What can be learnt from the saving groups practice in building alternative financial services for rural enterprises?

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Nqe Dlamini

Stratact

nqe@stratact.co.za

What we know about savings groups

- Savings groups help millions of under-banked households in developing countries to save and borrow money outside the formal banking system

- Under-banked population use drawings from savings group to pay for household expenses and life-cycle events

- Pro-poor microfinance is not a silver bullet for eradicating poverty; <u>it has not sent poverty to museums</u>

Purpose of the Paper

- To trigger dialogue with regards to learning from experience of savings groups to design an alternative financial education programme that will motivate and supervise smallholder farmers to operate savings groups that would help them buy inputs and productive assets.

Outline

- Problem statement
- Pro-poor microfinance at crossroads
- Approaches to microfinance
- Main dilemmas in microfinance
- Theoretical framework
- Key lessons
- Conclusion

Problem Statement

Outcomes of current financial education system

- Micro-savers are in the dungeons of **debt and consumption** despite circulating substantial amounts of money in the economy
- Public sector is silent on helping micro-savers to use their **collective savings** to improve their incomes as per Western assumptions
- Recognition of **indigenous knowledge systems,** role of traditional institutions with regards to sustainable livelihoods

Are we at crossroads?

Certainly yes, we are!

- Billions are generated by micro-savers but where do they go?
- Micro-savings are depleted by **household expenses and life-cycle events**

But why are we at crossroads?

- R44Bil (2013) and R49Bil (2015) generated by savings groups in RSA versus stagnating growth of CFIs and Co-op Banks since 2007
- Performance of co-op banks/credit unions... they had remained capitalised during financial crises/needed no taxpayers bailouts
- Existing NGO capacity and experience remain in the periphery of public sector development

Worrying Numbers in Microfinance

- Two approaches for microfinance: **credit-led** (external money) and **savings-led** (own money)
- **98% of donor funding favours credit-led**
- Standard practice tilts towards credit led
- US$ 86.5 Billion in savings and US$ 21.6 Billion interest generated from micro-loans in 2010; new investment opportunity (Duvendack et al., 2011)
- R49 Billion in RSA, 2015 (Fin24, 2017)

Main Dilemmas

- **Apex predators:** debt and consumerism fed by life cycle events
- Consumerism tend to deplete savings living nothing for savers to improve their incomes
- Competing outcomes with regards to regulatory compliance (formalisation) and growing number of unregulated financial

Theoretical Framework

- Community of practice theory (Wenger, 2006) was used to study of Sizanani Savings Group (SaveAct)

- Situated leaning and legitimate peripheral learning (Lave and Wenger, 1991)

- Case study

Key Lessons

- SaveAct model is built on what people know and familiar with
- Non-formal and informal learning methods
- Pillars of success: inclusivity, discipline, transparent bookkeeping and adherence to rules
- Integration of lived experiences
- Bonds of association
- Members' financial contributions

Key Lessons cont.

- Collective competence; legitimate peripheral participation
- Continued supervision / bad practices
- Solid foundation for one-stop-shop for community-based financial institutions
- Common spending patterns | marrying life cycle events expenses and consumption smoothing to saving for productive assets

Conclusion

- Alternative financial education system may see smallholder farmers operating financial institutions
- Non-financial capital is far more important that financial contributions: shared repertoire of tools, cases, stories and experiences shape governance and management of a saving group
- Individual financial choices and financial decisions are largely shaped by stories shared by members
- Opportunity to contour financial choices towards productive and income generating purposes

Conclusion cont.

- Need to find ways of listening and working bottom-up | provide incentives for savings-led approach
- Experience needs to guide legislation and not the other way round where savings groups need to conform with formalisation trajectory
- Educate key development stakeholders, mainly public sector institutions such as local government (LED mandate) with a view to include inclusive financial services objectives in LED

Some Recommendations

- **Focus on radicalising financial education and pro-poor financial services policies:**
  - Learn from experiences of savings groups
  - Dissect integration of indigenous knowledge system and community institutions in the basket of inclusive financial services
  - Embrace pockets of experience in the KZN province, e.g. SaveAct, Jobs Fund-Lima revolving credit, Tongaat Hullet-EDTEA co-op support programme, Grain-SA Mahlathini Conservation Agriculture / farmer center pilot

Some Recommendations

- **See inclusive financial services as a social objective:**
  - New set of indicators | Sustainable Livelihoods
  - Hybrid between formal and informal financial institutional arrangements
  - Provide incentives for new hybrids
- **A new (third) tier of higher education:**
  - Community education provides opportunity for curriculum development, training and supervision of community-based financial institutions | other 2 tiers are universities and TVET colleges

Thank You