

# An Empirical Risk Assessment of Savings Groups





**This learning brief was developed by the SEEP Network in partnership with Financial Sector Deepening Africa (FSD Africa), the Aga Khan Foundation, Catholic Relief Services and World Relief.**

**Author:** Ashley Wheaton (SEEP Network)

### **Acknowledgements**

Marc Bavois (Catholic Relief Services), Hans Hekkenburg (Risktensive Management), Titus Karanja (Aga Khan Foundation), Emily Mugisha (World Relief), Courtney O'Connell (World Relief), David Panetta (SEEP Network), Paul Rippey (FSD Africa), Sally Ross (Aga Khan Foundation), and the enumerators and project staff of the Aga Khan Foundation in Tanzania, Catholic Relief Services in Burkina Faso and Madagascar, and World Relief in Rwanda for their role in making this study possible.

### **Copyright © 2018 The SEEP Network**

Sections of this publication may be copied or adapted to meet local needs without permission from the SEEP Network, provided that the parts copied are distributed for free or at cost – not for profit. Please credit *An Empirical Risk Assessment of Savings Groups* and the SEEP Network for those sections excerpted.

### **About SEEP**



SEEP is a global learning network. We support strategies that create new and better opportunities for vulnerable populations, especially women and the rural poor, to participate in markets and improve their quality of life.

Founded in 1985, SEEP was a pioneer in the micro-credit movement and helped build the foundation of the financial inclusion efforts of today. In the last three decades, our members have continued to serve as a testing ground for innovative strategies that promote inclusion, develop competitive markets, and enhance the livelihood potential of the world's poor.

SEEP's 120 member organizations are active in more than 170 countries worldwide. They work together and with other stakeholders to mobilize knowledge and foster innovation, creating opportunities for meaningful collaboration and, above all, for scaling impact.

**For more information, visit [www.seepnetwork.org](http://www.seepnetwork.org) or follow us on Twitter @TheSEEPNetwork**

### **About FSD Africa**



FSD Africa is a non-profit company which aims to increase prosperity, create jobs and reduce poverty by bringing about a transformation in financial markets in Sub-Saharan Africa and in the economies they serve. It provides know-how and capital to champions of change whose ideas, influence and actions will make finance more useful to African businesses and households. It is funded by UK Aid from the UK Government.

Through access to finance initiatives, it seeks to build financial inclusion. Through capital market development, it looks to promote economic growth and increase investment. As a regional programme, it seeks to encourage collaboration, knowledge transfer and market-building activities – especially in fragile states. FSD Africa also provides support to the FSD Network.

**For more information about FSD Africa, visit [www.fsdafrica.org](http://www.fsdafrica.org) or follow us on Twitter @FSDAfrica**





## Table of Contents

<b>Executive Summary</b> .....	2
<b>Introduction</b> .....	3
<b>Main Findings</b> .....	6
Group Survival .....	6
Membership .....	9
Training and Support .....	15
Governance .....	21
Saving and Lending .....	27
Safety of Group Assets .....	33
<b>Conclusions</b> .....	37



## EXECUTIVE SUMMARY

### **Do Savings Groups expose members, individually and collectively, to risk? What are those risks? And what impact do they have?**

These are questions that the SEEP Network set out to address through a risk assessment of Savings Groups conducted in 2018. Together with three research partners – the Aga Khan Foundation (AKF), Catholic Relief Services (CRS), and World Relief – 1,600 surveys were conducted with groups, individual members, trainers and community stakeholders in four Sub-Saharan African countries, to uncover key risks affecting Savings Groups.

The risk assessment uncovered a number of risks that merit attention from stakeholders who are creating and supporting Savings Groups. Groups required more support for a longer period of time than is often assumed; striking a balance between providing sufficient support for groups to thrive, and avoiding the creation of dependencies is critical. Groups faced challenges with their ability to save and with loan repayment, which led some members to drop out and caused some groups to dissolve. This happened even to mature groups that had been operating successfully for many years. The risk of loan default was exacerbated in groups that disregarded rules on maximum loan sizes, and by members who belong to more than one group and borrowed money from one to repay a loan in another. Financial losses also occurred as a result of theft among a non-negligible proportion of groups.

These findings, along with the others outlined in this report, aim to highlight some of the main risks faced by Savings Groups and serve as a foundation on which to develop consumer protection policies and practices.





## INTRODUCTION

### OBJECTIVE

The purpose of this risk assessment is to identify and assess the main risks that affect Savings Groups – based on the frequency and severity of negative outcomes – and ultimately inform the development of targeted consumer protection initiatives for Savings Groups.

### BACKGROUND

Over the last decade, development agencies have invested at least \$250 million in the promotion of Savings Groups.<sup>1</sup> By 2017, it is estimated that international and local non-governmental organizations (NGOs) had mobilized and trained at least 870,000 Savings Groups worldwide, comprised of 17.4 million members (VSL Associates 2018). On average, groups manage total assets of about \$1,200, representing an important safety net that supports low-income households to meet consumption, investment and emergency needs.

#### WHAT ARE SAVINGS GROUPS?

*A Savings Group is comprised of 15-25 self-selected individuals who save together and take small loans from those savings. Savings Groups provide members the opportunity to save frequently in small amounts, access to credit on flexible terms, and a basic form of insurance. Savings Groups are owned, managed and operated by their members; they are designed to be financially and institutionally sustainable, operating independently after a training period of about one year.*

*This community-based microfinance model – pioneered in Africa in the 1990s and now promoted by hundreds of international and local NGOs across 75 countries – provides access to basic financial services in underserved communities.*

As Savings Groups mature, they are confronted with an expanding set of risks related to money management, the safety of group funds, internal procedures and governance, and evolving relationships with external service providers. Development and market actors have an ethical responsibility to safeguard the interests of Savings Groups, and to empower members to understand their rights and make informed decisions. A variety of approaches to consumer protection adopted by diverse stakeholders include: improved and more consistent quality of group training; improved basic, financial and digital literacy and numeracy of members; community-based mechanisms to provide guidance, support, representation and recourse; improved security of group funds and liquidity management; and regulation.

While sector stakeholders offer insights about the risks faced by Savings Groups, there is insufficient data or documentation on which to make informed decisions and little agreement on the pathways to protecting groups and their members. Effective consumer protection policies and frameworks for Savings Groups require a better understanding of the risks encountered by Savings Groups, the severity of negative outcomes, and effective responses for risk mitigation and remediation.

<sup>1</sup> This estimate is based on traceable investments of nearly \$200 million in Savings Groups programs over the last decade, in addition to myriad investments by smaller initiatives or integrated programs, the value of which cannot be estimated.



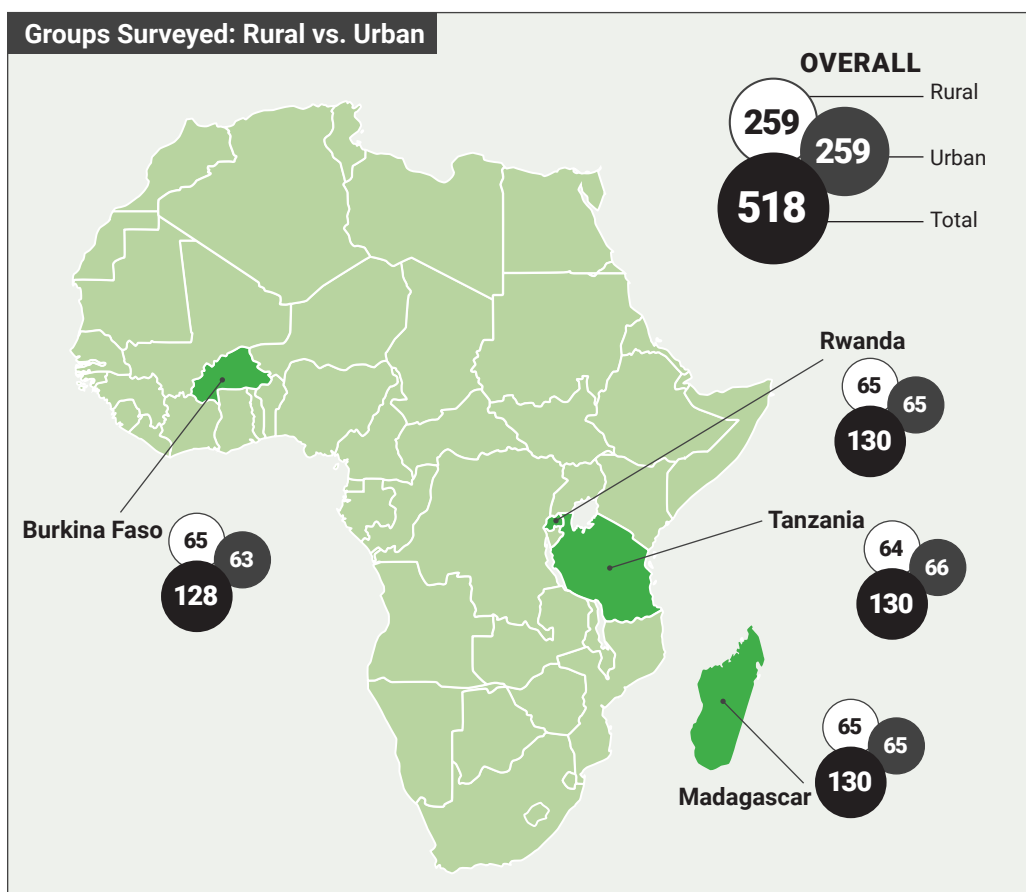


## METHODOLOGY

The study – led by the SEEP Network, in collaboration with FSD Africa, the Aga Khan Foundation (AKF), Catholic Relief Service (CRS) and World Relief – is based on a survey of 518 Savings Groups, 1,036 individual members, 24 trainers and 24 community stakeholders in Burkina Faso, Madagascar, Rwanda and Tanzania in 2018.

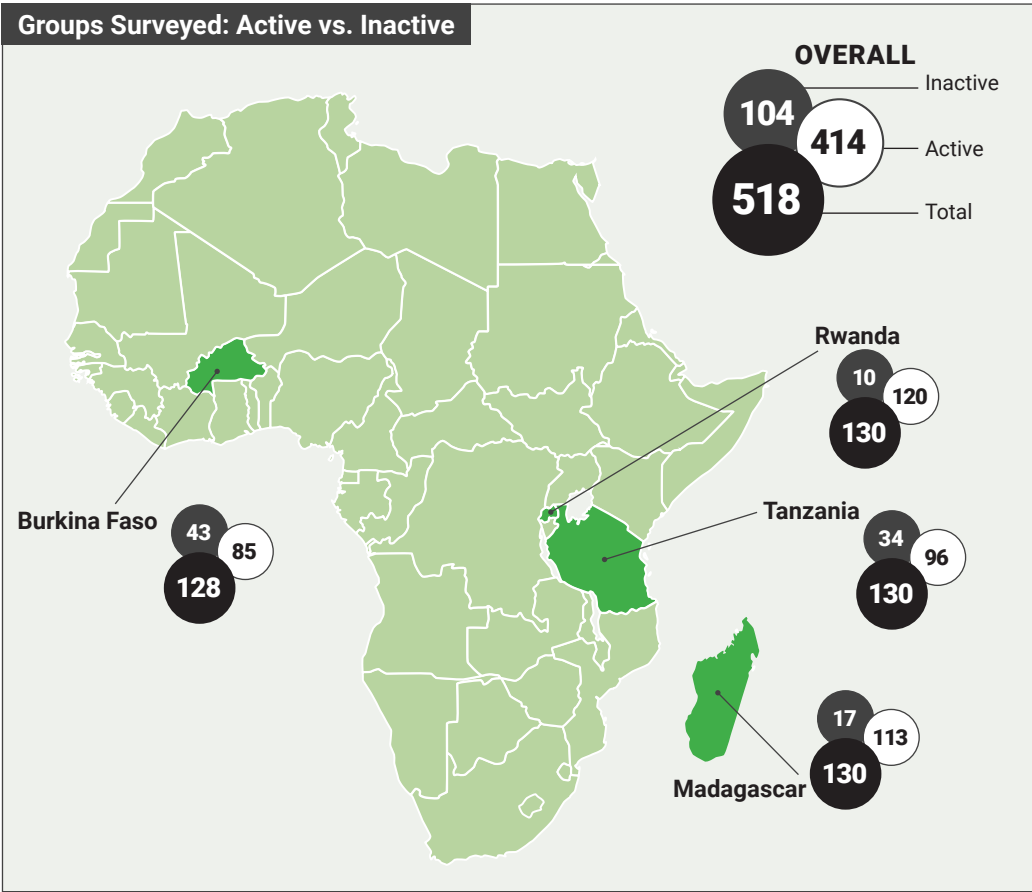
## SAMPLE

The survey was conducted among a stratified random sample of Savings Groups that had completed at least one cycle.<sup>2</sup> In each country, one urban and one rural research site were selected; underperforming areas were purposely targeted to increase the likelihood of observable risk factors. In addition to the group survey, two members from each group were randomly selected to participate in a private individual survey.

