Community-based Microfinance: Community Savings and Loan Groups
Good practice in the musseques of Luanda

An evaluation of the direct credit programme implemented by LUPP in Kilamba Kiaxi recommended that for credit programmes to contribute substantially to the growth of small businesses and wealth creation, there must be a balance between access to information to develop an understanding of credit risk, and the use of savings as a guaranteed source of investment. The lack of financial services capable of supporting a savings culture close to communities, as well as the lack of local institutions providing financial services in the community, formal financial institutions and banks, exposes the poor and small businesses to financial risks, without economic security guarantees for families, if there is no strengthening of solidarity links.

LUPP has developed a community savings lending methodology that facilitates the mobilisation and accumulation of goods, thereby avoiding the withdrawal of wealth from within the community. Community savings and lending groups are designed to build on solidarity and facilitate access to local credit, creating a social movement of savings comprised of groups that become graduated and independent, which, in their own turn, facilitate the creation of new groups.

Groups with the capacity to grow can join together to form associations, federations, cooperatives, confederations, and savings and credit unions to engage financial institutions for access to credit and advocate for better institutional support.

- "There is no poverty reduction without capital accumulation, and there is no accumulation without savings", quoting his Excellency Minister Pedro de Morais, 16 November 2005
- "To reduce poverty, mechanisms to create wealth must exist", quoting his Excellency Minister Pedro de Morais, 16 November 2005
Training structure

There are four phases in the implementation of the Community Savings and Loan group methodology in Angola. These are:

- Introductory phase
- Intensive phase
- Development phase
- Maturity phase

Introductory phase – 2 weeks

Objective: To identify the participants and facilitate the formation of groups who become familiar with the basic characteristics of the Community Savings and Loans Groups methodology and register within the programme.

This phase is quite quick, depending on how familiar the savings officials are with the situation. Once participants are selected, the designated communities attend two introductory meetings, which can be carried out in less than two weeks.

A public talk

A public meeting is organised in the community, prepared in collaboration with the relevant local authorities. This introduces the project and invites appropriate groups to participate in the training. No other effort is made to mobilise groups. Participants have to organise themselves into groups or mobilise existing groups through their own efforts. When this is done, the groups present themselves to the savings official and register for training. At the moment, the majority of groups come together based on already defined relationships, such as within churches, Residents Area Development Organisations or ODAs (Organizações de Desenvolvimento da Area), or groups linked to markets. This has the advantage of creating immediate access to a wider number of people, but can have the disadvantage of limiting the meetings to periods of time that can be close together for different groups and so reduce the energy of the project. The major emphasis of community saving is to work with the poor, in particular directly with women engaged in micro-economic activities.

First introductory meeting: individual with groups

Once groups have been registered for training, a preliminary meeting is organised with each group during which the training process and the methodology in use are explained in greater detail.

Intensive phase – 16 weeks

Objective: To train and organise the group

This phase is the most important and represents the principal section of the training. The savings official presents the six topics of the training contained in the guide over a period of four weeks, three hours a day for six days per week. After this, they continue attending meetings every two weeks for a combined total of 16 weeks, and not less than this. It is during this phase that the group establishes a management committee, sets out internal rules, defines the objectives of the group and begins savings and credit activities if necessary (after eight weeks). The savings officials provide intensive assistance in the creation of the registers and the evaluation to determine the preparedness of the group to graduate to the next phase.

Development phase – 12 weeks

Objective: To help the group become autonomous

The savings officials help the groups move towards independence. Instead of meetings every two weeks, the official visits the groups once a month for a total of three months.

The officials only intervene when the group needs help; otherwise they merely keep an eye on what is happening. The visits should happen during periods of loan giving or repayments, as these are generally the times when participants experience some difficulties. The savings officials do not assist in the setting up of registers, unless serious difficulties are encountered. The groups are evaluated by the supervisor of the savings official to determine preparedness for moving on to the next phase.

Maturity phase – 10 weeks

Objective: To assist the group become independent of the project

The savings officials visit the groups once every month during these ten weeks. Then they conduct a final evaluation of the group. Based on this evaluation, it is decided if the group is ready to be independent, or still needs assistance. If it is decided that the group is ready to be autonomous, it will be officially ‘freed’, and the fact will be celebrated.
Community Savings and Loan groups are comprised of a minimum of five and a maximum of twenty members, all over fifteen years old. The group decides jointly who can join.

