In 2012, the AKF conducted a qualitative study of 10 groups to gain a better understanding of how group membership affects saving and loan-taking behavior, responses to socio-economic shocks and household financial decision-making, and to identify complementarities between CBSGs and agriculture-related interventions. This report highlights the main findings of the study.

1. Savings groups encourage more regular savings

2. Savings groups help promote financial inclusion

3. Female membership in a savings group can lead to more cooperation between spouses with regard to household financial decisions

4. Membership in a savings group can help households cope better with unpredictable expenses during the lean season

5. Savings groups foster social cohesion

6. Savings groups help farmers to take a better advantage of their rice production

As share-out occurs near harvest time, when the price of rice is at its lowest, some farmers use their savings to purchase additional rice, which they store and then sell for profit when prices rise considerably at year-end during the lean, planting season.

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In the Sofia region, community-based savings groups enable members of the community to have a reliable, non-exploitative source of credit. AKF, in this credit permits them to increase their rice production in a significant and sustainable way, leading to improvements in their family’s quality of life.

How the programme works

A CBSG is a voluntary group of 15 to 25 people who save together and make loans to group members. The groups are formed based on kinship or geographical boundaries. CBSGs are formed spontaneously by imitation. The qualitative study of community-based savings groups in Madagascar has revealed that group formation is driven by the climate of trust within the group.

The savings group thus enables members of the community to have a reliable, non-exploitative source of credit. There are four reasons why members prefer to borrow from a CBSG:

- the ease of obtaining a loan;
- the fact that discussion of current loans with non-members in the village means that has not been possible to find CBSGs that have formed spontaneously by imitation. However, the introduction of village agents who facilitate loan approval has resulted in the formation of new groups in communities where groups had already existed.

The qualitative study of community-based savings groups in Madagascar undertaken in 2012 showed that membership in a community-based savings group was an important factor in their own income-generating activities and increase their personal savings.

"We can solve problems. Ultimately we are still paying the money borrowed from the group that interest that stays in the group."

- Male member from rural site

The study which AFC undertook in 2012 showed that membership in a community-based savings group was an important factor in their own income-generating activities and increase their personal savings.
helping rice farmers to increase their rice savings group project in the Sofia region isCover Photo

permits them to increase their rice based savings groups enable

In the Sofia region, community- based savings groups are a very unusual phenomenon. The study which AKF undertook in 2012 showed that membership in a CBSG is a better way of increasing your personal savings.

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Savings group project in the Sofia region is a reliable, non-exploitative source of credit. In turn, this credit enables households to manage their transactions and CBSG activities, so there is no guarantee that members will have enough money to pay back two or three tins to make up a complete set. For example, for one tin of rice borrowed from a wealthier household, the borrower must pay back two or three tins to make up a complete set. However, the introduction of village facilitators has resulted in the formation of new groups in communities where there had already existed an informal savings group.
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As share-out occurs near harvest time, when the price of rice is at its lowest, some farmers use part of their loan funds to purchase additional rice, which they store and then sell for profit when prices rise considerably at year-end during the lean, planting season.

and make a profit. I do what I like with it.

— Female member from rural site

Facing financial difficulties, heads of household may use their savings and, if necessary, try to take out loans to help them over. Those who are CBSG members suffer fewer negative consequences if they take out a loan, as they are guaranteed to receive it and are not forced to sell household goods in order to repay it. In fact, when faced with an emergency, depending on the severity of the situation, farmers can draw loans from two of the options. An emergency loan can be addressed through a normal CBSG. It is a type of loan that is less severe, the member can request an interest-free loan from the social fund.

Contrary to CBSG members who anticipate future difficulties by investing in their group funds regularly throughout the cycle, members who face an emergency depend on obtaining informal loans whose exploitative conditions leave the borrowers in an inordinate cycle of impoverishing debt.

“To avoid having to borrow, when we joined the group, the idea was to pay in as much as possible to get as much benefit as possible and to have a sum of money for ourselves at the end of the year. We invest as much as possible in the group.” — Male member from rural site

Finding 4: Savings groups foster regular savings.

Village associations are traditionally a factor for social cohesion in the Sofia region. Given the sense of insecurity felt by inhabitants due to water theft, the establishment of the CBSG has made it possible to re-institute social relations between household members. The social network generated by the CBSG is an additional tool for solving problems and maintaining solidarity, notably through the use of the social fund.

Finding 5: Savings groups help neighbors to manage their rice production.

Having completed their first savings, some members have grouped together their share-out funds to rent a collective rice warehouse store. In addition to storing their rice in this warehouse, they have also been able to purchase additional volumes of rice from other villagers who are less affected by harvest failures. The greater rice volume helps them to attract better buyers and sell at even greater profit during the lean season. Interviewees respond the shared rice store as a way of both saving more successfully and of strengthening mutual support mechanisms in the community. The profits generated will be reinvested in rice farming.

“I have experienced a profound change after joining the CBSG because now I am no longer anxious about meeting my agricultural financing needs since I can always count on CBSG members to share rice both with themselves and help neighbors manage their rice production.

Finding 6: Savings groups help neighbors to manage their rice production.

Currently a food-sufficient country with an annual rice production of about 120,000 tons, rice crop – rice – food security has become one of Madagascar’s most critical issues in recent years. Food stock shortages are frequent in some areas of the country, owing to political instability, natural disasters and lack of investment.

With one of the highest rates of average per capita rice consumption in the world at 128 kilograms per person, rice production not only provides the nation’s staple food, it also a major source of income and employment. Over 85 percent of the population relies on rice cultivation for their livelihoods.

In the north-east, despite poor infrastructure, difficult accessibility and yields before the recent lean season, the average village managed to produce 12.7 percent of Madagascar’s production in 2010, making it the nation’s top producing region. Rice farmers are increasing their output to counter the face of various challenges, the Aga Khan Foundation (AKF) began working in the Sofia region in 2005. This project is helping to create community-based savings and loan systems to enable individual members to manage risk and save, and build up productive activities and meet household needs.

Between 2010 and 2013, more than 21,561 individuals (62 percent women) joined a CBSG. A total of 1,056 groups were formed in three districts of the Sofia region, of which 444 have completed their three year operation. Of these, 81 percent are still active. Currently members currently have savings of up to US$ 20 and a loan average of up to US$ 29.7. The average loan fund utilisation rate is 55 percent.

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Female member from rural site

Finding 6: Savings groups help strengthen and better manage their rice production.

As a share-out occurs near harvest time, when the price of rice is at its lowest, some farmers use their rice production to store, promote and distribute their stock reserves in order to attract better buyers and sell at a higher price. They invest as much as possible in their rice production and make a profit. I do what I like with the money we have earned.

— Female member from rural site

As we joined the group, the idea was to pay in as much as possible to get as much benefit out of it and to have a sum of money for the end of the year. We invest as much as possible in the group.

— Member from rural site

The community-based savings groups supported by AKF in the Sofia region are helping rice farmers to better store and distribute their stock reserves in order to sell at higher market value. The additional income is reinvested in farming as well as in improving their quality of life.

Community-Based Savings Groups in the Sofia Region

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