

# Enhancing Savings and Loans Association Model as A Way of Promoting Rural Based Micro Enterprises

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**Abstract-** The purpose of this study was to establish the factors that enhance Savings and Loans Associations as a way of promoting Micro Enterprise Development among the poor in rural Masaiti District.

The research was based on the following general objective;

The General objective of the study was:

To establish factors that enhance Savings and Loans Association as a way of promoting rural based Micro Enterprise Development.

The specific objectives of the study were:

- a) To identify the challenges facing the model regarding the performance of the groups;
- b) To establish the factors that enhanced the performance of the Savings and Loans Association model;
- c) To determine whether the model could improve the entrepreneurship skills among the rural community.

Findings of the study revealed that consistent in capacity building of Savings and Loans Association groups in entrepreneurship skills through continuous on site mentoring played a positive role on the establishment of micro enterprise development among the rural poor in Masaiti District.

Finally the study recommended that in order to attain full development and financial accessibility among the rural poor and other vulnerable groups, the government should adapt this model as part of the curriculum in all higher learning institutions as well as Ministries that provide socio – economic services to the most vulnerable members of society This is because the model provided sustainable strategies to the most vulnerable members of society aimed at improving their quality of life. Evidence is there in Masaiti District for everyone to see on how the once vulnerable members have been empowered economically through the use of Savings and Loans Association Model.

**Index Terms**—Enhancing, Micro Enterprise, Model, Self-Help.

## I. INTRODUCTION

Throughout history, people have formed groups with others who have something in common with them, and oppressed people have joined together to overcome the conditions they face. Self Help groups, as we know them to day, go back at

least to the 1930s, in USA. While, self help groups have distinct characteristics, the philosophies of the self-help movement overlap with various other ways of working. Community Development, which became established as a discipline in the late 1980s, shares the concept of empowerment for vulnerable groups. Self Help Groups are about people coming together with others who are affected by a particular issue (experience, disadvantage, discrimination, etc) to support each other and to work together to change the disadvantage affecting them. Some programs that these groups do include community education on health, livelihood, mutual support, and savings and so on. Savings and Loans Association Model therefore, is a self-governed, peer-controlled small and informal association of the poor, usually from homogeneous families who are organized around savings and credit activities. Funds for credit activities come from members through agreed regular savings deposited by all of them on a weekly or fortnightly basis. In the meetings they also discuss common village problems and plan solutions, share information; make efforts to improve their health and literacy skills. The knowledge base of self-help groups is experiential, indigenous, and rooted in the wisdom that comes from struggling with problems in concrete, shared ways and build on the strengths of their members. The Savings and Loans Association development model is a community owned and managed development scheme designed to alleviate poverty in general and the miserable life condition of the poor women in particular.

The Savings focus in the Savings and Loans Associations (Self Help Groups) is the most prominent element and offers a chance to create some control over capital. The system has proven to be very relevant and effective in offering the rural poor with the possibility to break gradually away from exploitation and isolation. Many NGOs are promoting the Savings and Loans Association mechanism and linking it to various other development interventions such as training of members in Entrepreneurship skills and Financial Management. However, whereas there is ample evidence that the model is a very effective, efficient and relevant tool for organizing and empowering the Poor, do arise with design, development and introduction of programmes to promote micro enterprise activities that generates sufficient, sustainable and regular income among the poor. As a result many countries have introduced the Self-help group development strategy known as Savings and Loans Association model which is one of those efforts that is community owned and managed poverty alleviation program designed to empower the poor in general through own savings.

Therefore, in order to address this issue of non-financial access by the poor from banks and other formal micro financial institutions for poorer clients in Zambia, Christian

Aid UK a non-Governmental organisation began promoting a savings-led microfinance model, called Savings and Loans Association (SLA) among the rural poor people of Masaiti District. The model is also called Self Help Group Model, Community Savings Group model, Savings and internal lending communities Model in other organisations. The introduction of the model was with the belief that for the extremely poor, particularly women, and the best approach was to begin by building their financial assets and skills through savings rather than debt from Banks and Micro Financing Institutions. This was because through participation in a Savings and Loans Association members could diversify their activities and even add new rural based micro enterprises. These Savings and Loans Associations today play a major role in poverty alleviation in rural areas of developing Countries including Zambia.

