Dale Adams started a debate about the Village Savings and Loan model of microfinance that has been pioneered by CARE in Africa and implemented by many others since. This is an extract from one of his posts:

“I suspect that most villages and most offices on the continent have at least one ASCA, or a close variant. Millions of AIDs victims are buried using ASCAs and lots of village improvement projects are funded by variants of ASCAs. There are tens of thousand of village ASCAs, much like CARE’s, that are not time bound. In many places the ASCA variant is called passing-the-hat. African employees in the World Bank, the African Development Bank, and the IMF have told me they send some of their salaries back to ASCAs in their home villages.

I applaud CARE for emulating, and slightly modifying, a social technology that is so common in Africa. It’s a step forward from trying to impose some alien financial institution. Various types of self-help financial groups operate spontaneously all over the world. With a social technology that is so widely known, and so easy to do, why is an outside agent needed to promote this technology? It’s almost like going around the country teaching people how to reproduce!

What does CARE bring to the table that is a unique catalyst for forming groups when the locals likely already know about these groups? Does CARE bribe members to join with a sack of rice or some other goodie? Is access to other CARE services an incentive for these groups to continue? Hope someone can help us understand the group dynamics here.

CARE’s ASCAs are a useful step forward in enhancing financial services for poor people, but they have limitation. They can’t provide relatively large loans or relatively long-term loans. They can’t intermediate over distances. They likewise have liquidity, access, and security problems. From the perspective of building more useful and efficient financial infrastructure, it might be worthwhile to think down the road beyond ASCAs.”

Hugh Allen of VS&L Associates replied:

“I agree that ASCAs are common. What they frequently lack are:
- Democratic participation,
- Clear procedures
- Transparent record-keeping systems
- Adequate security
- Flexibility: the ability to save in different amounts and withdraw your cash on demand.

CARE’s programmes seek to address these deficiencies. The results are impressive (I do not work for CARE by the way). 94% of CARE’s VS&L groups in Africa survive as independent entities after CARE has left them on their own after 1 year’s decreasingly intensive supervision (more than 90% of the groups started in 1991 in Niger continue in operation). The most impressive statistic from the Zanzibar study was not financial. It was that there was a 256% increase in the number of ASCAs doing VS&L 4 years after CARE left the island - a compounded annual rate of increase of about 37.5%. Clearly the people who were doing it found something attractive that traditional systems did not provide.

My personal observations tie this down to three things: flexibility, security and transparency: we have developed a method that allows people to save in different amount and withdraw their savings as they wish. They can borrow in different amounts for different lengths of time. They can save daily (using a slot-box and token exchange system); meet weekly to buy shares and borrow and repay every month. It’s a true share and very popular. Everyone can buy between 1-5 shares at each meeting with share value set by the group. It’s cashed in at the end of the year with the share value being determined by the amount of the groups net worth divided by the number of shares. This eliminates the need for accounts.
We have also developed a system of record-keeping that dispenses with central ledgers. This reduces the potential for some local accounting wizard to make things obscure and personally profitable. We use member pass books that record savings/share purchase and loans and depend on the observation of procedure and the memorization of final balances as a means of cutting a weekly balance sheet that everyone understands. In essence, they know where the assets are (cash on hand, physical assets and who owes money). We use the now common three-lock box in which cash on hand is maintained together with the records. This ensures cash security, but, much more important, it ensures that transactions take place only in meetings in front of the membership. No nipping round to the treasurer’s house at 0200 to make a private deal or alter the records.

It’s frequently commented that it doesn’t take a CARE-style organisation to do this. It spreads spontaneously. The trouble with this is that it doesn’t. It spreads spontaneously when there is a critical mass of ASCAs who prove that the approach works and delivers safety, flexibility and transparency. I have been to villages in Sierra Leone where there are 10 ASCAs. I have been to villages 5 Km down the road where there are none and no-one has ever heard of them. No-one had in Niger and now there are at least 400,000 women doing VS&L. The main criticism of VS&L used to be that it wouldn’t carry on spreading after CARE pulls out. Now that we’ve shown that it does, we have people saying we weren’t necessary in the first place. Someone had to invent the wheel, but it spread when people were shown how it worked.

Your final point about ASCAs not being good enough is true - if you are dealing with people who have a need for substantial sums of money to finance investments. But how many of us use banks to finance investments? How many development engineers actually have business loans, compared to the number who have checking accounts, savings accounts and insurance to manage their household cash flow? Not too many of us are interested in accumulating debt for risky enterprise investment. Instead we use overdrafts, insurance payments and savings to pay the monthly bills. That’s what VS&L does. And for many that’s quite OK. It’s not surprising, then, that the poor are attracted to savings-based systems that protect rather than threaten their assets.

Not least, however, ASCAs CAN provide large loans. The Zanzibar study showed that the average group was made up of 29 people and that their average value at the time of share out was $4,000. That is quite a bit more than local MFIs are providing. You are right that they can’t intermediate over distances and transfer money. But there are other means of doing this.

I am not really worried about down the road. The road is quite long and empty for the moment. Credit unions started in Germany in the 19th Century because the banks weren’t interested in banking the working classes, so they did it themselves. When the poor became the not so poor the banks got involved and now everyone has access to financial services. If this happens in Africa, ASCAs will die out because, at bottom, it’s rather inconvenient to sit under a tree in the sun for two hours to save $0.50. But until rural economies become awash with rather more cash, people are well advised to look to ASCAs (as well as MFIs, money-lenders, ROSCAs and tin boxes under the nearest banana tree). And it may take a while. My mum belonged to a Christmas club after WWII that had her buying stamps and borrowing for small household needs and getting her money at the end of the year. But then we joined the middle classes and got credit cards and pay the profits to someone else.

For more information about Village Savings and Loan Associations and a trainer’s guide to setting them please go to: http://www.ruralfinance.org/id/28296