Community Savings and Loan groups elect a management committee comprised of a president, secretary, treasurer, and two money counters. At least half of the five members of the elected management committee should be women, in the case of mixed groups committee members are subject to re-election on an annual basis, and can be removed in extraordinary meetings with the consent of two-thirds of the members.

Community Savings and Loan groups agree on a set of internal rules to guide their activities. The rules are written in the group constitution and confer authority on members of the management committee: a structure for regulation and resolution of disputes.

Community Savings and Loan groups agree on the operational cycle. The group agrees before savings or loans activities begin on how long it will operate for before beginning to receive levies or shares from accumulated funds. Fulfilling this cycle depends on when the group believes that there will be a need by a majority of members to have access to large sums of money (for example: Christmas or the beginning of an academic year). During such moments, members have a right to withdraw from the group without penalty, taking their share with them and thereby ending the cycle. At times like this, new members can be admitted to the group.

Community Savings and Loan groups allow members to contribute to the loan fund on the basis of shares. These are not mere savings, and the distinction is important. Savings are active with a known value that can be withdrawn at the discretion of the person who made the deposit, while the value of shares vary, reflecting the liquid value of the group. Shares remain in the group and cannot be withdrawn voluntarily, except at the end of the cycle, or for inevitable reasons a member cannot participate (for example, death or moving to another community).

The initial savings are kept in a deposit bank account. In the first meeting, the shares are sold to the members and the amount registered in the member book and the secretary's 'reason for saving' sheet. At the end, the treasurer deposits the money in the bank account where it is converted into US dollars. The use of a bank account is meant to increase the confidence of the members that their savings are secure. After eight weeks, the funds are freed and the group, if there is a need, can begin the cycle of internal loans to members. Any member who needs a loan from group funds, makes their suggestion to the group, and is eligible to request three times the amount of their accumulated savings. The group fixes the interest rate. The group is free to fix its own monthly rates for loans to members at a fixed rate. The savings official needs to explain carefully to the member that low interest rates reduce the rate at which the loan fund increases prior to contributions from members, while high interest rates reduce the desire of the borrower to request loans. Interest rates for the Community Savings and Loan vary from 50% to 50% per month, but the vast majority choose 10% which serves the need for fund growth, and so that credit will be available.

When the operational cycle comes to an end, the group may receive back its share or conduct a collective investment; the redistribution of the total amount of the loan fund between the members.

The members are free to decide to suspend contributions during difficult periods of the year. One of the strengths of Community Savings and Loan groups is their ability to offer flexible loan products and adapt to the financial situation of members, permitting variable contributions. Moreover, groups frequently suspend activities by mutual agreement. This may be because there is little economic activity during certain times of the year, when it is difficult to make the weekly contribution. While it is important to guarantee financial discipline and regular savings, it is a reality in urban areas that income is highly variable and a rigid demand to maintain savings contributions should not be imposed on the group, as this could lead individuals and groups to abandon the programme. This is more of a problem in rural areas, but could also be the case during the festive season or rainy season when the Luanda markets are flooded.

As time passes, there may be cases whereby the group has financial needs that exceed the money available in the group fund. In situations where the need for a loan from members exceeds the balance available to the group, the group is advised to seek external credit from a formal financial institution, such as a commercial bank or community cooperative, to increase the group fund and ensure parity of financial balances.
Impact of community savings

Reinvigorate savings practices: while practices for collective mobilisation of resources exist within communities, such as Kixikilas (equivalent of ROSCAs) and mutual insurance, the Community Savings and Loan methodology increase the awareness of credit risk with external institutions, if undertaken without financial reserves.

Integration of Community Savings and Loan methods in programmes combating HIV/AIDS: the savings methodology was identified as the greatest mitigating factor in responding to the disastrous effects of HIV/AIDS on the economy of affected and infected families (Savings and credit groups of sero-positive activists of AHA and AMORA).

Adoption by the National Bank of Angola: Community Savings and Loan methods were identified as a basis for the regulation of cooperative credit societies within the context of the revision of Law 01/99 on financial institutions.