### *A. Factors Enhancing Savings and Loans Association Model in Promoting Rural Enterprises.*

A study conducted by Puhazhendhi et al (2001) revealed some critical elements for the successful formation and functioning of groups. These elements/ factors included a voluntary nature of the group, small size and the homogeneity of membership. This was because Savings and Loans Associations are described as being transparent (openness) with a participatory decision-making process, and the capacity to facilitate a quick use of funds for micro-enterprise creation. Other factors are holding of regular meetings of the members which also foster meaningful relationships for the members of the Savings groups. This was what has made savings groups to become a sustainable development strategy and has now been adopted by some development organizations in most African countries recently. Though, there have been challenges to review studies related to the impact of Self Help Groups in Africa such as Savings and Loans Associations because of inadequate data available. Hence, the need to conduct this research by the researcher, in order to ascertain factors that enhance the Savings and Loans Association model as a way of promoting micro enterprise development among the rural poor.

In addition to that Mulira (1991) contends that what savings groups do by establishing clients' interests and providing capacity building of members in entrepreneurship skills was essential. He clarified that provision of education enhanced learners' self-motivation by developing inquiring mind; which resulted in members gaining proficiency in speaking, reading, and writing and could communicate effectively as individuals or as groups. He adds that business education develops attitudes for group work, social justice, cooperation, friendship and respect for humanity and that this is what makes the model an effective tool in terms of empowering the rural poor.

Furthermore, Needham (1996) described the need for education for developing participants' skills in order for members of these groups to fit into new and changing economic situations. He explained that the approach helped participants apply a range of skills and techniques to develop a variety of ideas in the creation of new and modified products. Besides, Kabeer (2001) said that Savings and Loans Association model because of its capacity building approach

assisted members to develop the ability to define individual's goals and act upon them, because of self-esteem, and self-confidence acquired through skills development which are the core elements of empowerment for self-help groups. The model also empowered People as it helped them in acquiring the ability to make strategic life choices in a context where this ability had previously been denied, especially among the rural poor.

Apart from that Sharma (2001) in his review of the genesis and development of Self Help Groups, in India, revealed that in the situation where the existing formal financial institutions failed to provide finances to those who were landless, marginalized and disadvantaged groups, the establishment of Savings groups was key as it has enabled many poor people to become involved in various income-generating activities through the small loans that they received from the groups. This was because in many parts of the world, micro-finance interventions have well been recognized as an effective tool for poverty alleviation and improving the socio-economic conditions of the poor. For example, in countries like India, Pakistan, and Bangladesh, micro-finance was making progress in its efforts to reducing poverty in general and empowering the poor especially women.

Dasgupta (2001) in his paper entitled, "Informal Journey Through Self Help Groups", observed that micro-financing through the informal self-help group approach had effected benefits, such as.: (i) savings mobilized by the poor; (ii) access to the required amount of appropriate credit by the poor; (iii) matching the demand and supply of credit structure and opening new markets for financial institutions; (iv) reduction in transaction cost for both lenders and borrowers; (v) tremendous improvement in recovery; and (vi) remarkable empowerment of poor women.

The process of group formation itself has been encouraged by the government as a tool for rural development (Planning Commission, 2002). In particular, the Self Help Groups or Savings and Loans Associations are formed across countries as an effective strategy for poverty alleviation, human development and social empowerment. This was because they were cost efficient, sustainable, relies on traditional economic systems, as there was no infusion of external capital and the approach is furthermore applauded for its proclaimed ability to reach the poorest of society (Helmore et al, 2009).

The approach was also often seen as carrying a huge potential for poverty alleviation (Wong, 2003). This suggested that social capital could assist the poorest to take part in group-based development such as the Village Savings and Loans Associations. Promotion of associations therefore, represents this shift in development practices (Ibid) and group formation among the poor is now a widely used tool to pass the way out of poverty (Wong, 2003).

Apart from that Basu (2006) says that in India women savings self-help groups have been heavily promoted by government particularly in the southern states since 1980' because they were a good strategy to empowering the most vulnerable members of society economically. In addition to that Chen et al. (2007) said that in India, Self Help Groups were village-based organizations that focused on building the

savings and credit, as well as the social empowerment, of their (mostly female) members and that these Women Self Help Groups, additionally, have been heavily promoted by the Indian government since 1980s (Basu 2006; Chakrabarti et al, (2011)).

Mbanacele, (2000) said that prior to independence in 1964, in Zambia, credit was provided to the small scale farmers through Land Bank and that at independence the Land Bank was replaced with the credit Organisation of Zambia. However, that due to poor repayment rates the credit organisation went under and was replaced by the Agriculture Finance Company Limited (AFC) and the Rural Development Bank (RDC). In 1987, the two Government institutions, the Agricultural Finance Company and the Zambia Agricultural Development Bank were merged to create Lima Bank (Brownbridge, 1996b), whose main purpose was to provide small scale farmers with loans for purchase of inputs as well as buying agent for Agricultural produce from farmers.

