CARE International's Village Savings & Loan Programmes in Africa

Micro Finance for the Rural Poor that Works

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Forward

Many practitioners and observers of microfinance believe that bringing reliable financial services to the world's poor will depend on the growth of permanent, sustainable institutions. Most of these, it is thought, will be formal, for-profit service providers, targeted at low-income clients but otherwise behaving like conventional banks. There may also be some mutually owned institutions, credit unions of the poor, fostered by promoters of user-owned self-help savings and loan groups of poor people. Either way, the watchword is *permanence*.

Meanwhile, most of the world's poor continue to rely on informal services, among which permanent institutions are rare. Indeed, the continuing usefulness and reliability of the best of them depend to some extent on their very *impermanence*. A ROSCA, for example, has a fixed life cycle of rarely more than a few months. Swiftly and cheaply, it pools the small savings of its members and transforms them into a series of useful large lump sums that each member receives in turn. It then closes. If it worked well, and its short life ensures that it is transparently clear how well it worked, its members may decide to run another cycle, perhaps adjusting the value of the periodic contributions, or the frequency of meetings, or the number of members to suit new conditions. Or they may set up one or more new ROSCA. Featuring *reiteration* rather than permanence and *multiplication* rather than growth, a ROSCA movement, once it has become entrenched in a community, can provide reliable, if limited, services to very large numbers of people over many years. The world still has far more ROSCA members than it has MFI clients.

What makes the Village Saving and Loan model unusual is that it attempts to build sustainable *traditions* rather than sustainable *institutions*. Only time will tell if it succeeds. But if it does succeed, its principles could be transferred to other parts of the world where reliable savings clubs may exist but may be unfamiliar to parts of the population.

The story told in this paper is therefore a fresh and intriguing one, and Mr. Allen tells it with enthusiasm.

Stuart Rutherford
Nagoya, Japan
November 2002

It is a privilege to write this introduction to *CARE International's Village Savings and Loan Programs in Africa.* The message that unprecedented numbers of poor and illiterate rural women now have access to quality savings and credit services represents a profound message of hope for this continent where so many efforts have failed. The numbers speak for themselves. Started ten years ago, CARE's flagship project, *Mata Masu Dubara* (Women on the Move) is reaching 162,000 poor and illiterate women organized into 5,500 stand-alone groups in rural Niger, one of Africa's poorest countries. Most microfinance institutions in Africa are fortunate to reach a few thousand borrowers and do not reach the remote rural areas that *Mata Masu Dubara* has.

CARE's extraordinary success cannot be chalked up to doing better what other microfinance programs have done. *Mata Masu Dubara* has been successful because it turned the standard microfinance paradigm on its head. By sidestepping the costly and problem fraught issue of managing an external loan fund, and focusing on training local groups to save and lend at interest to members, the process of expansion has been greatly simplified and decentralized. The results; over 90% of the three million dollars these groups have saved is on loan to members. Repayment is almost perfect, dropout is minimal and virtually all the groups organized up to a decade ago are still functioning. No other microfinance program in Africa can claim results that remotely approach these numbers and the costs in subsidy per borrower are less than one-tenth the credit led model.

CARE's work has major implications for Africa and the rural poor elsewhere in the developing world. All major innovations in microfinance – solidarity group lending, village banking and commercialization, for example – started with a few scattered efforts that within a few years spawned a host of imitators. The *Mata Masu Dubara* model has already been replicated by CARE in ten other African countries. As CARE's methodology, and the results of similar self-help group initiatives elsewhere are widely replicated, many millions of the world's poorest will have access to savings and credit services who would have been otherwise left out. One of the greatest challenges faced by the microfinance industry is reaching the poorest in sufficient numbers to make a difference. *Mata Masu Dubara* has shown that achieving this goal is possible.

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List of Acronyms

ASCA	Accumulating Savings and Credit Association
BDS	Business Development Services.
CA	Community Assistant
CARE	Cooperative for Assistance and Relief Everywhere
CBA	Community Based Adviser
CBT	Community Based Trainer
CFA	Communaute Financiere Africaine franc
CGAP	Consultative Group to Assist the Poorest
CLUSA	Cooperative League of the United States of America
CRISP	Credit for the Informal Sector Project
DANIDA	Danish International Development Agency
EDU	Economic Development Unit
GA	General Assembly
GSME	Growth of Small and Medium Enterprises
IGA	Income Generating Activity.
JCBCP	Jozani and Chakwa Bay Conservation Project
JENGA	Joint Encouragement of Gainful Activities Project
JOSACA	Jozani Savings and Credit Association
K-REP	Kenya Rural Enterprise Project
KI	Kupfuma Ishungu Project
ME	Micro Enterprise
MFI	Micro Finance Institution
MICP	Misami Island Conservation Project
MJT	Musow ka Jugiya Ton
MMD	Matu Masa Dubara
MSE	Micro and Small Enterprise
PACT	Private Agencies Cooperating Together
ROSCA	Rotating Savings and Credit Association
SLA	Savings and Loan Association
VS&L	Village Savings and Loan
WEDCO	Women's Economic Development Company

CARE International's Village Savings & Loan Programmes in Africa

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1. Introduction

For decades, governments and donor agencies have been trying to establish viable financial systems to meet the need for basic financial services in the rural areas of Africa. For a great variety of reasons very few institutions have succeeded in delivering this goal, and even then at very high cost and with great difficulty.

In contrast to this disappointing track record, one programme has succeeded to a phenomenal degree. Over the past decade, CARE International in Niger has developed and implemented Mata Masu Dubara (MMD)[1], a self managed system of the purest form of financial intermediation. Based solely on member savings and small, self-managed groups, MMD is now a membership based programme servicing approximately 162,000 rural women in one of the poorest countries in Africa. MMD is not a single institution but rather an amalgamation of nearly 5,500 stand-alone groups, each with about 30 members, operating in almost identical ways. This monograph tells the story of MMD and highlights a few of its sister programmes in other African countries.

In 1991, CARE was implementing a microfinance programme in the Maradi region of Niger. This rural Micro Finance Institution (MFI) quickly grew to serve 15,000 clients in rural areas, providing small loans on variable terms and conditions. At the time it was the largest microfinance programme in CARE's African SEAD[2] portfolio and attracted a lot of attention because it seemed to be succeeding where all other efforts were struggling.

At the same time, CARE started the MMD programme in Maradi as well. MMD based its activities around groups of between 20 and 35 women who built up their loan portfolios solely from member savings and interest earnings on very short-term loans. It was modest in scale, cautious in its methodology and run by a CARE International staff member, who had good in-country technical support but little experience in financial services. In the beginning, the idea that poor, rural women would save together in order to borrow from the group's pool of money was looked upon with great scepticism.

After a few years, CARE shut down the high profile MFI due to its increasing debt and management malpractice. Its fundamental flaws of trying to work in a harsh and unprofitable environment were clearly exposed as were its assumptions about the quality, extent and profitability of its market. However, the MMD programme carried on at a steady but modest rate of growth until it hit its stride in the mid to late 1990s. From a base of the original 40 or so groups there are now more than 5,500 all over the country, most of whom are entirely independent of CARE, with a total membership that exceeds 162,000. It is a flagship programme in CARE's worldwide SEAD portfolio, in terms of the numbers of clients, all of who are women.[3] The level of savings mobilised now approaches three million dollars at any one time and the level of loans outstanding as a percentage of savings is constantly in the high 90's. Two years after graduating out of the CARE programme

1 Translation from Hausa: Women on the Move
2 Small Economic Activity Development
3 At nearly US$3 million it is one of the largest in terms of loan portfolio.

more than 89% of the groups continue to remain active.[4] Very few MFIs can boast such scale, sustainability, efficiency and low cost. None can lay claim to such outreach even in the more prosperous countries of Africa.

In 1999, CARE started to promote the MMD programme's Village Saving and Loan (VS&L) methodology outside of Niger and there are now programmes operating in Eritrea, Ghana, Malawi, Mali, Mozambique, Rwanda, Uganda, Zambia, Zanzibar and Zimbabwe. Several of these will be described in more detail later in this paper. Similar programmes are also under way in India, Cambodia, Nicaragua, and Ecuador. While many of these are smaller in scale and each has its own distinct variation on the basic methodology, most of them stick to the basic set of principles, which may be summarized as:

- "Savings-based" financial services with no external borrowing or donations to the loan portfolio;
- Self-management;
- Simplicity and transparency of operations;
- Flexibility in loan sizes and terms;
- Very low group management costs met through group earnings; and
- Earnings retention in the group and local community.[5]

Other common defining characteristics are:

- Very strong and positive responses from clients, nearly always more so than for other development initiatives supported by CARE in the same area;
- Highly efficient and almost perfect financial intermediation;
- Individual Savings and Credit groups that are immediately sustainable and highly profitable; providing extraordinary and always positive real rates of interest on client savings;
- Meeting the basic needs of clients for simple, accessible savings and credit and insurance facilities;
- Very low cost per client to the programme, between US$18-30 long-term;
- Programmes locally staffed and managed after very short periods of orientation; and
- Spontaneous replication and flexible adaptation of the basic model.

In addition, CARE avoids the complexities of creating VS&L apex institutions and more formal intermediary structures in order to preserve confidence and transparency, and avoids "mission-creep" from a focus on the very poor towards the better off borrower who can service larger loans. This remains for the moment a characteristic of fundamental importance across all current programmes.[6]

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[4] The 1997 evaluation put this figure at 99%, but other studies have suggested the lower figure.

[5] This is a vital point. Most MFIs extract as much as 100% of the sums loaned away from rural areas to cover their costs (which are never cheap). Under VS&L programmes this stays in the community.

[6] There are constant pressures and suggestions that VS&L programmes should develop into something altogether more grand and sophisticated.

CARE's approach to spreading this methodology has been unremarkable and sound. It adapts the basic methodology to different operating environments and lays a great deal of emphasis on sticking to a simple set of operating procedures and management tools. The initial training is intensive in order to consolidate and standardise the methodology, but in the full and certain knowledge that groups will rapidly and creatively make their own adaptations as needs and opportunities demand. **Laying a somewhat prescriptive foundation allows groups to return to the core methodology if adaptations prove to be problematic.**

CARE believes that the VS&L methodology has the potential to create a revolution in rural microfinance in the developing world, especially in Africa. It offers a solution to the problems of sustainability and institutional instability that for years have bedevilled practitioners who have attempted to create rural financial intermediaries. In Africa, and indeed worldwide, success has been very limited because in general the scale and structure of individual programmes has been defined by the need to build MFIs and less to provide services to the enormous numbers of the rural poor. The hunt for financial sustainability has skewed the products offered towards urban areas and away from the poorest as loan sizes and interest rates rise steadily upwards to satisfy the anxiety of the MFI to break even. As Gabrielle Athmer notes in her recent very eloquent paper[7], "…Currently the thousands of MFI reach less than two percent of the poor and even fewer of the very poor. Most of the MFIs are heavily subsidised. The number of MFIs able to combine financial sustainability and a substantial outreach is limited to a few dozen…" The President of Freedom from Hunger[8] puts the challenge in a nutshell: "….our thinking should rather start with the market we seek to serve, the very poor, rather than with the product we have to sell or the institutions we have to build to sell it.".[9]

The VS&L approach is modest and built around the idea that the capabilities that allow for success are already available in most African villages, so long as the methodology is transparent, simple and not too labour intensive. It has also proven that massive scale, cost effectiveness and very high levels of efficiency are easily achieved once programme designers and managers abandon the notion that it is necessary to create an institutional edifice rooted in the formal sector to deliver financial services to the poorest. The MMD programme and its derivatives are focussed on ensuring the sustainability of very small-scale autonomous village institutions that are capable of saving enough to satisfy a limited but vital set of borrowing and insurance requirements. Sticking to this fundamental objective is probably the most important factor in MMD's success and that of its sister programmes.

This monograph describes the experience of the MMD programme and examines in lesser detail the evolution of several other CARE projects in Africa that follow the same basic approach. CARE wants to share its experience with a wider audience. While looking at

[7] "Finance for Poverty Reduction: an Alternative Institutional Approach in Rural Africa," written for 3rd Annual International Conference, Finance for growth and Poverty Reduction, University of Manchester, April 2002

[8] Dunford, 1998.

[9] He also, pertinently, stated that "…because most of us feel so ill-equipped by our experience to master the complexities of micro-finance, we have lost our nerve: we have abdicated moral and intellectual leadership of the micro-finance movement to financial engineers…."

the specific ways in which CARE's programmes have evolved, it seeks to draw conclusions about the strengths and weaknesses of the methodology and its potential for broader application worldwide. Its ultimate purpose is to help practitioners abandon their fear that by doing something simple and effective they may be doing something wrong.

2. Background

2.1 CARE's Historical Approach to Microfinance Programming and Why it is Changing

Put simply, CARE has not espoused any particular methodology for microfinance. Its basic position is that circumstances alter cases and that what works fine in a Dhaka slum may fall flat on its face in the Maasai steppes. This is an uncontroversial view and thoroughly explored in CARE's Savings and Credit Sourcebook.[10] While the Savings and Credit Sourcebook suggests the types of operating environment to which one methodology may be better adapted than another, it does not go so far as to state any sort of preference or suggest the clear superiority of any one methodology. Partly this arises from CARE's belief that programme designers should be free to make their own decisions, but it also has to do with the fact that in 1996 neither CARE nor many other multi-methodology practitioners were ready to nail their colours to the mast in the way that ACCION, Grameen, FINCA and others had done around a methodology-of-preference considered to have general applicability.

In the last ten years CARE has been successful in facilitating the development, growth and independent corporate establishment of MFIs in several places Africa. Notable successes are:

- Women's Enterprise Development Company (WEDCO) in Kenya, which is Kenya's largest genuinely rural microfinance programme;
- Credit and Savings for the Informal Sector (CRISP) programme implemented by the Commercial Bank of Zimbabwe (CBZ)[11]; and
- Growth in Micro and Small Enterprises (GSME), implemented in 4 Governorates in Egypt, successfully established 3 MFIs using a variant of the Alexandria Businessmen's Association model.

CARE has also had its fair share of failures. Over the 10 years of CARE's work in Africa, it has become very clear that while it is possible to create a successful and profitable microfinance institution, the challenges of capitalisation and sustainability push us inexorably towards the establishment of large-scale regulated financial institutions empowered to mobilise savings from the general public. Many of the big names in microfinance[12] are moving in this direction and it is a positive trend, but it is one in which it is increasingly hard to maintain client group focus on the very poor. This is especially true in the countryside, where the value of such services and their impact is far greater at the level of basic livelihoods and much more of a necessity.

