



agriculture, forestry & fisheries

Department:
Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA

SAVINGS MOBILISATION STRATEGY

AUGUST 2009

**DIRECTORATE: AGRICULTURE DEVELOPMENT
FINANCE**

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ACCRONYMS

ADF – Agricultural Development Finance

CBO – Community Based Organization

DAFF– Department of Agriculture, Forestry and Fisheries

DFI – Development Finance Institution

FSC – Financial Service Cooperatives

LPSCC – Local Planning for Savings and Credit Committee

MAFISA – Micro-Agricultural Financial Institution of South Africa

M&E – Monitoring and Evaluation

MIS – Management Information System

NGO – Non-Governmental Organization

PDA – Provincial Department of Agriculture

SC – Secondary Cooperatives

SHG – Self Help Groups

SMMEs – Small, Micro and Medium Enterprises

1. BACKGROUND

The Strauss Commission report provided a framework for the provision of financial services for rural households, farmers and entrepreneurs, and made recommendations that the State should facilitate and coordinate the provision of a balanced range of financial services to the rural poor to increase their access to financial and support services. Strauss Commission proposed a process for transforming the rural financial services sector that will start immediately and be built on the strength of existing local level institutions in the private, public and voluntary sectors. There is a need to broaden the participation of rural financial markets by proposing diverse financing mechanisms to ensure access to financial services with an emphasis on savings mobilization. The commission recognizes that saving mobilization is the key to development activity as well as permitting the expansion of the financial institutions.

The economically active working poor use savings mostly for subsistence farming and low return productive activities, and at the household and farm level, they rely on social grants for production and household needs. This group is usually found in remote and dispersed areas with poor infrastructure and may be creditworthy below and above the poverty datum line. Some may engage themselves into profitable self-employment investment. Therefore, in this category that is where savings mobilization is most required. On the other hand, those working poor group who uses credit for high return production activities to boost their livelihoods, this is where they can be assisted with credit to improve their activities.

In 2004 Cabinet approved Micro-Agricultural Financial Institution of South Africa (MAFISA) as a financial Scheme to provide capital to increase support to agricultural activities in the communal land areas as well as other small-scale agriculture. MAFISA was approved to offer the following products: credit, savings, insurance and building of rural finance network. To date only credit product is fully developed and implemented. The reason to develop the savings

mobilization strategy is that an estimate of around 20 million people are said to be poor in the country, with the overwhelming majority of these resident in the rural areas. Financial institutions are estimated to cover not more than 25% of people in South Africa. This is despite facts from South Africa and other countries in the world that the rural working poor people and enterprises are worthy savers and borrowers. What is more, poor households save more than they borrow, whilst enterprise borrow more than they save. This means that borrowers are, in general, funded from the surplus savings made from household customers.

If 10 million of the 15 million rural poor people are assumed to be potential customer's savers, then the remaining 5 million can also be assumed to be potential borrowers. And if 10 million of these potential savers are assumed to save at least R200 per year, then MAFISA should have at least be R2 billion available for its 5 million rural potential borrowers. About R15 billion of savings is estimated to be circulating the informal self-help and user-owned institutions. This is the market segment that MAFISA is setting its sight to be active in.

A study by the FinMark Trust on *The Pro-Poor Microfinance Sector in South Africa* defines micro-financial services as encompassing both savings and credit, because the poor do not need credit all the time, but they all need savings facilities all the time. In South Africa, however, the study noted that microfinance focuses on microcredit only. It also stated that micro-financial services should include commercial and a not-for-profit orientation, which is microenterprise credit and lifeline consumption issues like emergency and expense-smoothing credit.

2. PROBLEM STATEMENT

Farming is central to the South African rural economy. However, rural communities practice 'livelihood diversification' embarking in a variety of activities to boost their livelihood and living standards. People diversify their livelihoods either as a strategy for survival or as strategy for accumulation of resources. Rural SMMEs and subsistence farming is survivalist in character as they are embarked upon as a strategy for survival, rather than as a result of perceived business opportunities.

