

MADAGASCAR



Community-Based Savings Groups in the Sofia Region

Formerly a food-sufficient country which heavily exported its major food crop – rice – food security has become one of Madagascar's most critical issues in recent years. Food stock shortages are frequent in some areas of the country, owing to political instability, natural disasters and lack of investment.

With one of the highest rates of average per capita rice consumption in the world at 138 kilograms per person, rice production not only provides the nation's single most important staple; it is also a major source of income and employment. Over 85 percent of the population relies on rice cultivation for their livelihoods.

In the north-west, despite poor infrastructure, difficult accessibility and yields below the national average, the Sofia region managed to produce 12.7 percent of Madagascar's production in 2010,

making it the nation's top producing region. Given its strong potential in the face of various challenges, the Aga Khan Foundation (AKF) began working in the Sofia region in 2005, with the aim of doubling rice yields.

As yields have increased on average by two- to three-fold, farmers in the programme supported by AKF are increasingly concerned about how to store, promote and distribute their stock reserves in order to sell at highest market value. High transaction costs and lack of appropriate financial services pose substantial barriers to increased productivity and access to markets, which could help to significantly improve overall livelihoods for communities in the region.

In response to these concerns, AKF began to complement its work to improve rice production by facilitating access to appropriate financial services. In 2010, it launched a

Community-Based Savings Group (CBSG) project in the Sofia region. This project is helping to create community-based savings and loan systems to enable individual members to manage risk, save money, build up assets, invest in productive activities and meet everyday household needs.

Between 2010 and 2013, more than 20,580 individuals (62 percent women) joined a CBSG. A total of 1,058 groups were formed in three districts of the Sofia region, of which 444 have completed their first cycle of operation. Of these, 81 percent are still active. Members currently have savings of up to US\$ 20 and a loan average of up to \$US 27. The average loan fund utilisation rate is 56 percent.

In 2012, the Foundation conducted a qualitative study of 10 groups to gain a better understanding of how group membership affects saving

CBSGs use an easily verifiable criterion for access to credit: Members may not borrow a sum worth more than three times the amount of their individual savings. This way, they are more or less certain to have their loan approved without delay or having to provide guarantees.



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

and loan-taking behaviour, responses to socio-economic shocks and household financial decision-making, and to identify complementarities between CBSGs and agriculture-related interventions.

How the programme works

A CBSG is a voluntary group of 15 to 25 people who save together and take small loans from those savings. The group's activities run in yearly cycles, after which the accumulated savings and loan profits are shared out between members according to the amount they have saved. An AKF facilitator trains the groups to manage their transactions independently. The facilitator does not handle the groups' money or the record-keeping. AKF does not provide any capital.

CBSGs use an easily verifiable criterion for access to credit: Members may not borrow a sum worth more than three times the amount of their individual savings. This way, they are more or less certain to have their loan approved without delay or having to provide guarantees. In some cases, a loan could be refused if the member is still paying off a current loan or if there is simply not enough money left in the loan fund at the time of the request.

In Sofia, some members are unhappy with this cap on loan size. Unlike in other countries where members are grouped together ac-

ording to similar socio-economic status, in Madagascar, the groups are formed based on kinship regardless of very different income levels amongst the kin. As a result, often times a group's wealthier members feel limited in the amount they can save and borrow, given that the consensually decided "share" caters to the more limited savings ability of lower-income members.

In an effort to circumvent the savings and loan ceilings without causing offense to the lower-income members, these wealthier members enrol their children in the CBSG in order to artificially increase their credit entitlement. However, this practice leaves the more vulnerable, lower-income members more subject to a loan refusal in a moment of need, as the cash box is more likely to be emptied out by disproportionately large loans taken out by wealthier members.

How the study was done

Five sites (four villages and one urban centre) were selected according to their predominant livelihood strategies, number of households, accessibility by road, the provision of appropriate services and the overlap between AKF's agricultural development and CBSG activities.

