MOBILIZING ASSETS FOR SELF DEVELOPMENT: From Merry-Go-Rounds to Savings and Credit Organizations

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Introduction

World Neighbors works with poor, marginalized rural communities in Africa, Asia and Latin America to enhance/strength their capacities (technically and organizationally) to meet their basic needs and to determine and sustain an equitable and inclusive development process. In order to achieve this, World Neighbors has carefully decided on the development sectors to intervene in. These are sustainable agriculture and rural livelihoods (SARL), community and reproductive health (CRH), and community based natural resources management (CBNRM). In addition, the transversal themes of gender, capacity building and HIV/AIDS are incorporated. World Neighbors has adopted a holistic, people centered approach to development. World Neighbors aims at sustainable social transformation of communities.

This paper examines one aspect of rural livelihoods, i.e. savings and credit initiatives by the rural poor communities in East Africa (Kenya and Tanzania). These communities are basically subsistent in their economic operations. Most of them grow the foods they need on their fragmented land parcels, using technologies that were used by their ancestors decades ago. However, with the onset of global warming with its attendant negative economic, health and environmental consequences no household in these communities is now able to feed itself. The rains are erratic and unpredictable, thereby making it difficult for the farm families to predict with reasonable accuracy when to plant. This means that households have to purchase most of the foodstuffs that they consume. Because they are unemployed/underemployed these households have to find different ways of survival. They have to get funds to meet the basic household needs including purchasing food. They cannot borrow funds from commercial banks and other micro finance institutions because they are considered credit unworthy, possessing no collateral.

The situation leaves these communities with no option but to mobilize their own assets and resources for self development. This may take various forms but invariably community members come together to contribute money at regular intervals and lend it to members with clear understanding of how this money will be repaid. They trust each other and so there is no need for demanding any form of collateral. This schemes are generally known as 'merry-go-rounds', and are mainly formed by women.

The Nature of Asset Mobilization

All communities have assets, skills and capacities. What they normally need is to be facilitated to unlock such enormous potential for their self development. World Neighbors has supported communities that organize themselves into merry-go-round groups with a view to ensuring that these groups grow in size so that the level of financial resources being accumulated increase in order for members to borrow 'substantial' amounts to invest in viable income generating activities. The whole idea is to encourage the culture of savings as a prerequisite for building a strong foundation for mobilizing local financial assets within the community. Hence, there is need to build the capacity of community leaders in good governance and other aspects of endogenous development such as resource mobilization, group dynamics, etc.

Savings and credit is, therefore, currently an important aspect of development in World Neighbors programs in East Africa, particularly for women. Women in East Africa have the indigenous (home-grown) system of coming together to help each other in times of difficulty. Groups of, say, 10 women may come together and decide to contribute a predetermined amount of money every month and to donate a portion of it to one or more members every month and keep the rest as communal savings. The beneficiaries of such funds have used them to purchase household items such as kitchen utensils, furniture or even improving on the housing quality. These groups, known as merry-go-round groups, are a common feature of every village in East Africa. It is this pre-existing mechanism of mobilizing local assets for self help in development that World Neighbors has been building on with communities with which it works. These self help groups are the foundation for the savings and credit components of World Neighbors programs.

The functioning of savings and credit programs is complex. Community members come together to form self-help groups. They decide on the membership fee and a regular contribution, e.g. monthly subscription. The members must be like minded, i.e. have a common vision (for example, when they realize that they lack certain facilities/amenities and have resolved to do something about the situation). In addition, the members must be residing in close proximity to and have trust in each other. They elect officials, primarily the Chair, the Secretary, and the Treasurer. They collect funds monthly and disburse part of it to either a member or two members, depending on the amount they are able to collect per meeting. Part of the money which they save communally is available to be loaned to members who require it. This borrowed portion is repaid with some interest. This is the simplest method used by self-help groups in East Africa to mobilize assets for self development.