Adoption and integration of Community Savings and Loan methods by various local institutions and churches: Obra Feminina, IEBA, Mana Church of Angola, Confederation of Farmers Unions of Angola, and Rural Microcredit programme of the Fishing Institute.

A socio-economic savings movement: the Community Savings and Loan methodology, initially conceived for the most underprivileged sectors of Luanda, quickly revealed itself as useful for all social classes, including medium and high income people. New savings and credit associations emerged, without project facilitation, granting loans to members to the value of US$8,000.

Examples of community savings

1. More than 199 savings and credit associations created in Luanda, Bié and Huíla, with a total of 1,159 members, of which 68% are women.
2. From March 2004 to March 2005, more than US$123,660 was mobilised as accumulated savings.
3. A help desk within Banco Sol was opened in Kilamba Kiaxi to facilitate the opening of accounts and lodgements of savings and credit groups.
4. Over 15 groups created savings and credit cooperatives so as to increase visibility and engagement capacity with other entities.
5. More than 38 trainers (savings officials belonging to diverse institutions, NGOs and provinces) trained in Community Savings and Loan methods.
6. A ‘Trust’ association of well known figures (Arnaldo Jansen Centre, Padre Horácio, and Lar Baquita) was created for the collection and management of the charity fund to support the savings of vulnerable groups (street children, disabled, widows, people with HIV, etc.).
7. A consortium of national NGOs (PSICA, OPCRA, GAP, ASEÇ, and MAFIKU) was created to promote the replication of the Community Savings and Loan methodology nationally.
8. Replication of the Community Savings and Loan methods in rural areas with farmers associations in Bié and Huíla through MAFIKU.
9. Exchange visits and links between Community Savings and Loan initiatives (methods, associations, cooperatives, savings officials and NGOs) and slums dwellers international (Namibia, Zimbabwe and South Africa), using the method of savings and loans to promote land rights and basic services.
The ‘Félix’ Savings and Loan Group

Introduction

Based in bairro Palanca, the ‘Félix’ Savings and Loan Group was created on 2 November 2004, and is comprised of four members from the same family (brothers and a sister). The leader of group, Dialo Teles, with a physical disability, was the only group member with a regular income, which he earned from his commercial activity in the Kwanzas market.

Applying Community Savings and Loan methodology

When creating the ‘Félix’ Savings and Credit group, the members decided on the following objectives, to improve the quality of life of its members:

- To construct a small shop and a mill;
- To create a pig pen.

To achieve these objectives, the Félix group established a constitution and rules to regulate savings and credit operations and create a fund to finance the projects.

With a daily levy of 50 kwanzas, equivalent to US$0.62, collected on a weekly basis, the Félix group opened its bank account in Banco Sol with US$272, which has been distributed in the following way, since it was opened:

<table>
<thead>
<tr>
<th>Immediate group results in US$</th>
<th>Contribution</th>
<th>Loans to members</th>
<th>Collective investments</th>
<th>Returns (interest and profits)</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov 04– May 05</td>
<td>400</td>
<td>200</td>
<td></td>
<td>100</td>
<td>300</td>
</tr>
<tr>
<td>May 05– Nov 06</td>
<td>400</td>
<td>100</td>
<td>100</td>
<td>260</td>
<td>760</td>
</tr>
<tr>
<td>Total</td>
<td>800</td>
<td>300</td>
<td>100</td>
<td>360</td>
<td>760</td>
</tr>
</tbody>
</table>

The first loans were granted in August 2005, to one of the members to begin small business initiatives and strengthen the capital and business of the group leader. The group bought a pregnant sow for US$100 and built a pig pen. After giving birth to eight piglets, of which six reached 15kgs weight, the group sold these piglets for US$35, increasing its fund by US$210. During the November 2005 Savings Festival, the Félix presented its investment plan for 2006, costing US$1,400, of which US$600 would come from member levy payments and US$800 from the sale of piglets.

Testimony from one of the group members

‘To feed my family, I depended on my brother who had his business, and who also has a physical disability. After creating our fund, I got a loan of US$100 and began my own business. The best of all is that we have a sow bought with our fund money and that she will generate US$800 this year.’

Félix Dialo, LUPP Savings Festival, 2005.