The major constraints associated with the struggle to secure their families' livelihoods with no easy access to economic resources and opportunities. The contributing factors are:

- a) Hostile formal banking environment with cumbersome and discriminatory procedures for servicing the poor (e.g. difficulty in opening savings accounts, and collateral required to access finance capital);
 - b) Poor management and high turnover of informal savings schemes, increasing the level of vulnerability of the poor and especially single women;
 - c) Engagement in unsustainable survivalist activities with problematic spending patterns (consumers); and
 - d) Limited or no financial planning, business management and entrepreneurial skills, information and network of contacts to identify and invest in economic opportunities.
- a) Lack of financial support emanating from systematic weaknesses of rural financial markets which are poverty, low population density, isolated markets, high covariant risk, small transactions, high transaction costs, seasonality of production, lack of traditional collateral and limited opportunities for risk diversification. This is further constrained by lack of infrastructural facilities.

- e) Limited demand and markets emanating from limited expanding enterprises and the predominance of start up that are based on household survival strategies

This situation has left the vast majority of the South African economically active poor out of the loop with very limited participation in the economy and marginal access to financial services.

These conditions have been exacerbated by the lack of understanding of the survivalist strategies of the economically active poor. A distinguishing feature of livelihood strategies into poor South African communities is that the cash that lubricates them is introduced by formally employed people, by means of casual expenditure or public transfers. Indeed, it is increasingly recognised that the basis for the cash economy in many rural areas, particularly in the ex-homelands, is the pension, disability, and childcare grant system, supplemented by transfers from employed relatives in urban areas.

Rural financial intermediation faces several challenges inter alia, short comings and systemic weaknesses of rural financial markets, urban biased policies and poorly designed interventions, not based on the realities of rural markets. The obstacles to financial intermediation in these markets are considered to be the effect of past unsound macro-economic policies, pricing policies of governments, financial market constraints in the form of rigid markets and imperfect information and legal and regulatory constraints. Systemic weaknesses of rural financial markets are identified as poverty, low population density, isolated markets, high covariant risk, small-scale transactions, high transaction costs, seasonality of production, lack of traditional collateral, high income fluctuations and limited opportunities for risk diversification.

Despite the limited growth of the village economy due to lack of cash, the economically active poor save for emergencies using various indigenous institutions such as stokvels, savings clubs, umgalelos etc. The presence of informal savings schemes in both urban and rural communities have

demonstrated potential for leveraging savings for sustainable livelihoods yet the specific use of *micro-savings* as a strategy to enhance livelihood strategies is almost unknown in South Africa, despite wide recognition of its importance elsewhere in the developing world. Even institutions such as Financial Service Cooperatives (FSC) which recognize the importance of savings have not been able to link it with wealth creation, enterprise development and capital retention.

3. SAVINGS MOBILIZATION EXPERIENCE

South Africa inherited the Village bank or FSC model from IFAD which was organized owned by members with the intention to provide appropriate financial services at the village level and to link informal rural financial services to commercial banking sector. The idea of a Village Banks/FSC was conceived to create a financial institution that would decrease transaction costs of savings mobilization, reduce information costs, provide loans and thus reinvest funds in the areas in which they were mobilized. The Village Bank/FSC was seen as a community vehicle with which the community would be able to access a comprehensive range of financial services and could interact with the broader financial sector at lower transaction costs through interlinking with commercial banks.

Rural Financial Services provided people of modest income, excluded from the formal banking community place to save money together and make loans to each other at a moderate rate of interest. They endorsed the principles of poor people having capacity to save (be it in cash or non-cash savings) and recognize their needs for access to micro finance services (both savings and credit). The experience with FSC's shows that the link bank as required by the Exemption Note of the Banking Act has not helped build the capacity of FSC's, it has been exploitative and has hampered progress and growth by siphoning savings from the community. The other thing was that members did not have a say in designing and managing what they needed. An example of this is that FSC's were not linked to the business activities of their members. The other issue was

that the FSC's were not regulated and that is why some of them are not active in terms of operation. However, the recent introduction of the Cooperative Banking Act allows them to provide financial services.

