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Promotion of Rural Savings through Microfinance: The Experience of Sinapi Aba Trust in Ghana

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This paper was chosen through an open call for research in rural finance, whereby the selected individuals were invited to Rome, Italy, to share their results during the conference and to discuss key issues in shaping the rural finance research agenda as well as ways of strengthening the ties between research, policy and practice.

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"PROMOTION OF RURAL SAVINGS THROUGH MICROFINANCE: THE EXPERIENCE OF SINAPI ABA TRUST IN GHANA"

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SUMMARY: SINAPI ABA TRUST, the leading microfinance agency in Ghana with over 55,000 clients observed that majority of its clients have not only developed the culture of relying on loans for a long time, but some were even borrowing money to pay their compulsory savings required for loan security. The organisation therefore introduced a progressive savings scheme intended to help clients to accumulate more funds for their domestic and business needs and ultimately enhance their financial security. From institutional point of view, it was also expected that these savings will generate additional funds to augment the loan portfolio. This study was initiated to assess the performance of this scheme and its impact on both clients and the organisation. The study has revealed that rural poor borrowers have the capacity to save substantial amounts progressively if they are given the opportunity, motivation and a supportive institutional framework. Their voluntary savings through this scheme has increased tremendously within 12 months. The funds mobilised from the savings scheme constituted about 26% of the loan portfolio. In short, this experiment has established the capacity of microfinance schemes in mobilising local capital for the development of the local economy.

Introduction

Micro Finance Institutions (MFIs) for so many years emphasized micro credit as the real solution to the financial problems of the poor. This long held view was rooted in the notion that the poor cannot save and that the only way to help the poor was through credit delivery. This explained the neglect of savings mobilization among the poor population segment of developing countries. For some experts, the low savings capacity and high propensity to spend economic surplus on social and religious activities placed a limit on how much funds the poor had to deposit (Adam, 1978). The issue of savings is the central subject of this paper. This paper reviews the outcomes of a savings scheme implemented by SINAPI ABA TRUST (SAT) is a leading micro-finance institution (MFI) in Ghana.

SAT as a Financial NGO operates in nine out of the 10 administrative regions in Ghana. SAT presently manages a net worth of $9.6million, and a portfolio of $7.3 million. In terms of number of borrowers, it had over 55,000 with US$3.3million loans outstanding as at December, 2007. It also provides basic training for its clients in entrepreneurship, credit acquisition, basic accounting, savings and record keeping, among others. SAT's operational and financial sustainability are 109% and 102% respectively. Although some of the operations of SAT are in the regional capitals, majority of its credit programmes and clients are in smaller and rural communities across the length and breadth of the country.

Since its inception, SAT has relied heavily on funds from its development partners for its credit operations. These donor funds have not only been irregular, but it has also been dwindling over the years. It is therefore not a reliable source in the sense that: it is not timely, comes normally with stringent measures and sometimes technical support provided by the donors ‘eat’ fat portion of the funds. The other alternative source for funds was overdraft facility or loans from financial institutions which is often expensive. With time, it was becoming increasingly difficult for SAT to meet credit demands or requests of its clients. Inability to mobilise adequate loan funds resulted in the loss of clients to competitors, decline of confidence in the institution and invariably contributed to default in loan repayments.

On the other hand, it was observed that SAT in its operations has been offering only loan products to its clients whilst the clients saved their excess liquidity with other financial institutions. Even the 10% security that was required of clients taking loans form SAT, were lodged with other banks. Further, some clients who had been encouraged to save lost their savings through unscrupulous mobilizing agencies. Many of the clients in rural communities without banking facilities therefore lacked safe and secured place to deposit their savings.

In view of the foregoing, it therefore became imperative for SAT to look for an inexpensive and sustainable source of funding to boost its operations and also enable the clients to accumulate savings for their long-term domestic and business interests. This led to the introduction of a Progressive savings product in addition to the existing traditional loan security or Compulsory savings product in January 2006. The products were piloted in the entire year and this study focuses on the outcome of this experiment.

Objectives of the Study

The study is basically an evaluation research aimed at assessing the performance of and lessons from these savings schemes introduced by SAT in January 2007. Specifically, the study sought to:

(a) Assess the extent to which the scheme has succeeded in promoting a savings culture among the supposedly "poor" clients,

(b) Analyse the composition and growth dynamics of the mobilized funds and to further examine the other benefits associated with the enhanced access to capital; and

(c) Draw important lessons about the role of savings in micro-finance interventions and their benefits to the both the clients and the micro-finance institution.