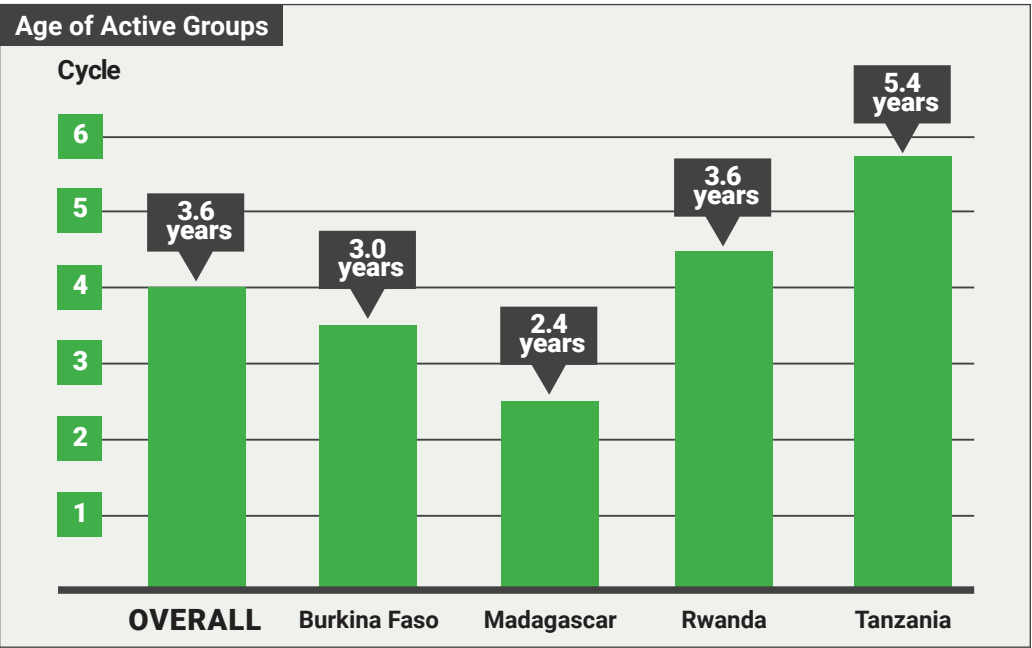


<sup>2</sup> In Burkina Faso two of the groups surveyed had not completed their first cycle of operations therefore did not meet the criteria for inclusion in the sample.





On average, active groups surveyed had been operating for three and a half years and completed four operating cycles.



# GROUP SURVIVAL





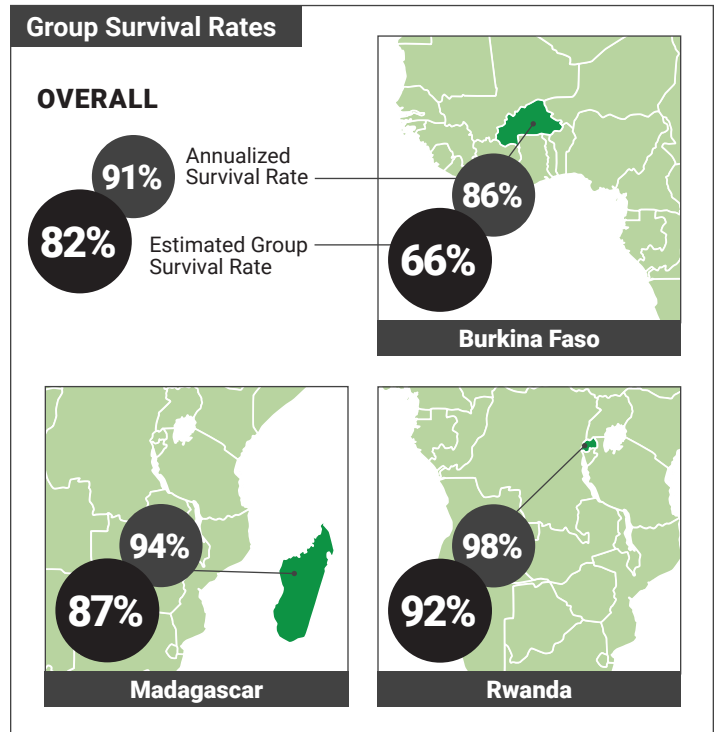
## SURVIVAL RATES

**After an average of 3.6 years, four out of five of Savings Groups remain active.**

The estimated survival rate of Savings Groups in the study areas, after an average of 3.6 years, is 82 percent.<sup>3</sup> Trainers independently reported the exact same average survival rate in their respective portfolios.

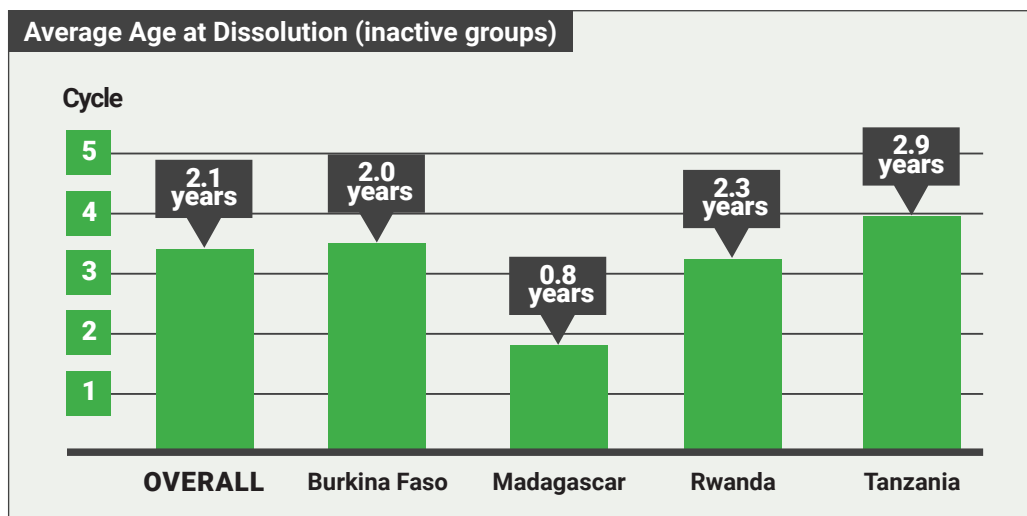
The main reason cited for group dissolution – by 40 percent of inactive groups – was members' inability to save. The second most common reason – reported by over 20 percent of groups – was loan default. Inability to save and loan default were also the top two reasons for group failure reported by trainers. Other reasons for group dissolution included group conflict, migration, loss of a committee member, and theft.

While 104 surveyed groups had ceased to operate, respondents indicated that at least 220 members of these groups had joined another group. This finding suggests that group dissolution does not necessarily impede access to Savings Groups in target communities. In instances where groups are not meeting the needs or expectations of members, it may in fact be preferable for groups to dissolve and for interested individuals to join other groups in their community.



## AGE AT DISSOLUTION

**On average, inactive groups dissolved after two years of operations, having completed three cycles.**



<sup>3</sup> External circumstances in Tanzania prevented enumerators from reaching a large number of sampled groups and therefore country data was omitted from the analysis of group survival.

The phenomenon of group failure is not limited to groups that are unable to move beyond the initial training period. Clearly, many Savings Groups face challenges beyond their first cycle and effective sustainability strategies must address the capacity of groups to deal with evolving challenges throughout their life span.

On the other hand, the causes and dynamics of early-stage group dissolution may be entirely different and may require

specialized approaches to improve group sustainability. In Madagascar, group failure tended to occur much earlier – on average, within the group’s first year of operations. While it is not known for certain why groups dissolved earlier in Madagascar, some groups reported that there was not a tradition of meeting in groups in their communities, suggesting that group sustainability may depend on existing socio-cultural norms.

“THE COMMUNITY IS  
NOT ACCUSTOMED  
TO GATHERING OR  
JOINING A GROUP.”

(FANANTENANA SAVINGS  
GROUP, MADAGASCAR)



CHARS LIVELIHOODS PROGRAMME

“THE SAVINGS GROUP IS **NEW TO THE COMMUNITY** AND  
THEY FEEL THAT THE **CREATION OF THE GROUP WAS  
FORCED**. THE COMMUNITY IS NOT USED TO MEETING  
TOGETHER. THE TRAINER DID EVERYTHING HE COULD **BUT  
THE COMMUNITY WAS NOT CONVINCED.**”

(FIFIFA SAVINGS GROUP, MADAGASCAR)



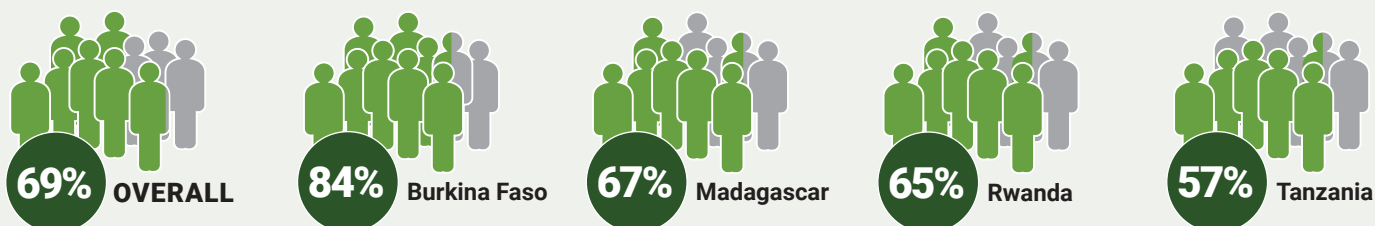
# MEMBERSHIP



## MEMBER TURNOVER

There is a significant degree of member turnover within Savings Groups over their lifetime.

### Respondents that were members at group formation/training



Among groups surveyed, almost one third of respondents were not members at the time of group formation and training. In nearly a third of all active groups, five or more members had exited the group since the previous cycle.

