits. But the ROSCA may be a more attractive tool all around. ROSCAs are remarkably simple to manage. Members make a series of small regular contributions into a central pot, which is claimed by each member in turn. Since the money is collected and immediately distributed, the ROSCA requires no safe place to store money and no record-keeping – two of the biggest challenges facing savings groups. ROSCAs are also flexible: members can size their regular contributions according to capacity. While richer members might contribute two “hands” per round, poorer members can contribute one hand. Groups can also plan out when each member receives her sum, either by auctioning spots in the cycle (called a “bidding ROSCA”) or simply asking members to decide ahead of time who will get paid out when. ROSCAs are simple borrowing devices and savings devices with transparent rules and transparent results.

Besides offering similar benefits to ASCAs, ROSCAs provide additional ones. ROSCAs are easier to form and their formation can spread more quickly and even more spontaneously than their ASCA counterparts. Because of this, ROSCAs have been found around the world going back for generations. Facilitating the creation of a ROSCA in a new area and teaching members the nuts and bolts of group formation and management hardly requires more than a meeting or two. ASCAs on the other hand require many meetings due to their greater complexity and risk. A study on savings-led Community Based Financial Institutions in Cambodia estimated that it costs \$25-40 to support one saver through a cycle (Marx and Chhim, 2015). Other NGOs report that it costs \$200 or more to form and support a group to the point where it can sustain without further NGO supervision. ROSCAs can be catalyzed at a fraction of the cost.

Conclusion

Savings groups clearly have the potential to help households manage their finances, smooth consumption, and possibly invest in income generation and assets. However, as we continue to scale up this methodology, we need to keep looking at the assumptions we hold about how these groups work. It is good to see that more participants and practitioners are discussing possible risks related to savings groups, including theft and mismanagement of funds, debt burdens, and difficulties around joint group activities. We need to bring even more potential challenges into the conversation, to ask even more questions. Who really determines a group's policies? Are members actually able to access funds when they most need them? Who are the winners and losers when groups charge interest -- and should they charge interest at all? Do groups strengthen social ties -- or put those ties at risk? What are our real reasons for targeting women? Is transparency always best? Are promoted savings groups truly better than traditional ROSCAs?

Experienced groups are taking initiatives to adapt policies to best suit their own needs. What can we do to encourage self-reflection and adaptation among groups even earlier, to shorten the learning curve and preempt some problems before they occur? We expect that groups will continue changing their policies and activities with time as they gain skills and confidence, and as unexpected challenges and opportunities arise. Indeed, successful groups are always open to such changes. Our hope is that we can empower groups to better analyze their own needs and contexts from the outset, and revisit these questions periodically as their skills and circumstances change.

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