[10] "CARE Savings and Credit Sourcebook," Charles Waterfield and Ann Duval PACT Publications, New York, 1996

[11] CBZ's microcredit portfolio in CRISP has the best portfolio quality in CBZ and the strongest growth.

[12] Such as K-REP and Banco Sol

Africa's problems make it especially hard for MFIs to survive when average loan size requirements in rural areas are low, earning capacity is depressed and the distances between clients or rural marketplaces are very large and over terrible roads. The inexorable vice of small loan sizes and high transaction costs, both to clients and the MFI, puts the cost frontier beyond the reach of all but a few of the most optimistic financial institutions. These institutions tend only to maintain rural infrastructure[13] in order to mobilise savings for on lending to large-scale urban borrowers, who are easiest to reach and the best secured.

As many practitioners have learned, urban microfinance is relatively easy and can be credited, along with others, for getting a number of banks actively interested in serving the poor.[14] Unfortunately, nearly all of these success stories relate to institutions whose clientele is urban or peri-urban; who can meet standard collateral requirements; and whose borrowing needs are way in excess of what would be useful, or safe, to borrow in a typical village 30 km outside town.

CARE's work in microfinance has had greater success in countries with higher levels of economic output and personal wealth than in most of sub-Saharan Africa. But in sub-Saharan Africa the story is different and it is clear that the programmes that are working better than any other are VS&L programmes that initially evolved in West Africa and have spread across the continent to Eritrea, Rwanda, Uganda, and onwards to the south. They are leaving other approaches behind in terms of sheer scale, sustainability, client participation and household-level impact. Also, the methodology is proving to be appropriate in the context of the HIV/ AIDS pandemic, because, to a limited extent, it provides access to loans for lifecycle needs and protects enterprise viability and assets.

It is clear to CARE that its work with VS&L microfinance programming is effective and provides long-term benefits for the poor. It is likely to become a more prominent programme focus in Africa in the future. This paper tries to tell CARE's story in developing and promoting the methodology.

2.2 What Do We Mean by VS&L Programming?

Before we directly answer the question posed by the title of this section it may be useful to first return to basic principles and to consider what motivates people to save and to borrow.

Stuart Rutherford's influential book The Poor and Their Money[15] points out that periodic savings contributions can take place before a useful lump sum is withdrawn for investment (savings up) or can be made after a useful lump sum has been disbursed in the form of a loan (savings down). It needs to be added, however, that there is a fundamental difference

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[13] A number of banks in Kenya and Uganda set up rural branches in the 70s and 80s in order to mobilise savings. In the last ten years they have tended to dispose of this infrastructure because savings rates have not justified the costs. It does not seem to have occurred to them that they have, in general, made it quite difficult to save.

[14] They are also discovering that once a bank has decided to be serious and looks on the poor as a market segment from which there is money to be made, the banks have the technology and systems that is a lot more professional than most MFIs can boast. With the Commercial Bank of Zimbabwe, CARE has helped the bank strengthen its methodology. The bank has become profitable because it is highly efficient in terms of its cost per transaction and has a solid MIS.

[15] "The Poor and Their Money", Stuart Rutherford, DFID/OUP January 2000

between lending and borrowing, centred on the perception of risk, most crucially from the client perspective. Financial service programmes that encourage "savings up" (save first) are far more attractive to the very poor than "savings down" (borrow first) because they provide the enabling psychological conditions that facilitate the acceptance and management of investment risk.

Far too often the assumption of financial services programme designers is that somehow credit will enable a given target group to invest in increased production, without sufficiently understanding the risk dimensions that guide their choices. It is useful to remember that a loan is not an asset: it is a liability that must be repaid, and when it is taken out a period of time must elapse before a return is generated. **A loan, therefore, increases risks to livelihoods**: it does not diminish them. A loan is a means to invest in an opportunity. Before anyone takes out a loan they calculate the probability of being able to repay; but, however high the probability, the risks are elevated. Most borrowers will only take out a loan when they have some form of risk-insurance, usually in the form of savings and when their confidence is high that returns on investments are reasonably assured.[16]

Most poor people appear to be more interested in savings than they are in credit. Although over the past 20 years the headlines have gone to poverty-lending programmes, it is also true that when safe and accessible savings instruments are available there is an immediate enthusiasm for the service. People save because they have a need to increase their economic security. **Savings are an asset, not a liability, and therefore reduce livelihood risk**. Most people use savings to provide a buffer against unexpected shocks, or to plan for predictable expenses. Once this degree of security is assured they are far more likely to make productive investments than if these savings did not exist. It is too often heard that credit is needed to help people invest productively: more often savings will do the trick, or provide the basis on which a collateral credit programme can operate with confidence. In short, very poor people tend to be much more comfortable investing what they already own than increasing their level of liability by taking out a loan. This logic is central to understanding the vital contribution to household livelihood security made by VS&L programmes.

What we mean by this term are simply programmes that facilitate the development of unregulated and usually informal groups that **exclusively depend on member savings for their loan fund capital, with no external liabilities to a lending institution to increase the total amount.** CARE advocates the adoption of a particular governance structure, internal regulatory framework and methodology to enable autonomous groups to provide basic and low-cost financial services in local demand.

[16] One of the most common reactions to the offer of rural credit is fear and caution. The poor take debt and its attendant risks very seriously indeed. For them it may, quite literally, be a matter of life and death.

2.2.1 ROSCA[17] and ASCA[18]: How they differ and why this matters

ROSCAs are well documented and take many forms. Their basic characteristic is the regular contribution by all the members of a group of an equal amount at regular periods. At each meeting one person receives the total contribution and the cycle continues until all the members have received their share. The benefit of this system is that it imposes savings discipline and that members share a proportion of the time value of money. There are three basic forms of ROSCA:

- Those in which members receive the payout on a pre-arranged rotation;
- Those that conduct a lottery, with those members who have already received their payouts being excluded from the lottery;
- Bidding, in which members who want the money most bid an additional sum to that which they have contributed. When the winner is known his or her contribution is then shared out equally. This is a relatively unknown in Africa.

The advantages of ROSCAs are as follows:

- Transparency
- Low to zero financial costs
- Safety
- Efficiency

As Rutherford notes "… ROSCAs can reasonably claim to be the most efficient intermediation device around, since at each round the savings of many are transformed instantaneously, with no middlemen, into a lump sum for one person." He should also note that they are the cheapest devices.

ROSCAs, however, have disadvantages.

- If the ROSCA distributes money by prior agreement or by lottery it is unlikely to be available at the time in a business cycle when it is most useful. These types of ROSCA are often then used in order to save up for household durables such as utensils or roofing sheets. They are an effective savings instrument, but relatively ineffective as a means of capitalising productive investment
- The amount of money is fixed and may be inadequately matched to a person's investment plans
- There is no return on people's investment in a ROSCA, except a marginal time-value-of-money benefit of receiving a lump sum at no interest cost before reimbursement

ASCAs work differently than ROSCAs, but share a lot of characteristics. ASCA members also meet regularly (again, usually weekly) and contribute a fixed amount. The difference is that once the money is contributed it is not handed out to one member. Instead it can be

17 Rotating Savings and Credit Associations
18 Accumulating Savings and Loan Associations

applied to any purpose that the group chooses: investment in a group enterprise; the establishment of an interest-bearing revolving loan fund; or the establishment of a fund to cover members' funeral expenses. Even the amount that is contributed might be changed, with members contributing variable amounts at each meeting, sometimes on the basis of a shareholder system. Most ASCAs focus on providing loans to their members, with interest rates varying from a few percent a month to as much as 20%, usually influenced by the local informal market rate.

The advantages of this system are:

- Members can save at a rate that is matched to their capacity at any given time: this lowers the threshold of entry to the poor.
- Members can take out loans at times and in amounts that are closely aligned to their actual needs and opportunities.
- Members earn substantial return on their savings contributions.
- Insurance against minor illness or other forms of loss is easily built into the system.[19]

The disadvantages appear to be the following:

- The potential complexity of transactions calls for a formal system of record keeping. Often the necessary skills are not available amongst group members.
- Formal record keeping reduces the level of transparency. Once a transaction is recorded in 'the book' it passes from the transparent to the party hidden, safeguarded only to the extent that other group members are able to read, write and confirm the accuracy of entries and figure the net result.
- The rapidly accumulating size of the loan fund puts large amounts of money in one place at one time. This represents a security risk.[20]
- The rapidly accumulating size of the loan fund means that beyond a certain point an increasing proportion of the fund gets to be unused, and is therefore unproductive, since the types of investment that are feasible for group members can only absorb a small amount of capital and cannot provide the required interest rate returns on larger sums.[21]
- The accumulation of excess cash in the safe keeping of trusted individuals represents a risk of malfeasance, the occurrence of which completely destroys group confidence.

[19] Insurance for funeral expenses is not really true insurance. Insurance is based on the principle that insured risks are unlikely to occur and that the contributions of many can cover the lifetime losses of a few. Risks that are common to all or most of the members of a group are called co-variant risks and can only be covered to the extent of average total contributions. Thus, funeral expense coverage by ASCAs is roughly equal in financial value to the lifetime contributions made. The social value of having the ASCA members participate in a funeral is very much prized.

[20] In CARE Zimbabwe's Kupfuma Ishungu programme there are cases of armed guards at meetings. This is not a very desirable development.

[21] It is easy to provide a 100% monthly return if a borrower has taken out $1 and trades in matches. If this capital is turned over 3 or 4 times a month with a 30% margin the effective yield approaches or exceeds this amount. Such returns are very common on very small sums. If, however, a borrower takes out a loan of $100 there are very few investments that can yield the same return because the demand for matches in a village is finite. To provide the same return on petty trade stock variety and the marketing effort must also be radically increased. It is only a very few who can continue to capture these same margins by means of much better organisation than is common amongst IGAs and by operating in a more complex and extensive market environment.

CARE Niger looked at ROSCAs and ASCAs in designing MMD. ASCAs were relatively unknown in Niger, although ROSCAs were common. CARE opted to follow an ASCA model, which was built on local savings traditions and also matched clients' expressed needs, derived from market surveys, interviews, and the trial and error of product testing. The decision was arrived at without much formal knowledge of precedent and practice elsewhere. The advantages of flexibility and matching supply and demand were felt to be significant to a degree that made it worthwhile to confront the challenges.

In his work 'The Poor and their Money', Rutherford lists a number of criteria that define appropriate financial services for the poor. They are reproduced in Box 1 below. CARE's VS&L methodology meets all of these criteria.

2.2.2 Interest Rates and Yield

Interest rates charged by African VS&L programmes tends to be much higher than elsewhere, particularly Asia, which is also true if the formal financial markets were to be compared. It appears that there are three main factors driving high interest rates in African VS&L programmes:

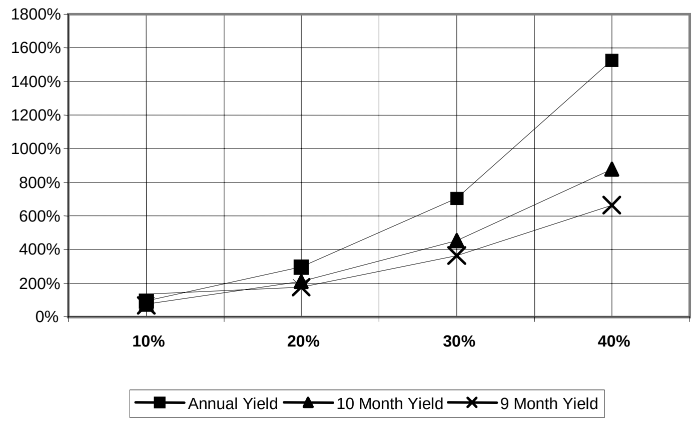
- **Undeveloped financial markets.** Where savings and credit services are not developed people are willing to pay a premium for savings and a premium for credit. There are well documented cases in which market women in Maputo (a relatively peaceful city) pay a money collector 10% a month on the total value of their monthly savings for daily collection and safe storage until the end of the month. There are numerous other examples where people either pay or receive negative low real interest rates for savings services because the value of an assured lump sum at the end of the month far outweighs the financial costs of storage. Likewise the poor are prepared to pay a premium because credit is rationed and the value of rapid, uncomplicated access outweighs the costs.
- **Interest payments on loans are an implicit form of additional savings.** In time-bound VS&L programmes such as MMD, the clients are willing to pay high interest rates because they know that as a group they collectively own the group's profits and will receive a fair and agreed proportion at the end of the year. A significant number borrow money that they do not invest and return the money with interest because this accelerates the rate at which portfolio value accumulates.
- **The higher the interest rates the higher the portfolio return.** Figure 1 shows the effect of high interest rates on portfolio build-up and indicates why VS&L groups are able to maintain portfolio values in real terms at times of high inflation. The key point is that small-scale trading investments have high yields and that capital can rotate through these activities several times a month. In such cases even interest rates of 40% a month are a marginal cost of doing business. There are practical limits to the rate of portfolio yield as borrowers become reluctant to continue at these high rates as loan sizes increase and loan terms need to be extended. A rate of interest between 10 and 20% is common across VS&L programmes in Africa.

Figure 1. Potential Yield on Portfolio

Potential Yield on Portfolio

Monthly Interest	10%	20.%	30%	40%
Annual Yield	95%	296%	705%	1524%
10 Month Yield	75%	212%	454%	877%
9 Month Yield	66%	177%	362%	665%

Potential Yield On Portfolio



Box 1: Financial Services for the Poor: Programme Design Criteria

Good financial services require:

Products that suit the poor's capacity to save and their needs for lump sums so that they can:

- Save, or repay, in small sums of varied value as frequently as possible
- access lump sums (through withdrawals or through loans) when they need them; in the short term for some consumption and emergency needs, in the medium term for investment opportunities and some recurrent life-cycle needs and in the longer term for other life-cycle and insurance needs like marriage, health care, education and old age

Product delivery systems that are convenient for the poor and

- are local, frequent, quick and flexible
- are not burdened with paperwork and other transaction costs
- are transparent in a way that is easy for illiterate people to grasp

Institutions adapted to delivering good products that are

- Committed to serving the poor
- Cost-effective

3 Matu Masa Dubara in Niger

3.1 Background

In 1989, CARE Norway was provided with funds, through a telethon, to undertake a women's economic development project. The goal of the project was quite broad, calling for "….A sustainable increase in the economic security of women-managed households in the project area by the end of 1993." The target group was 1,200 rural women in a total of 24 villages in the Arrondissement of Guidan Roumji in Maradi Prefecture. At the time, CARE Niger accepted the MMD project with reservations, preferring to focus only on building a new MFI in the rural and urban areas of Maradi region.