In the current programs supported by World Neighbors these individual self-help groups have been encouraged to come together and operate in a more formal way by encouraging collective action achieved only when different groups come together guided by a common vision. The whole idea of affiliation within a program framework is to enhance mobilization of resources in larger quantities for borrowing. Before the groups can apply for a loan they have to buy shares (i.e. save) with the bigger body. Individual members who qualify for loans then apply to the umbrella body for loans through their self help groups, stating what they want to do with the loan if they are successful. Application for funds through the groups is important because it is the groups that act as security for the loans from the umbrella body. Once the loan is received, the repayment commences immediately at a pre-determined repayment rate which includes the interest charged. Colleagues will put pressure on any member who defaults until the loan is repaid in full. In extreme cases the self help group would clear the loan on behalf of the defaulting member and later put pressure on the individual to refund the group. This is important so that the group is not black-listed by the loan disbursing body. For this reason, the default rates are usually low. Once a member has repaid the loan, s/he could apply for another one so long as the group approves and funds are available.

The loan money is spent on a number of ways, chief of which are the following:

- Starting up small scale businesses
- Investing in farming activities
- Expanding the already existing businesses
- Paying school fees for children
- Meeting hospital bills for family members
- Improving the conditions of their houses

Challenges for World Neighbors

Some of the challenges that World Neighbors has faced when facilitating such initiatives include:

- Majority of the women were illiterate, and so record keeping was missing which would have assisted WN to assess the trend in the performance of the groups.
- The groups were unregistered, and therefore could not open formal bank accounts for the safety of their savings, but kept the funds in their homes which risky.
- The groups had no constitutions, by laws and systems of operation. World Neighbors had to facilitate the formulation of such instruments from scratch.
- WN had to assess the capacity gaps of the groups before designing tailored training programs on the management of the savings and credit schemes. The rudimentary nature of these groups posed the challenge.
- Encouraging the group members to embrace the culture of savings which is the back-bone of such programs.
- WN had to be careful not to create a culture of dependency on external organizations for mobilizing the resources for lending to the group members. Hence World Neighbors did not approve/encourage the provision of ‘seed capital’ to these groups as start up loan capital.
- Occasionally unscrupulous officials allocated funds to themselves with little regard to the needs of ordinary members. This created mistrust in the initial stages.
- Some groups were formed specifically to target the program funds. Such groups fell by the way side because they were formed for the wrong reasons, hence were unsustainable.

Case Studies

Two case studies, one from Tanzania and the other from Kenya are presented here to illustrate the latent resources/assets that exist in the communities that are perceived as poor. These assets just need to be unlocked for self utilization by the communities.

1. Women's Economic Groups Coordinating Council [WEGCC]

This is a local NGO in Tanzania that collaborated with World Neighbors between 1999 and 2008. During that period, savings and credit was one of the major planks of this collaboration. As the name suggests this organization targets primarily women with a view to improving their economic situations. One of the ways of achieving this was to build on the women's self help groups so that they can have access to adequate credit for starting up and expanding their small scale businesses. Hence, WEGCC initiated a savings and credit scheme using a model which focuses on 'solidarity group' approach with emphasis on the importance of mobilizing own savings.

Through this model women were organized into small groups of five to seven members and assisted to establish and/or strengthen existing income generating activities. Each member group joined the scheme by buying minimum shares whose value is determined by themselves depending on the economic factors prevailing in a particular area. These shares formed the initial capital for the scheme. The savings and credit scheme is fully administered by members themselves through a management board. The key responsibilities of the scheme management board are to appraise loan applications, issue and monitor the utilization of the loans, and their repayment.

This particular savings and credit scheme started with 105 members and within two years membership had increased to 325. As the program continued to be implemented, a major challenge emerged. Although the overall goal of this program was to empower poor women socially and economically, it was observed that the poorest women were not benefiting because most of them could not purchase shares in the groups so as to benefit from the loans. The program was creaming off the 'richer' women and entrenching the social stratification in society by leaving behind the main targets of the program.

In order to address this challenge, the savings and credit scheme management initiated discussions with active scheme members to find out possibilities of enabling the poorer women to access the scheme services thus benefit from the program. The members acknowledged the presence of many vulnerable women in their communities and resolved to address the issue. After long brainstorming sessions they agreed to create a sub account within the scheme to facilitate the provision of credit to the poorer women for income generation activities.