Saving within the Framework of Microfinance

In recent years however, many experts in the area of microfinance have seen the need to depart from micro credit provision to microfinance with savings as the means for capital accumulation. According to Zellar and Sharma (2000) this paradigm shift has come about due to the realization of the inadequacy of loans to help the poor improve their well-being especially women. The potential of the poor and low income group to save has become evident through the many innovative ways of saving and institutions that have evolved to serve the poor in the informal sector. Based on this fact, Robinson (1994) acknowledged that the low savings among the poor stems from inappropriateness of institutional structures and deposit facilities tailor-made for the poor.

The success story of the Ashrai' group can be cited as an evidence of the above statement. Ashrai is a savings-led model among minority peoples in northwest Bangladesh. Group members are mostly landless and illiterate, and earn about $50 per year. Ashrai began as an attempt to replicate the Grameen Bank, but rapidly learned from its clients that they needed savings at least as much as loans, flexible repayment schedules structured around seasonal cash flow, and the easing of the requirement that loans be for productive purposes. Ten years after its inception, Ashrai operates through

3,100 groups with 55,000 women members who have saved nearly $1 million of their own capital. (Ashe, 2003).
This is in tandem with the observation made by Kabeer (2001). He acknowledged that the increased preference for micro savings as opposed to micro credit by micro finance practitioners has come about because of the evidence that now exist that small loans do not work as well for the poor as savings. CARE's Mata Masu Dubara (Women on the Move), which is currently named as the second largest microfinance initiative in Africa, and very likely the only one that depends entirely on internally generated group controlled savings now serves 162,128 women organized into 5,654 stand alone groups in the rural areas of Niger. These groups manage $3,000,000 of savings with virtually all of it on loan to members (Allen and Grant, 2002).

Johnson and Kidder (1999) also revealed that not all poor people are "budding entrepreneurs and that for people living in poverty what is perhaps crucial is access to saving accounts … that needs to be the core service on offer." Other studies carried out in this area have shown that MFIs operating micro saving schemes fared better in the area of community outreach, they were more viable, and sustainable (GTZ, 1996).

Whether or not the poor will save is contingent on a number of factors. Among these are those outlined by the June, 2000 edition of the Donor Brief (a microfinance news letter). Security, transaction cost, the design of the saving scheme, and the interest rate. Transaction cost, liquidity of the savings option, the real rate of return, the divisibility of the savings, safety of the savings, trustworthiness and confidence in the system, financial reciprocity, and anonymity are also listed as important determinants (Robinson, 1994; Bouman, 1994). Security as used in connection with micro savings has to do with reduced risk in terms of theft, fraud, fire and abuse of accumulated assets by relatives. Stigltz (1986) identifies transaction cost as a substantial interest for development financing. A scheme that reduces paper work and hence has a lower transaction cost is more likely to encourage savings as transaction cost reduces. In sum, it can safely be said that micro savings and micro credit are two inextricable elements of financial mediation.

Scope and Methodology

Basically, the scheme comprised two savings products: compulsory and progressive savings approaches. The compulsory savings which is common to most MF schemes represents cash collateral of 10% or more of the approved loan amount to an individual or group, deposited with the organization until the expiry of the loan contract when it can either be withdrawn with interest or left as a follow–on loan or as savings. On the other hand, the progressive savings is a voluntary accumulation of funds at individual level through a gradual, continuous and consistent savings process purposely to either serve as cash collateral for next loan or all can be withdrawn as and when required. The scheme was implemented in all the 15 branches of SAT covering nine administrative regions of Ghana. The study covered the period between January and December of 2006. Monthly data on the savings scheme from all the branches were transmitted electronically to the head office on regular basis. These data were collated and analysed for all the 12 months focusing on important trends and comparisons between the two products.

Rationale of the Scheme

The rationale for the scheme can be viewed from the perspective of the clients and SAT as a MFI. In other words, it was designed purposely to benefit the clients as well as the MFI. These are as follows:

Clients' Perspective

- The progressive savings product was intended to help the clients to accumulate some money to pay for their cash collateral (compulsory savings). It was observed that some clients either borrowed fully or part to pay for their compulsory savings when their loan was ready. They pay back this amount from the loan granted leaving them with little than what was approved for their businesses;
- Such accumulated amount through progressive savings could also be used for any emergency when the need arises;
- It is also believed that through this savings, clients will be able to accumulate enough funds as their own working capital so as to reduce their overdependence on loans;

- It will also allow other members of the community to have access to credit mobilised from the local community;
- Some of the clients saved with traditional "susu" collectors as well as the banks. It is alleged that some collectors had ran away with the contributions of some clients. Thus SAT through the scheme will provide a secure place and a flexible operation for the savings of its clients.
- Clients' savings can also be used to defray debt especially during the final instalment payment when clients often find it difficult to pay.