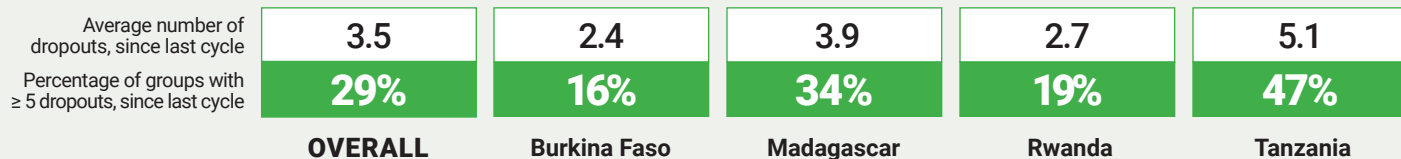
Across all countries, the most common reason reported for member dropout was an inability to save (54 percent), followed by migration (38 percent). Considering that inability to save was also the leading cause of group collapse, it appears that compulsory – or overly rigid – savings requirements can have unintended negative consequences

on both group survival and member retention.

Group trust and solidarity can also be affected by member turnover. In Tanzania, multiple groups reported being concerned about welcoming new members who may not be trustworthy.

The extent to which knowledge, skills and responsibilities are transferred effectively to new members is uncertain. Given the rate of member turnover, building the capacity of groups to effectively manage member entry and exit is important to their long-term institutional performance.

### Member Dropout





**“WE ARE WORRIED IF A NEW MEMBER JOINS A GROUP. SHE CAN BORROW GROUP MONEY AND RUN AWAY, FAILING TO REPAY THE LOAN. WE DON’T WANT A PERSON TO JOIN OUR GROUP IF WE DON’T KNOW HER LIFE HISTORY.”**

*(UKOMBOZI SAVINGS GROUP, TANZANIA)*







WORLD RELIEF

## MULTI-GROUP MEMBERSHIP

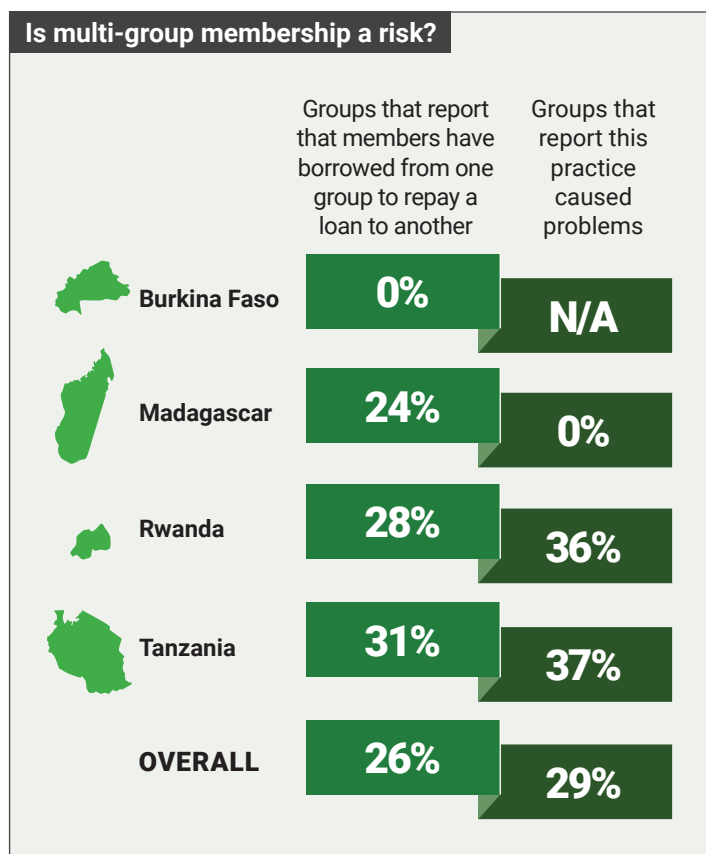
**In an average Savings Group, more than three members also belong to another group.<sup>4</sup>**

Among 24 percent of active groups, at least five members were reported to belong to another savings group. The main reasons cited for multiple group membership were the ability to save more (26 percent), borrow more (16 percent), and earn more interest (15 percent).

Multi-group membership		
	Average number of members in multiple groups	Active groups with at least 5 members in other groups
 Burkina Faso	0.5	4%
 Madagascar	3.3	20%
 Rwanda	6.2	52%
 Tanzania	2.7	14%
OVERALL	3.4	24%

<sup>4</sup>In Burkina Faso and Madagascar respondents were asked to indicate membership in other NGO-facilitated Savings Groups. In Rwanda and Tanzania, this distinction was not made and therefore responses may include participation in any type of savings group, including NGO-facilitated ASCAs or informal savings groups such as Rotating Savings and Credit Associations (ROSCAs) or burial societies.

## Members are known to borrow from one group to repay another and this can lead to problems.



The most critical risk of multi-group membership is the practice of borrowing from one group to repay another. It may expose members to overindebtedness and increase the loan portfolio risk of groups. This practice was reported to occur in over one quarter of groups that had members in multiple groups. Among groups who reported knowledge of this practice, 29 percent stated that it had caused problems – namely loan default. It is worth considering that in some cases, groups may not yet have been aware of multi-group borrowing given the lag involved in loan default.

Just under half of trainers surveyed concurred that multiple group membership occurs often, and one third cited that it caused problems, namely loan default as a result of borrowing from one group to repay a loan from another group.

Loans taken from one group to repay loans from another group introduces risks to the groups and the borrower alike. It is important that groups are aware of the risks of multi-group membership and understand how to manage their exposure to adverse outcomes.



**“IT BECOMES EASIER TO  
BORROW MONEY IN  
ONE GROUP TO SOLVE A  
PROBLEM, AND THEN GET  
CREDIT IN ANOTHER GROUP  
TO PAY BACK THE  
FIRST DEBT.”**

*(UMUCYO SAVINGS GROUP, RWANDA)*



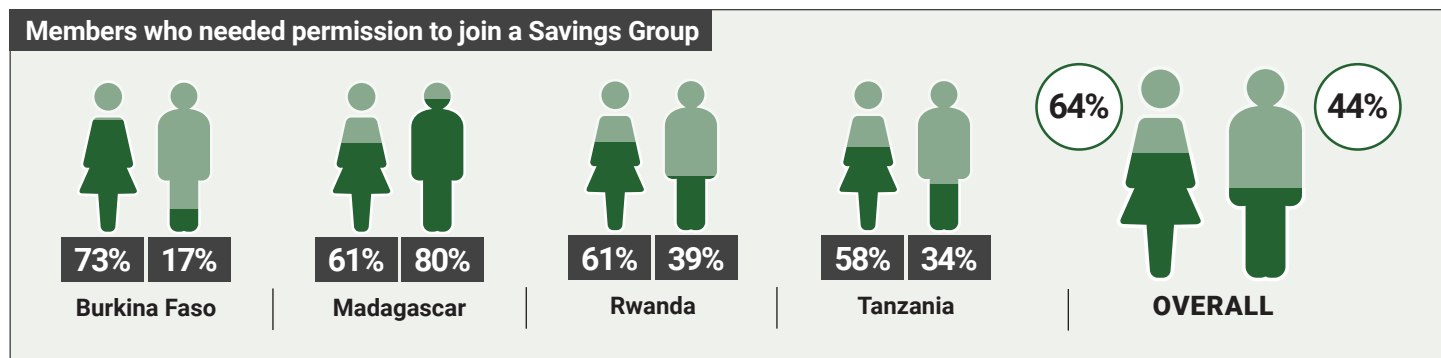
CHARS LIVELIHOODS PROGRAMME

**“I WISHED TO SAVE MORE MONEY AND IT WAS NOT  
POSSIBLE IN ONE GROUP AS I COULD NOT SAVE MORE THAN  
5 SHARES, SO IT LED ME TO JOIN ANOTHER GROUP. I HAD A  
GOAL TO REACH AND I SAVED A LOT OF  
MONEY IN DIFFERENT GROUPS.  
NOW IF I NEED A LOAN, I CAN GET A BIG ONE.”**

*(TUZAMURANE SAVINGS GROUP, RWANDA)*

## MEMBER AUTONOMY AND CONTROL OVER RESOURCES

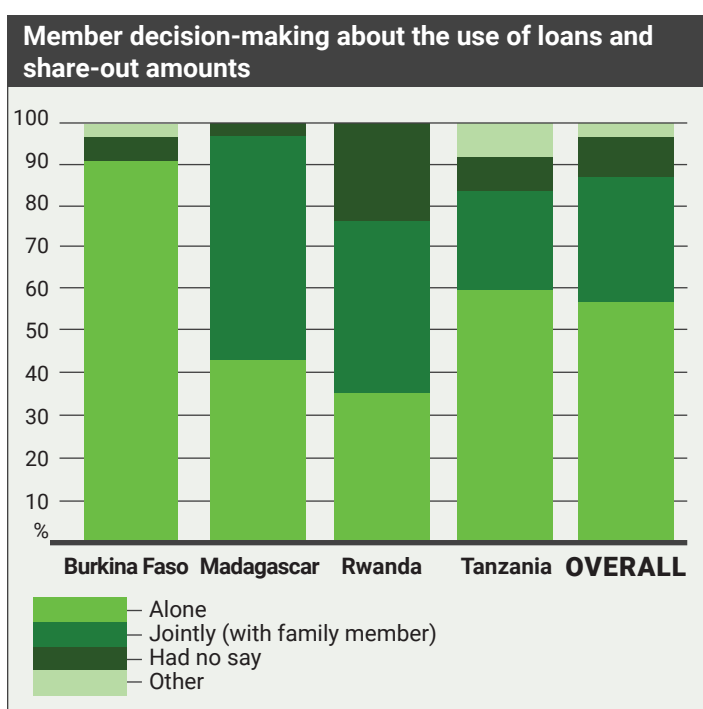
To join a Savings Group, most members require permission from another individual in their household.



Family permission may be a barrier to entry for some aspiring Savings Group members, and could impact the continued participation of existing members. Among individual respondents, 60 percent reported that they had needed permission to join a Savings Group. Nearly two-thirds of women reported that they required permission while 44 percent of male members reported the same.<sup>5</sup> Permission was almost always sought from a member's spouse (90 percent).

The results suggest that participation in Savings Groups is not an individual affair and that the engagement of other household members – particularly spouses – may improve outcomes for members.

In some cases, participation in a Savings Group may expose members to economic abuse: the deprivation of an individual's control over resources. Overall, 10 percent of Savings Group members reported that they had no control over the financial resources accessed through the group. Participation in household financial decision-making varied greatly across countries, where social norms likely have a significant impact on members' control over financial resources. Despite gender norms that restrict women's control over resources in the study countries, few differences were observed between male and female members with respect to decision making about Savings Group loans and earnings.<sup>6</sup>



<sup>5</sup>The notion of permission was not defined and may have been interpreted differently among male and female respondents in different contexts.

<sup>6</sup>More research is recommended to understand the role and impact of gender dynamics with regard to joining a Savings Group, financial decision-making, and control over financial resources secured from the group.



# TRAINING AND SUPPORT

A photograph of a man in a light-colored t-shirt, seen from the side and slightly from behind, leaning over a table and writing in a notebook with a pen. His left hand is resting on the notebook. The background is blurred, showing other people in a similar setting. The entire image is overlaid with a semi-transparent blue filter.