Rural Financial Institutions who accumulate savings from and provide credit to their members thus enhancing money circulation, investments, entrepreneurial development and economic activity resulting to job creation within the rural sector. The rural communities would either through SHGs or on their individual capacities acquire shares and hence take up ownership of the FSCs as part of the empowerment strategy of this sector. Therefore, this strategy is developed to guide and promote savings mobilization and to create SHG bank linkage model.

4. OBJECTIVES OF THE STRATEGY

The purpose of the strategy is to provide a broad framework for the promotion of savings mobilization to build assets, create wealth for rural working poor for sustainable development.

The strategy is geared at achieving the following objectives:

- Asset building, income generation, wealth creation and socio-economic development.
- Encourage savings led credit by SHGs and developing cooperatives.
- Encourage internal lending among groups where there is potential to local based financial intermediaries
- Encourage SHG bank linkage model to increase outreach to financial services

The target group consists of the agricultural cooperatives; financial service cooperatives; self help groups; farmer organization; community based organization involved in agricultural related activities; land agrarian reform beneficiaries; women, youth and people with disability.

5. STRATEGY FOR SAVINGS MOBILIZATION

5.1 Group formation (Self Help Group/Co-operatives /Savings associations in agriculture)

Definition: These are voluntary associations or groups of people coming from the same socio-economic background for the purpose of solving their common problems through self-help and mutual help. SHG/ Cooperatives are not much different from each other, the cooperative is a legalized group compared to SHG which most of them are not registered and regarded as non-profit organizations, but in this case the strategy is using them as a strategy for savings mobilization. The group based approach not only enables the poor to accumulate capital by way of small savings but also helps them to get access to formal credit facilities. These groups by way of joint liability enable the poor to overcome the problem of collateral security and thus free them from the clutches of moneylenders.

The community or individuals will be identified and encouraged to group themselves into groups of about 5 or more members. The identified groups will be mobilized into savings groups. The group then will have to democratically elect their leaders and develop their own constitution with rules and procedures. The groups will decide on the amount to be saved, frequency of savings and meetings, collection methods and ways of save keeping the money. The group is however advised to open a bank account with the nearest banking institution on the name of the SHG/Cooperative.