The savings and credit methodology was rather experimental from the start, especially because, in her own words, the Project Manager "..had no clue of microfinance at all." However, there were a range of other activities initially undertaken by MMD to promote income generation, such as linking clients with governmental and other sources for training in sewing and knitting, gardening, pharmacy, and fuel-efficient stoves. These activities paralleled the larger Maradi microfinance programme, which offered Business Development Services (BDS), in addition to credit. These activities were soon abandoned to concentrate on savings and credit, which had proven to be the most popular activity.

The methodology evolved over time, but even from the start based its activities on groups of up to 30 women meeting weekly, saving their money and providing interest-bearing loans as group capital became available. In March 1992 the project had 6 field agents and 1 monitoring agent and the number of groups was 35 with 1,298 women members. By the end of 1993, outreach remained stable as members increased to 1,500 in 40 groups.

In the beginning, the groups were loose informal associations of women and the methodology was highly flexible. As the project began to grow in the first year, CARE realised the necessity for more formal structures and instituted a training programme that specified the roles and responsibilities of group officers and the general assembly and helped each group to develop its own set of internal regulations. The project experimented briefly with using symbols as a substitute for formal written records, but rapidly abandoned it realising that in order for the groups to continue once the CARE trainers were no longer working with them, it was important to have a system that the group itself could continue. A significant proportion of the groups had no literate or numerate members capable of maintaining record books so CARE developed a methodology that did not rely on written records. To this day a majority of MMD groups maintain no written records. A 1994 evaluation of MMD discovered that members of groups with no written records had a better knowledge of the financial state of affairs of their groups than those that had 1-2 people who maintained their books.

To cope with security concerns, CARE came up with the idea of a metal lock-box. Because

the officers of MMD groups are often drawn from prominent families in a village, only Treasurers were empowered to hold the lock-box in safe keeping between meetings. Each lock-box was fitted with three padlocks and the keys held by three members of the group's management committee, thereby reducing the likelihood of theft, since collusion amongst the three would be highly unlikely. This single innovation greatly increased the confidence of members in the safety and security of their savings.

CARE Niger agrees that MMD developed slower than it could, but believes that the success of the project arose because it was given time to learn by doing and to experiment with decisions that could be quickly corrected without blooming into major problems. Another major contributing factor was the lack of funds. The project operated on a shoestring budget, which kept overhead low and required innovative and low-cost approaches to resolve problems.

3.2 Growth

From 1996 onwards MMD as a methodology was spread to other parts of the country, simply replicating the methodology with a by-now experienced and confident staff. The history of its expansion since inception is summarised by the following charts.

Table 1: Growth in Clients Number and Number of Groups

Item	1993	1994[22]	1995	1996	1997[23]	1998	1999	2000	2001	2002
Members	1,500	2,805	3,744	6,121	21,745	40,777	123,189	159.109	159,109	162,128
Groups	45	90	92	176	647	1,266	3,179	5,557	5557	5654
Av. Gr. Size	33	31	41	35	34	32	39	29	29	29

In Table 1 above, the small change in the 2001 and 2002 figures is explained by the fact that the project has shifted its focus from creating new groups to revisiting and retraining older groups. Currently the CARE Niger MMD project staff has began to focus on

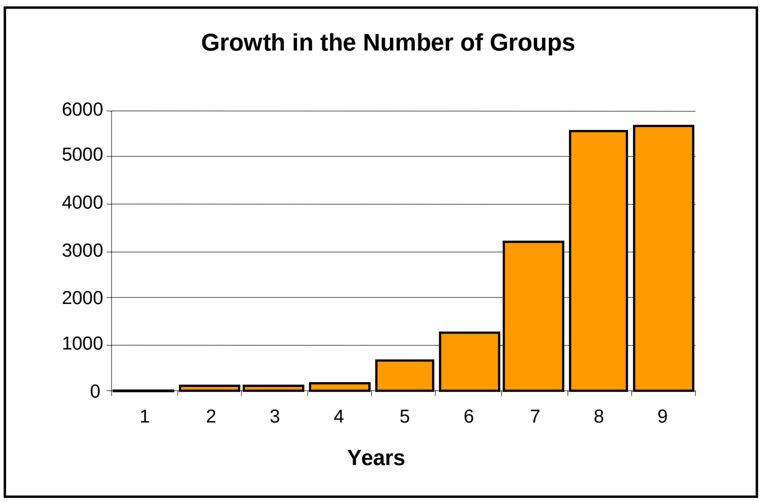
[22] Training extended to 15 months per group.

[23] Training and follow up reduced from 15 months to 8 months.

developing the older MMD groups into a larger network in order to increase their ability to access a broader range of services, including not only financial but health and legal services as well. As this move to set up a network is still in the very early stages, it will not be examined in detail in this monograph. Also, it is important to note the phenomena of groups that are created "indirectly". It is estimated that for every village where CARE has promoted the MMD method, there is at least one group that has formed on its own. Since CARE Niger has worked in over 1,100 villages, this brings the total number of women practising the approach to about 200,000.

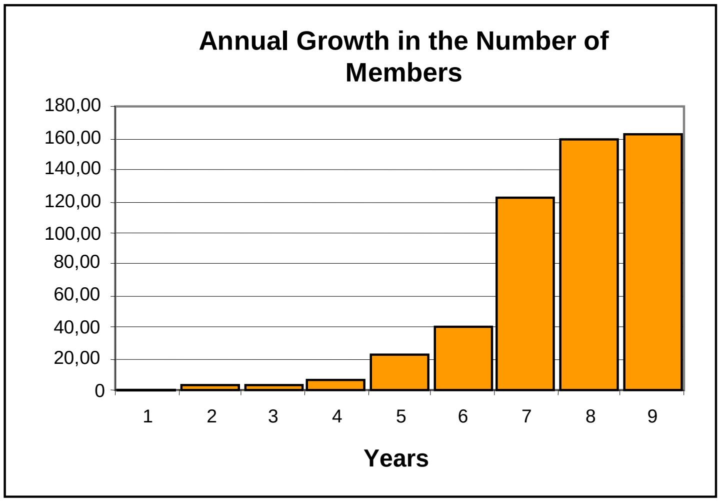
Figures 2 and 3 indicate an approximately constant ratio of the numbers of members per group, but record a geometric rate of programme growth from 1997 onwards. This occurred when MMD had finally overcome the scepticism of its critics and major efforts were made to attract new funding and spread the methodology to other parts of the country. DANIDA took over the lion's share of the funding in 1999.

Figure 2. Growth in Number of Groups



An interesting phenomenon is that the average size of a group has remained fairly constant, in the low 30s range, but has, over time, dropped marginally to about 29. In 1995 the group sizes tended to rise to 40 and more but this led to excessive workloads for group office-holders and to very long meetings. As a result some groups spontaneously split once the number of members exceeded 30 and CARE standardised this number as a maximum.

Figure 3. Annual Growth in Number of Members



3.3 Replication and Programme Sustainability

An important aspect of growth has been the whole question of replication after CARE ceases operations in a given location or when the project comes to an end. One of the major criticisms of MMD by proponents of standard MFI approaches to microfinance has been the question of how continued programme growth can be achieved in the absence of a professional cadre of trained trainers linked to a hub or central system typical of most MFI back-offices. MMD has pioneered an approach that is based on Village Agents and at the present time most of the new MMD groups are created by Village Agents selected from the communities themselves.

The way this works is that MMD goes to a given area where there is expected to be significant demand and trains a limited number of groups to create awareness and to develop market demand. It then selects a number of women from the groups who have the capacity and interest to train other groups. The programme then advertises these women's services and groups who want to be trained negotiate an agreement with them to be paid a fee (approximately $1 per meeting) for the entire training cycle. This system arose when MMD programmers noticed that informal training was taking place between groups. Rather than suppress this activity MMD decided to use it as the basis for auto-replication in the future. Its basic attitude has been that if spontaneous and informal training is going to happen, it might as well be done properly. Currently, CARE has trained over 600 Village Agents in Niger. One challenge of the Village Agent system has been monitoring the number of groups created by a Village Agent once CARE is no longer monitoring the agent. While CARE has realised the importance of enumerating these groups for the sake of documenting real outreach and impact, its current programme work load, priorities, and funding realities have kept it from doing so.

3.4 Impact

MMD has been evaluated many times and there is a consensus that female enterprise owners who are MMD members tend to keep their businesses in operation throughout the year, have a bigger say in household decisions, enjoy better nourishment, invest more in their children's' education and enjoy higher social status than non-members[24].

These conclusions are reinforced by a short study conducted by the author in Niger in 1999 that compared the impact of MMD programmes in two different districts of Zinder and Konni.[25] The results indicated that the average return on the average savings balance varied between 91% and 149% per cycle of nine months. Thus the effective annual rate of interest on average individual savings balances is not less than 100%. These figures are typical for MMD programmes in Niger. The study also indicated that investments made with loan funds were largely used for productive investment and that savings and profits (interest) from the savings activity made highly significant contributions to household livelihood security.

Table 2: Group and Individual Benefits, MMD in Zinder and Konni (CFA)

Consolidated Information	Zinder	Konni	Ratio Zinder/Konni
Average no. of group members by district	25	33	1.31
Average portfolio net worth at independence from CARE	179,354	372,157	2.07
Average value of individual shareholdings	7,129	11,277	1.58
Savings per member	6,694	6,499	0.97
Ratio revenue/savings	46%	75%	1.64
Average net benefit per member	3,056	4,852	1.59
Return of average value of savings	91.31%	149.34%	1.64

[24] Athmer, 2002

[25] Potential for MMD Credit in Zinder and Konni: Hugh Allen, 1999

Figure 4: Main Uses of Credit in Zinder

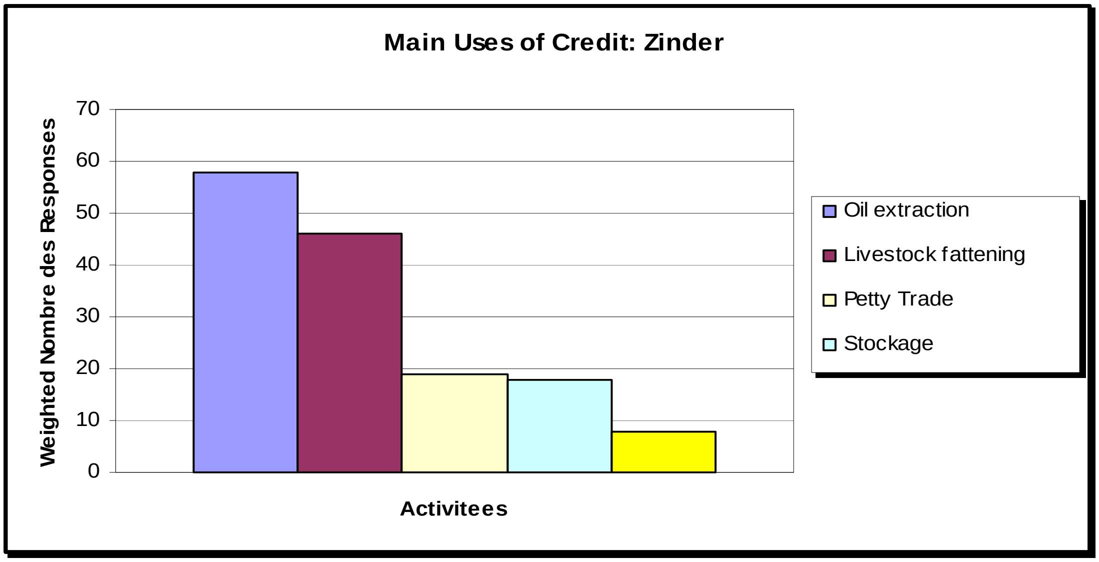
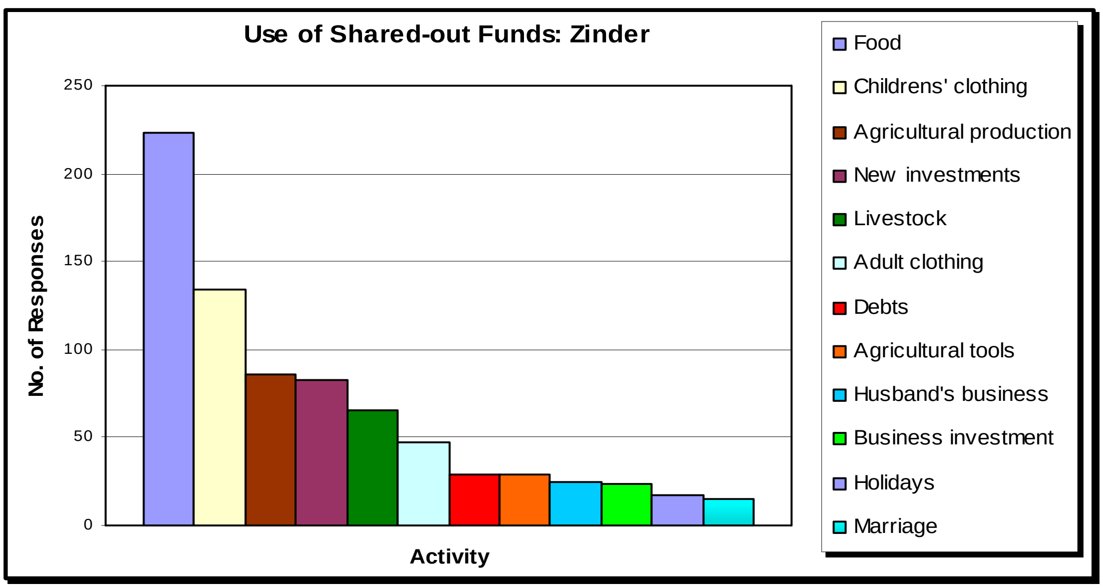


Figure 5: Use of Shared-out Funds in Zinder



It is immediately apparent from Figures 4 and 5 that while credit goes entirely to productive activity, savings and interest earnings are applied substantially to paying for basic necessities. This picture changes in favour of productive investment and asset acquisition in more developed parts of the country.

Zinder is a poorer district than Konni (the reason for carrying out the study was to determine the qualitative differences in viability and impact) and not only were returns on savings lower as seen in Table 2, but there was a marked tendency to invest less in productive activities in Zinder than Konni and to apply the savings and interest earned to basic needs. This indicated to CARE that MMD savings programmes work well in both poor and better-off areas, but that the benefits are differently applied: in the one case to increase the level of production and in the other to meet basic needs. Both are equally legitimate and desirable outcomes.