## TRAINING

### The vast majority of groups are satisfied with their trainer.

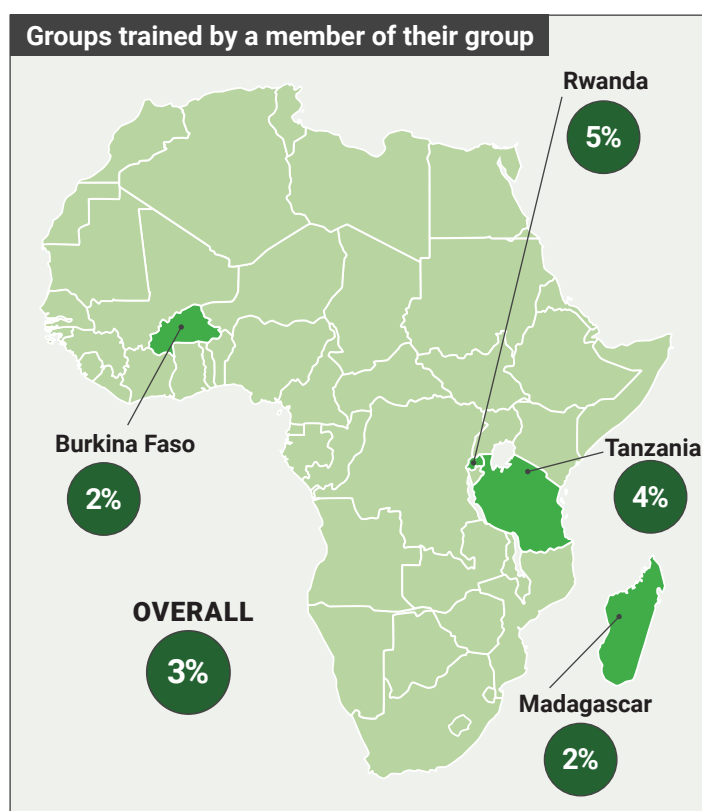
A smaller proportion of dissolved groups were satisfied with their trainer, particularly in Rwanda, but trainer satisfaction among inactive groups was still high (89 percent).

Nevertheless, two percent of groups reported some form of inappropriate behavior by trainers, including requesting a loan, offering to keep or invest group funds, or pressuring a group to undertake an activity.

Other forms of inappropriate trainer behavior reported by members include: demanding large or additional payments, withholding training (particularly on share-out) until receiving payment, providing loans to members or groups, collecting money for items that were never provided and stealing group funds.

Inappropriate behavior by trainers			
	Active	Inactive	OVERALL
Trainer has requested a loan from group	2%	1%	2%
Trainer has offered to keep or invest group funds	0%	4%	1%
Trainer has pressured group to undertake activity	3%	1%	2%

Where trainers are a participating member of a group, there is a risk that they could usurp control or influence the group to their benefit. On the other hand, the knowledge and support of a participating trainer could have positive effects. In any case, very few groups reported that their trainer was a member of their group.





**“THE TRAINER WAS  
ABLE TO STEAL  
TZS 470,000 [\$205].”**

(TUMAINI SAVINGS GROUP, TANZANIA)



CATHOLIC RELIEF SERVICES

**“THE DAY OF SHARE-OUT, THE COMMUNITY TRAINER WAS ISSUING LOANS TO MEMBERS AT THE RATE OF 5% FOR THOSE WITH OUTSTANDING LOANS. SHE HELD THE BOOKS OF MEMBERS WHO OWED HER. WHEN THE TRAINER WAS COLLECTING THOSE BOOKS, SHE WAS SEEN COLLECTING THE GROUP MONEY AND PUTTING IT TOGETHER WITH HER MONEY. THIS CAUSED THE GROUP TO START DOING A CALCULATION OF THE DISTRIBUTION AND FOUND EACH BOOK TO HAVE DEFICIT OF TZS 30,000 [\$13].”**

(TUVAMO SAVINGS GROUP, TANZANIA)



**“THE COMMUNITY TRAINER WAS FORCING US TO PAY HER EVERY TIME SHE VISITED OUR GROUP. SHE WAS VISITING US EVERY MONTH EVEN IF WE DIDN'T WANT HER TO DO SO. DUE TO THIS, THE SOCIAL FUND WAS DEPLETED AND FAILED TO SUPPORT MEMBERS WHEN DESTITUTE.”**

(AMANI GROUP, TANZANIA)

**“THE TRAINER COLLECTED MONEY FROM THE GROUP TO ORDER A T-SHIRT. UNTIL NOW THE T-SHIRT WAS NOT DELIVERED TO THE GROUP AND THE MONEY WAS NOT PAID BACK.”**

*(MAHERY SAVINGS GROUP, MADAGASCAR)*



CATHOLIC RELIEF SERVICES

**“REGARDING THE PAYMENT OF THE TRAINER: WE PAID MGA 1,000 [\$0.30] PER MEMBER PER MONTH IN THE FIRST CYCLE. CURRENTLY WE ARE IN OUR 3RD CYCLE AND HE ASKED TO INCREASE TO MGA 2,000 [\$0.60], BUT THE GROUP REFUSED BECAUSE WE STILL NEED TO BE ABLE TO SAVE. EVENTUALLY HE ACCEPTED MGA 1,500 [\$0.45].”**

*(MIARADIA SAVINGS GROUP, MADAGASCAR)*



CATHOLIC RELIEF SERVICES

**“THE TRAINER DOES NOT VISIT THE GROUP DURING THE CYCLE EVEN IF WE NEED HIM FOR SUPPORT. BUT AT THE TIME OF SHARE-OUT HE SHOWS UP BECAUSE HE IS PAID BY THE GROUP.”**

*(TSARAJORO SAVINGS GROUP, MADAGASCAR)*

**“IN THE FIRST CYCLE, THE MANAGEMENT COMMITTEE LOANED MGA 30,000 [\$9] OF THE GROUP’S FUNDS TO THE TRAINER. THIS CREATED CONFLICT AND LED TO A DISPUTE BETWEEN THE MEMBERS. IN THE END THE GROUP COLLAPSED.”**

*(MEVA SAVINGS GROUP, MADAGASCAR)*



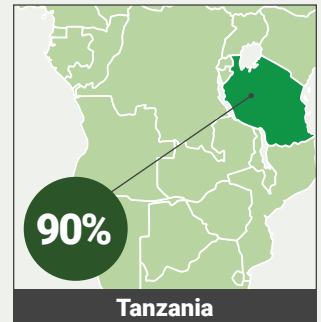
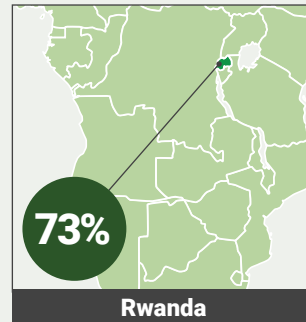
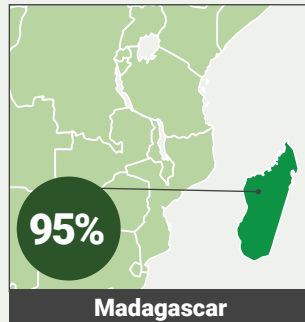
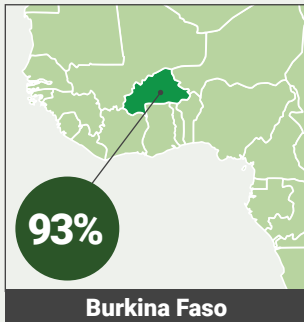
## ONGOING SUPPORT

Over half of all Savings Groups receive regular visits from their trainer or other NGO staff beyond the formal training period.

### Groups that received visits from trainer or NGO staff after graduation

#### OVERALL

88%



Overall, 88 percent of groups received visits after graduation, most often from their trainer. There was no indication that continued monitoring visits are correlated to group survival, with active and inactive groups receiving comparable rates of long-term support.

Among groups that were visited after their training period, more than half were visited at least monthly. Almost one quarter reported that their trainer, or other NGO staff, attended all meetings. Long-term facilitation may improve group outcomes by ensuring they have access to the technical assistance required. However, overdependence on external support can adversely affect group autonomy and prevent groups from operating independently. Trainers

### Who visited groups after the first cycle

#### Trainer

82%

#### NGO Staff

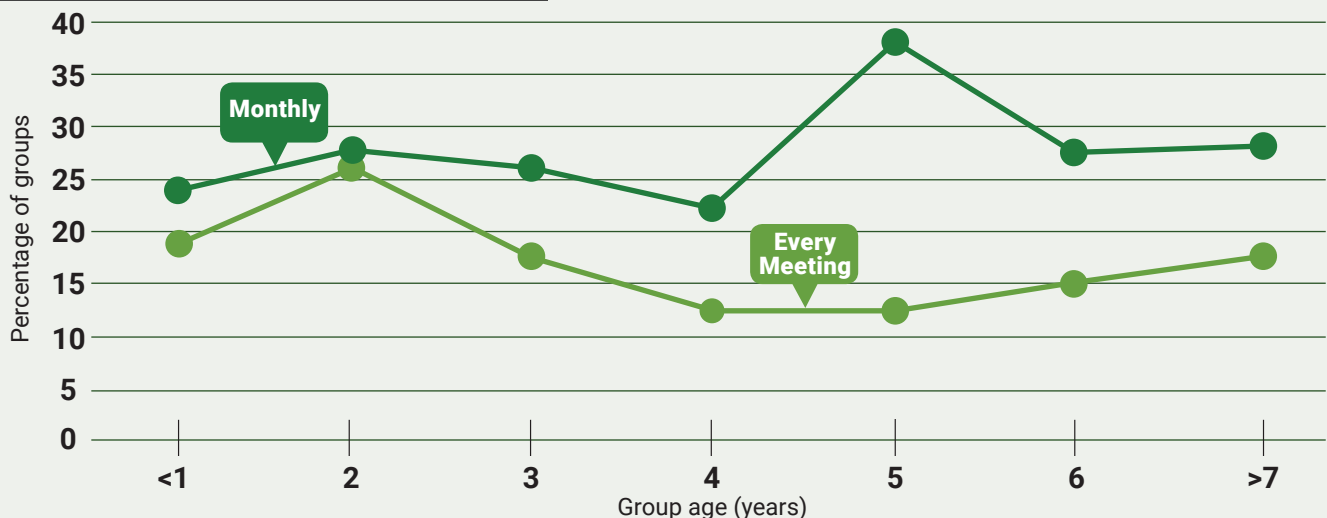
34%

#### Other

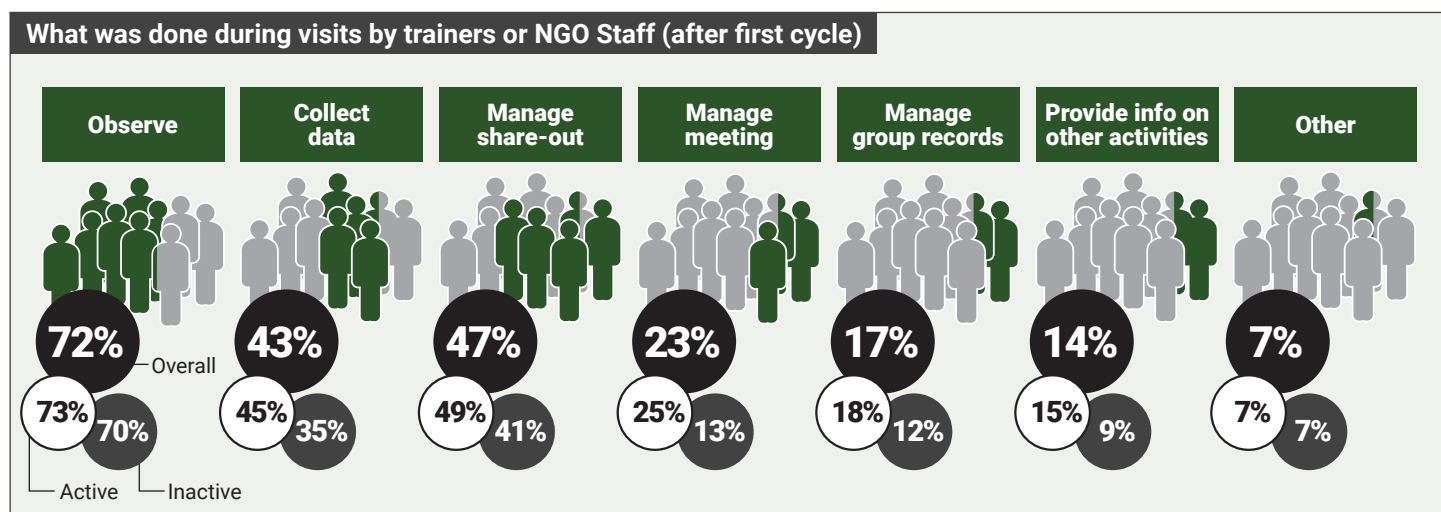
4%

and facilitating agencies must ensure that external assistance does not in fact contribute to dependencies that undermine group autonomy.