In each site, two or three savings groups were chosen based on the

Cover Photo: AKF's community-based savings group project in the Sofia region is helping rice farmers to increase their rice production in a sustainable way.

groups' maturity (number of completed cycles) and the implementation model used. The establishment of CBSGs is done through two delivery models. In the first model, AKF is directly involved in forming the CBSGs through paid personnel, who are selected from the programme area and trained over the course of two weeks. The secondary model helps the groups replicate and achieve greater scale in a more self-sustainable manner. Here, a CBSG member with the skills and motivation to train a new group takes over the facilitating role of the paid personnel (whose role becomes principally supervisory) and is paid a fee directly by the group itself.

Several members from each group were interviewed to identify differences and similarities between groups. Non-members were also interviewed for purposes of comparison. Overall, focus group discussions and individual interviews were conducted with 27 key informants (15 percent women), 63 CBSG members (60 percent women) and 38 non-CBSG members (40 percent women). The CBSG members interviewed belonged to 10 groups, of which nine had completed their first cycle of operation.

A pilot study helped identify potential challenges prior to data collection and also made it possible to refine the selection process for respondents. The qualitative study

was the first to be conducted by AKF personnel in Madagascar.

One difficulty encountered by the team was respondent fatigue caused by the lengthy questionnaires. Pauses and energising activities were sometimes necessary to maintain acceptable levels of participant involvement. In spite of this, only one major methodological limitation was identified. Data collected around coping strategies in response to socio-economic shocks must be treated with caution because this is a sensitive subject which respondents found hard to discuss openly.

Key findings of the study

Finding 1: Savings groups encourage more regular savings.

The study found that the most vulnerable households in Sofia exhaust their day-to-day incomes to simply meet their family's basic consumption needs. These poor households either cannot save money or can save very little, and use their savings in the very short term. Most of the non-members encountered were in this position.

For the great majority of people who are currently saving, management of their savings follows a seasonal cycle. For example, following harvest income-generating activities and/or the sale of agricultural produce allows them to build up a

small sum, which is kept at home and/or in a CBSG.

Analysis of the interviews revealed a positive shift in saving practices amongst CBSG members. According to them, a sum saved at home can never really grow because there are too many temptations to spend it. Having completed their first savings cycle and share-out, these members have gained confidence in the group's functioning and, when they can, increase the amount they save with the group.

In some cases, members even decided to join several groups in order to save more. The money they receive when the fund is shared out is used in different ways: to send their children to school, to pay rice workers during the planting season, or to buy furniture or sheet-metal roofing for their homes. In addition, as share-out occurs at mid-year near harvest time, when the price of rice is at its lowest, some farmers use part of their funds to purchase additional rice, which they store (see Finding 6) and then sell for profit when prices rise considerably at year-start during the lean, planting season.

Outside the group, there is little or no awareness amongst non-members of how the CBSG works. The small amount of information communicated between members and non-members in the same village means that it has not been possible



There are four reasons why members prefer to borrow from a CBSG: the ease of obtaining a loan; the fact that members do not discuss current loans with non-members; the fact that the interest is paid to the CBSG; and the climate of trust within the group.



The study which AKF undertook in 2012 showed that membership in a community-based savings group encourages women to develop their own income-generating activities and increase their personal savings.

to find CBSG groups that have formed spontaneously by imitation. However, the introduction of village agents has helped address this issue and has resulted in the formation of new groups in communities where groups had already existed.

Finding 2: Savings groups help promote financial inclusion.

Community-based savings group members and non-members stressed that it is difficult to take out a loan, whether cash or in-kind. During the planting season, everyone is trying to finance agricultural activities, so there is no guarantee of finding someone who will agree to lend money. Even when credit can be obtained from friends and family, wealthier households, traders or village associations, often times the conditions are exploitative. For example, for one tin of rice borrowed from a wealthier household, the borrower must pay back two or three tins to make up for the price fluctuation.

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

- the ease of obtaining a loan;
- the fact that members do not discuss current loans with non-members;
- the fact that the interest is paid to the CBSG;

- and the climate of trust within the group due to the self-selection of its members.

