

# Building on a Foundation of Savings

## Savings groups



The majority of the 1,200 families who live in and near Nepal's Baluwa village are farmers. The Shree Jawaladevi Simaltar Panchakanya saving and credit cooperative organization has more than 200 members and has formed a partnership with Habitat for Humanity to help villagers such as Sanu Danuwar and his wife, Anita, meet their goal of owning a home.

### Abstract:

Habitat for Humanity promotes the importance of savings as a foundation for asset building and shelter improvement for the poor. This technical brief covers an emerging program strategy within Habitat for Humanity: linking housing/shelter services to grassroots, community-based savings groups. The brief introduces the savings-led movement, explores its significance to organizations working on shelter

poverty, and considers promising ways to enable the poor to access better shelter through participation with savings groups. The brief refers frequently to a recent evaluation at Habitat for Humanity Nepal done by microenterprise development consultant Jan Maes: [http://my.hfhi.habitat.org/BusinessOperations/IntlHousing-Finance/Template and Downloads/Program Evaluations/HFH Nepal S and B Evaluation - FINAL.docx](http://my.hfhi.habitat.org/BusinessOperations/IntlHousing-Finance/Template%20and%20Downloads/Program%20Evaluations/HFH%20Nepal%20S%20and%20B%20Evaluation%20-%20FINAL.docx)

### Intended audience:

This technical brief is written for organizations working toward the goal of enabling the poor to access better shelter, but is intended to be informative to a cross section of readers.

## Background:

**Savings groups:** In many communities in the developing world, formal financial services are scarce. In countries such as Ethiopia, Indonesia and Cambodia, access to services such as bank accounts and credit lines are limited to a privileged few. But poor communities cope. Where formal financial services are lacking, many communities have found ways to simulate the services provided by banks in industrialized countries. Members commit to a predetermined savings amount and frequency, and cooperatively steward the investments and payouts of the fund. Savings groups<sup>1</sup> come in many forms (See Box A), each of which provides a type of financial service that people demand but is otherwise not available. It is important to note, additionally, that the benefits of savings groups go beyond the provision of financial services. The cooperation and community interaction that occur during savings group meetings provide a platform where social capital and trust can accumulate. Members frequently note the opportunity for empowerment and agency that result from their participation with peers in a savings group.

**Where can they be found?** Savings groups are frequently found in basic form in the communities of many lower-income countries. There is particular excitement about those groups' reaching a particular level of maturity and dependability, whereupon their services can attain considerable impact. Because this is seen as such a promising component of a poverty alleviation strategy, many donors and nongovernmental organizations are emphasizing the promotion of these "modernized ROSCAs (Rotating Savings and Credit Groups)."<sup>2</sup>

**Why the excitement?** Savings groups pose a particularly salient opportunity in the fight against poverty. Here are some reasons why they're worth being excited about.

- **Efficiency.** Because the savings group methodology starts with a grassroots mechanism that is usually already understood and in place in poor communities, the groups are efficient to promote. The cost of introducing new institutions is avoided, while costs can be focused on helping replicate good practices among existing grassroots institutions. For this reason, it has been estimated that providing a poor person better financial services through savings groups can be achieved for less than one-third the investment in institutional microfinance (which has already been heralded as a rare success story in poverty alleviation).
- **Scale.** There is a lot of excitement about the ability of savings groups to *replicate* good practices to one another. That means a nongovernmental organization may promote savings group practices that simply are shared and transferred to similar villages and communities. The measurable impact of several programs initiated by NGOs has reached considerable numbers in this way. CRS's program in India has affected 485,000 members. CARE's program in Africa has already reached more than 500,000.
- **Empowerment.** Secondary benefits have been noted in savings groups, including solidarity, leadership, empowerment, and the exercising of management skills. Some of these outcomes have resulted in considerable changes in village dynamics, ranging from how the role of women is viewed to an increased degree of community participation in problem solving.
- **Cross-cutting developmental application.** Savings groups are powerful, because the ownership of the development agenda lies within the community. That applies powerfully to almost any intractable issue of poverty. As such, savings groups have proved effective in efforts as far ranging as empowering street kids, launching preschool education solutions, agro-enterprise, health services and education, and even housing and slum redevelopment projects.
- **Capital.** Through savings groups, resources derived from within the community are mobilized to address poverty alleviation and development. This self-ownership of capital places the agency and agenda of development where it belongs: within the community. It also places the resources squarely within the control of the actors themselves.
- **Depth of impact:** Savings groups can function within any means group, so even very poor people can participate and contribute with peers. Groups have been shown to appreciate and encourage the successes of the members, however small they may be.

## Savings groups defined:

The Small Enterprise Education and Promotion Network's Working Group on Savings-Led Microfinance recently concluded an industry survey that attempted to name a general rubric for the many names of these "modern ROSCAs" that are showing so much promise. The result was simple: savings groups. At right, however, is a brief cheat sheet of the many names and related features of different types of savings groups.