SAT's Perspective

From the institutional point of view;

- It was intended to be an inexpensive source of funds with regard to the cost of capital;
- It was expected to give SAT additional funds to expand outreach as well as meet the request of its exiting clients.
- It fashioned also to serve as a cushion in times of repayment difficulties of clients

Targets and Achievement Levels

At the beginning of the year in January, targets were set for the two savings products. The targets for the Compulsory savings were based on projected disbursements of the organization. Since the progressive savings was an new product, the targets were intentionally and realistically fixed at low levels as compared to the compulsory savings. The data for the savings projections and achievement levels are presented in Table 1.

Table 1: Monthly Targets and Achievements (in Cedis ¢)

MONTHS	COMPULSORY			PROGRESSIVE		
	Target (¢)	Actual (¢)	% Achieved	Target (¢)	Actual (¢)	% Achieved
JAN	595,798,750	656,151,300	110.13	30,880,000	26,326,000	85.25
FEB	670,273,594	561,376,450	83.75	69,356,800	48,483,750	69.90
MAR	754,057,793	775,837,600	102.89	100,145,600	139,107,050	138.90
APR	848,315,017	801,193,700	94.45	174,203,200	134,557,350	77.24
MAY	954,354,394	1,031,266,050	108.06	212,924,800	241,059,900	113.21
JUN	1,073,648,694	805,506,400	75.03	239,001,600	268,466,220	112.33
JUL	1,073,648,694	717,764,500	66.85	253,740,800	333,962,050	131.62
AUG	1,207,854,780	1,129,576,200	93.52	261,065,600	470,413,220	180.19
SEP	1,358,836,628	1,185,273,000	87.23	268,390,400	604,470,000	225.22
OCT	1,528,691,206	1,419,074,100	92.83	275,715,200	504,199,671	182.87
NOV	1,719,777,607	1,633,992,500	95.01	283,040,000	536,512,000	189.55
DEC	1,934,749,804	976,037,900	50.45	296,412,800	390,156,300	131.63
Total	**13,720,006,961**	**11,693,049,700**	**85.23**	**2,464,876,800**	**3,697,713,511**	**150.02**
	US$1,524,445.22	**US$ 1,299,227,74**		**US$ 273,857,20**	**US$ 410,857.06**	

Source: Microsave Department, SAT, 2006 (US $1: ¢9200)

It can be observed from the table that although the savings mobilized from Compulsory savings were high, the achievement level fluctuated between 50% and 110%. This is explained by the fact indicated earlier that performance was tied to the amount disbursed in a month. On the other hand, the amount mobilized from the Progressive savings increased from the minimum of 26 million cedis (US$ 2,888.89) in January to 604 million cedis (US$ 67,111.11) in September. In terms of percentage achievement level, it ranged from 70% to 225%. This indicates the level of interest clients developed progressively in the product in course of the months.

