

## MOZAMBIQUE



### Community-Based Savings Groups in Cabo Delgado

*Small transaction sizes, sparse populations and poor infrastructure limit the ability of commercial banks and microfinance institutions to reach rural areas where many of the world's poorest and most marginalised populations live. Disadvantaged communities, which do not have access to even small amounts of savings and credit to help smooth their incomes, meet predictable expenses and cope with emergencies, have little means of improving their quality of life. With more stability in their cash flow, poor men and women would have a greater chance of making better choices around health, education and nutrition, and as well, invest in income-generating activities.*

Since 2001, the Aga Khan Foundation (AKF) has been working in Cabo Delgado, the northernmost and poorest province of Mozambique. In these

remote, rural communities, there are no safe mechanisms by which people can save or borrow money, as it is not profitable for commercial banks or microfinance institutions to set up expensive branches and pay high personnel overheads to take in deposits of US\$ 1 or even US\$ 10 at a time. To address this problem, in late 2010, the Foundation initiated the Community-Based Savings Group (CBSG) programme to promote community-managed financial services in the remote disadvantaged communities where it works.

By 2013, this initiative provided over 4,800 individuals (53 percent women) a safe place to save and access credit on flexible terms to meet investment, consumption and emergency needs. The programme is now working with community-based trainers to initiate additional groups in coming years.

At the end of 2011, a qualitative study of 11 savings groups was conducted by AKF, to better understand how CBSG membership affects savings and loan-taking behaviour and household financial decision-making. This report highlights the main findings of the study.

#### How the programme works

A CBSG is a voluntary group of 15 to 25 people on average who save together and take small loans from those savings. The activities of the group run in yearly cycles, after which the accumulated savings and the loan profits are shared out to the members according to the amount they have saved. The Foundation's role is to train the groups to manage their transactions independently. It does not provide any external capital,

A savings group member in need of a loan is encouraged to think through the use of the borrowed funds. With a clear purpose in mind, it becomes easier to reimburse the loan in due time.



*Saving collectively appears to foster a sense of community amongst members as they are increasing their individual economic well-being on the basis of a collective effort and also learning from each other. The collective system allows for mutual support when in need, particularly for women.*

and the AKF Facilitator never touches the money nor manages the record-keeping of the group.

### How the study was done

A total of 135 CBSG members (66 percent female) were interviewed during focus group discussions that were conducted across 11 savings groups. These groups were selected by AKF staff who are knowledgeable about the programme area. The selection criteria included: maturity level of the savings group, geographic location, loan capacity, and gender and ethnic makeup of the group. For seven of the groups, the focus group discussions were complemented by in-depth individual interviews with three members per group.

Limitations include the lack of a pilot study, the occasional use of leading questions in the tools administered, and the field team's limited experience in designing and implementing qualitative studies. Importantly also, the selection of CBSGs based on similar maturity levels was not clearly understood and applied. As a result, half the groups in the sample were nearing completion of the first cycle and the others were halfway through their first cycle. As such, findings relating to financial capabilities and household financial decision-making should be considered with caution because results in these areas can be better understood after groups complete at least one share-out.

### Key findings of the study

#### Finding 1: Savings groups help to promote financial inclusion.

Cabo Delgado is characterised by poor financial service provision. Savings groups are seen by the majority of members to fill a gap in areas where there are no safe borrowing or savings mechanisms.

*"We don't have a bank here in Ibo. The CBSG is our bank."*

*-- A female CBSG member*

Prior to joining their savings groups, most interviewed members accessed loans through friends, relatives, neighbours and/or village money-lenders. Access to loans was not always guaranteed. It depended on the lender's trust in the borrower's ability to repay the loan. Borrowers often had to accept unfair conditions (high interest rates, short deadlines or pawning their household assets) because of limited alternatives.

*"Before joining the group, if they borrowed a loan from a moneylender, they did not have to pay interest but they had just a few days to pay back the loan. If they were not able to pay the loan back in time, then people would start accusing that person of robbing the money. Or sometimes they would suddenly be asked for the money back, before the deadline."*

*-- A male CBSG member*

#### Cover Photo:

*In the remote, rural communities of Cabo Delgado, community-based savings groups provided for the first time a safe mechanism by which people could save or borrow money.*

*“The difference is that in the CBSG you make a plan and then you go and ask for a loan, you are 100 percent sure that you are going to get the amount you asked for. But in other places, you are not given the amount you asked for, or at the right time when you need the money.”*

*-- A female CBSG member*

The savings groups provide a safe environment where members can express and address their financial needs without incurring the risk of being socially stigmatised. Members noted that the regularity of monthly loan meetings, which contributes to developing trust within the group, and their ability to request loans based on jointly established conditions (e.g., commonly agreed upon uniform interest rates, repayment periods and maximum loan amount) allow for timely and relatively easy access to cash.