Conclusion

It is clear that Community Savings and Loan can build social cohesion, from the nuclear family to wider community structures. The Félix group shows how some members of the same family can come together, not only to talk about problems and family issues, but also to unite their efforts to resolve their problems and realise their dreams. The exercise of encouraging savings was a catalyst of common interest facilitating ‘being together’ and meeting personal needs such as small loans for consumption, productive activities and other emergencies. Above all, the Community Savings and Loan methodology shows that the poor can take on calculated risks, faced with cheap options, and risks within their control. The Félix group demonstrates that for small credit of US$100, 3–4 extremely poor people (income of less than US$1.7 per day), getting together US$0.625 per day, with Community Savings and Loan support, can within 120 days grant microcredit of US$100 to three members with a return on the saving of US$210 (70%), without applying interest rates.

Considering that 2–4 months is similar to the microcredit process at the bank, or the microcredit societies, the Community Savings and Loan group poses less credit risks to the poor.

The Community Savings and Loan methodology simultaneously permits an increase in assets, through shared accumulation, returns on savings and collective productive activities, as well as the retention of benefits through the payment of credit interest.
Strategic information

The key function of Community Savings and Loan methodology is to allow the poor sustainable access to financial services that guarantee the reduction of obligations and an increase in assets, even though it tends to also attract and adapt itself well to the non-poor.

Through Community Savings and Loan groups, the poor create and gain access to finance without costs, or with low transaction costs for beneficiaries, in comparison to other financial service providers.

The Community Savings and Loan methodology creates wealth and economic power: the contribution through shares, membership fees and interest rates if internal loans, generates accumulation rather than obligations.

Community Savings and Loan groups create the first full participatory nucleus within communities. The methodology:

- Allows the participation of family members, strengthening solidarity and increasing social capital;
- Does not limit the participation of community members, organised in groups or otherwise, guaranteeing the creation of economic safety nets;
- Allows the creation of financial institutions and intermediary local financial provider institutions, such as cooperatives, savings and credit boxes, etc., and engagement with government specialised services and state organisations for institutional support to associations.

Community Savings and Loan methods, although a response to gaps and inappropriate banking services and classic finance within communities, also act as a channel or tool for the fragmentation of financial markets and the definition of complementary services between Community Savings and Loan groups, cooperatives and unions, microfinance institutions, banks and development funds.

- The method is acceptable, adaptable and accessible to all social strata independent of vulnerability, physical or health status.
- Community Savings and Loan methods can create local financial markets where there are no bank or microcredit institutions.
- Community Savings and Loan methods are inclusive and do not require external facilitation.

Operational information

Technical aspects

The Community Savings and Loan method is disseminated in the Community Savings and Loan manual of CARE International in Angola. The manual is a document of principles and a training guide, which at the same time serves as a rigorous facilitation and technical assistance tool, as well as a flexible guide to accommodate the different realities and creativity of the participants.

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- Allows the promotion of democratic values in the community (election of a group management team and social organs for cooperatives, etc.);
- Increases in social capital in the community (conflict resolution mechanisms in the community and creation of social funds for the elderly and widows, special events and the dynamic of linkages and relations at all levels);
- The creation and nourishment of a vision and capacity of growth through ‘leverage’ which wealth generation can create;
- Social and economic empowerment of women as a principal tenet of the Community Savings and Loan method through accumulation of beneficiary savings.

Social aspects

The Community Savings and Loan groups are civil society organisations which enable participants to take positive action with regard to individual and collective economic development, thus guaranteeing active citizenship to be exercised, through the:

- Promotion of democratic values in the community (election of a group management team and social organs for cooperatives, etc.);
- Increase in social capital in the community (conflict resolution mechanisms in the community and creation of social funds for the elderly and widows, special events and the dynamic of linkages and relations at all levels);
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Institutional aspects

The Community Savings and Loan groups are independent community structures, directed by their own constitutions, without being registered with the civil authorities. The associations and cooperatives have a juridical personality and constitute formal institutions that represent and take on responsibility in its support base.

- The Community Savings and Loan cooperatives and federations are autonomous institutions and legally registered with the BNA, with management and accountability mechanisms.
- NGOs promote the demand for Community Savings and Loan methods through the dissemination of the programme, technical assistance and impact monitoring.
- Bank and microfinance institutions increase access to their services among the poor through service counters and intermediary services through savings and credit cooperatives and federations.