3.5 Methodology

It is worth spending some time going over the methodology that is currently in use in Niger, because it is the model that all other VS&L programmes have used as their starting point and to which adaptations have been made. It promotes what Rutherford calls Time-Bound ASCAs. These accumulating savings and credit associations are formed for a specific cycle, usually 9 to 12 months, after which they divide up the net portfolio equally amongst the membership (or a proportion thereof) and immediately re-form, with members having the right to leave the group if they wish and new members to be inducted.

3.5.1 Formation, Training and Graduation

- **Group formation:** The project helps women organise themselves into groups of around 30, usually based on existing affinities. The groups elect a management committee, which leads the group. Each group operates after the fashion of the traditional "tontine". Weekly contributions to the group revolving fund enable women to save money, and also gain access to credit.
- **Start-up:** A CARE trainer holds preliminary meetings with both men and women to explain the project. The support and approval of the village men is essential to its success, even though the project is for women only. In the women's meetings, the agent explains the general principles of MMD, her role as a facilitator and the eight-month time commitment to establish a group. Since CARE has began training Village Agents, they are now directly responsible for group mobilisation and training, with CARE trainers provide support and quality control services. The Village Agent is not paid by CARE, but receives contributions for services from the women who participate in MMD groups.
- **Phase one**: In the **first three-month intensive phase**, the Village Agent attends the meetings each week to teach the basic elements of the MMD approach: the role of the group, the role of the management committee, loan procedures, interest and penalties, internal rules, problem solving and conflict resolution. After discussing and defining the role of the group in the first meeting, the members elect the management committee. The agent helps the group structure their internal regulations and decide the goal of their group. Group goals often involve the creation of a group activity such as establishing a grain bank. During the intensive phase, the women learn the basic procedures of savings, credit and payment of interest and fines. The learning process is active, as the members begin to take loans and pay interest. After the first six weeks of training, the agent continues to make weekly visits to help members perfect their understanding of the basic structure, but during this time the women progressively assume responsibility for the management of their own affairs.
- **Phase two**: During the **second three-month development phase**, the group becomes more self-reliant. The weekly contributions and loans continue, but the village agent

visits every two weeks during the fourth month and only once a month in the fifth and sixth months. The agent assumes the role of observer, allowing the women to lead the group themselves.

- **Phase three**: In the **final maturation phase**, the group works independently. The agent makes **one visit in the last two months** to conduct a final evaluation of the savings and credit activities and to discuss any problems. Otherwise, the women operate autonomously throughout the final stage.
- **Graduation**: The group is "graduated" after eight months if the final objective has been met, whether it is to divide the savings among the members or use them for a group activity. The majority of groups, 88%, continue their operations and often increase the amount of their weekly contributions.

3.5.2 Operation of a MMD Group

- **Group rules**: Group meetings usually begin by reciting the rules. Each member is responsible for a rule: the groups objective, criteria for membership, rights and responsibilities of members, personal conduct, the amount of the savings, conduct of members, penalties for breaking the rules and procedures for leaving the group. The basic principle is transparency and reinforcement.
- **Member contributions**: Group members contribute a fixed amount of savings on a weekly basis. The amounts range around 25 to 200 CFA[26]. After the fourth or fifth meeting, the group begins loaning the funds to members, usually at a straight interest rate of 10% of the principal. The typical loan is for four weeks, that is after four weeks the participant repays the loan, plus 10% interest. The majority of loans are used for income generating activities. The revolving fund continues to increase through the weekly savings and the interest collected on loans. In addition, some groups apply minor penalties when group rules are broken. For example, a member who misses a meeting without a good reason may be fined 100 Fcfa.
- **Record keeping**: A few groups keep written records, if one of their members is literate, but most groups keep oral records. Since each member contributes the same amount each week, the weekly collection equals that amount times the number of members (e.g., 100 Fcfa times 30 members, for a weekly contribution of 3,000 Fcfa). Many groups keep track of the weeks by adding a pebble to the steel box each week. The group treasurer announces the amount of money that should be in the box, as well as outstanding loans, and then the physical control of the cash in the box is conducted and verified by two controllers who count out the cash. There are rarely discrepancies.
- **Loans**: Periodically (usually every four weeks), loans are made, and then four weeks later reimbursed. At the same time new loans are given out. Not all women take a loan at a given time; usually the women take turns.
- **The Share-Out and dismantling of the group**: After the group has been operating for more than a year, most groups will distribute equally to members all or part of the accumulated funds. This often occurs when women need access to more money, before the Islamic holiday of Tabaski (Eid ul azar), at the beginning of the planting season, or

[26] 100 CFA is approximately equivalent to 1 French Franc or 700 CFA to US$1.

after the harvest to procure family grain stocks. In a typical group, most women are able to double their savings in a year through the interest income.

The current average value of savings per cycle per group is $424, with an average of 52 loans issued per cycle.

3.5.3 Adaptations to the Basic Methodology

In some groups in Niger there is a system of 'multiple membership'. This is basically a shareholding system in which a member can make contributions equal to multiples of the minimum weekly contribution. As such she is treated as if she was more than a single member, so as to simplify payout procedures.

3.6 Major Achievements and Challenges

MMD's programme managers list the following as the major achievements and challenges:

3.6.1 Achievements

- More than 162,000 women receiving financial services in rural Niger.
- Women are able to articulate needs in other areas, such as literacy, health and legal aid training.
- There is a major impact on self-confidence, self-esteem and social status.
- Capital mobilised nationwide is close to $3.0 million. This is significantly more than any other microfinance programme operating in the country.

3.6.2 Challenges and Limitations

- Investment is restricted only to short-term activities, such as trading and food processing. Agriculture, the main economic activity of the country, cannot be financed owing to the short-term nature of the loans and because agriculture is seen as inherently more risky.
- Some of the stronger graduated groups remain inhibited by the small size of the loans and are actively seeking linkages to credit unions. CARE is assisting in this process.
- The legal and policy framework of the country is poorly understood with respect to women's property rights.

3.7 Lessons Learned and Observations

Without being flippant, probably the most important lesson to be learned from this project is that value can be added by keeping the experts at bay. The first MMD project manager came up with a sophisticated and successful ASCA model in Niger mainly because she naturally gravitated towards a methodology that seemed instinctively right, built on traditional savings and lending practices in the area.

A second important lesson is that breakthroughs come as a result of combining vision and intelligence with persistence. It is also useful if the designated visionary understands the value of planning, procedures and systems that make people's jobs comprehensible. MMD's groundwork has provided the means by which CARE has the confidence to spread the methodology continent-wide and now into Latin America and South East Asia. The additional lessons learned may be summarised as follows:

- **Start small, taking time to experiment and adapt.** MMD was able to grow to scale because it was given time to experiment with the methodology and to ensure that it was well adapted to the target group and the operating environment. It did this by making and correcting a lot of mistakes. While there is much about MMD that is easily replicable, not a single programme in other countries has taken the methodology as is and programme planners need to allocate generous amounts of time to test, adapt and reinvent the important adaptive details.
- **Develop and refine a structured training curriculum.** MMD works because the staff are confident that what they are training people to do will produce results. By following a tightly structured training curriculum both staff and clients are confident that they are focussing on the practicalities of running a successful savings and credit association and their confidence is bolstered by precedent. This calls for clients to follow the model laid out without variations, except those that relate to the details of rule-making and the setting of interest rates, contribution levels, etc. Groups have developed many adaptations to the model after graduation, but have done so on a solid foundation. This seems to be a key strength of the programme.
- **Keep it simple.** It is usually assumed that ASCAs need written records and that this opens the door to fraud and reduces transparency. MMD has demonstrated that this need not be the case by institutionalising a methodology based on repetitive, transparent transactions and recall. In MMD the normal procedure is first to count the money remaining in the box from the previous meeting to make sure that it is the same as it was at that time. The second stage is to count the contributions (deposited in a separate bowl). If it is a credit meeting the repayments are called for by memory of who borrowed what and 10% added. The money is handed over and put in another bowl. When all the income has been received and agreed to be correct, the money in the box and the two bowls (plus penalties and fines put in yet another bowl) is mixed together and then re-counted. Unless someone is an accomplished thief, it is hard to commit a fraud, especially since two controllers whose results must tally count the money. When loans are handed out it is the responsibility of the group members to note that has borrowed what in order that repayment can be assured. This system makes meetings longer than they would otherwise be with written records, but it engenders a high level of confidence in the safety of members' assets and ensures enthusiastic participation. The key factors that make this work are not based on standard accounting principles, but on real-time balance sheet principles that identify the quantity and place in which assets are held. Clients are required to witness and recall only the cash on hand. This comprises: cash held in the cash box; fines paid during meetings, principal repaid

during meetings; interest paid during meetings; and savings contributions made during meetings. They also recall loans outstanding. The methodology simply provides a structured means by which these things can be systematically measured and designates a specific obligation to recall, shared amongst the membership. The basic principle is that cash movement is visible and that closing balances and loans outstanding are recalled at the time of the next meeting. These are not complicated obligations and no raft of theoretical objections can disguise the fact that the process works. MMD's methodology was originally very flexible with women picking the amount they would save and deciding on loan terms. Each group could decide this, and even within groups, some retained more flexibility for clients who could save or borrow more. Over time the methodology was simplified and made less flexible because this degree of flexibility, seen both then and now as desirable, needs a higher level of general literacy than prevails in Niger.

- **Be cautious about increasing flexibility.** MFIs attract customers because they offer services that meet clients' needs. They also lose clients if the services (and the costs of those services) do not meet their needs. The cost of greater flexibility is greater complexity, which strikes to the heart of MMD's distinctiveness. MMD does not take advantage much of the inherently flexible nature of ASCAs, preferring to stick to a formula that works because:

    - It is simple and transparent: essentially self-policing.
    - The service offered is in high demand.
    - The service has very low financial and time transaction costs.
    - There is low expressed demand for other services.

  Except in the first year, there has been no experimentation with variable repayment terms, nor with variable savings rates. MMD does not take advantage of these possibilities because they depend upon more formalised record-keeping systems that track changing contribution levels and varying time periods for loans. There is scope for these innovations in places where there is a higher level of literacy (as other programmes described in this paper have amply displayed) but programmes need to be alert to the triangular trade-off between complexity, transparency and client confidence. MMD is more cautious than most.

- **Avoid trying to create complicated organisational structures**. Almost from the time that MMD started to attract attention it was beset by pressures from donors and consultants to develop a more conventional organisational form. MMD groups are basically credit unions, without second-level apex structures and the limitations imposed by the restricted savings capacity and capitalisation of individual groups imposes limits on borrowing that observers instinctively want to remove. The solution appears to be to link MMD groups to other microfinance programmes that can provide larger amounts of capital or to federate the groups into representative bodies that can theoretically manage the process of intermediation between groups. It needs hardly to be stated that this may be prescription for a lot of headaches and confusion. MMD has opted to expand the number of wholly autonomous groups rather than seek to create institutions and structures that, while opening the door to new capital flows, also lead to increased cost, the risk of confusion and the very real possibility of theft. The very limitations on capital experienced by most groups ensures that loan sizes do not overwhelm the management and debt capacity of small borrowers, despite the frustrations of the few more ambitious members.[27]

- **Return on Investment.** Interest rates charged on loans provided by MMD ASCAs are high, most being set at 10% a month, although some charge 20%. This leads to a yield on savings that is at least 80% on the median balance.[28] There is no competing savings instrument that provides these sorts of returns, which, owing to the very low cost-structure are net.
- **Interest Rates.** Interest charges are much higher than those of the formal sector. Initially, the clients themselves set the interest rates, usually to a level that is higher than recommended by CARE staff. They do this because it is the key to loan fund growth and because they know they will get the money back at the time of sharing out the groups' funds.[29] But by the same token the interest rates charged are very much lower than informal rates (although loans from this source are very hard to find). The types of activities in which clients invest have generally high returns and the money is usually cycled more than once before it must be repaid, such that interest expenses becomes a marginal cost of doing business
- **Length of Loan Term.** The 1 month length of loan term, taken together with the high rates of interest, restrict most people to short-term investments, mainly in trade. Relatively little investment goes into activities that have a longer operating cycle. Agriculture, in particular, does not really benefit from MMD. MMD has not yet addressed this issue, except for individual loans to be kept on the books past due date, with interest only payable. MMD spin-off programmes in other countries have more directly addressed this deficiency.
- **Very Low Contribution Rates.** Most savings contributions are set at very low levels so as to maintain a low entry threshold and permit the participation of the relatively poor. This is a problem because it slows down the rate at which the portfolio compounds to a useful size. Once an MMD group's portfolio has accumulated to a useful size, however, it increases in value at a far higher rate than is achieved by contributions, which become a marginal factor in fund growth.[30]
- **Size.** Group sizes are almost constant at 30 members. This seems to work in Niger, but has a cost in terms of time transaction costs for members and office-holders. Because people live in villages the time to travel to meetings is short and a lot of preparation for meetings takes place outside the main assembly by informal sub-groups.

[27] This is an ongoing debate, which may be false. No one rejects the desirability of improving the scale of potential intermediation, but some are more cautious and sceptical about the risks. MMD networks are currently being piloted in larger villages where there are at least 20 MMD groups. The individual groups will each elect a representative who will participate in the network of MMD groups. These networks are believed to have the potential to accumulate larger sums for loans and to have a stronger role in Civil Society. It will be important for CARE Niger to set very high performance targets in terms of efficiency and effectiveness and looks very critically on the risks that this system may pose in terms of time transaction costs and reduced accountability.

[28] By this we mean half the value of the total savings of a given individual at the end of a cycle.

[29] No one in Nigerienne villages makes a comparison to the formal sector when it comes to the cost of debt finance and in any case the banking sector constantly teeters on the edge of collapse. In 1993 no financial institutions, including the post office, were operating in the entire country.

[30] MMD's average contribution is about $0.35 a week, on average. In other programmes the contribution ranges from a low of about $0.25 to a high of $1.25, reflecting the relative prosperity of the local economy.

The 2 to 3 hour time taken for an MMD meeting could be reduced if numbers were smaller.[31]

3.8 Summary Information

Tables 4-7 provide basic biographical and financial data on MMD as of June 2002.