“We can solve problems. Ultimately we still have money because the money borrowed from the group has interest that stays in the group.”

-- Male member from rural site

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

In the households interviewed (irrespective of CBSG membership) it seems that decisions about taking out monetary loans are generally made by the husband, even if the couple discuss them together. It also happens that some husbands decide alone how much to borrow and simply inform their wives of their decisions. However, women who join a CBSG are generally more involved in their households' financial decision-making than women who do not join a group. In particular, they are involved in managing the household savings by deciding how to divide money between the CBSG and the home. In some cases, it has also been observed that membership encourages women to develop their own income-generating activities and increase their personal savings.

“I manage the rice with my husband...But when I sell my produce

The qualitative study of community-based savings groups which AKF undertook in 2012 showed a positive shift in savings practices amongst group members.

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

-- Female member from rural site

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

- 1. Savings groups encourage more regular savings.*
- 2. Savings groups help promote financial inclusion.*
- 3. Female membership in a savings group can lead to more consultation between spouses with regard to household financial decisions.*
- 4. Membership in a savings group can help households cope better with unpredictable expenses during the lean season.*
- 5. Savings groups foster social cohesion.*
- 6. Savings groups help farmers to strengthen and better manage their rice production.*

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

Faced with financial difficulties, heads of household may use their savings and, if necessary, try to take out a loan in order to tide them over. Those who are CBSG members suffer fewer negative consequences if they take out a loan, since they are guaranteed to receive it and are not forced to sell household goods in order to repay it. In fact, when faced with an emergency, depending on the severity of the situation, members can access one of two options. An emergency that requires a large sum of money can be addressed through a normal CBSG loan; whereas if the shock is less severe, the member can request an interest-free loan from the social fund.

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

“To avoid having to borrow, when we joined the group, the idea was

to pay in as much as possible to get as much benefit as possible and to have a sum of money for ourselves at the end of the year. We invest as much as possible in the group.”

-- Male member from rural site

Finding 5: Savings groups foster social cohesion.

Village associations are traditionally a factor for social cohesion in the Sofia region. Given the sense of insecurity felt by inhabitants due to oxen thefts, the establishment of the CBSG has made it possible to re-instate social relations between some households. Members regard the CBSG as an additional tool for solving problems and maintaining solidarity, notably through the use of the social fund.

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

Having completed their first savings cycle at harvest, some members have grouped together their share-out funds to rent a collective rice warehouse store. In addition to storing their own crops in this warehouse, they have also been able to purchase additional volumes of rice from other villagers at low harvest-season prices. The greater rice volume helps them to attract better buyers and sell at even greater profit during the lean season. Interview respondents see

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





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

the shared rice store as a way both of saving more successfully and of strengthening mutual support mechanisms in the community. The profits generated will be reinvested in rice farming.

“I have experienced a profound change after joining the CBSG because now I am no longer anxious about meeting my agricultural financing needs since I can always borrow.”

-- Male member from rural site

Issues to consider for future implementation

Issue 1: Communication

The poor communication between savings group members and non-members should be remedied through better mobilisation of communities with trainer members supporting the formation of new groups.

Issue 2: The lean period

In some groups, there are members who are unable to invest during the lean period, forcing a number of them to leave the group. This issue requires more extensive study by AKF.

Issue 3: Synergy with other AKF programming

Potential synergy has been observed between AKF's agricultural development and CBSG activities. Beyond the fact that groups time the sharing-out of their savings to coincide with the start of the rainy season, it would be interesting to explore the possibility of sending out the key messages of integrated crop management in rice production to CBSG members. Rice is the main cereal that underpins the food security of households in the Sofia region.

Development Partners

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The Aga Khan Development Network (AKDN) is a group of private development agencies working to empower communities and individuals, often in disadvantaged circumstances, to improve living conditions and opportunities, especially in Africa and Asia. Its agencies work in over 30 countries for the common good of all citizens, regardless of their gender, origin or religion. Its underlying impulse is the ethic of compassion for the vulnerable in society.