The money set aside for this activity was from the profits they were making by lending out the funds. In other words, they decided to forego their dividends for the sake of the less resource endowed members of their community. This was, therefore, a special arrangement through which the poorer segment of the community could access loans without having to save upfront and purchase shares in the scheme. In addition, the loans to this group were to be repaid without any interest to which the regular members were subjected. In order to avoid the possibility of non target women taking the advantage of this arrangement, selection criteria were formulated by members themselves as they know the poorer women in their villages better hence ca[able of assessing them fairly accurately.

In February 2004, 16 women were identified as the first group to benefit from this special scheme. A series of meetings was organized with the vulnerable women during which their abilities to manage small income generating activities was confirmed. One of the conditions for accessing this loan was that the women were to develop a culture of savings and they had to agree to remit to the scheme some profits they generated so that in the long run they would graduate from this special category of members and become regular members with shares and stake in the savings and credit scheme. In other words, a transition schedule was discussed with them.

The loans for this special category raged between US $8 and $15 and they had to make weekly repayments from the profits they generated and deposit something like US $0.15 as part of their contribution towards eventual purchase of shares. By July 2006, 60 women had benefited from this scheme and received loans totaling US $1,000. By the end of 2006 10 women had graduated into regular membership of the scheme. More women graduate every year from being categorized as ‘vulnerable’ to being proud members of the savings and credit scheme.

2. Akukuranut Development Trust (ADT)

This is an organization that World neighbors facilitated the community in Teso District of western Kenya to form when the time for collaboration was coming to an end. One of the activities that was popular in this program was savings and credit scheme. The scheme has now grown both in membership as well as in the size of assets already mobilized. At the beginning of 1999 the scheme disbursed loans worth US $1,200 to 10 people. In 2008, it disbursed loans worth US $15,000. This scheme has now grown into a village bank where local teachers and other rural salaried people prefer to save and borrow. It is soon developing into a micro finance institution.

Its achievements so far include:

- 710 members to date
- It has mobilized an equivalent of US $27,000 in form of share capital
- It has mobilized the equivalent of US $45,000 as members savings
- It has so far disbursed loans worth US $130,000 since its formation

The key challenges are:

- Limited funds to loan out to members
- Default rate which is about 15%
- The effects of HIV/AIDS on members repayment
- Current economic downturn affecting profitability of small businesses, hence loan repayment

Conclusion

The impact on the community members as a result of their participation in savings and credit are numerous. Some of the key ones are:

1. Empowerment of women economically as a result of controlling their own financial resources. This has given most women a voice within the community and a sense of self-worth and respect.

2. The perception of women as mere dependants on men is changing fast as women prove that they can work as hard as (if not harder than) men and contribute significantly to the welfare of their families. Women are now able to pay part or whole of the school fees for their children, something that they were not able to do previously. This lessens the burden on the men, who may then utilize the extra funds at their disposal for productive investments for the benefit of the family.

3. The housing conditions of most families who have participated in savings and credit schemes have improved. Those who were living in temporary structures have improved their dwellings to either semi-permanent or permanent structures

4. Engagement in small scale trade has improved the business skills of the participating individuals as seen in the diversification of the business activities that they fund from savings and credit loans.

5. The general well-being of the participating households has improved over time, and they are generally better off than non-participating households.

It would be misleading to give the impression that savings and credit schemes are all smooth-sailing. There are certain problems that have been reported, albeit in minimal frequencies. There have been cases where husbands trick their wives into lending them the loan funds, or at times they just take the money away from their wives by force and do not pay back. In such cases these women have to find ways of repaying the loan without having put it to productive use. Such women get discouraged from borrowing funds again and relapse into a state of helplessness and dependence on their husbands.

Secondly, when women begin to take away certain household responsibilities from the hands of their husbands as they generate their own resources through savings and credit, thereby increasing the amount at the disposal of their husbands, some irresponsible husbands use their extra resources in non-productive activities such as excessive drinking and marrying extra wives. However, such cases are very few and the benefits of the savings and credit programs far outweigh the negative consequences.

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