Table 4: Scale

Item	Quantity
No. of members	162,128
No. of groups	5,654
Average No. of members per group	29
% of graduated groups still active	89%

Table 5: Efficiency and Effectiveness

Item	Quantity
Number of groups currently being trained	560
Number of clients currently being trained	16,213
Number of staff directly working with groups	73
Ratio of staff to groups	8
Ratio of staff to clients	222
Percentage of groups liberated	90%

Table 6: Client and Business Characteristics

Item	Quantity
Percentage of urban clients	10%
Percentage of rural clients	90%
Percentage of female participants	100%
Percentage of male participants[32]	0%
Percentage of clients running IGAs	93%
Percentage of clients running MEs	7%
Sector: Agriculture/Livestock	5%
Sector: Manufacturing	30%
Sector: Trading	65%
GDP per caput	$746

[31] Average numbers of members in Zimbabwe are 7, with no apparent effect on group solidarity or loan-fund build-up.

[32] A number of groups made up of male members have spontaneously sprung up. The project has no data on the number.

Table 7: Environment

Item	H/M/L
Market access: Village	H
Market access: Rural township	H
Market access: District centre	M
Market access: Regional	L
Market access: National	L
Harassment	L
Taxation	M
Registration complexity	M
Discrimination against women in marketplace	M
Limited purchasing power in the marketplace	H
HDI Ranking	172/173
Inflation on consumer prices	2.9%
GDP per caput	$746
HDI Ranking	172/173

4 Sister Programmes

The following section highlights some of the MMD sister programmes currently operating in Africa. These are Kupfuma Ishungu (KI) in Zimbabwe, the Jozani Savings and Credit Associations (JOSACA) in Zanzibar, the Joint Encouragement of Gainful Activities (JENGA) in Uganda and Musow Ka Jigiya Ton (MJT) in Mali.

4.1 Kupfuma Ishungu in Zimbabwe (KI)

4.1.1 Background

KI has been in operation for four years. In its first phase in 1999, it experienced a false start, because the expatriate project advisor unwisely recommended that external funds should be lent to the groups, creating false expectations and seriously distorting savings behaviour. After 18 months it had 270 groups, all of whom believed they were eligible for external loans. Eighteen such were in fact issued. After the mid-term review, which strongly criticised this strategy, external credit was abandoned and the project manager was faced with the unenviable task of telling the groups about this fundamental change. The number of groups immediately diminished to approximately 90 as the promise of lending from the project was withdrawn. Since then Kupfuma Ishungu has returned to its original purpose and methodology and has seen very high growth in its portfolio. The number of groups now numbers 769, with a total membership of 4,920, while a further 1,462 groups, comprising 9,131 members have been started through other CARE projects in Midlands, managed by Kupfuma Ishungu's Project Manager. Thus, the total number of groups and clients within Kupfuma Ishungu and in sister programmes comprises a staggering total of 2,221 groups and 14,051 clients, nearly all of whom have been inducted into the project in the last two years. This exceeds projects targets by 900% for numbers of groups and 550% for the number of programme participants.

4.1.2 Adaptation of the VS&L Methodology

Kupfuma Ishungu's methodology is borrowed from MMD, and a detailed description is provided in Annex III. KI has made a number of significant changes from the Niger model in order to adapt the Zimbabwean operating environment. Principally these adaptations are:

- **Smaller Groups.** Groups can be as small as 5 people. The distance over which people must travel to meetings in central Zimbabwe is considerable. The land holdings are comparatively large by African standards and people live on their farms, rather than in villages. There is also a social predisposition to work in smaller, close-knit groups based on pre-existing productive activities, such as knitting and crochet work.
- **Keeping the training short.** Most other programmes have a training meeting every week for as much as 8 weeks. KI does it all in one week at daily sessions
- **Monthly meetings**. The very small group sizes - the average is 7 members - mean that field officer caseloads would have been relatively small if meetings were weekly. The

original schedule of meetings was based on a weekly cycle, derived from MMD's practice. By meeting monthly a number of important economies were achieved. These were:

- KI's meetings last between 45 minutes and an hour once a month.
- Field Officers carry an impressive caseload. The average number of clients per Field Officer is 547, comprising an average of 85 groups.
- Because savings meetings and credit disbursement meetings occur at the same time, there is very little, if any, money left over after each meeting. Almost perfect intermediation takes place. Over 75% of member funds are in use in the active loan portfolio.[33] This eliminates the need for special lock-boxes and elaborate security precautions. Whatever funds are left over are usually carried home in the treasurer's handbag.

- **Conducting meetings in clusters**. Because the Field Officers visit only every other month during the intensive phase and only every 6 months in the tertiary phase, these meetings are conducted in clusters, where as many as 20 groups come together. Only groups that have not been graduated do this. This enables Field Officers to cover a large number of clients and deal with a large number of problems at one time, although at some cost to clients in terms of travel time. Groups also tend not to receive tailored attention to their specific problems and the recent evaluation recommended a reduced Field Officer caseload in order to address this issue.
- **Variable Loan Terms.** Loan repayment is nominally set to a one month schedule, but loans can be rolled over for an additional month, or even more, so long as interest is paid monthly.

These adaptations have contributed considerably to the cohesion of KI groups and the efficiency of programme delivery.

4.1.3 Performance and Impact

Figures 11 to 18 show scale and demographics, portfolio quality, performance and impact.

[33] The fact that 25% of funds are not in use arises mainly as a result of group loan portfolios growing to such an extent that borrowing requirements are satisfied. There is some repression of demand owing to the high interest rates charged.

Figure 11: Growth in Number of Clients

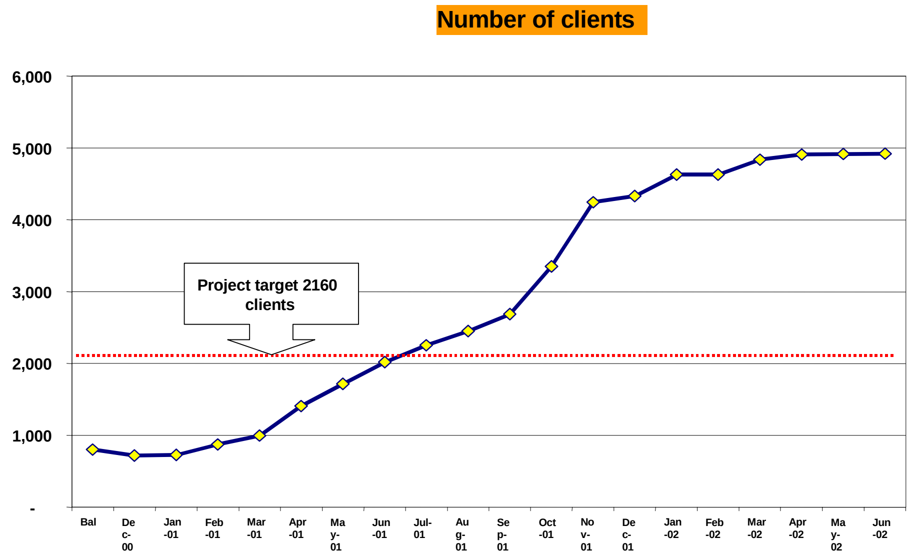
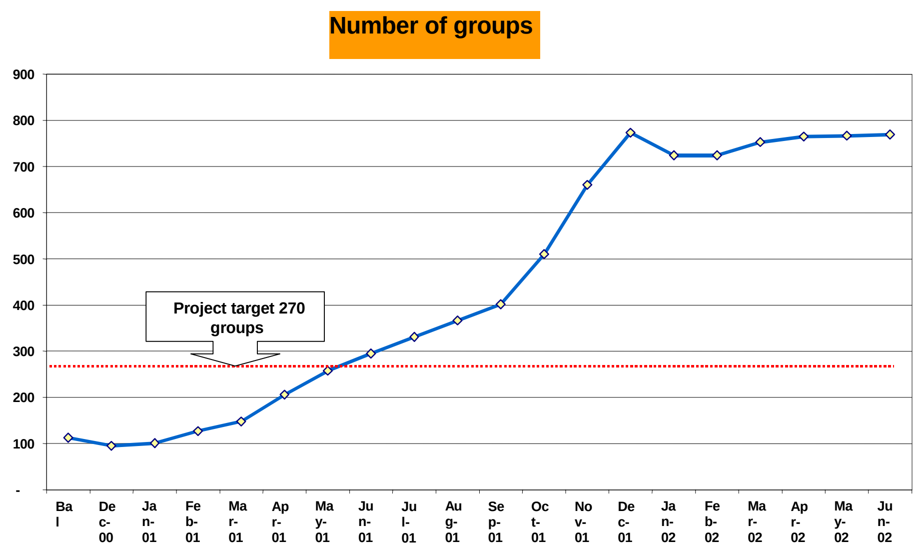


Figure 12: Growth in Number of Groups



The first thing that is evident from Figures 11 and 12 is that KI's growth in the numbers of clients and groups has outstripped projections. All of this growth has occurred in the last 2 years.[34]

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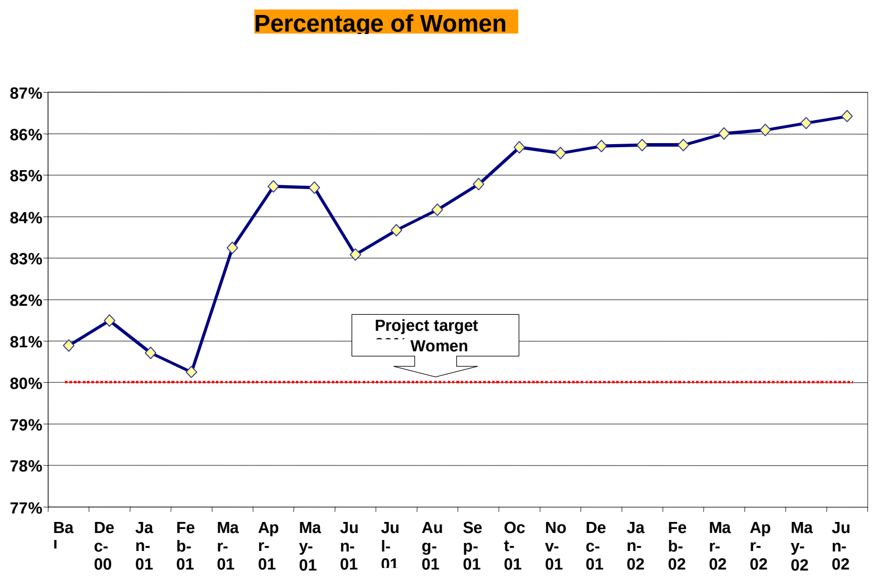
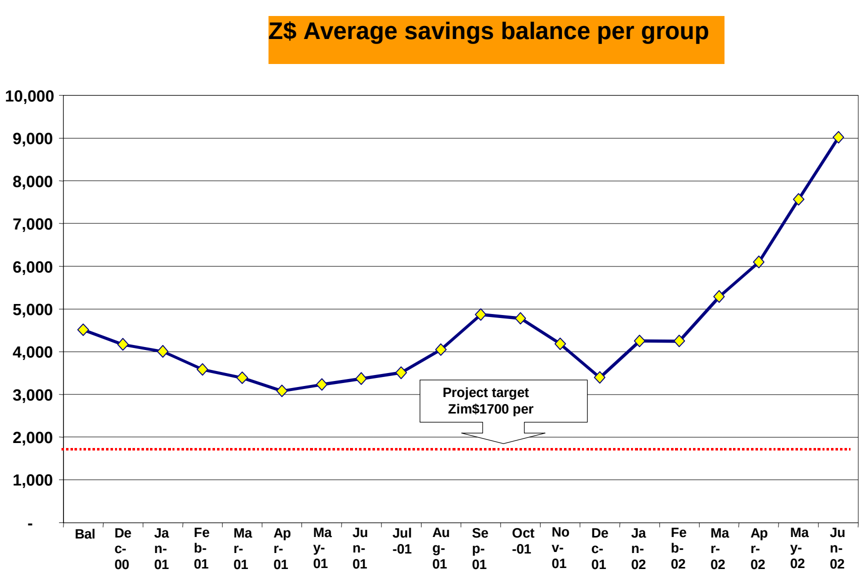
[34] The figures given here are purely for Kupfuma Ishungu and do not include its work in introducing the MMD methodology to other programmes in the Midlands Region of Zimbabwe.

Figure 13: Percentage of Women Participants



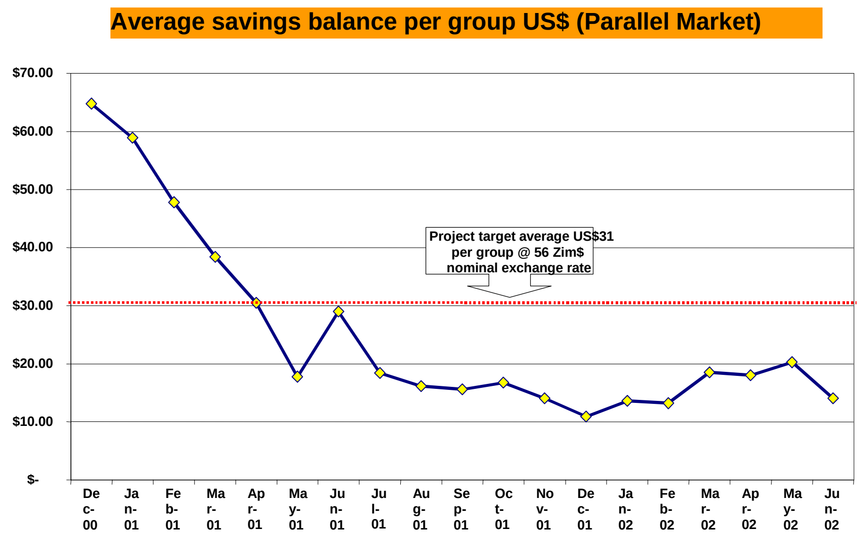
KI does not specifically target women. Many groups have male members and there are also many groups that are exclusively male and exclusively female. Over time the percentage of female members is gaining on the percentage of men, but the absolute number of male participants is also increasing.

Figure 14: Average Savings Balance Per Group in $Z



While the average savings balance per group rises, it dips down during the recent elections, indicating that the programme is seriously affected by civil unrest. The rapid increase in savings balances is misleading, owing to an inflation rate that has recently topped 120% a year.

Figure 15: Average Savings Balance Per Group in $US



When this is factored in the real value of savings is negative. This in itself is misleading because it is taken at today's exchange rate, which had doubled in the previous month, going from Z$ 350 to the $US up to 640. If the preceding figure (stable for several months) had been taken into account savings values would have been fairly constant in US dollar terms.

