Institute for Money, Technology
& Financial Inclusion

Adapting and extending the use of accumulating savings and credit associations through village savings and loan associations: The case of Care International in Malawi

Project Year

2010

Region(s)

Southern Africa

Country(ies)

Malawi

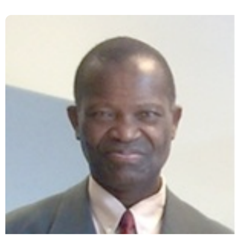
Project Description

This study will ascertain how Care International in Malawi (CIM) has adapted the accumulating savings and credit association (ASCA) model of mobilizing savings to serve the needs of the poorest people in Malawi. CIM is helping poor people to establish village savings and loan associations (VS & LAs) which operate on the same principles as ASCAs, but which are specifically designed for those whose incomes are lower, who live on less than $1 a day, and who need to be guided and trained on how to run their associations. The study will also investigate how CIM has devised the VS & LA model, how it has disseminated it, the successes and setbacks that it is experiencing, and how people are interpreting it and using or not using it.

Researcher(s)

Chinyamata Chipeta

About the Researcher(s)



Professor Chinyamata Chipeta, a Malawian national, has a PhD degree in economics obtained from Washington University in St. Louis, Missouri, USA, in 1976. Until he retired in 1995, he was a professor of economics at Chancellor College, University of Malawi. Currently, he is the Executive Director of the Southern African Institute for Economic Research, an independent non-profit research institution based in Zomba, Malawi. Among other subjects, he has researched and published articles on commodity and modern fiat money and on informal, micro and formal finance.

Synopsis of Research Results

Through desk research and field surveys conducted in the areas of Traditional Authority or Chief Chikowi in Zomba District and Chief Chowe in Mangochi District, this study has investigated how Care International Malawi (CIM) is promoting village savings and loan associations (VS & LAs) to serve the needs of the poor, how it has devised the VS & LA model as an adaptation of the accumulating savings and credit association (ASCA) model, whether poor people appreciate VS & LAs, and it has ascertained successes and possible setbacks of VS & LAs in Malawi.

CIM started using the VS & LA model in 1999 as an aspect of a development programme called Improving Livelihoods through Improved Food Security (I-LIFE). I-LIFE helps households to change from subsistence to commercial farming, and to improve their nutritional and health practices. As a component of the I-LIFE programme, the aim of VS & LAs is to encourage local people to put their savings into a common pool from which individual members can borrow. Under the I-LIFE programme, CIM promoted VS & LAs itself through trained field officers and community agents under the direction of a coordinator. By December 2007, CIM had established 1,453 VS & LAs with a total membership of 23,340 people in whose financial and social status there was significant improvement as a result of this intervention. This encouraged CIM to scale up the establishment of VS & LAs during the second phase which began in 2009 and whose target is 5,000 VS & LAs with a total membership of 100,000 people. Having decided to increase the formation of VS & LAs, direct involvement was going to be expensive and cause management problems. For these reasons, CIM decided to implement the VS & LA programme through partners, including Emmanuel International. The new programme, which is called SAVE UP MALAWI, is directed by a CIM country coordinator and actual implementation is done by partners who employ field officers and identify village agents who get a token fee from the VS & LAs for their services.

CIM chose the VS & LA model because it is accessible to the poor, it is flexible in its operations, it s easy to manage and because it empowers the poor. As a savings-led alternative to credit-centered microfinance institutions, the VS & LA model can prove successful and sustainable in poor, rural areas with unsatisfactory infrastructure and low population density resulting in small loans and high transaction costs. In order to encourage savings among people who have a high rate of time preference, CIM adapted the ASCA practice of operating in short cycles to enable members to get back their contributions and receive dividends at short intervals to spend, and start a new cycle by reconstituting the capital fund immediately afterwards. The capital fund is built up over time through subsequent purchases of shares by members. Other factors that facilitate accumulation of savings are the right of members to borrow, the high frequency of borrowing, the service charge on loans, and the short loan repayment period which implies that funds are not tied up in loans for a long period of time.

VS & LAs differ from ASCAs in that they are more formal than the latter. In order to improve management and security of resources, they use cash boxes in which they keep cash, cash books and members' passbooks. Each cash box has three padlocks and three keys. Share purchases and loan transactions take place at open air meetings to ensure transparency and accountability. Members meet more frequently, once a week, than members of ASCAs. Similarly, their executive committees meet more frequently than those of ASCAs. The capital fund is complemented by a social fund which is used for helping needy members and for meeting petty expenses.

Members of VS & LAs may not exactly fit the description of people who are living below the national poverty line, partly because the people responsible for establishing them do not have objective criteria for identifying the poor and partly because separating the poor from the non-poor would anger those who are left out and undermine their acceptability in the local communities. But their socio-economic characteristics of low levels of education and dependence on small-scale agriculture and petty business activities suggest that they are relatively poor. These people appreciate the establishment of VS & LAs in their areas, as reflected in the local names by which they are known and the songs which they sing at meetings of VS & LAs. The number of communities that rejected the idea of forming VS & LAs is very few.

In the area of Chief Chikowi, VS & LAs have not been in operation for a long time. Therefore, it is difficult to ascertain if they have significantly improved the livelihoods of their members. What we have found out is that through the expenditure of loan money and dividends from VS & LAs on foodstuffs, farm inputs, school fees, and productive assets, and on investment in business enterprises, members' participation in

VS & LAs has potential for improving their livelihoods. Data from the area of Chief Chowe indicates that over a longer period of time, participation in VS & LAs can increase the wealth of members significantly.

The SAVE UP MALAWI programme has helped to increase structural social capital and cognitive social capital in the form of interdependence, survival of the community, group assurance, cooperation and harmony, trust, shared duties and responsibilities, and generosity towards needy members. The programme has also increased skills for managing businesses and finance.

How to satisfy rapidly increasing demand for VS & LAs and technically supporting their establishment is a major challenge for Care International Malawi. Other challenges include a rather inflexible required minimum number of members of VS & LAs which can prevent their formation; an inflexible required maximum number of members which limits their scope and resources; and the difficulty of targeting and covering the deserving poor in the SAVE UP MALAWI programme.

In the absence of banks and non-bank financial institutions in the rural areas where VS & LAs have been established, they keep cash from purchases of shares and loan repayments themselves in houses of treasurers. Houses are not secure places for keeping cash. There is always the risk of losing the money through theft. Besides, they carry cash balances on which no interest is earned before lending starts or when borrowing is not adequate to exhaust the funds. In addition, they do not have access to resources of other financial institutions through which they can ease their own liquidity problems. Creating deposit and credit links between VS & LAs and banks and non-bank financial institutions, as suggested by CIM may thus be an appropriate way of addressing these problems.

See a video on Care International in Malawi that Chipeta presented at the Second Annual IMTFI Conference in 2010.