



C2 REVEALING GOOD PRACTICE

Savings and credit groups

At a glance

This tool gives guidance on how to establish savings and credit groups. These are groups of people who meet regularly to save money together, and support each other with loans. They are sometimes called *Self Help Groups*. However, *Self Help Groups* often go further than savings and credit, offering other types of support and carrying out actions or projects to bring about change.

- Train good facilitators to support the groups.
- Decide who is in the group, prioritising the most vulnerable.
- Take time to build good relationships.
- Ensure clear roles: a chairperson, a treasurer and cashbox key holders.
- Agree good decision-making processes.
- Meet regularly.
- Agree how much to save.
- Agree what type of loans will be given and how people can apply for loans.
- Agree how much interest to charge.
- Encourage people to repay their loans.
- Agree rules for emergency loans for times of difficulty such as death or sickness within the family.
- Keep good records.
- Keep money secure in a bank or double locked cash box.



Why use this tool?

Savings and credit groups help people access credit, while also bringing community members together to support each other and discuss issues.



A brief description

This tool offers advice on the important principles to consider when setting up a savings and credit group, and where to go for further information.



The words we use

Collateral or asset – a piece of property to ‘secure’ a loan, so that if the loan is not repaid, the lender can sell the collateral (eg house, bike, cow, jewellery)

Credit – money available as a loan

Debt – owing money to an individual or bank

Interest – a charge made for borrowing money

Loan – borrowed money that is expected to be paid back with interest

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What is a savings and credit group?

A savings and credit group is a group of ten to 20 people who meet regularly to save money together. They then use these savings to make loans to individual members. Group meetings are also an opportunity to discuss other matters facing the group members. Sometimes, groups decide to discuss specific topics such as water, sanitation and hygiene, or health issues. Group members can support each other to find solutions to problems they face. For more information on how to encourage groups to learn and take collective action together, see **Tool C1: Community transformational groups**.



Time taken

Groups typically take a year to establish. After one year, some groups will divide funds among themselves according to the amount each person has contributed. Other groups will continue into a second year.



You will need

- Access to a bank account or other financial service provider, or to a lockable cash box or sturdy cash pouch
- If using a cash box, three padlocks, each with two keys
- Record keeping books



Keys to success

Relationships are key. People need to trust each other in order to bring regular payments. Strong relationships and trust between group members will encourage accountability and timely repayment of loans.

Prioritise more vulnerable groups. Women almost always have much less access to, and control over, money, credit and assets, than men. Because of this, they should normally be prioritised in setting up savings and credit groups. Other vulnerable groups may be people with disabilities and ethnic or religious minorities.

Ensure clear roles. Most groups need a chairperson, treasurer and three people to have the keys to the cash box.

Ensure good decision-making processes. It is important for the group to agree a list of rules, so that everyone knows the way the group functions. At the start, the group will need to decide together how much to save, the types of loans they will give and how much interest to charge.

Keep good records. The treasurer should keep careful records of how much each person in the group has saved, and who has taken loans and for how much. The records should be checked by the group and available for members to see at any time.

Keep money secure. The keys to the cash box padlocks should be kept by a number of different people (different people holding different keys). This means that the box cannot be opened without all key-holders being present. A bank account is also a way of keeping the money safe.

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What to do

Before starting, the group will need to agree on some things, such as: group rules, roles, whether or not to charge interest on loans, and what will happen if people do not repay loans. All of these are discussed in more detail below.

Identify and train facilitators

Groups often report that they are more effective and sustainable if a facilitator or trainer helps them get their group established, and visits them regularly to help them identify further training or support. Over time, well supported groups become able to support other groups.

It is important to find facilitators who will support groups in learning for themselves and taking their own actions. Facilitators are not usually:

- the person with all the right answers
- the person who acts as a 'gatekeeper' to expertise or external resources
- the one who should set the rules of the group

Instead, facilitators need to believe that the group members are able to plan, decide, act and learn for themselves. Facilitators should see their role as helping to unlock people's potential in these areas.

Decide the right members for the group

To start a group, you will need between ten and 20 people who have all decided together to be members of a saving and credit group. It is important that there is already some element of trust between members. Groups can be gender- or age- specific, or mixed. Tearfund's partners report that groups made up of people of the same economic status, such as the poor with the poor and the very poor with the very poor are often more effective, as it means people are less likely to be jealous of each other or to compete with each other.



Prioritise more vulnerable groups

Women almost always have much less access to, and control over money, credit and assets, than men. Because of this, they should normally be prioritised in setting up savings and credit groups. Other vulnerable groups may include disabled people and ethnic or religious minorities. Take time to assess which people may be vulnerable in your community and how they could be helped by being part of a savings and credit group.

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Relationships are key

Savings and credit groups work on the basis of relationships. People will need to trust each other in order to bring regular payments. Building strong relationships and trust as a group will help to ensure that people do not misuse the money or try to steal or control the money. It will also encourage accountability and the timely repayment of loans. What activities could help the group to build relationships and build a common vision? How can this tie in to the development vision of the community?

Ensure clear roles

Most groups elect a number of people to carry out specific roles in the group. This usually includes the chairperson, treasurer and three people to have the keys to the padlocks on the cash box. These roles can be rotated between different group members. If the group is mixed, make sure men and women are equally represented.

Ensure good decision-making

It is important that groups learn to make decisions jointly, usually by voting on different decisions. It is often useful for the group to agree a list of rules, so that everyone knows the way the group functions.