However, Lima Bank had inherited a large non-performing loan portfolio and had a negative capital position. The absence of an efficient collection system, low recovery rates and erratic funding by the Government resulted in the bank's poor performance, despite obtaining funds from the Ministry of Finance, because it was forced to lend at rates which were too low to sustain its operations (Maimbo, 2000).

Furthermore, Maimbo et al, (2003) said that in 1991, the cooperative Bank of Zambia was formed as a society under Cooperatives ACT and commenced operations in October, 1991. However, the bank only operated for five years before it was closed in 1996 due to gross mismanagement and abuse of depositors' funds. Both Lima Bank and Cooperative Bank are now in liquidation.

Mbanacele, (2000), said that all these government funded programs aimed at economic empowerment of the poor failed due to liquidity and sustainability problems resulting from poor loan recoveries, inadequate funding and political interference.

However, to redress this perceived imbalance the government established a number of financial institutions to serve the interests of the local population in need of small and medium scale financial services (Maimbo, 2001). Furthermore, Musona et al, (2001b) said that government established the National Savings and Credit Bank in 1972 in order to meet the financial service needs of the rural and poor communities on a broader scale through an ACT of parliament, whose objective was to mobilise savings in rural areas. The bank provides financial services through its own branch network of 24 branches in various parts of the Country. Maimbo, (2000), said that to date, however, Natsave's performance has been dismal, though the Bank is expected to play an active role in stimulating economic activity among the poor sections of the Population of Zambia.

Hence, Brown Bridge, (1997), said that at the moment the majority of the population continued to depend on the informal sector for their livelihood and that those policies to support this sector, including amongst other things, the development of specialized financial institutions such as micro finance institutions (MFIs) needed to be put in place. As a result, Finscope, (2009) said that Government through the Rural finance program within the Financial Sector

Development Program established a rural finance policy and strategy that aims to provide a strategic operational framework for rural finance in Zambia. The objective was to increase the use of sustainable financial services in rural areas that would promote greater financial inclusion and deeper access to financial services among the poor, though currently the provision of financial services by Micro Financing Institutions demands collateral. This makes the rural population to face a number of bottlenecks that constrain their further and more positive integration in the productive sector. In Masaiti District of the Copperbelt Province of Zambia, the Savings and Loans Association model has contributed to the improvement of saving habits, enhanced access to loans against own savings and brought about a wider opportunity for the poor, resulting in them getting involved in different kinds of individual and group income generating activities, improved decision making power for Savings and Loans Association members at household, group, and community level.

This was because the approach was premised on capacity building of members through on site mentoring and coaching in various areas of leadership and entrepreneurship, resulting in increased knowledge and skills, these are some of the major outcomes of poor people participating in the model. (Hargreaves, 2002).

This model when compared to the Zambian government policy of empowering the rural poor through micro financing and banks was the best option for economic empowerment of the rural poor, as it improves their savings culture, and makes them to pursue viable income generating goals, resulting in Micro-enterprise development.

## II. METHODOLOGY

The researcher used descriptive research designs in describing the process and characteristics of accessing, managing and paying back the loans as well as in assessing factors that enhanced micro enterprise development among the rural poor. In analyzing data qualitative research methodology was employed.

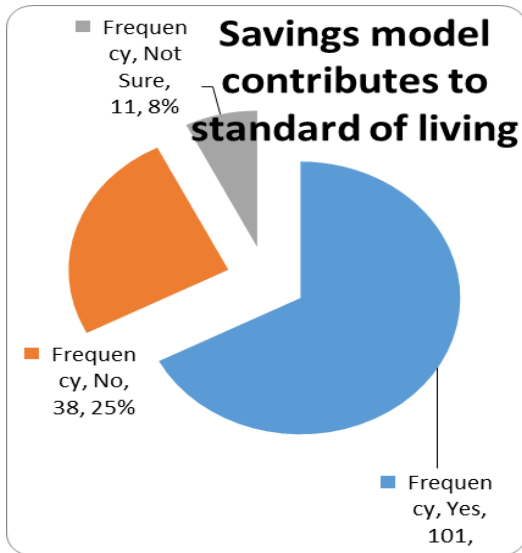
### Data collection

Data source was both primary and secondary data. The total number of respondents was 150. The researcher chose bigger sample size so as to win confidence desired and make the study representative. Primary data was collected through a questionnaire and interview guide administered on both group members and key informant interviewees.