### Frequency of external visits, after training period



## Trainers continue to play a significant role in group meetings, well beyond the first operating cycle.



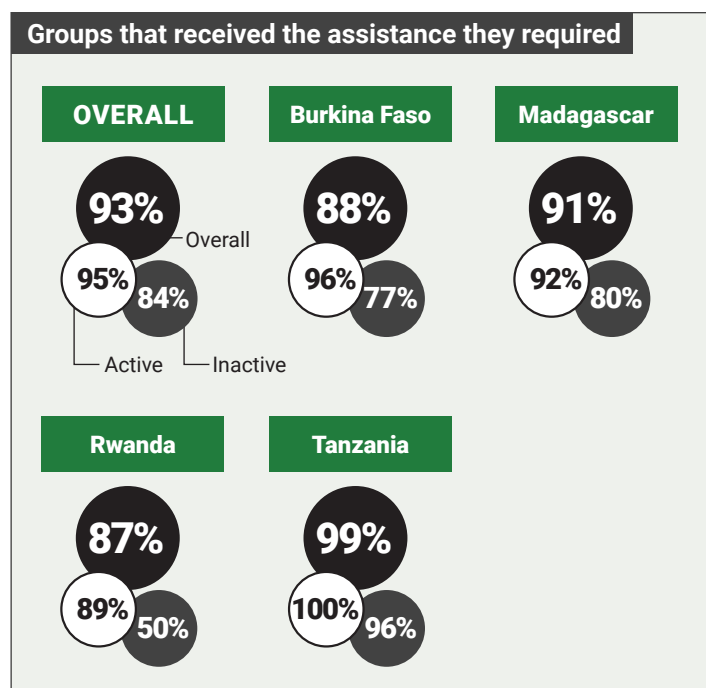
Among active groups that continued to receive external visits, almost half reported that the trainer (or NGO staff) managed group share-outs, nearly one quarter managed meetings, and 17 percent managed group records.

While the sector literature purports that Savings Groups operate independently after a training period of about 6-12 months, the evidence suggests that the majority of groups continue to receive regular visits from a trainer or other NGO staff, who perform key functions. In some cases, activities designed to be managed exclusively by groups after their first cycle were being managed by others, which raises concerns about group independence and self-management.

Is this long-term support required? While the study cannot conclude whether all support was required or requested by the surveyed groups, more than half of all groups did report that they required at least some form of periodic assistance. Trainers surveyed indicated the same, reporting that two thirds of groups required assistance periodically. The desire for continued support, as well as specific support with share-outs and loan recovery, was expressed frequently by surveyed groups. This was again confirmed by trainers who indicated that the majority of the support they provided to groups after their first cycle was on loan recovery, loan management or share-out.

Groups that had dissolved reported the need for more frequent support than active groups, and reported receiving the assistance they required less often. This finding suggests that the ability to access appropriate support – when required – may be key to group survival.

The continuous provision of support services may reduce risk by providing groups with assistance they require, but it also suggests a lack of autonomy that may expose the group to other risks related to overdependency in the long-term. Group capacity should be assessed at the end of the training period in order to better understand the degree of support a group may require in subsequent cycles, or to plan additional training modules to build capacity in specific, identified areas of weakness.





# GOVERNANCE



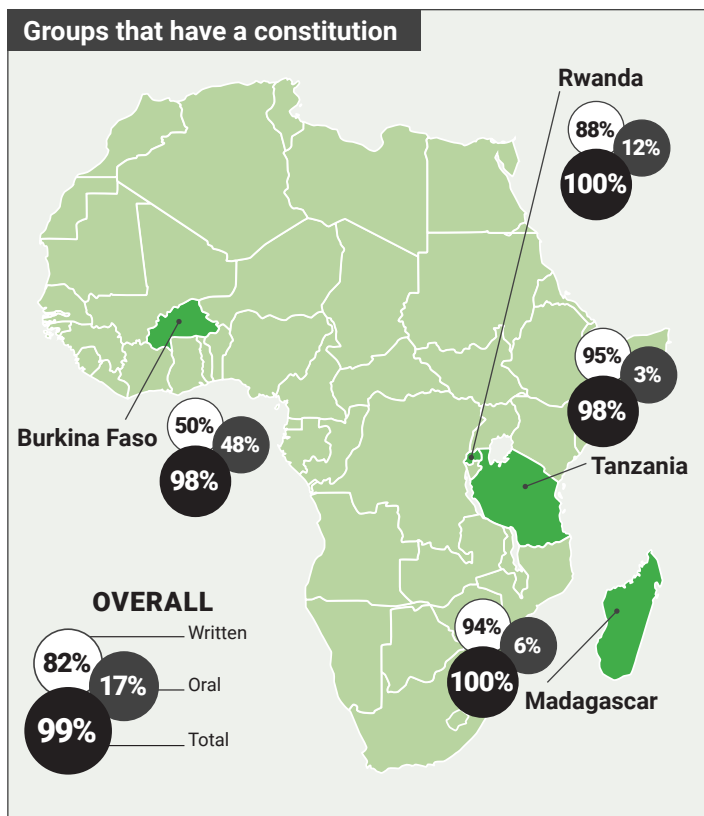
## CONSTITUTION

### Nearly all groups maintain a record of group procedures, rules and regulations.

A constitution protects Savings Groups by ensuring that there is a framework in place to facilitate the functioning of the group and address problems that may arise. Constitutions prevent abuse of power, conflict among members, and actions that may put the group or its assets at risk. Overall, 82 percent of groups maintain a written constitution, 17 percent maintain an oral record of rules and regulations, and only one percent have no record at all.

When the rules outlined in a constitution are disregarded, groups can encounter problems that may lead to dissolution. Trainers indicated that just under three quarters of groups they trained or supported had periodically disregarded group rules. Half of all trainers reported that rules related to loans were broken periodically.

The majority of groups reported that the purpose of the constitution is to ensure that the rules of the group are clear. Around half of all groups also expressed that their constitution ensures the rights of members are respected and that rules apply equally to all members.



**“GROUPS DON’T FOLLOW WHAT IS WRITTEN IN THEIR CONSTITUTION, WHICH LEADS TO PROBLEMS AND MAKES IT MORE LIKELY THAT MEMBERS FAIL TO REPAY LOANS.”**

(MAJENGO VILLAGE EXECUTIVE OFFICER, TANZANIA)



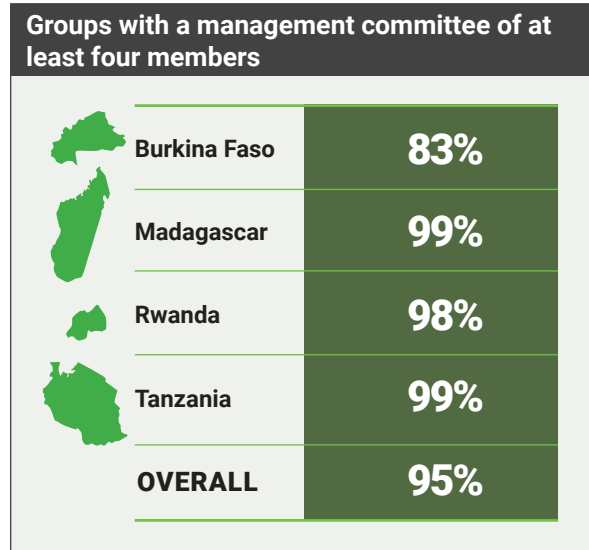
CATHOLIC RELIEF SERVICES



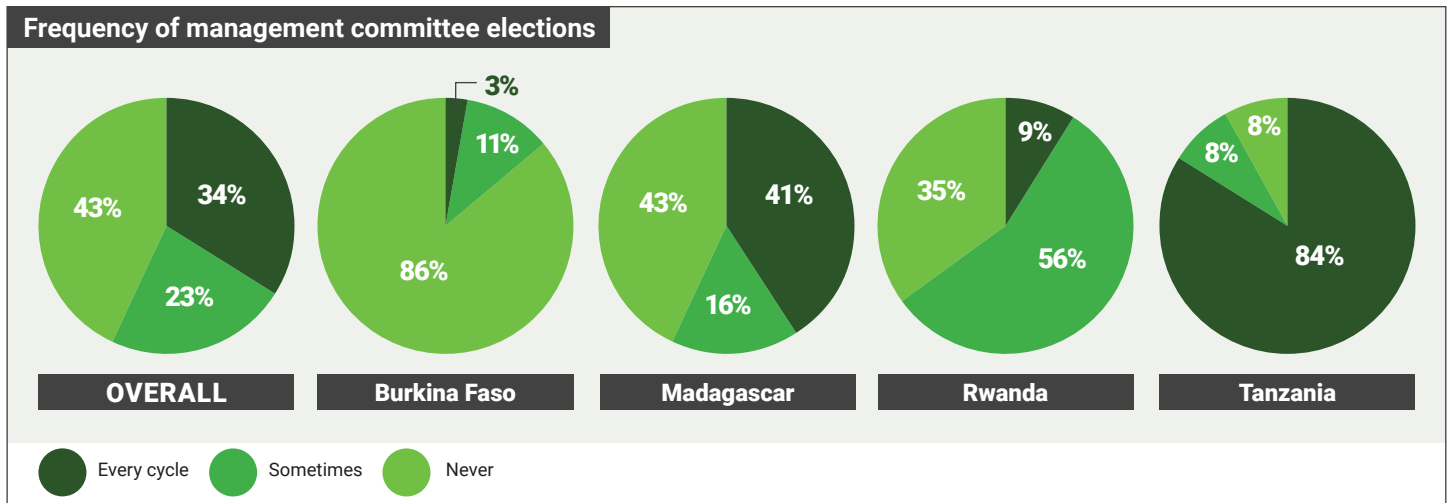
## MANAGEMENT

### Nearly all groups have a management committee of at least four members.

A central element of Savings Groups methodologies is a management committee – to undertake the various administrative functions of the group including managing meetings, recordkeeping, performing cash transactions and safeguarding group records and assets between meetings. The decentralization of these responsibilities, through several committee positions, reduces the likelihood of fraud or dominance by a single member, and increases member participation. Overall, 95 percent of groups have a management committee of at least four members and only two surveyed groups have no management committee at all – indicating that it is unlikely that groups experience an increasing concentration of power over time.