Figure 16: Partial Portfolio Analysis[35]

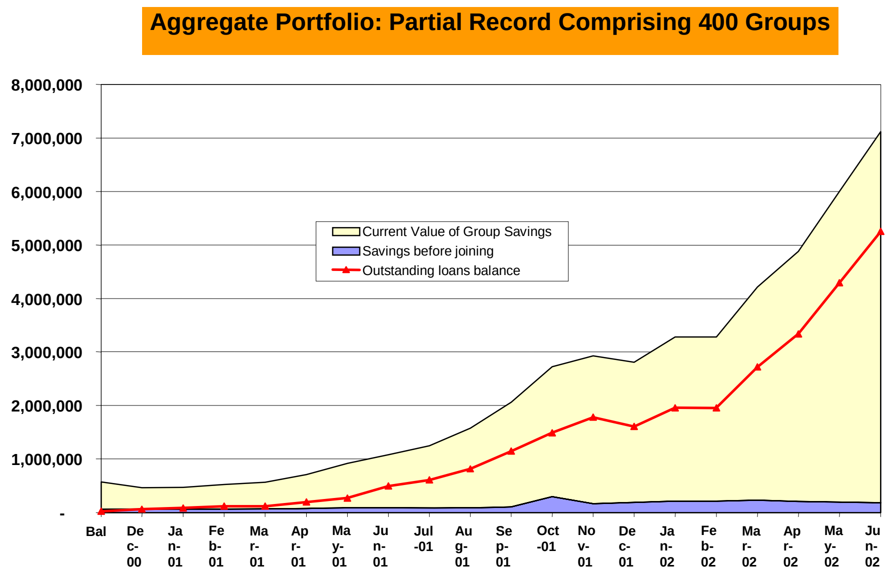
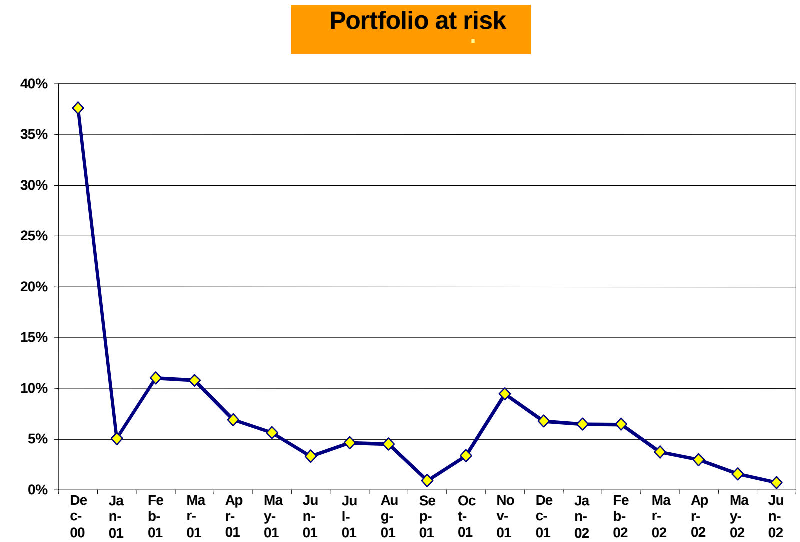


Figure 16 shows an increasing percentage of loan funds in use. Currently this stands at 75.7%. This figure is lower than for MMD mainly because a significant number of groups have achieved loan fund levels that are in excess of their borrowing requirement. Some groups are reacting to this by reducing interest rates and increasing weekly contributions. Since at this level contributions are a marginal source of loan fund build up, this in effect makes for cheaper loans that can be offered for longer terms. Evidence for this is an increasing frequency of loan rollovers and KI is considering formalising training in the administration of longer-term loans.[36]

35 The portfolio analysis could not be completed for the full 700 + groups of KI. This was because regular data gathering had been interrupted by the ructions surrounding the elections and was in the process of being brought up to date.

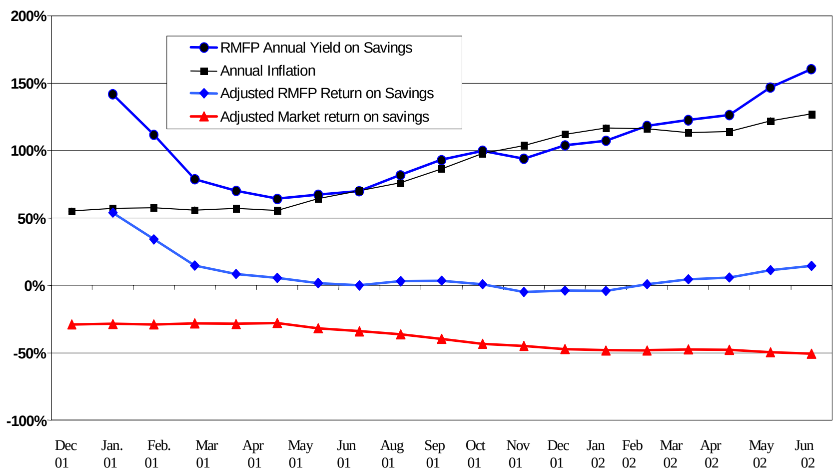
36 In the southwest of Uganda where informal ASCAs are ubiquitous the average length of loan is between 6 months and a year.

Figure 17: Portfolio at Risk



The portfolio at risk figures have consistently stayed close to or below 10%, although spiking during the recent general election, when travel to meetings was disrupted. Currently it stands at 1% having steadily declined by 1% a month in the last quarter. The level of risk is so low as to be effectively nil.

Figure 18: Adjusted Return on Savings



The most significant performance finding of the recent evaluation was that Kupfuma Ishungu aggregate return on group savings had increased steadily in real terms by 15%, despite an inflation rate of 123%. Figure 18 shows the performance in nominal and real terms, adjusted for inflation. **No other financial institution, either formal or informal offers a rate that remotely approaches this performance.**

Sister Programmes: KI in Zimbabwe

The current formal sector market rate is 50% negative in real terms and declining, while KI groups, recovering from the election disruption, have provided positive real rates, climbing steadily, since January 2002. More than any other finding this shows the ability of the

VS&L methodology in combating the effects of inflation and maintaining clients as savers who are economically active in the cash economy. At a time when the formal sector is rushing to invest in real property and the middle-classes are liquidating savings, KI groups are rapidly increasing their savings levels because they meet the acid test of safety and positive rates of return.

During a recent evaluation[37] all groups interviewed indicated increased levels of household livelihood security and increasing purchasing power through their membership in KI. Although food shortages are prevalent, group members managed to use their earnings for many other things than foodstuffs. The most frequently mentioned were: school fees and uniforms, food, kitchen utensils, farm equipment, livestock, house repair, furniture, and clothes. All groups interviewed indicated that they had invested in business activities.

Shared out funds are preponderantly invested in food and children's clothing, almost exactly the same as in Niger, but with a higher proportion going to household and productive assets.

KI encourages the use of loan funds for productive purposes, but cannot prohibit the use for emergency and consumption needs. There is evidence that during the present difficult times in Zimbabwe increasing amounts of loan funds are being absorbed in emergency expenditure.

There was clear anecdotal evidence of income diversification in most groups. While in the past economic activities had also been diverse, Kupfuma Ishungu's loans have enabled many of these activities to be carried on concurrently rather than consecutively. Of the two groups who were specifically asked about income diversification, ten members out of sixteen responded that they had diversified their activities in the previous year.

4.1.4 Major Achievements and Challenges

KI programme managers list the following as the major achievements and challenges:

4.1.4.1 Achievements

[37] End of Term Evaluation of Kupfuma Ishungu Rural Microfinance Project (RMFP), Zimbabwe. CARE Austria, July 2002

- Restructuring the programme. One of the most important lessons learned is that people are willing and able to save but that promises of external loans undermines a predisposition to take savings seriously.
- Demonstration of the replicability of the programme in another province, where livelihoods are seriously at risk. KI has been able to show that it has an important contribution to make to livelihood security and coping strategies.
- Large scale and rapid expansion.
- Strong improvement in social status and capacity of members.

4.1.4.2 Challenges

- Developing a strategy for replication once CARE's project winds down.
- Looking at the question of whether or not to move towards apex structures.
- Dealing with a deteriorating economic environment.

4.1.5 Lessons Learned and Observations

Despite the large number of participants, individual savings levels are relatively low, at about US$2.50 per member and the total value of loans disbursed since inception stands at only US$ 90,732 for the 400 groups studied. This is, however, misleading, since inflation (at 120%) has seriously reduced the real value of savings. KI is experiencing an accelerated rate of growth and the scale of the programme stands in contrast to the scale of MMD at a similar point in its development, illustrating the degree to which MMD's approach and experience now enables other programmes to make fewer mistakes and aim for expansion at a much earlier point. KI's rate of growth is approximately double that of MMD, but it is still only 5% of the current scale of MMD, indicating that it has a long way to go and considerable scope for expansion.

The basic lessons learned are:

The VS&L methodology is highly effective in combating the effects of inflation. There are no financial service programmes in Zimbabwe managed either by the formal or informal sector that are paying a positive real return on savings. KI is managing 15% in real terms and 160%+ in nominal terms in an economy that is experiencing 120%+ inflation at this time.

The methodology can be radically altered to suit local conditions. KI groups are very small, about one-fourth the size of groups in Niger. By meeting monthly, rather than week a Field Officer can maintain competitive Client/Field Officer ratios, with no apparent loss of effectiveness and a high degree of group cohesion.

Monthly meetings can be effective. Monthly meetings reduce by 75% the amount of time that groups need to spend in meetings. Combined with very small group sizes the total amount of time can be as much as only 10-15% that of large groups. These changes to the basic methodology are appropriate because on the one hand they reduce meeting frequency and transaction costs to clients and on the other hand they increase, or at least maintain, programme efficiency.

An effective mechanism for very small amounts of savings and very small loans. The current average loan size for KI is about $2 US. In MMD the level is about 3-4 times higher. This reflects two things. The first is the current economic chaos in Zimbabwe. If figures were taken from just a month earlier when the exchange rate was about half what it is today the average loan size would be double. The second is that KI works through groups that are mainly of long standing and were not formed specifically to take advantage of KI's training. They are mostly engaged in very modest trading and production activities that require very little capitalisation and are to some degree already capitalised by personal savings. KIs money is used mainly to permit diversification into other activities and to maintain existing activities in operation rather than de-capitalise to pay unexpected and pressing household expenditure, such as school fees.

Programmes can grow rapidly if groups graduate early. Even though they are only visited every six months at the tertiary phase very few groups have reached the point where they are operating outside KIs nominal support and control. It has been recommended that KI graduate the groups at a much earlier stage, being visited every 6 months only for data gathering purposes by M&E specialists, and leaving the Field Officers free to increase their rate of group turnover. While it is useful to prescribe the methodology quite tightly and repetitively to reinforce the basic tenets of group control, recognising the essential simplicity of the approach means that NGOs can let go a lot sooner. MMD started out with an 18-month training programme and shortened it to its current eight months. KI appears also to be headed in the same direction.

Record keeping provides the basis for flexibility and growth. KI's biggest operational difference to MMD is the extent to which written records are used. There is a very high literacy rate in Zimbabwe and the managers of KI opted for a written record-keeping system from the start. What has happened is that the written system has been adapted by the groups themselves to permit longer-term loans. The way this is done is that when monthly transactions are recorded and a member wants to carry over a loan until the next month, interest payments are levied and the balance carried forward as a new loan to the next month. This is a transparent and simple way of allowing rollovers, but it is also a simple and transparent way of permitting longer-term loans that are authorised as such from the start. This is an important development and its implications in terms of systems development and training need to be further considered. It illustrates, however, the role that written records can play in offering more flexible services to clients.

Very small amounts of savings and loans have a disproportionate effect on business stability, diversification and household livelihood security.
In a recent evaluation, women KI members reported increases in:

- their control over the money they earned;
- their ability to contribute to the household income the majority claiming a share exceeding 50%;
- their status in the household and community;
- self-confidence[38];
- business activity with decreased risk of de-capitalisation and periodic shut-down;
- drive to learn and to be active in business owing initially to the need to repay loans and thereafter resulting from success; and
- hiring casual labour in order to be able to diversify and increase enterprise activities.

Compared to the programme costs, the savings and credit portfolio is very small. Yet there is general agreement from participants, administrative officials and programme staff that the livelihood benefits have been disproportionately positive, especially in terms of improved household cash-flow management and the stability of the financed enterprises. No attempt has yet been carried out to measure the extra income derived from financed activities and what the knock-on effect may be.[39]

4.1.6 Summary Information

Table 8 provides selected current performance data on KI. It only provides data on the KI project itself and not the other projects in which the KI methodology is also practiced.

[38] It was frequently said by KI participants that they had been able to transform themselves from a condition of quiet desperation to one of optimism and confidence.

[39] The author is currently the manager of ApproTEC's programme in Tanzania. Impact surveys have tentatively concluded that for every dollar of extra income from the financed activity there is approximately an additional dollar of total extra income at the household level as profits get ploughed back into other economic activities for which finance is needed.

Table 8: Summary of Performance Data: June 2002. 400 Groups[40]

Item	Data	%
Scale and demographics		
Number of members	4,920	
Number of active groups	769	
Average number of members per group	6.4	
Number of female participants	4,252	
Percentage of female participants		86.4%
Efficiency and Effectiveness		
Ratio of staff to groups	85.4	
Ratio of staff to clients	547	
Number of individual loans disbursed by groups to members	18,159	
Number of women benefiting from loans	3,802	89%
Loan Portfolio		
Total value of loans disbursed Z$	28,301,498	
Cumulative return on savings (nominal)		160%
Cumulative return on savings (adjusted for inflation)		15%
Average aggregate loan disbursement per group in reporting period	31,977	
Average individual loan size in reporting period Z$	1,153	
Number of loans disbursed during the month	2,497	
Average value of loans disbursed during the month	2,102	
Total value of loans disbursed during the month	5,300,671	
Portfolio Quality		
Total arrears at end of reporting period	36,775	
Number of participants in arrears	158	
Portfolio at risk		0.7%
Percentage of funds in use in active loan portfolio		75.4%
Savings		
Cumulative savings since inception	9,109,156	
Net current savings	6,938,939	
Average individual savings since inception	2,051	
Loan purposes		
Manufacturing		2.4%
Trade/commerce		75.2%
Service		1.6%
Agriculture/agribusiness		4.6%
School fees		4.3%
Food		10.8%
Health		.2%
Bus fare		.4%
Grinding mill		.2%
Funeral		.2%

[40] KI only has current data on 400 groups at this time, because field operations were suspended during the election period for nearly three months. As of June 2002 staff had only been able to reconstruct data on this number of groups.