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In a 100-acre dumpsite in Steung Meanchey near Cambodia's capital, Phnom Penh, families scavenge through the rubbish for a living. In the Domnak Tom 1 community, a savings group began two years ago with 21 families who planned to buy land for homes outside of the city. In 2008, an Australian couple, Paul and Aileen Munn, bought a plot of land for the 21 families, and Habitat for Humanity Cambodia has helped them build their homes.

### Save-Up Club:

The most basic form of a savings group, it usually consists of member commitment to a predetermined deposit amount at a fixed frequency. The accumulated amount typically builds up in a bank or somebody's home and is paid out at the end (usually a festival period for which cash will be needed).

### ROSCA:

Rotating Savings and Credit Association. A ROSCA modifies the save-up club in a unique way. Rather than accumulating a balance that needs to be secured and accounted for, the ROSCA pays out the amount saved each period to one member. So, in effect, no actual fund balance or account book is required. All that is necessary is a list of the names checking off who has received the payout to date.

### ASCA:

Accumulating Savings and Credit Association. Basically, this is similar to the ROSCA above, but one step closer to being a small credit union. The fund doesn't zero out each time the group meets, but rather carries a balance that is invested in the community. This can be as loans to members, or to nonmembers.

Box A

## Savings groups and Habitat for Humanity

Habitat's entrée into savings groups was in Sri Lanka. The linkage emerged as a way to solve a specific problem: bad repayment rates on housing loans.

Habitat programs typically focus on the building of a house. That house typically comes with a loan, often referred to as a mortgage<sup>3</sup>, that is due back to the local Habitat program or affiliate. Repayment rates in many countries, however, were underperforming. This underperformance became even more acute when compared with the well-functioning financial service track records that occurred within microfinance village banks and savings groups. Habitat initially intended to mimic this methodology, so the Habitat Sri Lanka program assembled housing beneficiaries in groups, emphasized savings, and provided houses to members slowly over time to incentivize the repayment performance of early beneficiaries. Performance improved, and a new methodology called Save and Build was born.

The methodology advanced one step in Nepal. The Habitat Nepal program manager came from the Sri Lanka program with the intent of replicating the Save and Build concept. Two things were different, however, in Nepal. The manager faced a much smaller budget, which required greater efficiency of program design, and he found that there was a well-known, successful savings group support program, the Women's Empowerment Program, which was noted for its considerable success in the economic development, poverty alleviation and empowerment of women. Within these conditions, the manager decided to work with the existing infrastructure of grassroots savings groups. This would build off of the WEP momentum, while saving group promotion costs for Habitat staff.

Results exceeded expectations. Habitat Nepal has one of the lowest cost ratios per family, while sustaining high repayment rates.

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More than 300 Habitat houses have been built in Kavre District, 50 kilometers north of Kathmandu. The majority of the 1,200 families who live in and near Baluwa village are farmers. The local cooperative known as the Shree Jawaladevi Simaltar Panchakanya saving and credit cooperative organization has more than 200 members. HFH Nepal works as one of the implementing partners with this organization. Other partners include UN Habitat, ADRA Nepal, Samjhuta Nepal, Caritas, Lumanthi, Community Development Center Pokhara, Community Development and Shelter Program, Surkhet, and SOS Children's Village.

## A deep dive into how Habitat Nepal's program works

**Partnerships:** Rather than forming new Save and Build groups, Habitat Nepal started to work with *existing savings and credit groups*, such as the village banks that had come into existence almost 10 years ago through Pact's Women Empowerment Program, along with more sophisticated savings and credit cooperatives. This way, Habitat for Humanity International left the process of forming and capacity building of savings and credit groups to local partners, such as local NGO Samjhauta, which had been instrumental to the formation of these groups and had developed a strong relationship with them. More importantly, the village banks were able to implement many of the housing program functions by themselves, such as screening potential home partners, providing training on savings and loans, administering home loans and collecting payments. Also, since most village bank members already had some savings—as opposed to home partners in Sri Lanka's Save and Build model, who had to start saving from nothing—the matching loan to savings ratio was reduced from 2:1 to 1:1.

**Traditional building:** Habitat for Humanity International also promotes the use of local materials and the adoption of traditional building approaches, which further reduce the cost of house construction. For example, the program successfully promotes building walls of bamboo strips—plastered with clay or cement—instead of fire-burnt bricks or cement blocks. Indigenous bamboo grows fast and is an excellent building material, because it is easy to use, durable and environmentally sustainable. Increased demand for these materials and construction technologies also resulted in the

creation of new income activities, such as growing bamboo and weaving bamboo wall panels. In places where bamboo is not available, sun-burnt clay bricks—"green bricks"—are used and produced by the community. Lastly, each village bank establishes a construction committee that monitors the cost of building materials and purchases those in bulk at the right time, further reducing the cost of house construction.