### Management committees are replaced infrequently, and seldom elected by secret ballot.



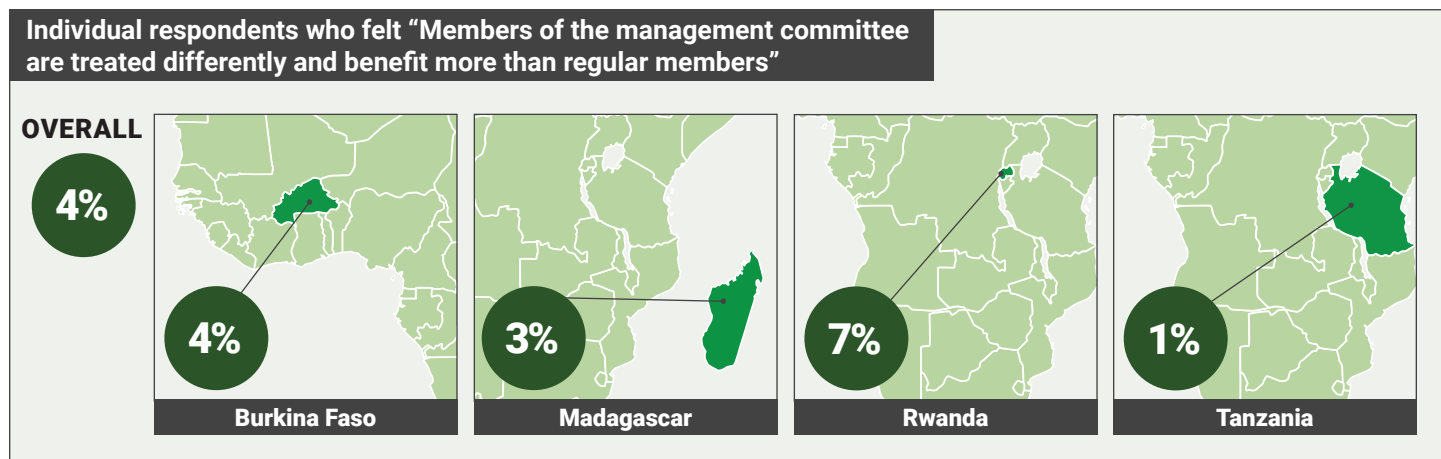
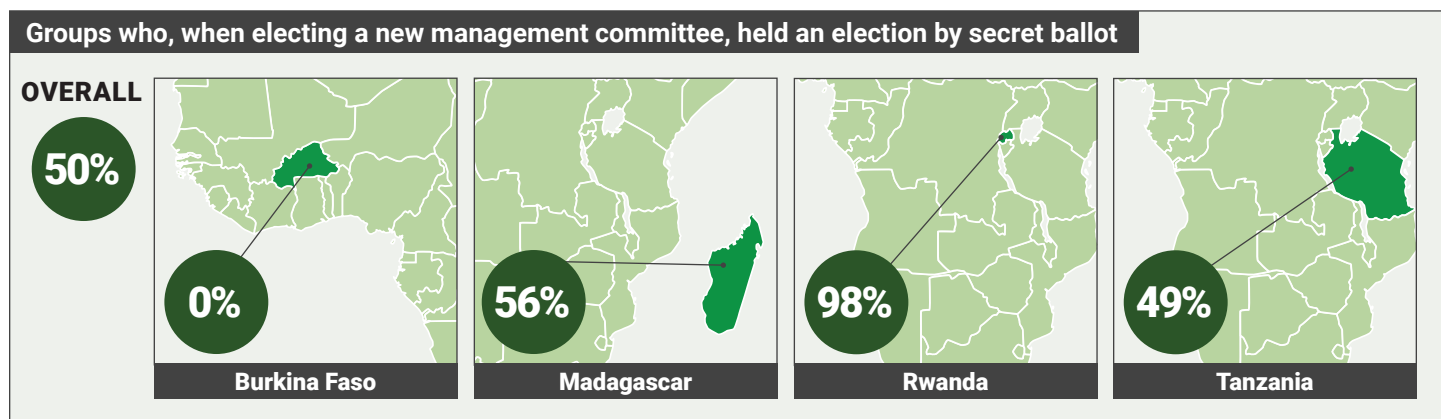
There is, however, evidence that management committees become entrenched and are seldom replaced through democratic processes. Only one third of all groups re-elect their management committee every cycle. On average, 43 percent of groups reported that they had never replaced their management committee, with significant variance across countries. Stagnant management reduces member participation in and exposure to management roles and presents several risks, particularly the evolution of authoritative control of group operations.

In instances where management committees are re-elected, an election through secret ballot is held half the time. There are significant differences between study countries: no group in Burkina Faso holds management committee

elections through secret ballot, while the practice is observed by almost all surveyed groups in Rwanda.

Despite the risks presented by the entrenchment of management committee members and the lack of democratic processes to replace them, there was little indication from groups that management committees behaved inappropriately or abused their role.

Among individual respondents, four percent indicated that members of the management committee are treated differently than regular members. Seven percent reported that the management committee had broken the rules, at least once.<sup>7</sup> Some members reported serious breaches, such as theft, by management committee members.



<sup>7</sup>This does not include minor infractions, such as being late.



**“THE TREASURER  
BROKE THE LOCKS,  
STOLE OUR MONEY,  
THEN REPLACED  
THE LOCKS.”**

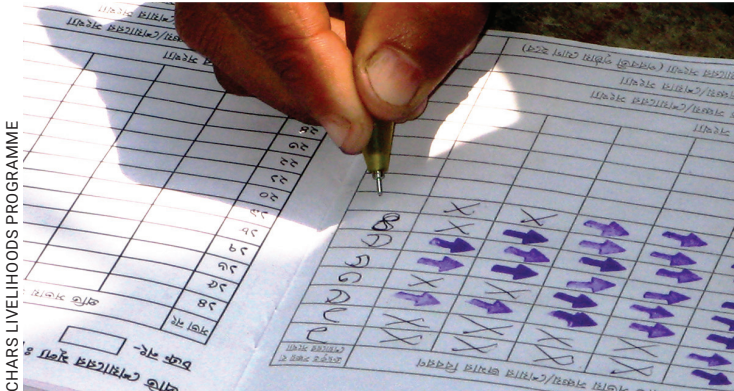
(LIMAGITU SAVINGS GROUP, BURKINA FASO)



CHARS LIVELIHOODS PROGRAMME

**“WE CAN’T DO ANYTHING  
AND WE CAN’T DISCLOSE IT  
BECAUSE OUR CHAIRMAN IS  
THE ONE WHO HAS STOLEN  
OUR MONEY.”**

(ABAJYAMBERE SAVINGS GROUP, RWANDA)

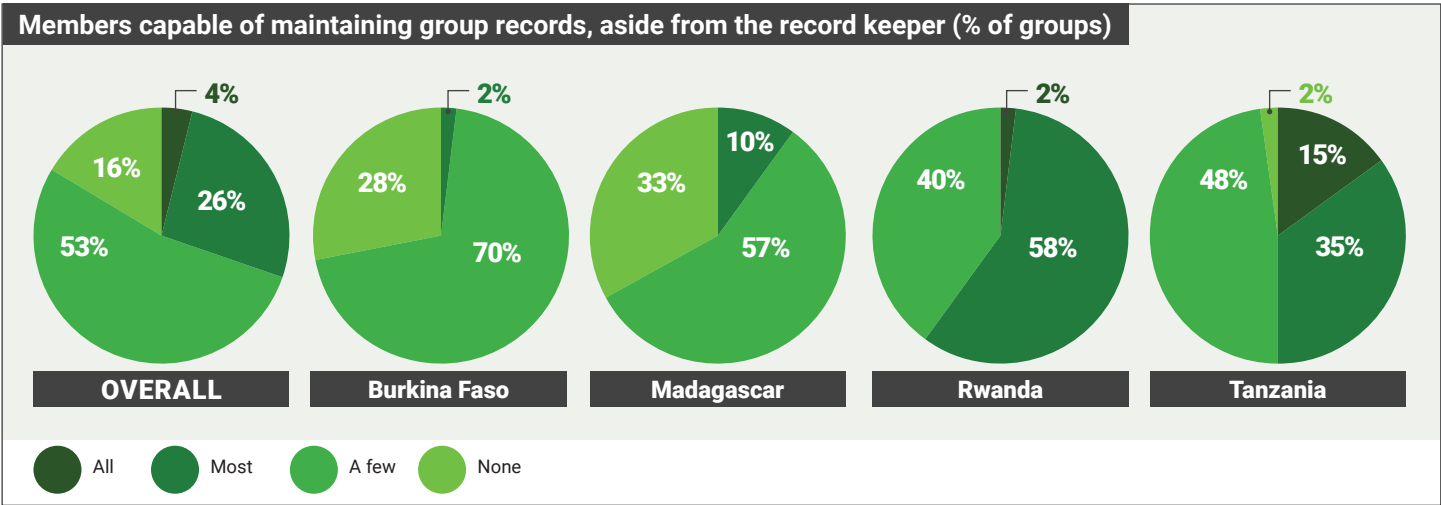


CHARS LIVELIHOODS PROGRAMME

RECORDKEEPING

Nearly all groups maintain written records, but recordkeeping abilities are limited.

Almost all groups had their records maintained by a recordkeeper. However, 16 percent of surveyed groups reported that no member other than the recordkeeper was capable of maintaining group records.



A significant proportion of members do not understand group records, including their own savings balances and loan obligations.

Among respondents selected at random from within active groups surveyed, about 20 percent could not accurately identify their savings balance or loan obligations based on an examination of their records. Furthermore, respondents had an even more limited understanding of sample group records, particularly among dissolved groups – only half of respondents in inactive groups could correctly identify member savings and loan balances from sample records provided.

Ability to correctly interpret records			
	Active		Inactive
	Own records	Sample records	Sample records
Responses that correctly reported savings balances	79%	78%	52%
Responses that correctly reported loan balances	81%	64%	48%



# SAVING AND LENDING

## LOANS

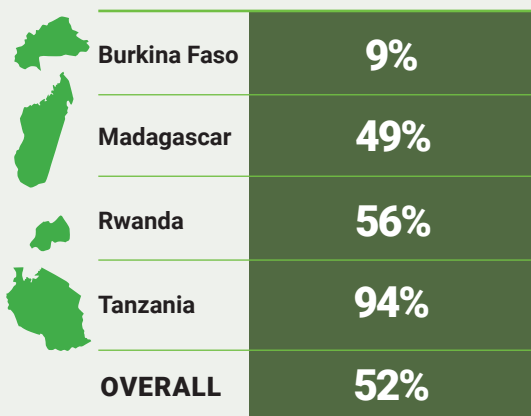
### Loan default occurred in more than half of groups and was reported by many groups to be a concern.

The percentage of groups who have experienced loan default ranges from nine percent in Burkina Faso to 94 percent in Tanzania.

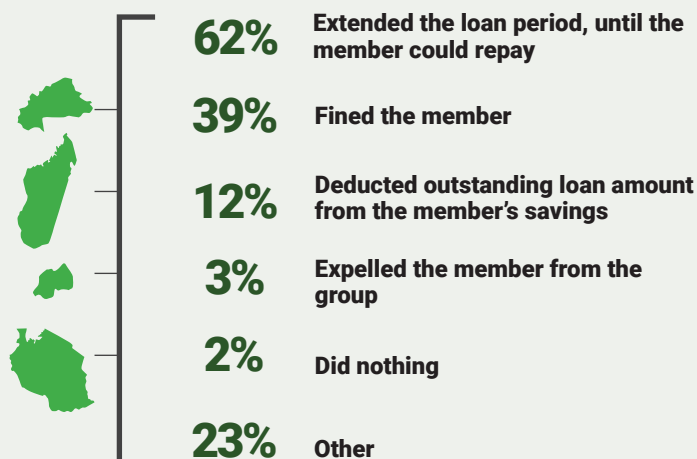
Loan default reduces group profits and the return on member investment, leading in some cases to negative returns. It was one of the main concerns identified by surveyed groups, and numerous groups expressed a desire for additional training or support in dealing with loan default. Trainers surveyed also cited loan repayment as the most common problem faced by groups.