Table 9: Macroeconomic Data

Item	Amount
Inflation on consumer prices	120%+
GDP per caput	$2,635
HDI Ranking	128/173

4.2 Jozani Savings and Credit Associations in Zanzibar (JOSACA)

4.2.1 Background

CARE's Jozani-Chwaka Bay Conservation Project (JCBCP) had been operating since April 1995 on the island of Zanzibar with the goal of improving household livelihood security of communities adjacent to the Jozani-Chwaka Bay Conservation Area. As a part of the project strategies to achieve this goal the project initiated a savings and credit scheme in August 1999 to assist community members to finance conservation-friendly enterprise activities.

The savings and credit component of JCBCP used a solidarity group, Grameen Bank methodology. By the end of March 2000 a total of 76 savings and credit groups were registered through eight centres, each centre having 10 groups.

By April 2000 loan repayment had fallen to 50% and all loans were halted until repayment improved. In July 2000 a consulting mission to JCBCP reviewed the project and drew the following conclusions:

- Using the existing delivery channel there was very little chance for sustainability.
- The programme partner was a conservation organisation, with no experience of microfinance and no real involvement in the programme.
- Portfolio quality was very low.
- There was emphasis on credit at the expense of savings.

The staff did not favour the idea of changing to a VS&L approach because they feared that they would lose most of their clients, who were expecting to receive loans. Nevertheless they went ahead, renaming the groups who remained involved to JOSACA.

Two years later CARE Tanzania regards JOSACA as the most successful activity that they undertake on Zanzibar, as measured by the intensity and scale of client participation.

4.2.2 Adaptation of the VS&L Methodology

The JOSACA methodology is radically different from other VS&L approaches and is by far the most flexible. It is also different because there is a small degree of external finance invested in the loan fund, the reasons for which are explained below. A detailed description of the methodology is provided in Annex III.

The basic differences are as follows:

- **JOSACA groups do not make regular savings: all contributions are in the form of shares.** This is the most significant difference between a JOSACA group and an MMD or KI group. The findings of a recent evaluation[41] indicated the level of contributions to

[41] Review of the JCPCP Savings and Credit Component: CARE Zanzibar, July 2000

a JOSACA group was very small. This was because under the original programme very little emphasis had been placed on savings, except as a mechanism that was time-bound, to raise the necessary 10% required by CARE as a loan guarantee to make a group eligible for external finance. The other main reason was that groups have to set their savings contributions to a level that made it possible for the poor to join groups.

- **Each member is free to choose how much money to contribute.** The contribution at each meeting must be a multiple of a single share and up to a value not exceeding three shares. This means that each JOSACA member can save varying amounts, according to their capabilities at any given time.
- **The loan terms may be variable.** There is no fixed term for JOSACA member loans, so long as they do not exceed 3 months. Each member must pay interest owing at each credit meeting for the preceding month and retire the principal sum as a balloon payment at the end of the loan term
- **Records are indispensable.** JOSACA groups cannot offer this type of flexibility without written records and, to preserve confidence, each member is provided with a passbook in which share values are stamped, using a rubber stamp. Most other VS&L programmes operated by CARE do not provide savings passbooks.[42] This idea was taken from the Self-Help Development Foundation (SHDF) in Zimbabwe.[43]
- **There is a matching loan from CARE to the groups.** When JOSACA started out under the Grameen-style programme it made promises to the groups that they would receive loans from CARE. JOSACA staff offered loans from JOSACA to the groups on a 1:1 match. This 1:1 match is for the amount of money saved during the first training phase, which may last from six to 12 weeks. These loans apply only to the first two cycles and are interest bearing and reimbursable by the end of the loan cycle. In the beginning staff believed that these loans were necessary to kick-start loan fund activity. Now, after seeing that they form a rapidly diminishing proportion of total loan fund values, staff place less importance on these loans and only four groups are receiving matching loans at this time.

4.2.3 Growth

The performance of the JOSACA groups has been weaker than the other VS&L programmes examined in this paper. It has lower returns on savings invested, although at 22% are still much better than any competing products offered by any other institutions, and relatively slow programme growth. Table 10 shows programme evolution:

42 Exceptions are MJT and programmes in India and Zambia.

43 SHDF uses a self-adhesive stamp system to record cash contributions. It is not a shareholding system *per se* but a means by which savers can deposit funds to a bank through a group treasurer. Interest earned on these savings is shared out using a variety of methods.

Table 10: Programme Growth JOSACA 2000-2002[44]

	2000-2001	2001-2002
Total Number of Clients	292	1,038
Average Savings per group	$657.15	$801
Average Savings per member	$29	$27
Total Savings	$8,526	$28,049
Yield on savings[45]	16%	46%

The rate of growth is pretty much at MMD's early level and as such is positive. If JOSACA had benefited from MMD's example and experience it is likely that growth rates could have been faster. The major reasons for this relatively slow growth appear to be:

- Groups have not yet been graduated. A good number of JOSACA groups are now on their second cycle. There is no reason why CARE does not graduate these groups, except that it is part of the culture of JOSACA to stay in touch, owing to the fact that in other components of the conservation project groups have long-term relationships with CARE.
- The methodology requires longer-term training than in most of CARE's VS&L programmes.
- Interest rates in the previous year were 5% flat on a three-month loan period, not monthly. This reduced the yield such that in 2001 the net return on savings was 16% on average aggregate savings. By going over to a flat 5% per month figure in this year the yield on average savings employed has climbed to 46%.
- Lack of exposure. CARE Zanzibar staff was operating on outdated assumptions about how to 'do microfinance' and had to entirely shift their programme focus away from a standard MFI model that could not possibly have worked. They had not been sufficiently exposed to the state of the practice and consequently were unaware of normal efficiencies for the methodology

4.2.4 Major Achievements and Challenges

4.2.4.1 Achievements

- High level of community awareness and positive programme reputation
- Development of a savings culture that did not previously exist and high levels of savings (TZS 6.56 million in 9 months among less than 300 programme participants in the first year, 26.64 million in the first six months of the current year.)[46]
- Reduced negative impact on forest reserves owing to diversification of income generating activities

[44] The current year is only two-thirds of the way through the normal nine-month cycle. The change in interest policy appears to have led to higher savings rates and much higher yields on savings. Yields are calculated on an annualised rate.

[45] Data available only for Unguja island

[46] Exchange rate US$1 = TZS950

4.2.4.2 Challenges

- The modifications to the basic VS&L methodology offer more flexible savings and loan products, but impose a higher workload on staff.
- Reducing the length of time that JOSACA groups remain in CARE's training is important to optimise programme efficiency, but with complexity of the record-keeping system, the nine-month time to graduate is already seen as too short.
- Longer-term loans than the current 3 months limit are needed in an agricultural economy.
- There are limits on the applicability of the methodology in the poorer areas of the islands, where the local economy is depressed.

4.2.5 Lessons Learned and Observations

The major lessons learned from JOSACA are:

Exposure to other programmes is vital if there is to be any sort of meaningful measurement of efficiency. JOSACA's growth, the scale of its programme and the caseloads of Field Officers are amongst the lowest in CARE's programme, despite there being easy access to clients in the Zanzibar islands. Yet Field Officers feel over-burdened. No one from JOSACA has visited MMD or KI, which have shown how these difficulties can be overcome and which operate with Field Officer caseloads **at least four times greater**.

There is a definite trade-off between offering savings and loan product flexibility and programme complexity. JOSACA's savings products allow for variable shareholdings and variable contributions at meetings. Loan products are for variable periods of time. This calls for quite complex systems of record keeping and a greater investment of staff time in setting up and assisting groups to maintain high system quality. More external technical input in setting up the methodology and systems was required than in other programmes.

There is a reduced effectiveness of programme operations when staff has multiple responsibilities that do not relate to microfinance services. The original JOSACA manager was only able to give half his time and attention to JOSACA and, as a result, programme supervision suffered and it took time for performance standards to be established.

The more flexible the programme the better that clients like it. JOSACA clients are very enthusiastic about the programme. It is regarded by CARE as probably the most successful project activity that it is implementing on Zanzibar, measured by the level of spontaneous participation and demand for training services. The main factors that appear to appeal to clients are:

- Savings and credit flexibility
- Convenience and accessibility of services
- Transparency of operations
- Self-managed
- Competitive returns on savings

There is clearly a trade off between flexibility and complexity, with greater degrees of flexibility having a cost in terms of programme outreach and efficiency. Also, flexibility depends on more complex systems of record keeping, which in turn depend on a higher level of literacy than may prevail.[47]

It is vital not to start out offering credit no matter how much this may appear to be in demand. Perhaps the most important lesson learned from JOSACA has been that it is programme staff, and not clients, who are the most sceptical about the methodology and can over-estimate the importance of credit. This may arise because NGOs (or their fieldstaff) tend to feel that unless they bring material benefits to participants they will find it hard to attract attention. But there is enough evidence accumulated now for CARE to **know**, not guess, that unless there are strong cultural aversions to working in groups, the VS&L methodology works amongst the rural poor. The main reasons for excluding external credit in this methodology are:

- There is no need for it. Even when it is available as in Zanzibar, the net worth of the group portfolio very rapidly exceeds any seed capital invested.
- It obligates programmes to maintain needlessly long relationships with groups, as in the case of JOSACA.
- It should only be done if a programme plans from the outset to set up a sustainable MFI, with all that is implied in terms of institution building, programme scale, cost and timeline.
- It undermines savings behaviour, because savings are seen more as a hurdle, limiting access to the goal of getting a loan, than as assets or useful resources to be productively invested.

4.2.6 Summary Information

Table 11: Scale

Item	2001
Number of members	1,038
Numbers of groups	42
Average No. of members per group	24.7
% of graduated groups still active	N/a

47 As noted in the discussion of MMD, Niger's programme uses a very basic and simple methodology, largely depending on recall, because the levels of female literacy are very low indeed at 8.4%. In Zanzibar the rate is 66.5%

Table 12: Efficiency and Effectiveness

Item	Quantity
Number of groups currently being trained	42
Number of clients currently being trained	1,038
Number of staff directly working with groups	5
Ratio of staff to groups	8
Ratio of staff to clients	208
Percentage of groups liberated	0%
Aggregate value of current savings[48]	26,647,000
Loans Outstanding[49]	11,143,650
Cumulative value of loans[50]	18,390,000
Return on average balance of Savings Invested[51]	46%

Table 13: Client and Business Characteristics

Item	Quantity
Percentage of urban clients	0%
Percentage of female participants	53.7%
Percentage of male participants[52]	46.23%
Percentage of clients running IGAs	93%
Percentage of clients running Mes	7%
Sector: Agriculture/Livestock	66%
Sector: Manufacturing	11%
Sector: Trading	23%

Table 14: Environment

Item	H/M/L
Market access: Village	H
Market access: Rural township	H
Market access: National	L
Harassment	L
Registration complexity	L
Limited purchasing power in the marketplace	M
Poor agricultural potential	M
Availability of banking services	L
Availability of post offices	L

48 Figures only for 27 groups on Unguja
49 Figures only for 27 groups on Unguja
50 Figures only for 27 groups on Unguja
51 Figures only for 27 Groups on Unguja
52 A number of groups made up of male members has spontaneously sprung up. The project has no data on the number.

Availability of money lenders	L
Availability of ROSCAs	H
Availability of Family credit	H
Inflation on consumer prices	5.9%
GDP per caput	$523
HDI Ranking	151/173

4.3 Joint Encouragement of Gainful Activities in Uganda

4.3.1 Background

JENGA is the Swahili word for "build". The JENGA project was started in 1999 in the West Nile District of Uganda. This area is isolated from the economy of the country by its very long distance from the capital, poor roads and intermittent rebel activity in the adjacent national park. It was a project that was originally focussed on introducing appropriate technologies and other forms of BDS as a means of increasing returns on investment and small farmer incomes. While this objective was pursued in the earliest phases of the project and to some extent continues, it has become clear that only limited impact could be expected because of the difficulty of setting up sustainable supply chains for inputs and market opportunities for finished goods.

In order to help people in this region mitigate the worst effects of a repressed local economy, JENGA started to experiment with a VS&L programme in early 1999. After 3 years of operations 11,418 people, organised in 675 groups, have been put through training in the operation of a VS&L bank. Roughly 64% of the members are female.

In the south of the country, CARE Uganda has adapted the methodology in two of it's conservation and development projects around national parks.

4.3.2 Adaptation of the VS&L Methodology

The four phases of implementing the JENGA Savings and Loans Association (SLA) methodology, mobilization, Intensive training, development and maturity, closely follow Niger's MMD model with one month loan periods and flat interest charged at 10% a month. A full description of the JENGA methodology is provided in Annex III.

The fundamental differences between JENGA and the other VS&L programmes examined in this paper are:

- The target group is comprised of both men and women.
- BDS training is provided along with training in the operations of a VS&L group. BDS training includes the planning and management of income generating activities and advanced business training.
- The JENGA project facilitates linkages to financial institutions for members whose capital investment needs exceed the capacity of the group to satisfy.
- The use of strong boxes with three padlocks has been dropped owing to security concerns.
- In most VS&L groups memory is the principal method of accounting. In JENGA there is extensive record keeping of savings and loan transaction, including in some cases the maintenance of savings passbooks.

- JENGA has moved rapidly and aggressively to hand over group training in VS&L activities to Community Based Trainers (CBT). Presently, the JENGA staff does not train any groups. In Niger changeover to CBT arose after informal training and transfer began to emerge spontaneously and CARE decided to exploit the phenomenon. In Uganda it appears to be driven more by the programme-defined objective of making BDS self-sustaining as a profit-based service. Switching wholesale to this approach has led to a much slower pace of service delivery. 12 months ago the 5 programme staff supported 120 groups. Today, 32 CBT support 32 groups.