Some members also stated that the system made it possible for them to pay back their loans because they were encouraged to think through the intended use of the loan, which was not often the case before they joined the savings group.

**Finding 2: Savings groups help to motivate more regular savings.**

For most members, the groups have made savings into a more worthwhile and, subsequently, more diligently practiced activity. Before whenever

money was put aside, it was stashed away in the home, often under the mattress, and in smaller and more sporadic amounts. However, the risk of theft – even amongst family members – or the impulse to spend the money left people with little incentive to save.

Now with their savings kept under group lock in a box outside of the home, members report feeling more motivated to make regular deposits, and often in larger amounts. To the extent of benefitting from greater financial inclusion, savings group members are also being held more accountable for their financial activities by group regulations (meeting times, minimum savings amounts) that are responsive to their needs.

*“Collectively you get empowered by the others, every savings meetings, you get interested to save more.”*

*-- A male CBSG member*

**Finding 3: Savings groups help to improve financial capabilities.**

Motivated by their groups to save more regularly, many members reported changing household financial management strategies to increase the availability of extra income for savings.

Saving appears to be relatively easier for members who can generate cash income (in many cases, those who

participate in off-farm income-generating activities) or whose household profile enables them to diversify their sources of income. These members have experienced an improvement in their overall household financial management.

*“Now I feel more comfortable managing my household finance because now I can divide how much I can take for saving, how much to use for business and how much will be used for family consumption.”*

*-- A female CBSG member*

Importantly, some members (older women and those from female-headed households) appear to experience greater difficulty in saving. Such members have the tendency to adopt potentially negative strategies such as increasing their workload beyond their ability or cutting household expenses (buying less or lower quality food) in order to save.

**Finding 4: Savings group membership, to a limited extent, encourages positive changes in household financial decision making dynamics.**

Savings group membership plays a limited role in improving household dynamics for women, as these dynamics tend to be affected primarily by marital status and, in the case of married women, the quality of the relationship between spouses.



With their savings kept under group lock in a box outside of the home, members report feeling more motivated than before to make regular deposits, and often in larger amounts.



*“The advantage of saving collectively is that you learn a lot of things from others. [It] is like going to school where you learn a lot of things which alone you would not learn.”*

*-- A female CBSG member*

*“Single women manage the household fund alone, whereas in male-headed households it depends on the couple. If it is a good relationship, women can keep the money and manage it, but if it’s a bad relationship then the men hide it and control it.”*

*-- A female CBSG member*

Most female respondents from male-headed households reported that group savings decisions are made jointly with their spouses. With regard to loans, most female members from male-headed households noted that their spouses participate in the decisions that relate to the use of the loan and the profits from the investment of the loan, but not the amount of the loan taken.

*“I would never think about making a decision about saving or taking out a loan on my own, because I cannot contradict the man who married me. He is the one who gives me ideas and the money is ours to share as a family.”*

*-- A female CBSG member*

However, the study’s findings suggest that some women from male-headed households feel that starting small businesses, made possible through accessing CBSG loans, has decreased their financial dependence on their husbands and family members. These women reported feeling more financially independent as they no longer needed to rely on their relatives for financial support.

*“These days, we don’t wait for our husbands to make a move when we need something, even my husband admires me a lot these days.”*

*-- A female CBSG member*

**Finding 5: Savings groups promote social cohesion amongst members and foster the creation of a support system for women.**

Saving collectively appears to foster a sense of community amongst members as they are increasing their individual economic well-being on the basis of a collective effort and also learning from each other. The collective system allows for mutual support when in need, particularly for women. For example, women are able to pull their resources together either from the loan fund or social fund to help each other.

Moreover, through their regular group meetings, members have a general sense of the investments that each member is making in income-generating activities and tend to support each other in running their business activities.