Meet regularly

Groups need to meet regularly – either weekly, every two weeks or monthly. Often groups decide that members must attend a minimum number of consecutive meetings (meetings in a row) to remain part of the group. Meeting regularly is also an important part of building relationships between group members.

Agree how much to save

The group needs to decide together how much they each want to save each time they meet. Groups usually expect their members to save a small amount of money at each meeting. However, in some contexts, there are groups which save in kind using agricultural produce such as coffee grains or beans in the absence of cash in rural communities. It is easier if all group members save the same amount every time they meet. However, as the group gets more confident and develops their bookkeeping skills, the amount each group members saves can be varied if the group wishes.



Agree what type of loans will be given and how can people apply for loans

Groups may use a system of 'revolving loans' where each member takes it in turn to take all that week's produce or money that has been brought. Alternatively, group members can propose to the group an amount they would like to borrow and the reason why. Often the loan application needs to be agreed by a minimum number of other group members for it to succeed.

Agree how much interest to charge

When loans are made, groups usually charge interest, although this is not essential. The rate of interest should be decided by the group. The interest can be used to cover any costs incurred by the group, such as record keeping or refreshments, or kept and divided up among the members at the end of the loan cycle. This is for the group to decide.

Encourage people to repay their loans

When groups are first set up, it is better to only make small loans. Once people have successfully repaid several small loans, they have shown that they can be trusted with a larger amount. Alternatively, some groups decide they want the loan-taker to identify a piece of collateral that they will have to give to the group if they fail to repay the loan eg a radio or bicycle. If a person fails to repay the loan, then the piece of collateral could be sold to cover the loan amount, or the amount could be recovered from the savings of that person. Alternatively, the loss could be shared by the group. These decisions need to be made by the group at the beginning. How can accountability be encouraged between group members? This will be easiest when relationships and trust are strongest.

Keep good records

The treasurer should keep careful records of how much each person in the group has saved, and who has taken loans and for how much. Although groups can decide to commit all this information to memory collectively, it is usually best to write these records down in a record book. Members can also keep their own records. Sometimes groups ask a non-group member with good reading and writing skills to help them with the record keeping. In some places, a cluster level group (see below) is established to support, guide and audit (inspect or check) the records of multiple savings and credit groups.



Keep money secure

Most of the money that has been saved will be distributed to group members as loans. Therefore, the money will not remain in the cash box or bank. However, it is important to keep the cash box safe as it also contains the records.

The keys to the different cash box padlocks should be kept by a number of different people. This means that the box cannot be opened without all of the key-holders being present. Opening a bank account to hold group funds is also a way of keeping the money safe from theft and loss.



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Should the group access additional funds to support their own savings?

It is important that initially the group learns to trust each other, build up their savings, practice basic bookkeeping and demonstrate that they can repay loans. This should be done before the group starts to think about using their savings to access larger loans from banks or external lenders.

Agree rules for emergency loans

Many groups decide that, if people need to take a loan for a household emergency, such as medical expenses or the death of a family member, this loan can be taken without any interest being charged. Groups could also consider setting up social funds which can be used by members in case of emergencies. Money can be taken out as a grant (gift) instead of a loan in certain circumstances. Beyond this, groups might also consider setting up an emergency fund for the whole community, supporting the most vulnerable in times of crisis.

Consider establishing cluster level groups

If a lot of savings and credit groups have been established in an area they may want to work together to set up a group to represent them all, or to oversee them all. Such a group would have one member of each savings and credit group within it. Their role would be to help support the savings groups – including identifying and providing training, auditing accounts, and encouraging accountability. They may also provide a role of representing all of the savings and credit groups. For example, by representing the total size and assets of all groups they may be able to influence local decision making such as changing harmful activities, jointly opening a school or business, or taking out a large loan on behalf of all of the groups. (This has worked well in India and Ethiopia.)



Finding out more

- Tearfund (2001) PILLARS Guide: *Credit and loans for small businesses* [http://tilz.tearfund.org/en/resources/publications/pillars/credit and loans for small businesses/](http://tilz.tearfund.org/en/resources/publications/pillars/credit%20and%20loans%20for%20small%20businesses/)
- Tearfund (1996) Footsteps 26 – *Credit schemes* http://tilz.tearfund.org/en/resources/publications/footsteps/footsteps_21-30/footsteps_26/
- Tearfund (1993) Footsteps 11 – *Accounts and records*, article on 'Basic book-keeping' http://tilz.tearfund.org/en/resources/publications/footsteps/footsteps_11-20/footsteps_11/
- Village Savings and Loan Associations (VSLA) Programme Guide, *Field operations manual*. Downloadable from <http://www.seepnetwork.org/vsla-programme-guide--field-operations-manual-resources-813.php> in English, French, Spanish and Portuguese
- The Chalmers Centre (2012) *Savings group handbook: a church-centred approach to savings groups*, downloadable from its website www.chalmers.org/international-training-resources
- PHAST step-by-step guide (1998) *A participatory approach for the control of diarrhoeal diseases* http://www.who.int/water_sanitation_health/publications/phastep/en/
- Tearfund (2013) *Partnerships for change: a cost benefit analysis of Self Help Groups in Ethiopia* tilz.tearfund.org/~media/files/tilz/research/partnerships%20for%20change%20full%20report%20final%20oct%2031.pdf

Related tools:

- C2 – Community action groups [C1: Food & livelihoods-12]
- C2 – Starting a business [C2: Food & livelihoods-6]