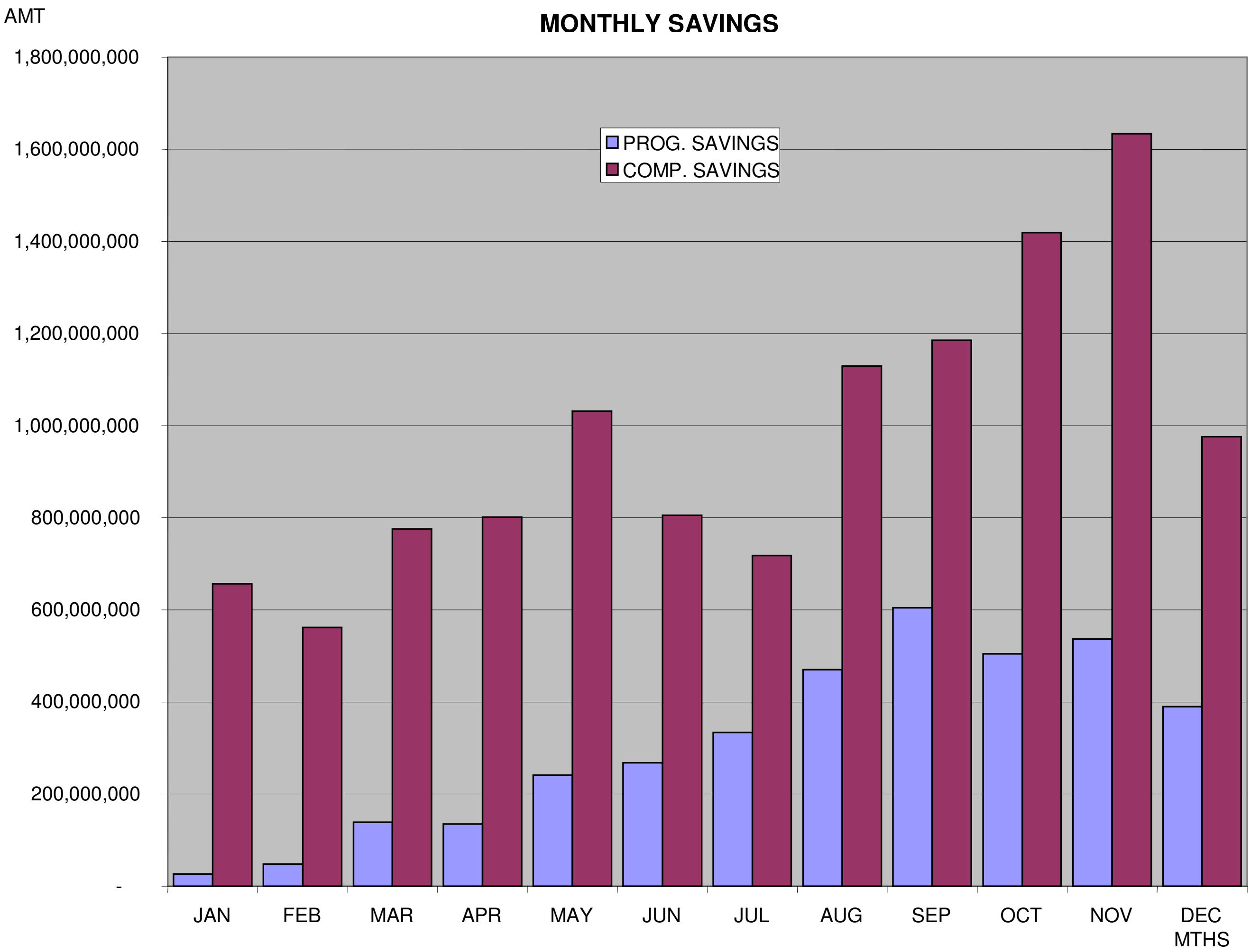
Regarding the actual amounts mobilized, the data indicate that the Compulsory savings realized a higher figure of approximately 11.6 billion cedis (US$ 1,288,888.89) as compared to 3.6 billion cedis (US$ 400,000.00) from Progressive savings. Although the Progressive savings realized only about a third of the total funds mobilized by Compulsory, it terms of achievement level, it exceeded its target by 50% whereas Compulsory savings fell below its target by 15%.

The good performance of progressive savings can obviously be attributed to the good education given to clients on the importance of savings. The figures amply indicate that the idea of inculcating savings habit in our clients has yielded some good fruits. The positive results do not only go to confirm that clients are beginning to understand the need to save, but it also a demonstration of their high level of confidence in SAT.

Monthly Savings Analysis

Figure 1 shows a comparison of the monthly performance of the two schemes. The graph shows a continual increase in the amounts of Compulsory savings mobilized over the months except for June and July where there were slight decreases. This was due to decrease in compulsory savings which is explained by decrease in disbursement from ¢15,034,000,000 (US$ 1,670,444.44) in May to ¢11,704,000,000 (US$ 1,300,444.44) in June then to ¢10,580,000,000 (US$ 1,175,555.56) in July.

On the other hand, Progressive savings increased consistently from January to September and reduced slightly from October to December, the period when people spend money on consumption goods because of the Christmas season. The graph further shows the faster growth pattern than of the Progressive than the Compulsory savings. A monthly average of ¢842,750,500 (US$ 93,638.95) and ¢251,849,500 (US$ 27,983.28) was mobilized for compulsory and progressive savings respectively.