5.2 Group Internal Lending

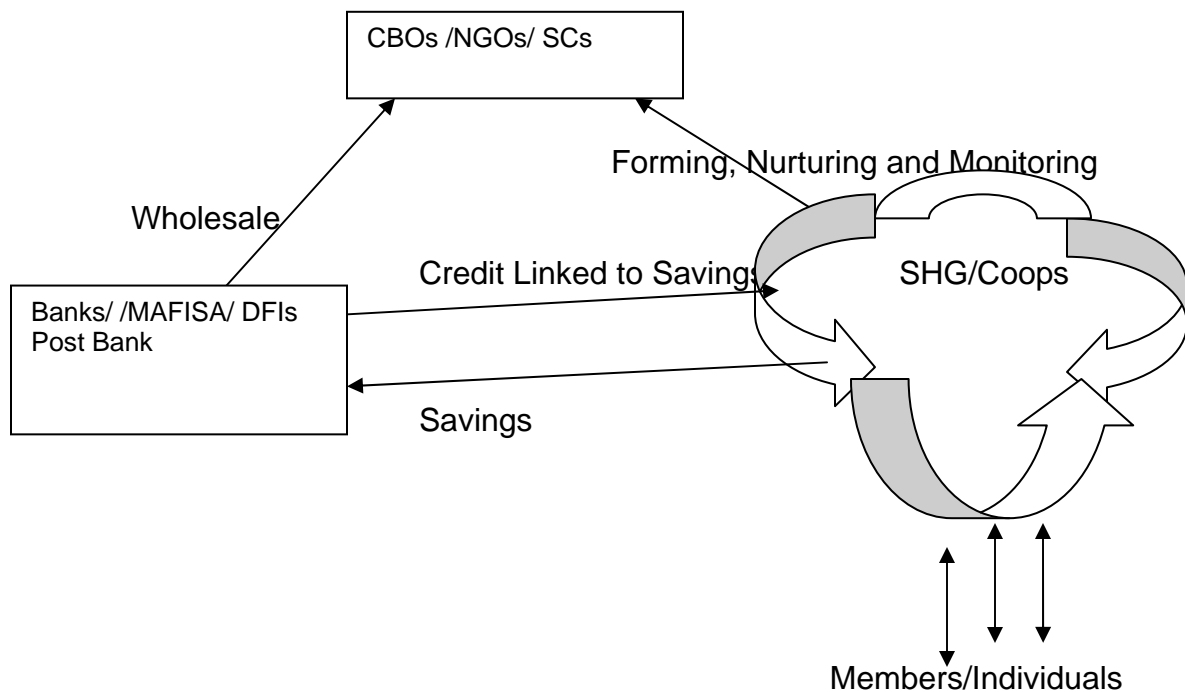
When the group has managed to save a reasonable amount, it would be encouraged to start providing small loans to its members (internal lending) under agreed terms. These are generally for urgent, short-term needs and the group decides who should get loans and at what rate of interest which should be less than the rate charged by local moneylenders. Lending money enhances the knowledge of the group members in setting the interest rate deciding upon periodic loan installments and designing recovery schedules, etc. This process

also capacitates the members how to maintain bookkeeping, cost efficiency, transparency, and accommodation of the needs of other members. The money circulates rapidly and is promptly repaid with the results that, in many cases, the total amount loaned is three to four times greater than the amount saved. Only after a minimum period of 6 months during which the SHG must have made regular contributions to the group savings fund, the SHG will become eligible to acquire for loan from commercial banks or other financial institutions.

5.3 Group Federation

Once groups have established sound economic base after a year, they can be co-opted into federations such as locally-based financial intermediaries like village banks. The primary purpose of federating SHGs is to ensure the sustainability of self help groups. Group federations promote solidarity and economies of scale both in group activities and delivery of development services, and enables members to develop a broad base action. These federations will be able to act as a focal point for convergence of all services viz. nurturing new groups, offering technical support and guidance, and facilitating forward and backward linkages. Each SHG will contribute a service charge to the federations every month to cover the operating cost. Those federations, over a period of time can then act as Rural Financial Institutions and intermediaries for provincial development financial institutions. Group federation is also a networking mechanism which can enhance sustainability of SHGs and create a strong community.

5.4 Group- Bank Linkage Approach



The Self Help Groups Bank linkage model is a cost effective mechanism of providing financial services to the unreached and un-served poor. This will be a partnership approach between SHGs/Cooperatives, MAFISA/bank/DFIs and the NGOs/CBOs/SCs. Firstly, MAFISA/Banks/DFI wholesale to NGO/CBO/SC through Memorandum of Understanding or Service Level Agreement. These linkage approach is the core strategy that could be used for evolve supplementary credit strategy for increasing outreach to the poor; build mutual trust and confidence between financial institution to the rural poor, and to encourage banking activities for both savings as well as credit. The essential ingredient of successful savings mobilization is convenience of location, security of savings, flexibility.

Secondly, SHG/cooperatives are formed, nurtured and monitored by NGOs/CBOs/SCs. They provide training to SHG/Cooperatives to do savings mobilization, internal lending, bookkeeping, internal auditing, and opening account with the bank of their own choice and also conduct regular meetings.