**Financing:** New homes range in cost from approximately 50,000 to 85,000 Nepalese rupees (US\$600-\$1,000 at nominal exchange rate), of which on average 38 percent is financed by the Save and Build loan (ranging from Rs. 20,000-25,000). For a Rs. 20,000 loan, a home partner repays Rs. 720 each month (for a 30-month loan at 5 percent interest). Note that home partners often invest much smaller amounts to build the first stage of a new house or to improve an existing house, with Save and Build loans as low as Rs. 4,000 (US\$50). Sixty-eight percent of home partners used the Save and Build financing for improving their roof. Fifty-six percent used it to improve the walls, and 53 percent to lay a cement floor. Twenty-six percent also built a toilet. By the end of the first Save and Build construction cycle, virtually every home partner has an improved roof, usually made out of corrugated iron; four out of five have improved walls (bamboo plastered with mud or cement, or burnt-brick walls); and three out of five have an improved floor (cement instead of mud). Also, by the end of the first Save and Build cycle, slightly more than half of the home partners have a toilet.

Box B

### What is the link between savings and housing?

Savings groups can be a crucial link to addressing the development of more livable communities and better shelter.

Habitat Nepal is only one example of the effectiveness of savings groups on housing and shelter. Urban squatter communities, such as those within the Shack/Slum Dwellers International network, use savings as one of the essential building blocks for slum dwellers seeking to collaborate to improve their communities.

Housing, because of its capital and technical intensity, has usually been a government- or private-sector-driven process (architects, urban planners, developers, etc.). However, people-centered and community-owned organizations will better understand the complex issues that surround housing. If these are empowered more, they will be able to find solutions by themselves. Slum dwellers, though, need to be taken into account. It is time to understand shanties no longer as “housing in deterioration” but as housing in the process of improvement. Forming networks of needy people and using the organizational capability of these groups will more quickly find larger-scale solutions for housing, as is happening with SDI networking. Such understanding for innovative means of improving shelter and finding solutions serve as the basis for the use of saving and other resources within the communities of need that could be evenly matched with outside resources.

When Self-Employed Women Association workers found themselves facing a housing problem, the solution was found within themselves, and today it has grown into the large-scale Mahila Housing Sewa Trust, which facilitates access to finance, housing and legal advice. The trust considers the housing solution as “My House is my asset, my savings, my workshop and my place to rest.”

### What are some best practices to keep in mind?

The evaluation of Habitat Nepal’s work led to some ideas to keep in mind when engaging in housing interventions with savings groups.

- **Focus on existing savings groups,** rather than creating new ones just for a housing intervention. Jan Maes pointed out that existing savings groups provide a platform upon which housing as an issue can be addressed. Housing, and all its complexities, seems to work best with mature savings groups that have overcome some of the governance and operational issues that startup groups encounter.
- **Integrate.** Housing is the sole focus of Habitat for Humanity, and the group has found it important to also keep the economy of housing in mind. In contrast to other types of economic development, the economic multiplier effect of housing is particularly local.<sup>4</sup> Habitat for Humanity Nepal, through its work in establishing a demand-driven market for bamboo housing products, created both economic opportunity for very low-income people, and housing impact. Integration of housing impact, and the economic impact incurred when stimulating the housing value chain, should both be goals of interventions.
- **Consider costs of market capital.** Within the Habitat community, Habitat Nepal has to be recognized for the advanced sustainability of its program. The Habitat Nepal program was able to more than double its size based on borrowing money at a nominal interest rate from a U.N. Habitat Fund. Few Habitat programs have a dependable enough track record to qualify for such funding. Nevertheless, the program still retains a degree of subsidy that, going forward, would limit its ability to grow. Larger sources of market and social investment capital should be available to the Habitat Nepal program to serve the many unmet needs at exponential scale. This, however, would require more market-oriented pricing at both the retail and wholesale loan levels.
- **Capacity building of groups.** Savings groups benefit from capacity building, particularly when new complexity is introduced. Their intermediation of capital for housing loans is complex. Therefore, Habitat should consider general savings group capacity building, emphasizing general skills that equip the groups to better manage housing finance, especially on record keeping, bookkeeping, marketing skills and functional literacy.
- **Do no harm.** Some promoters of savings groups strongly believe that external capital should not be introduced. Housing, because of the required size of investment, makes that purist view difficult to retain. Since the introduction of external capital is viewed as potentially disruptive to the health and governance of savings groups, Habitat should proceed with caution and be diligent in the monitoring of savings groups’ health.

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(Endnotes)

- 1** The SEEP Savings-Led Working Group did a survey to determine a name that would be applicable across most of the methodologies such as Village Savings and Loan Groups, Accumulating Savings and Credit Associations, Rotating Savings and Credit Groups. The agreed-upon name is simply *savings groups*, which can refer generally to all of the above.
- 2** Ashe, Jeffrey. A Savings-Led Alternative to Financial Institution Building. Oxfam America, Dec. 15, 2006.
- 3** Though referred to as a mortgage, most loans owed by families to Habitat were not true mortgages. Either the documentation fell short of qualifying as a legal lien, or local policy environments recognized, but did not enforce, foreclosure proceedings. These collateral flaws removed the incentives that typically make home mortgages lower-risk loans than consumer debt.
- 4** "Housing for All"; International Housing Coalition and PADCO, World Urban Forum Paper, 2006.