4.3.3 Impact

JENGA is the third largest MMD-style programme in CARE's African portfolio with a total of 11,814 clients and like KI it has grown quite rapidly. To date, a detailed evaluation of the household level impact of JENGA's VS&L component has not been done. Discussions with project management indicate that the VS&L activities are the most popular product offered by the project or indeed by any project in the area. The areas of most significant impact are said to be:

- Greatly increased levels of confidence on the part of participants, particularly women
- Significant increases in household income

4.3.4 Major Achievements and Challenges

4.3.4.1 Achievements

- Having grown to scale so rapidly in 3 years
- Having mobilised $200,000 in savings and $400,000 in loans (January 2002)
- Having linked 800 clients to MFIs [53]
- Group (and especially female) empowerment

4.3.4.2 Challenges

- Dealing with the low economic (and thus investment) potential of the region
- Getting clients to pay for BDS (including training in VS&L operations)
- Assisting groups to develop the capability to run high-level financial institutions

4.3.5 Lessons Learned and Observations

JENGA is different from the other programmes explored in this paper because:

[53] JENGA has linked individuals, not groups, to outside sources of credit. This is an important distinction because individuals who are linked to outside sources of funding have a direct responsibility for repayment.

- It is an integrated programme, offering BDS in business management and assisting in linking groups to other financial institutions.
- CARE Uganda is creating a cadre of BDS providers and getting out of the business of directly delivering services. In other words it is principally concerned with creating a sustainable system for the continued delivery of group training in VS&L operations and less concerned to maximise the number of groups that can be trained in the project lifetime. In pursuing this agenda the number of groups receiving training has fallen significantly in order to ensure a long-term training capacity embedded in local communities.
- It is worth noting, however, that no matter how many CBT are trained, their market coverage will be finite, owing to a restricted ability to travel and the losses in efficiency and outreach in switching to this strategy appear to be considerable.

From the data provided by JENGA there is a problem of client retention, greater than in any other VS&L programme[54]. JENGA notes that 30% of the groups that have been through the training programme are no longer in operation. It offers the following explanations:

- Conflicts within mixed groups between men and women, where women quit the groups, feeling that the groups' purposes and savings resources have been hijacked by the male members
- Poor quality leadership
- Loan default

It should be noted that since changing over to training by CBT the client dropout, or group closure, rate has doubled from 15% to the present 30%.

4.3.6 Summary Information

Table 13: Scale

Item	Up to June 2002
Number of members	11,814
Numbers of groups	675
Number of groups graduated	643
Average No. of members per group	17.5
% of graduated groups still active	70%

Table 14: Efficiency and Effectiveness

Item	Quantity at June 2002
Number of groups currently being trained	32

54 4-5% is typical, after 2 years of independent operation.

Number of clients currently being trained	576
Number of trainers directly working with groups	32
Ratio of informal trainers to groups	1:1
Item	**Quantity at May 2001**
Ratio of JENGA Staff to clients (Historical)[55]	408
Ratio of JENGA staff to Groups (Historical)	24
Percentage of groups liberated	95.3%
Aggregate value of current savings	$87,045
Total number of loans	2,630
Average Loan Size	$32.28
Cumulative value of loans	$84,908

Table 15: Client and Business Characteristics

Item	**Quantity**
Percentage of urban clients	10%
Percentage of female participants	64
Percentage of male participants[56]	36
Percentage of clients running IGAs	52%
Percentage of clients running MEs[57]	48%
Sector: Agriculture/Livestock	36%
Sector: Manufacturing	3%
Sector: Services	6%
Sector: Trading	58%

Table 16: Environment

Item	**H/M/L**
Market access: Village	H
Market access: Rural township	H
Market access: District centre	M
Market access: Regional	L
Market access: National	L
Harassment	L
Registration complexity	L
Limited purchasing power in the	M

[55] From this point downwards in the table, as of 8th. May 2001, from 1st. October 1999.

[56] A number of groups made up of male members has spontaneously sprung up. The project has no data on the number.

[57] CARE has no hard and fast definition of IGAs (Income-Generating Activities) and ME's (Micro-enterprises), distinguishing between them mainly by the propensity to consume or to re-invest income. Other factors, such as the separation of family finances from those of the business, level of technology, level of skills, legal registration and the degree of formality of record-keeping systems also separate the two types of business. JENGA staff indicate that most of the financed businesses are now much more stable, disciplined and organised than before, but by previous definitions of IGA and ME prevailing in the project until recent changes in management, 98% of the businesses were classified as IGAs

marketplace	
Poor agricultural potential	M
Availability of banking services	L
Availability of post offices	L
Availability of money lenders	L
Availability of ROSCAs	H
Availability of Family credit	H
Inflation on consumer prices	2.8%
GDP per caput	1,208
HDI Ranking	150/173

4.4 Musow Ka Jigiya Ton in Mali (MJT)

4.4.1 Background

MJT, or Women's Hope, was established in Macina, initiated in 24 test groups in July 2000 and has now spread to a total of 52 groups.

Elsewhere, MJT is still in its start-up phase. MJT is being tried with 10 groups in the Diré area, of which only one is a 'reformed' old-style credit group. It is still too early to draw conclusions about the success of the approach.

The data provided for this monograph pertains to January 2002 and refers only to the MJT groups in Macina.

4.4.2 Adaptations to the VS&L methodology

The key adaptations to the standard VS&L methodology are similar to those of JOSACA:

- Extending the training period from 8 months to 10 months, in order to accommodate the introduction of themes and messages unrelated to savings and credit.
- Varying lengths of loan term.
- Shareholding in order to permit varying amounts of contribution.
- Formalisation of social fund contributions.

Also unique to MJT is the selection of a group member to be responsible for reinforcing training messages. A detailed description of the methodology is provided in Annex III.

4.4.3 Performance

In 2001, a total of 24 groups and 803 members had graduated from MJT. Upon graduation, the groups had a total of CFA 3,977,130 in savings, the total value of fines and interest was at CFA 1,059,275, and the total value of the loan fund was at CFA 5,036,405. The revenue per savings ratio was 26% and the average benefit per member was CFA 1,319.

4.4.4 Major achievements and Challenges

4.4.4.1 Achievements

- Autonomous management of savings and credit activities by groups.
- Impact on a large number of women in a short time.
- Generation of significant resources to meet household needs.

4.4.4.2 Challenges

- Spreading the word about MJT to other groups.
- Engaging women in larger scale communal activities.

4.4.5 Lessons Learned and Observations

Mali's programme is off to a promising start. The percentage of groups that survive after graduation is encouragingly high and may well reflect the length of time that the groups are under training and the fact that they have 'in-house' animators to reinforce field officer training.

The programme appears to combine the same flexibilities that are built in to JOSACA, but with better efficiency as measured by staff/client and staff/group ratios, despite the terrain being more difficult and the distances greater.

Yield on savings is lower than in other programmes, reflecting, perhaps, the limited number of investment opportunities in the area. The return is, nevertheless positive in all cases and averages 26%. For the length of the cycle (9 months), the yield is much higher at 35% per annum, but there is substantial variability in the returns between groups. This may indicate either that the quality of groups varies, or that investment opportunities vary from place to place. No financial institution is offering returns remotely close to these sums, which are positive in real terms, since Mali experienced a slightly negative inflation rate on consumer goods during the period in question.

4.5.6 Summary Information

Table 21. Scale

Item	Up to January 2002
Number of members	1,809
Numbers of groups	62
Number of groups graduated	24
Average No. of members per group	29
% of graduated groups still active	96%

Table 22: Efficiency and Effectiveness

Item	Quantity at January 2002
Number of groups currently being trained	38
Number of clients currently being trained	1,006
Number of trainers directly working with groups	4
Ratio of informal trainers to groups	1:1
Ratio of Staff to clients	251
Ratio of staff to Groups	9.5
Percentage of groups liberated	38%
Aggregate value of current savings (Fcfa)[58]	$5,998
Aggregate value of Loan Fund at liberation	$7,596
Return on average savings[59]	35%
Average Savings per Group/Cycle	$241

Table 23: Client and Business Characteristics

Item	
Percentage of urban clients	0%
Percentage of female participants	100%
Percentage of clients running IGAs	100%
Percentage of clients running MEs	0%
Sector: Agriculture/Livestock	4.2%
Sector: Manufacturing	0%
Sector: Services	8.3%
Sector: Trading	87.5%

Table 24: Environment

Item	H/M/L
Market access: Village	H
Market access: Rural township	H
Market access: District centre	M
Market access: Regional	n/a
Market access: National	n/a
Limited purchasing power in the marketplace	M
Availability of money lenders	L
Availability of ROSCAs	H
Availability of Family credit	L
Inflation on consumer prices	-.7%
GDP per caput	$797
HDI Ranking	164/173

58 From the 24 'liberated' groups, comprising 803 members

59 Annualised rate assuming 9-month cycle.

5 Analysis and Conclusions

The success of the each program is directly attributable to the responsiveness of the product to the members' needs. It provides them with desired savings and credit services, while not costing them anything to access those services, other than patience and some of their own time. Because there is no leakage of funds outside of the group, all of the benefits accrue to the group, enhancing the interest in the members to respect the rules. Since they are borrowing their own money, moral hazard is drastically reduced to the point that there is virtually 100 percent repayment among the VS&L groups. [60]

Over the last five years, one of the lessons learned from MFIs in Africa has been the extent to which competition has driven MFIs to be more client friendly. It has also been observed that MFIs that do not offer services tailored to customers' needs lose business. In much the same way, VS&L programmes that stick to a rigid formula in order to make their lives simpler, or because they feel that clients need to be shown a sure-shot way of operating their savings and loan activities will be fighting a losing battle as groups (especially 'graduated' ones) start to make the adaptations willy-nilly. Clearly there is a balance between prescriptive discipline and wholesale adaptation taking place outside any sort of formal systems and training structure, but the emerging evidence is that groups need to be assisted in making practical adaptations. Programmes that take advantage of this and use it as a learning opportunity, enabling them to spread best-practice approaches (defined and developed by participants) will do better than those that don't.

The following broad conclusions can be drawn:

- The VS&L methodology works in a wide variety of rural settings.
- It is sustainable, very cost-effective and meets the needs of the rural poor.
- It is capable of achieving unparalleled outreach and scale in impoverished rural settings where no other type of service can survive.
- It enjoys the support of its members principally because it retains all surpluses in the hands of participants (and thus the rural economy) and provides useful lump sums when they are most needed at times of the year when the need for large sums of money can be predicted (Eid ul azar, Christmas, etc.).
- It is replicable because it is simple, appeals to common sense and is inherently transparent.
- It does not require the establishment of an MFI to be sustainable.
- It does not require a specialist organisation to implement.

[60] Quotation from upcoming Journal of Microfinance Article. Hugh Allen, William Grant

- It can be inserted into non-financial services programmes as a separate component.

The highlighted programmes have taught us that:

- Long-term programmes cost between $18-30 per client served. This compares to about $400 for standard microfinance programmes.

- The more intensive the training and the longer the contact with groups the better the quality of the portfolio, the higher the return on savings and the better the stability of groups. There is evidence that the group or village based trainer model works well where there is good supervision and where the community-based trainer looks on the work as their principal source of income, covering more than one group (as in Niger). The reverse may be true where the community-based trainer is responsible only for a very few groups and is not engaged full-time in the business (Uganda). Nevertheless, programmes should resist the curse of NGO culture, which is to hang on forever. 8 months seems to be about right. Shorter terms lead to group instability, longer terms to unacceptable cost levels.

- There are a wide variety of efficiencies to be observed in terms of the staff/client ratios. Going from a high of 547 in Zimbabwe (probably too high) to a low of 18 in Uganda. Between 200-500 seems a manageable mean, even for quite young programmes. Zimbabwe's KI needs special mention. It has shown that very high caseloads and small group sizes are feasible when group meeting frequency is reduced to once a month, with no apparent loss of group cohesion. The smaller group sizes probably contribute to group solidarity and certainly to reduced transaction costs for clients. There may not be enough experimentation in most other programmes that may tend to assume that the weekly meeting is some sort of inviolable standard. Reducing meeting frequency, where it is feasible, has advantages. Every meeting that is reduced is one meeting that the Field Officer can dedicate to another group and one meeting that a client does not have to spend time attending. Kupfuma Ishungu illustrates this point and other programmes in the region could benefit from the efficiency lessons it has to teach. The golden rule should be to reduce the time that clients have to spend on their savings and loan activities to a level that does not affect group commitment and solidarity and always to be seeking means of enhancing Field Officer effectiveness (such as clustering groups for meetings).

- The VS&L methodology is developing in ways that contribute greatly to flexibility. The basic methodology called for fixed sums to be saved and for loans to be repaid over a single very short term of a month. Groups have shown CARE programmes that flexibility in terms of shareholding allows a broader socio-economic range of member and leads to a higher savings rate.[61] There are two models that demonstrate this flexibility. One is that which establishes a contribution rate that varies between

[61] This started to arise when it was observed that women contributed a lot more to their ROSCA's than to their MMD groups. Partly this was due to the fact that the money was tied up for a long time, but mainly it arose because the fixed contribution level needed to be set low so as not to exclude the poor.

members and which is fixed for the entire cycle (Niger, Mali). Another (Zanzibar) allows for variable contributions, through shareholdings, at each meeting.

- It is clear that the methodology is applicable across a very wide range of socio-economic settings. It is also clear that is works in some of the poorest parts of the world.

- Returns on savings are variable, from a low of 35% to a high of 160% Adjusted returns are between 15% and 100% +.

- All programmes can be run by local staff after a very short period of time.

- All programmes have the capacity to grow very fast after a patient pilot program built on market experiments and the time to incorporate lessons learned.

- All programmes enjoy participant support that is higher than for almost any other type of activity.

- Most programmes develop loan terms and conditions that are varied and well adapted to the environment.

- Group sustainability is assured. Even in Uganda 70% of graduating groups continue in operation, without external supervision and within a year. No other methodology extant leads to this level of sustainability in so short a time.

- Breaking boundaries. The single most significant constraint on conventional microfinance is the normal regulatory restriction on the use of member savings to finance lending. VS&L programmes circumvent this requirement. In Niger MMD has mobilised well over US$3.0 million in member savings and while this is a very large sum that would normally attract regulatory interest, it is divided into units so microscopic as to represent no risk to national financial systems. The scale of the programme is now so large that regulators are likely to be afraid of interference, to say nothing of having no capacity to do so.

- The regulatory issues still put limits on the potential for future development of financial support systems that link poor clients into the more formalised financial sector. Perhaps the best way forward will be to wait for the formal sector to take the initiative. When considering the size of the savings that are being generated they might find it to be an attractive proposition and may drive their own way forward.

- With honourable exceptions, such as Zimbabwe, there is a need for serious investment in better record keeping by programmes (not groups). While this is a donor-driven concern there is insufficient depth of data especially in terms of aggregate return on investment, which is important if programmes are going to try to measure impact and select areas for intervention. If donor funds are to be attracted to this type of programming CARE needs to develop a standard for reporting on programme quality, efficiency and effectiveness.