Financial aspects

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- Community Savings and Loan methods can create local financial markets where there are no bank or microcredit institutions.
- Community Savings and Loan methods are inclusive and do not require external facilitation.
Sustainability of Community Savings and Loan groups

Institutionally: the Community Savings and Loan methodology facilitates not only the creation of community institutions such as groups, associations, cooperatives and federations of autonomous savings and credit, but principally help the evolution towards total independence.

Financially: the mobilisation of savings and the financial discipline of paying members paying shares renders the Community Savings and Loan method 100% self-sustaining. Although external investment is needed initially from NGOs, state institutions, or other providers (approximately US$13 per participant) for the insertion phase within a particular community, the formation of new groups by the first one is easy and without cost.

Lessons learned

To increase programme scale, it is important to build the capacity of other entities and providers, which could include the community savings and credit method within normal activities and/or with specific target groups.

The Community Savings and Loan methodology is totally different to institutional microcredit, and as a result, the relations between Community Savings and Loan groups and associations with banks and financial institutions should be limited to lodgement service counters or through cooperatives and federations for other classic services.

The Community Savings and Loan methodology could easily be confused with harmful schemes such as the kixikila ‘pyramid’. The visibility and stature of promoting entities with NGOs, other successful savings groups, and the comprehension of the methodology by savings officials is vital to guarantee credibility and confidence in communities.

The Community Savings and Loan groups and intermediary institutions, which manage these, such as cooperatives and federations, are civil society organisations with a clear and simple mission and realistic objectives, financially sustainable, capable of not only responding but above all of using their capacity to mobilise individuals in a natural manner and financial resources within the community as a means of advocacy and influence.

Replication of the Community Savings and Loan

The Community Savings and Loan methodology is being replicated by other NGOs and in other provinces. Based on these experiences, it is important when replicating the Community Savings and Loan methodology to bear in mind the following:

- The Community Savings and Loan method can only be enriched and bring about a change in mentalities by being lived and put into practice (the savings officials should themselves be savers);
- The direct cost per beneficiary to replicate the Community Savings and Loan method is relatively cheap at US$13 per beneficiary. However, the capital start-up investment is high in new areas where one must build a profile and gain the confidence of participants.
What is LUPP?

The Luanda Urban Poverty Programme (LUPP) is a partnership between CARE International, Development Workshop, Save the Children UK and One World Action. It is supported by the Department for International Development (DFID) and has been ongoing since 1999. The second phase, LUPP2, ran from April 2003 to September 2006. LUPP2 was implemented in four of nine municipalities in Luanda, namely Sambizanga, Cacuaco, Cazenga and Kilamba Kiaxi.

What does LUPP do?

LUPP partners work in collaboration with the Government of Angola to support the government to meet its declared goal of halving poverty levels by 2015. The programme is implemented in partnership with civil society organisations, NGOs, service providers and government departments/ministries. LUPP engages to promote pro-poor policies, especially in seeking to guarantee the provision of basic services to Angolan citizens.

The purpose of LUPP2 was to influence equitable, inclusive, pro-poor policies and best practices for Angola for poverty reduction in urban Luanda. The policy influencing agenda was the overarching framework of the programme. LUPP seeks to influence poverty reduction in Luanda by:

- Demonstrating effective, sustainable, inclusive and replicable best practice strategies (models, methods and approaches) for basic service delivery (water, sanitation, rubbish collection, community crèches), livelihood support (microcredit, savings, Business Development Services (BDS) and consumer cooperatives), social capital, governance and poverty reduction more generally which can be effectively replicated in poor urban areas to bring about positive change in the lives of poor urban families;
- Facilitating active learning and understanding on urban poverty issues and policies by key stakeholders and producing strategic information on the lessons, messages and methods emerging from the models and approaches, adapted to demands for policy relevant information;
- Strengthening the commitment and capacity of local authorities and civil society to promote and implement inclusive and participatory local development;
- Promoting greater engagement, inclusion and accountability between government and civil society on urban issues, largely through the creation of spaces in which different actors can come into contact with the lessons, messages and methods, absorb their implications and take forward the work of integrating them into policy and practice.

More information on LUPP can be found at www.luppangola.org