In cases of loan default, the majority of groups extended the loan period until the member could repay, and over a third of groups fined the member. On some occasions, groups requested collateral or seized a member's assets, while some groups sought the help of a trainer, NGO staff or local leader.

#### Groups that experienced at least one loan default



#### What is done when a member does not repay their loan on time





“ONE OF OUR GROUP MEMBERS **REFUSED TO REIMBURSE A LOAN** OF RFW 50,000 [\$57]. WE HAVE BEEN WAITING FOR AN ANSWER FROM LOCAL AUTHORITIES FOR A LONG TIME. WE **NO LONGER TRUST EACH OTHER** AND THIS PREVENTS US FROM DOING INCOME GENERATING PROJECTS TOGETHER. THIS ALSO STOPS US FROM DISBURSING LOANS THAT GROUP MEMBERS WANT, **FOR FEAR THAT THEY WILL ALSO FAIL TO REIMBURSE**. THIS PREVENTS THEM FROM DEVELOPING AS THEY SHOULD BE ABLE TO.”

(UMUCYO SAVINGS GROUP, RWANDA)

“OUR CONCERN IS **LOAN REPAYMENT**, BECAUSE IT CAN LEAD TO A **LACK OF PROFIT** FOR THE GROUP. WHAT WE CAN DO TO ADDRESS THIS ISSUE IS **NOT EXCEED THE MAXIMUM LOAN AMOUNT**.”

(AVOTRA SAVINGS GROUP, MADAGASCAR)

“**THERE IS A MEMBER WHO BORROWED AND ABSCONDED**. WE TRUSTED HER AND WE GAVE THE LOAN BUT HER BUSINESSES DID NOT GO AS WELL AS SHE EXPECTED, SO **SHE FAILED TO REPAY**. WE DELAYED THE SHARE-OUT AT THE END OF THE CYCLE, WHICH UPSET MEMBERS AND SOME THREATENED TO QUIT THE GROUP. **SO WE SOLD HER HOUSE AND WE GOT OUR MONEY**. IT IS DIFFICULT TO AVOID. WHAT IS REQUIRED IS TO ABIDE BY THE RULES THAT WE SHOULD NOT GIVE BIG LOANS TO MEMBERS WHO DO NOT HAVE ANY RELIABLE BUSINESS.”

(UPENDO B SAVINGS GROUP, TANZANIA)



WORLD VISION

“THE IMPACT OF  
LOAN DEFAULT IS THAT  
**THE GROUP EXPERIENCES  
A LOSS**, SOMETHING THAT  
CAUSES DISAPPOINTMENT  
TO GROUP MEMBERS  
AND **CAUSES GROUPS TO  
DISSOLVE.**”

*(SAVINGS GROUP TRAINER, TANZANIA)*



WORLD RELIEF

“DURING PREVIOUS CYCLES, **THINGS WERE GOOD.**  
THIS WAS THE TIME **WHEN GROUPS WERE UNDER  
PROJECT SUPERVISION.** BUT **NOW MEMBERS  
DO NOT FOLLOW PROCEDURES,** WHICH LEADS  
TO SOME PROBLEMS, SUCH AS SELLING  
MEMBERS PROPERTY WHEN THEY FAIL  
TO REPAY THE LOAN.”

*(MIHOGONI VILLAGE EXECUTIVE OFFICER, TANZANIA)*

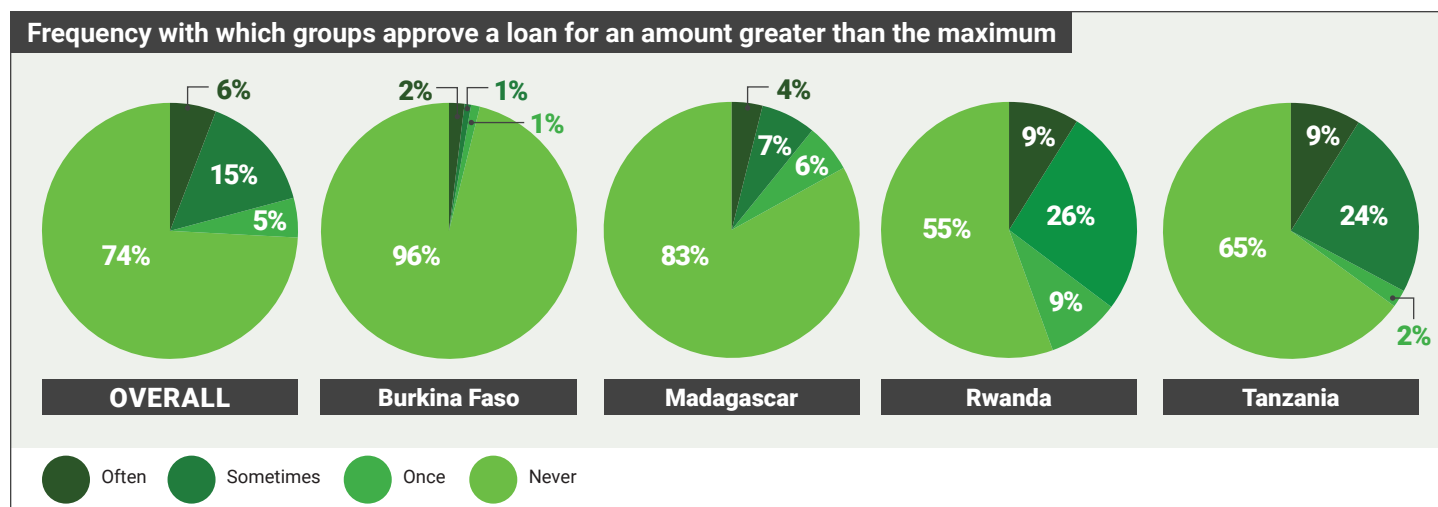
“THEY CAME TO ME WHEN THEY WERE **STRUGGLING TO  
FOLLOW UP ON MEMBERS WHO DID NOT PAY BACK THEIR  
LOANS.** THEY WANTED THE CHAIRPERSON TO APPROVE  
THE DECISION OF TAKING THE PROPERTY OF THE  
MEMBER TO COMPENSATE FOR THE LOAN. LATER THEY  
**AGREED TO GIVE THE MEMBER SOME MORE  
TIME TO REPAY THE LOAN.** THE REPAYMENT PROCESS IS  
SUPERVISED BY THE VILLAGE CHAIRPERSON.”

*(MAJENGO VILLAGE EXECUTIVE OFFICER, TANZANIA)*



## Nearly all groups have a maximum loan size, but over a quarter of groups occasionally choose to disregard it.

Adhering to the maximum loan size is an important risk prevention mechanism for groups and members. It protects borrowers from overindebtedness, which was tragically reported to lead to the suicide of one member in Tanzania. Maximum loan sizes also ensure more equitable access by members to groups funds; and reduce the portfolio risk for the group. Given the prevalence of loan default, it is necessary to build group capacity to adhere to the maximum loan amount. Some groups that have experienced loan default have come to realize the importance of this measure.



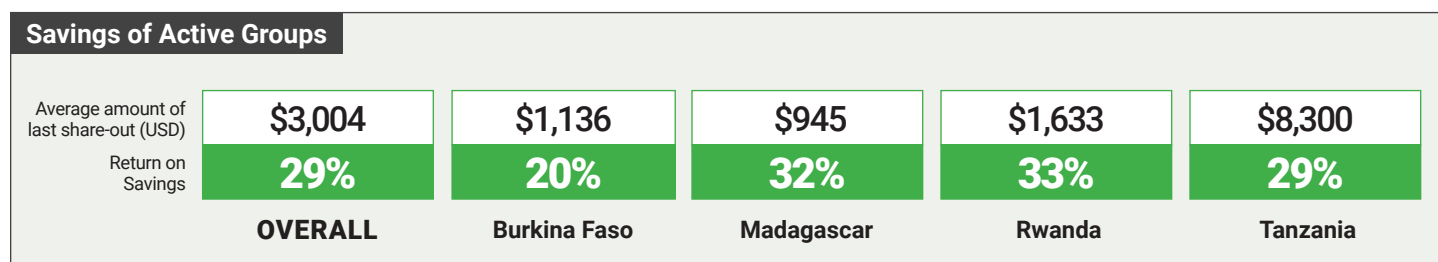
## External borrowing and lending among Savings Groups is rare.

While external borrowing and lending introduces risks – namely the loss of group funds and overindebtedness – these practices were rare among surveyed groups. Only one percent of groups reported making loans to non-members, and the same percentage had taken a group loan from an external source (individual or financial service provider).

### SAVINGS

## During their last cycle, active groups accumulated an average of over \$3,000 in assets and generated a 29 percent return on savings.

Average group capitalization at share-out ranged from \$945 in Madagascar to \$8,300 in Tanzania. Return on savings during the previous cycle ranged from 20 percent in Burkina Faso to 33 percent in Rwanda.



Despite the positive financial performance of surveyed groups on average, seven percent of groups experienced a negative return on savings - that is, members received less than they had saved - during at least one cycle over the life of the group. The incidence of negative returns was three times greater for inactive groups, compared to active groups. The primary cause of negative returns was reported as loan default (87 percent), followed by theft (13 percent).

Groups that have experienced a negative return

5%

Active

15%

Inactive

7%

OVERALL

“MEMBERS DO NOT HAVE SUFFICIENT KNOWLEDGE AS TO WHY THEY SHOULD BORROW MONEY. THEY BORROW FOR EVERYDAY USES, WHICH CAUSES THEM TO **FAIL TO REPAY THE LOAN.**”

(MAJENGO VILLAGE  
EXECUTIVE OFFICER, TANZANIA)



CATHOLIC RELIEF SERVICES

“**GROUPS DO NOT CONSIDER THE MAXIMUM LOAN AMOUNT** FOR A MEMBER TO BORROW. THEY FEEL PITY FOR MEMBERS WHEN THEY EXPLAIN THE REASON FOR NEEDING A LOAN. THIS **TENDENCY TO ISSUE BIGGER LOANS LEADS TO MEMBERS FAILING TO REPAY LOANS** AND CAUSES A GROUP TO LOSE MONEY.”

(SAVINGS GROUP TRAINER, TANZANIA)



# SAFETY OF GROUP ASSETS







## THEFT

### Six percent of groups have experienced a theft, which can significantly decapitalize group funds.

Among all groups surveyed, six percent have experienced at least one theft, representing over two thefts per year for every 100 groups. Theft was more prevalent in urban areas (69 percent of all thefts).

#### IS THAT THEFT?

*The scope of how theft was interpreted by groups surveyed was broad. While most groups reported on cash boxes being stolen, money being taken instead of deposited at a bank, and money simply disappearing from where it was stored, some groups also included loans that were not repaid. In Rwanda, more than half of the thefts reported were unpaid loans. In these cases, members had either absconded or refused to pay. As opposed to instances of loan default whereby a member is unable to repay, these cases of non-repayment were considered by groups to be theft.*


Frequency of theft		
	Groups that have experienced a theft	Number of reported thefts
 Burkina Faso	2%	4
 Madagascar	6%	9
 Rwanda	11%	18
 Tanzania	3%	4
<b>OVERALL</b>	<b>6%</b>	<b>35</b>

There were also two reports of individual theft or assault of members travelling to or from a meeting.

While the frequency of theft is relatively low – considering alternative savings mechanisms for the rural poor – the severity of its impact is high. The average amount lost

per theft was \$273 overall, from \$85 in Rwanda to \$662 in Madagascar. On average, the loss represented almost 40 percent of a group's previous share-out on average. One group in Burkina Faso reported having over four times the amount of their previous share-out stolen.