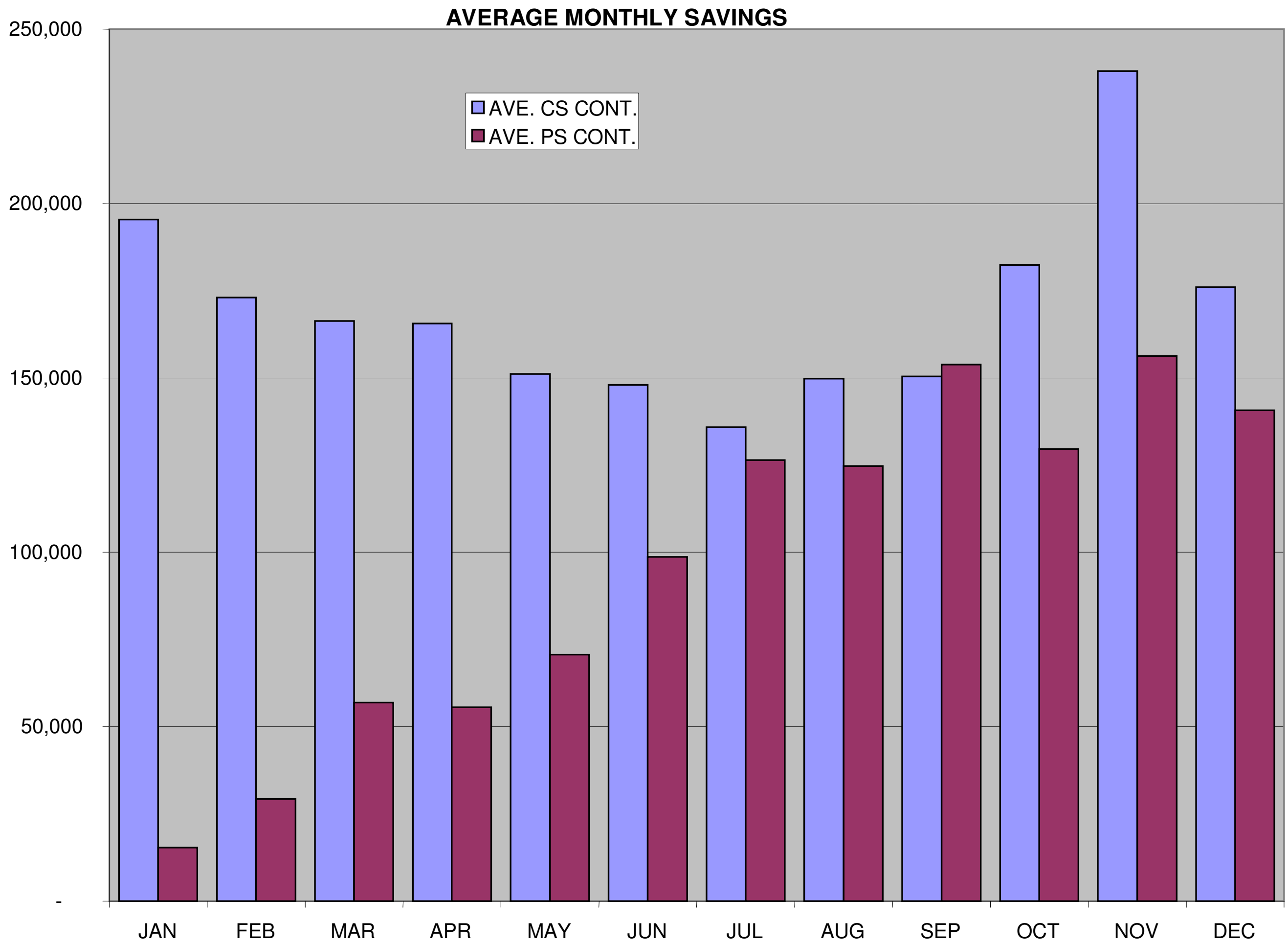
Savings Capacity of Clients

The analysis further examines the savings capacity or levels of clients (i.e., the amounts individual clients were able to save). Table 2 provides the data on the number of clients contributing to the two schemes and the average savings on monthly basis. The data are further illustrated graphically in Figure 2.

Table 2: Clients Savings Levels (in Cedis ¢)

MONTHS	CLIENTS	COMP. SAVINGS	AVE. CS CONT.	CLIENTS	PROG. SAVINGS	AVE. PS CONT.
JAN	3357	656,151,300	195,458	1719	26,326,000	15,319
FEB	3244	561,376,450	173,051	1657	48,483,750	29,260
MAR	4665	775,837,600	166,310	2443	139,107,050	56,953
APR	4839	801,193,700	165,570	2420	134,557,350	55,614
MAY	6824	1,031,266,050	151,123	3412	241,059,900	70,651
JUN	5441	805,506,400	148,044	2721	268,466,220	98,683
JUL	5283	717,764,500	135,863	2642	333,962,050	126,429
AUG	7541	1,129,576,200	149,791	3771	470,413,220	124,761
SEP	7880	1,185,273,000	150,415	3930	604,470,000	153,809
OCT	7781	1,419,074,100	182,377	3891	504,199,671	129,598
NOV	6866	1,633,992,500	237,983	3433	536,512,000	156,281
DEC	5545	976,037,900	176,021	2773	390,156,300	140,724
TOTAL	**5772**	**11,693,049,700**	**169,334**	**2901**	**3,697,713,511**	**96,507**
		US$ 1,299,227.7	**US$ 18.815**		**US$ 410,857.06**	**US$ 10.723**