Thereafter they retail the money wholesaled by MAFISAs/Banks/DFIs to SHG/Cooperatives and also link them to local financial institutions or other organizations based on the need of the groups. Once NGOs/CBOs/SCs are engaged in providing savings services they become financial intermediaries between borrowers and the formal financial sector and they also act as a facilitator. NGO/CBO/SC would be legally responsible for repayment and would bear the risk of non-payment. The SHG/Cooperatives will be on-lending money to their members. The groups can also save and on-lend money directly from any Financial Institutions/bank of their own choice.

The SHG-Bank linkage has an impact in:

- Reducing the incidence of poverty through increased income and also enable the poor to build assets and thereby reduce their vulnerability;
- Contributing to a reduced dependency on informal money lenders and other no-institutional sources;
- Facilitate significant exploration into the provision of financial services for the poor and helped in building capacity at the SHG/Cooperative level.

6. INSTITUTIONAL ARRANGEMENT

The sustainability of these SHG/Cooperatives cannot be achieved without viable institutions. Institutions play a critical role in supporting these groups.

6.1 ROLE OF DEPARTMENT OF DEPARTMENT OF AGRICULTURE, FORESTRY AND FISHERIES (DAFF)

- a) Institutionalization of savings mobilization and facilitating the linkage of savings led credit within MAFISA.
- b) Develop federation guidelines for CBOs/NGOs/SC
- c) Awareness creation on the strategy
- d) Training all the role-players on Management Information System (MIS)

- e) Monitoring and reporting

6.2 ROLE OF PROVINCIAL DEPARTMENTS OF AGRICULTURE (PDA)

- a) Coordinates the implementation of the strategy in the province
- b) Take part at the Local Planning for Savings and Credit Committee (LPSCC)
- c) Monitor & evaluate the implementation of the strategy

6.3 ROLE OF MUNICIPALITIES

- a) Implement the strategy at the local level
- b) Identify DFIs/CBOs/NGOs/SCs at the grass root level
- c) Take part at the LPSCC

6.4 ROLE OF MAFISA (THROUGH DFIs)

- a) Wholesale to CBOs/NGOs/SCs through memorandum of understanding
- b) Assist in treasury functions
- c) Capacity building to CBOs/NGOs/SCs
- d) Monitor repayment of loans and report

6.5 ROLE OF COMMERCIAL BANKS INCLUDING POST BANK

- a) Opening Bank account for cooperatives, and SHGs to transact their business
- b) Providing Credit facilities to SHGs and Cooperatives

6.6 ROLE OF CBOs/ NGOs/ SCs

- a) Identify and select community based SHG/ Co-operatives and enterprises
- b) Form SHG/ Co-operatives
- c) Generate awareness and provide quality trainings to the SHG /Co-operatives

- d) Act as an intermediary regarding access to business support and microfinance selection criteria (credit rating of SHG/Co-operatives for obtaining micro finance)
- e) Facilitating the linkages with local financial institutions
- f) Motivate stakeholders to act collectively
- g) Ensure sustainability of SHG/Co-operatives and improve the performance of wealth of SHG/Co-operatives
- h) Monitor, review and report on the progress of the activities of the programme

6.7 ROLE OF SELF HELP GROUPS

- a) Engage members in Savings mobilization
- b) Opening account with the bank of their own choice
- c) Have regular meetings
- d) Internal lending to members

7. CONCLUSION

The success of these groups will be evaluated based on the outreach and financial sustainability of the federated groups. However, the success will depend on the community participation and member's commitment and support. The financial sustainability will be based on the fact that the federated groups are no longer relying on the subsidization or support from any organization.

Implementation will be closely monitored at the national, provincial and local level and periodically evaluated. In support of this process, the platform will be given to provinces to standardize savings mobilization operation. Operational guidelines together with monitoring and evaluation will be done for the effective progress of the program. The implementation process of the program will be reviewed frequently. The directorate ADF will ensure that there is continuous monitoring and evaluation of the effectiveness of implementation of this programme to meet

the objectives of this strategy. Systematic M&E for strategy assessment will be put in place.