#### Theft amount

	OVERALL	Burkina Faso	Madagascar	Rwanda	Tanzania
 Average loss per theft (USD)	<b>\$273</b>	<b>\$120</b>	<b>\$662</b>	<b>\$85</b>	<b>\$399</b>
Loss as a % of last share-out	<b>39%</b>	<b>158%</b>	<b>69%</b>	<b>7%</b>	<b>17%</b>

For this reason, theft is a significant concern among many groups. In Madagascar, where cash boxes have been stolen containing larger amounts of money, theft was the greatest concern among groups surveyed.

Theft of cash boxes and of loans were also a concern among groups in Tanzania and Rwanda. In Rwanda, several

groups were additionally concerned about the lack of support in cases of theft.

Theft was as likely to be carried out by a group member or relative of a member (35 percent and 15 percent, respectively) as an unknown party (49 percent). In just under a third of all cases, most or all of the money was recovered.

“ONE MEMBER OF THE GROUP WAS **ATTACKED BY THIEVES** WHO SNATCHED HER BAG WHEN SHE WAS COMING TO THE GROUP MEETING.”

(ABADATEZUKAMURIMO GROUP, RWANDA)



CATHOLIC RELIEF SERVICES

“A MEMBER TOOK A LOAN OF MGA 70,000 [\$21] AND WHEN ON THEIR WAY HOME, **THE MONEY WAS STOLEN.**”

(MISTINJO NY HO AVY GROUP, MADAGASCAR)



“WE ARE WORRIED ABOUT THE THEFT OF THE CASH BOX, BECAUSE **A LOT OF CASH BOXES HAVE BEEN STOLEN.**”

(FIAVOTANA SAVINGS GROUP, MADAGASCAR)

“IN CASES OF THEFT, LOCAL LEADERS DO NOT SUPPORT US BECAUSE SAVING GROUPS ARE **NOT LEGALLY RECOGNIZED .**”

(TWUZUZANYE SAVINGS GROUP, RWANDA)

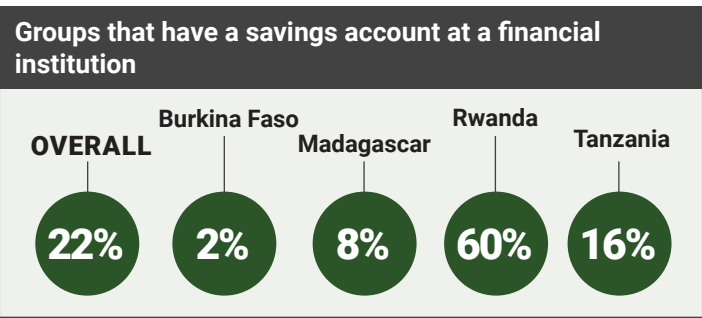
STORAGE OF GROUP ASSETS

Nearly all groups use a lockable cashbox with three locks.

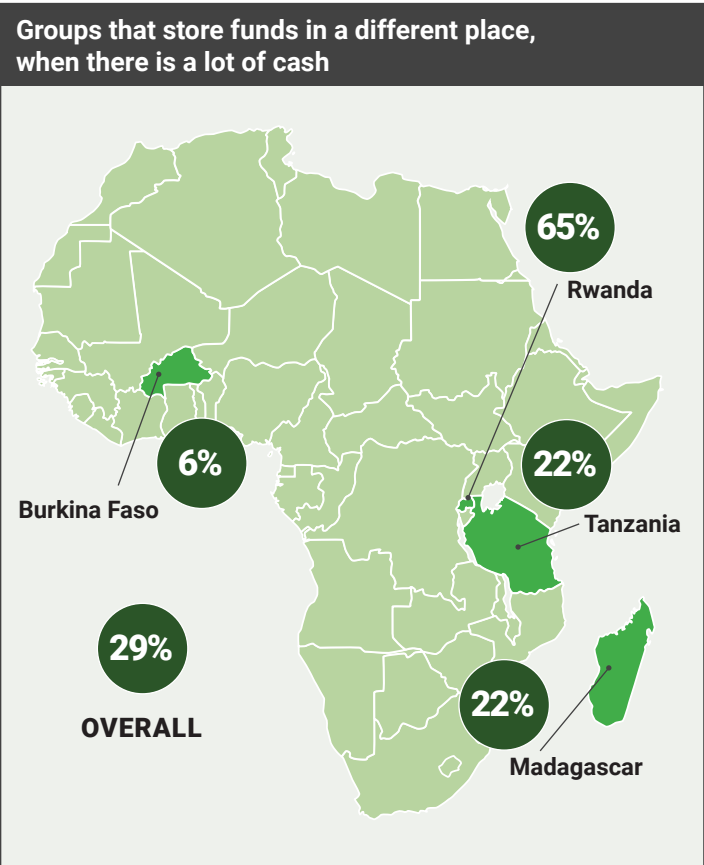
More than 90 percent of groups keep funds and records in a metal box with three locks, each with a key held by a different person. A few groups keep cash balances in a bank account between meetings. Only three percent of groups keep their funds in a manner that could be deemed unsafe: in a box with one lock, or in an unlocked box or bag. Similarly, only four percent of groups kept their records outside of a cash box.

To manage excess liquidity, almost one third of groups store funds in a different place.

When groups have a lot of cash on hand, such as right before a share-out, almost one third reported storing it in a different place. This practice is most common in Rwanda, where 60 percent of groups have a savings account at a bank or Savings and Credit Cooperative Organization (SACCO). Other examples included distributing cash among members, making loans to non-members, depositing money in a member’s bank account, or requiring members to take loans.



In general, groups were satisfied with their ability to manage excess cash. Nevertheless, some liquidity management practices – to reduce the likelihood or impact of theft – may introduce other risks related to compulsory borrowing and external lending, which can result in leakage of group funds.







WORLD RELIEF

## CONCLUSIONS

This risk assessment confirms some widely held beliefs about Savings Groups. They are generally safe places to save and borrow: 93 percent of groups have never experienced a negative return, and 94 percent of groups have never had funds stolen. Members receive a substantial return on their savings at share-out – 29 percent on average – and more than nine out of ten groups continue to operate from one year to the next.

The findings also reveal however, several negative outcomes that represent important risks to Savings Groups. Facilitating Agencies should deepen their understanding of these risks in order to discern how best to mitigate or respond to them.

## GROUP DISSOLUTION

A particularly critical finding is that groups can dissolve at any time – within the study sample, groups dissolved after completing three cycles on average. This indicates that challenges can arise even for groups that have operated successfully for multiple years. The most common challenges reported across the sample and by the oldest groups to dissolve, in Tanzania, are loan default and the inability to save. This suggests that adjusting savings requirements to meet shifting economic capacities and dealing with loans that cannot be repaid are areas in which groups would benefit from additional training and support.

## **DEPENDENCY ON EXTERNAL SUPPORT**

The number of groups still receiving regular – weekly or monthly – visits from trainers or NGO staff long after the end of the training period is particularly revealing. Also concerning is the number of groups that reported that, during these visits, trainers or NGO staff perform key group functions including recordkeeping, calculating share-outs and managing meetings. In some cases, this level of support may be in response to low levels of literacy and numeracy. But even in such cases, Facilitating Agencies and their trainers should be working to build the capacity of groups or adapting group functions in a way that enables groups to operate independently, as they are intended to do. This may involve training members to fill in for management committee members when they are absent, running practice share-outs to build capacity around this complex and infrequent activity, or extending the training period until groups demonstrate the ability to operate independently.

The importance of an exit strategy that enables groups to operate sustainably is clearly articulated in the Savings Groups Program Quality Guidelines.<sup>8</sup> Where post-project structures are developed to provide ongoing support, it is critical to integrate mechanisms to ensure that dependencies are not cultivated, both unintentionally or deliberately to extract ongoing fees.

## **FINANCIAL LOSSES**

Seven percent of groups have experienced a negative return at some point. Financial losses are generally the result of theft and loan default. In some cases, these were considered one and the same when a member refused to repay a loan or absconded with it. Loan default was also reported to be an important cause of group dissolution – the primary cause, in fact, among the 19 groups in Tanzania that dissolved after more than three cycles. Together, theft and loan default also made up the majority of concerns shared by groups in the sample.

While some mechanisms exist within the methodology to prevent theft – such as using three locks each with a different keyholder – and minimize the impact of loan default by establishing a maximum loan amount of triple a member's savings, many groups reported feeling incapable of preventing or responding to financial loss. This signals a need for additional protective procedures and policies. Facilitating Agencies can support Savings Groups during their training period by strengthening their adherence to procedures designed to protect them from financial losses, and by helping groups define additional fair and effective policies to prevent and address cases of theft or loan default. Groups should also be trained and supported to consider member well-being in cases where borrowers do not have the means to repay a loan. This involves equipping groups with strategies that avoid some of the severe consequences reported in the survey, such as the seizure of homes and, in one case, suicide.

## **MULTI-GROUP MEMBERSHIP**

Among the surveyed groups, it is common for a member of a Savings Group to also belong to another Savings Group – more than three members per group on average. In many cases, membership in multiple groups provides an option for members to save more, which does not carry any risk. However, when loans are taken from one group to repay another group – a practice reported by 14 percent of active groups – it is likely to have a negative impact on the group. This constitutes a risk meriting attention by Facilitating Agencies who should support groups to understand and prevent this practice.

---

<sup>8</sup> Program Quality Guidelines for Savings Groups. The SEEP Network, 2015. Available: [https://www.mangotree.org/files/galleries/1571\\_SG-guidelines.pdf](https://www.mangotree.org/files/galleries/1571_SG-guidelines.pdf)





CATHOLIC RELIEF SERVICES

## MEMBER TURNOVER

Member turnover in Savings Groups is significant – just under one third of groups had five or more members leave since the last cycle. Facilitating Agencies should prepare groups to effectively manage the exit and entry of members such that members can leave the group at any time and withdraw their savings with a fair return; and that the capacity, culture, rules and procedures of the group are not diluted. Additionally, members leaving groups because of an inability to save – the leading cause of member dropout – would benefit from mechanisms that enable groups to respond to this widespread challenge.

## DISREGARD FOR PROCEDURES

While groups generally have the materials they are thought to need to function optimally (i.e. cash boxes, ledgers and written constitutions) and followed most procedures most of the time, the study revealed two areas of concern: first, the consistency with which Savings Groups democratically elect and replace management committees is surprisingly low; and secondly, many groups admitted to disbursing loans above the established maximum loan size. These practices constitute areas deserving of increased emphasis in group training. Additional support may also be required to build the capacity of group members for management committee roles, through in-group mentoring or other strategies.





## INAPPROPRIATE TRAINER BEHAVIOR

Inappropriate behavior by trainers is not common – but it must not be ignored. While some trainers were reported to have blatantly stolen or extorted money from groups, others may have believed they were acting with good intentions by safeguarding group funds, borrowing available funds from groups, or pressuring groups to undertake additional activities. Even so, trainers that take loans from a group, keep money on behalf of a group, or force activities upon groups, put the assets and operations of the group at risk. This also extends to trainers who maintain group records, manage meetings and share-outs – group assets are exposed to manipulation and group sustainability is jeopardized. Groups should instead be supported by trainers to find ways to address the areas they struggle with – namely safekeeping of funds, recordkeeping and share-outs. Facilitating Agencies must also ensure that groups are aware of the kinds of behaviors that are inappropriate and have access to a channel through which inappropriate trainer behavior can be reported privately.

**The risks faced by Savings Groups are complex – some are common while others are highly contextual, and some are circular in nature, with certain risks being a cause or outcome of other risks. This study serves as an initial evidence base on which to monitor, investigate and address the risks faced by Savings Groups.**