Source: Microsave Department, SAT, 2006 (US $1: ¢9200)

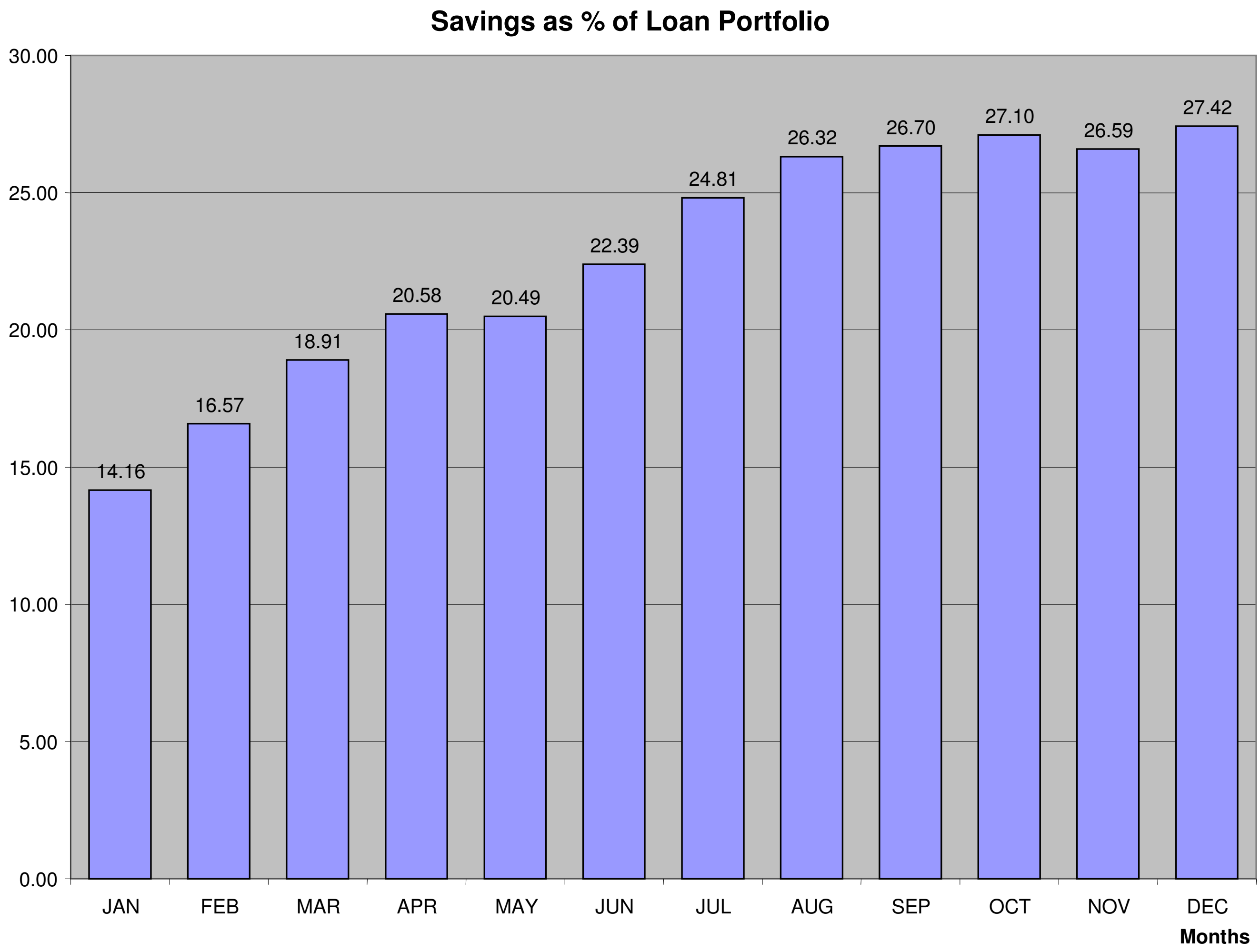


The data show that the number of clients contributing to the Compulsory savings increased from 3244 to 7781 with a monthly average of 5772. On the other hand, the contributors to the Progressive savings started with 1657 in January and rose to 3930 in December with a monthly average of 2901. This implies that an average of 50% of the clients participated monthly in the Progressive savings scheme. The lower figures of the latter confirm the fact that it is a voluntary scheme. This level of participation in a pilot scheme is fairly high and commendable. The highest and average monthly savings of the Compulsory savings were ¢237,983 (US$ 26.44) and ¢169,334 (US$ 18.81) respectively. Comparative figures for Progressive were ¢ 156, 281 (US$ 17.36) and ¢ 96,507 (US$ 10.72) respectively. The computations show that the average savings of the Progressive savings represent 60% of the Compulsory savings.