### Analytical Approach

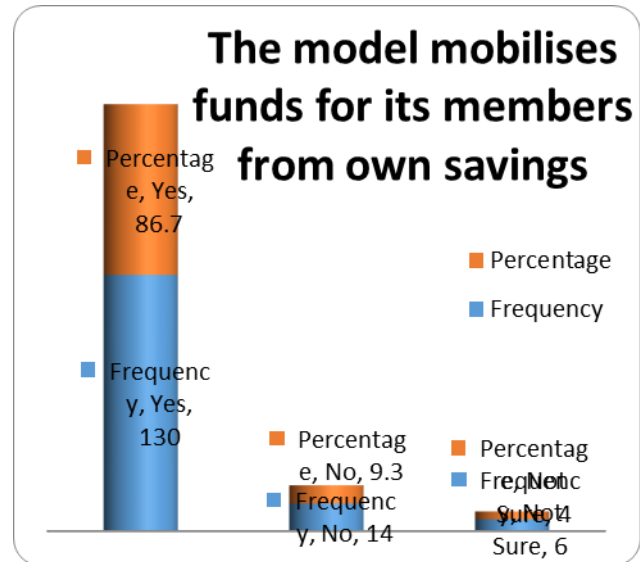
Data collected was carefully edited, sorted and coded to eliminate the inconsistencies and errors that were made during the data collection process. After processing, data was subjected to descriptive analysis in order to create meaning of what was collected from the field and find out the relationship between Savings and Loans Association Model and promotion of rural based enterprises by using Microsoft excel program. Information was presented in form of percentages, frequencies and tables. This study used qualitative method as technique of data analysis.

## III. RESULTS AND DISCUSSION



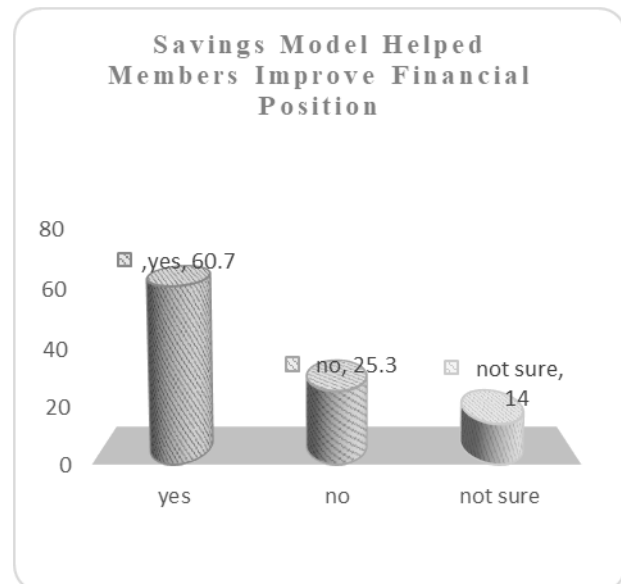
**Fig; 1: whether the establishment of Savings and Loans Association has improved the standards of living of members of Matipa Development Association in Masaiti. Source Researcher (2014)**

Fig 1 indicates that out of 150 respondents, 101 respondents, and i.e. 67 percent of them agreed that the establishment of Savings and Loans Association model had changed the living standards of members of Matipa Development Association in the rural area of Masaiti as shown in the Figure above. 38 respondents i.e. 25 percent said that the model did not contribute to the well-being of the members. The remaining 11 respondents i.e. 8 percent mentioned that they were not sure if it did. The understanding here is that the model has impacted positively on the lives of the people as it had enabled most of them to access basic necessities of life. In line with this understanding Dunn et al (2001) found that only 28 Percent of microfinance clients in Lima, Peru live below the poverty line compared to 41 percent of non-clients. Khandker (2005) also found positive effects on poverty rates. He found that between 1991/92 and 1998/99, moderate poverty in all villages were savings and loans association model was active declined by 17 percentage points.