According to interviewed members, the trust fostered between members through the CBSG methodology encourages transparency in loan taking. Because members are confident that their peers have healthy borrowing practices, they trust their repayment capacity which, in turn, means that most members do not need to feel

*“Simply put, the poor in the developing world require access to just about every kind of financial product and social service that individuals or small-enterprise owners require in the developed world...”*

*-- His Highness the Aga Khan, speaking at the inauguration of the Aga Khan Agency for Microfinance, Geneva, Switzerland, 22 February 2005*

*At the end of 2011, a qualitative study of 11 savings groups was conducted by AKF, to better understand how CBSG membership affects savings and loan-taking behaviour and household financial decision-making. The study reported six main key findings:*

- 1. Savings groups help promote financial inclusion.*
- 2. Savings groups help motivate more regular savings.*
- 3. Savings groups help improve financial capabilities.*
- 4. Savings group membership to a limited extent encourages changes in household financial decision making dynamics.*
- 5. Savings groups promote social cohesion amongst members and foster the creation of a support system for women.*
- 6. Savings groups complement other community-level activities including other interest groups and traditional savings and loans arrangements such as Xitiques.*

apprehensive about taking out a loan if they need one.

**Finding 6: Savings groups complement other community-level activities including other interest groups and traditional savings and loans arrangements such as Xitiques.**

Members from all sampled community-based savings groups (except for one) were also part of other community interest groups. A few respondents explained there were complementarities between savings groups, Village Development Organisations and Farmer Field Schools because the knowledge they gain in one group benefits their activities in another.

For example, Farmer Field School members learned that increased productivity and improved commercialisation would result in increased savings, for which the savings group could provide a safe depository. Some respondents also indicated that money from the loan fund could be used to buy agricultural inputs.

Six of the sampled savings groups had some members who were or used to be members of traditional rotary saving systems (Xitiques). Since Xitiques do not provide loan services, when members need money, they rely on their own savings. Members of three selected savings groups who were previously members of Xitiques discontinued their Xitique membership after joining the savings group because they wanted to grow their savings. As for the other three sav-

ings groups, the members who also participated in the Xitiques remained members. They use their Xitique savings to support income-generating activities, while the profit from such activity is often kept for safekeeping in the savings group.

## Issues to consider for future implementation

A few concerns relating to programme delivery were highlighted during the study. These may be considered by the Aga Khan Foundation in Mozambique as it expands its community-based savings group programme.

### Issue 1: Early withdrawal of savings

One group reported having used its savings before the completion of its cycle. The CBSG methodology encourages members to save weekly with the intent of accumulating savings over the course of a cycle. It is unclear from the data as to what extent the reported withdrawal of savings before cycle completion is due to a lack of understanding amongst members of the CBSG methodology. It is important that Field Officers clarify the purpose of saving weekly and reinforce the principle of an annual share-out with current and future group members.

### Issue 2: Unnecessary loan taking

In the case of one savings group, members reported being encouraged by their fellow members to take out

Respondents in the study reported complementarities between savings groups, Village Development Organisations (photo) and Farmer Field Schools because the knowledge they gain in one group benefits their activities in another.





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loans – even when not necessary – in order to increase the group’s capital. The CBSG methodology is one of the rare sources of loans whereby the interest is redistributed to its members. This behaviour should not be seen as positive if members are taking out loans without really needing it.

### Issue 3: Discouraged loan taking

None of the interviewed members from three savings groups reported taking out loans during their membership. Often times, these savings groups had set an interest rate which was high enough to discourage members from taking out a loan. Two of the three groups with no loan activity had an interest rate of 50 percent. In general, the interest rate for most groups is set between 5 percent and 10 percent. High interest rates are likely to reflect either poor facilitation/mobilisation skills upon group training and/or low levels of trust amongst members. The programme should further investigate this issue.

### Issue 4: Savings strategies that are to a household’s detriment

In an effort to save in greater amounts, some households make choices that are not always considered positive, such as increasing workload to levels that are detrimental to their health (older and single women) or household management (younger single mothers). Other types of strategies include reducing household expenses – such as the purchase of less diversified and lower quality foods (one male CBSG member) or selling agricultural products at a lower price (one female CBSG member). The possibility of a reliance on such practices should be addressed during the next phase of programming.

### Development Partners

Foreign Affairs, Trade and Development Canada (DFATD)

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The Aga Khan Development Network (AKDN) is a group of private development agencies working to empower communities and individuals, often in disadvantaged circumstances, to improve living conditions and opportunities, especially in Africa and Asia. Its agencies work in over 30 countries for the common good of all citizens, regardless of their gender, origin or religion. Its underlying impulse is the ethic of compassion for the vulnerable in society.