Contribution of Savings to Loan Portfolio

As was indicated earlier, one of the purposes of the savings scheme was its ability to cushion the loan portfolio of the organization. This is measured in terms of the ratio of outstanding savings to outstanding loan balance. Evidence from this project shows that the savings scheme has contributed significantly to the capitalization effort of SAT and has consequently enhanced its ability to lend to its client. As can be observed from the graph in Figure 3, there was a continual but gradual increase from the beginning of the year to the end. The proportion increased from 14% in January to 27% in December. This means that as at December, 27% of the total outstanding loan balance was coming from clients' savings. Although this amount is supposed to be a cushion it is in reality still with the clients as loans.

Figure 3



A regression analysis ran on savings and increase in loan portfolio indicated a strong positive linear relationship between savings mobilized for a month and increase in loan portfolio as shown by a correlation coefficient, r=0.82. The results is fairly significant since 68% of the variation in the increase in loan portfolio can be explained by variation in savings as indicated by a coefficient of determination, $r^2 = 0.68$.

Withdrawal of Savings

An amount of ¢836,679,500 (US$ 92,964.39) have been withdrawn comprising ¢103,600,000 (US$ 11,511.11) progressive savings and 733,079,500 (US$ 81,453.28) compulsory savings. Thus 9.67% and 4.57% represent compulsory and progressive withdrawal respectively. This shows that the withdrawal level is very low and that has positive implications for long term savings mobilization for both the clients and the organization.

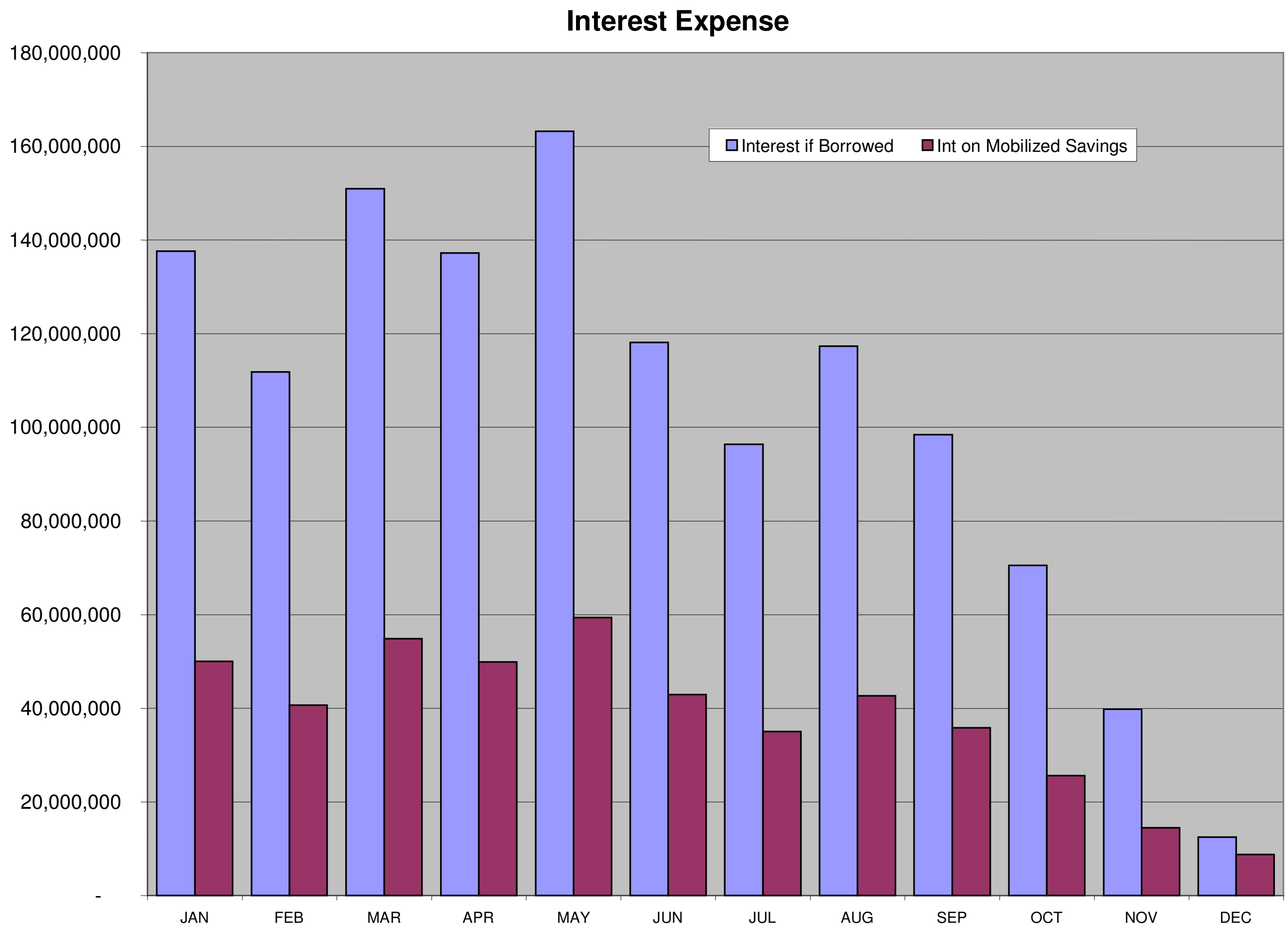
Operational Expenses

The Financial Service Officers (i.e., loan officers) doubles for the collection of savings from clients during group meetings. This implies there is no additional personnel cost for the collection of the savings. The only personnel cost is the senior officer at the head office tasked to manage the scheme. However, there are other transactional costs to the organization such as administrative expenses, use of stationery etc. Unfortunately, these transaction expenses are not well captured as at now and charged directly against the scheme.

The main cost of the scheme is the interest charges. The savings attract an interest rate of 8% per annum as compared with 5% offered by most commercial and rural banks in Ghana. Borrowing from the commercial market would cost the organization 22%. This implies, if the accumulated savings had been borrowed elsewhere in the commercial lending market, SAT would have paid an interest of ¢1,817,494,643 (US$ 201,943.85). The calculations show that interest paid on clients' savings is 36% of commercial interest resulting in 64% gain to the organization. The graph in Figure 4 shows the relationship between the interest SAT pays to the clients and what obtains on the open market.

Half of clients' interest amount is credited to the group or individual's client welfare scheme and the other half, (4%), is paid to the client on request. Since the inception of the scheme, a total of ¢319,975,212 (US$ 35,552.80) interest has accumulated. Out of this figure, an interest amount of almost ¢29,000,000 (US$ 3,222.22) has been paid out whilst the rest remain with the various accounts.

Figure 4



Challenges of the Scheme

Although the scheme is so far running well, there are a few challenges that require attention. Almost all the funds mobilized go directly into loans for clients without any reserves to cater for any unforeseen circumstances. It will be necessary to maintain some reserves outside the loan portfolio to serve as security should the unexpected happen in future.

The second challenge is delays and inaccuracies in the reporting of transactions from the branches to the head office. In some cases, information sent are incomplete and that makes data capturing and processing very difficult. Closely related to this is poor record keeping at the branches. Records kept at the branches are not updated regularly and this makes it difficult for reconciliation with figures from head office. Lastly, not much is done to capture all transactions cost of the scheme. This requires attention so that the real cost of the savings project could be known and factored into the cost-benefit analysis.

Key Findings and Lessons

The following key findings and lessons can be distilled from the foregoing analysis:

- The willingness and capacity of the poor to save given the appropriate institutional environment has been confirmed in this pilot programme as established in many studies elsewhere. It has also been established that savings mobilization are of benefit not only to the clients but also to the MFI in enhancing its lending capacity;
- Clients respond favourably and faster to voluntary savings (i.e., Progressive savings), while Compulsory savings is tied to the level of loan disbursements by the MFI. For example, the study revealed that while Progressive savings exceeded its target by 50%, Compulsory savings fell short of its target by 15%;
- A fairly high number of 50% of the clients participated in the Progressive savings within a period of 12 months and contributed an average of 60% of the amount mobilized through Compulsory savings;
- The savings mobilized boosted the loan portfolio at a minimal capital cost to the organization. The analysis showed that 26% of the portfolio was generated through the savings project at a cost of 8% instead of 22% from the open commercial lending market.
- Withdrawal levels by clients were found to be very low ranging between 4% and 9% and therefore made it possible for the organization to mobilize funds to argument its lending operations.

Conclusion

In conclusion, the 12 months savings experiment of SAT has overwhelmingly confirmed the capacity of the poor to save and further demonstrated the various benefits derived from savings to both the clients and the MFI. The study further shows the tremendous fund mobilization potential that needs to be tapped by all MFIs to expand the industry. MFIs should therefore establish the mechanisms and educational programmes that will enable them to mobilize more local funds for their operations while helping the poor to reduce their dependence on credit in the long-run.

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