**Fig 2: Whether Savings and Loans Association of Matipa mobilizes funds for its members from own Savings. Source Researcher (2014)**

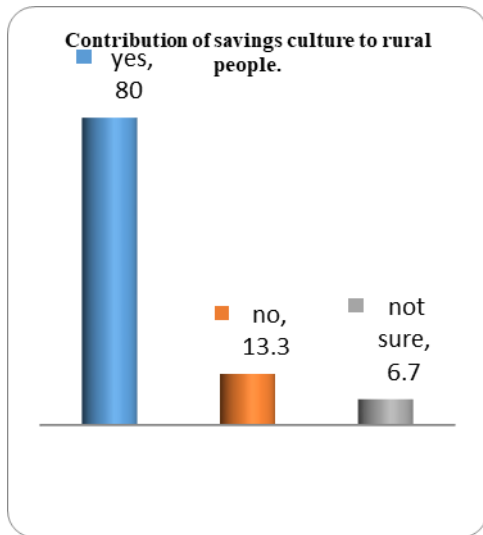
According to Fig 2 above 86.7 percent out of 100 percent respondents agreed that Matipa Savings and Loans Associations mobilizes funds for its members through own savings, while 9.3 percent said no and 4 percent were not sure. This revealed that Matipa Development Association mobilises funds from own member savings and uses the funds in giving loans to its members. The researcher did review the books of accounts and did found that this was happening. This was in line with Branch et al (2002) who said that poor people’s voluntary savings are fundamental to sustainable economic development. This was because they were the most frequent source of funding for microenterprise startup and expansion among vulnerable members.



**Fig: 3: Responses on whether Savings and Loans Association Model in Matipa helped members improve financial position. Source Researcher (2014)**



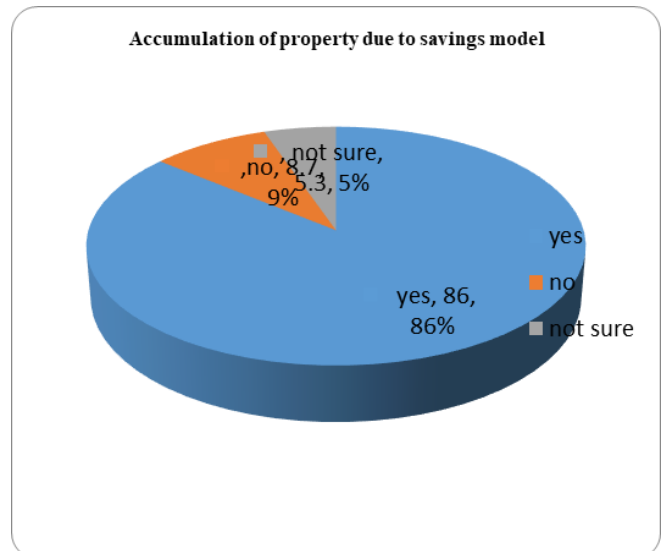
Findings of the study according to Figure 3 above show that Savings and Loans Association model has helped many people to improve their financial position. This is as indicated by 60.7 percent of respondents who said yes. This was because the model had made some members of the savings groups to become self-employed and able to run their businesses profitably due to its capacity building approach. According to Dabson, (2002) the savings group model was an approach that identified the positive aspects and strengths of an individual, group or community, upon which improvements can be made to strengthen social and economic capacity from within, rather than through external aid, as the model contributes to capacity building from within.



**Fig 4: Responses on whether rural peoples' involvement in Matipa Savings has changed their saving culture.**

Source Researcher (2014)

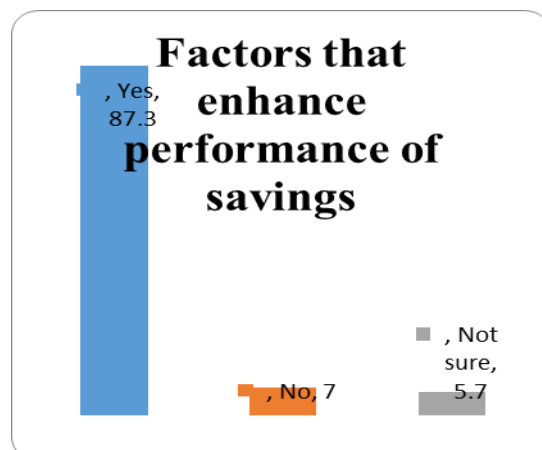
As presented in Fig 4 above, 80 percent agreed that the approach had contributed positively to the savings culture of the rural people while 13.3 percent said the model did not contribute to the savings culture of the rural people and 6.7 percent mentioned that they were not sure. This means that the introduction of the savings model has increased the saving culture of the rural people due to its non-collateral approach. This is in line with Magyezi, (1999) who stated that the model promotes savings culture, as only their savings act as collateral security in order for the savers to acquire more and bigger loans from the group.



**Fig 5: Responses on whether members of Matipa Development Association have accumulated more property because of their involvement in the Savings and Loans Model.**

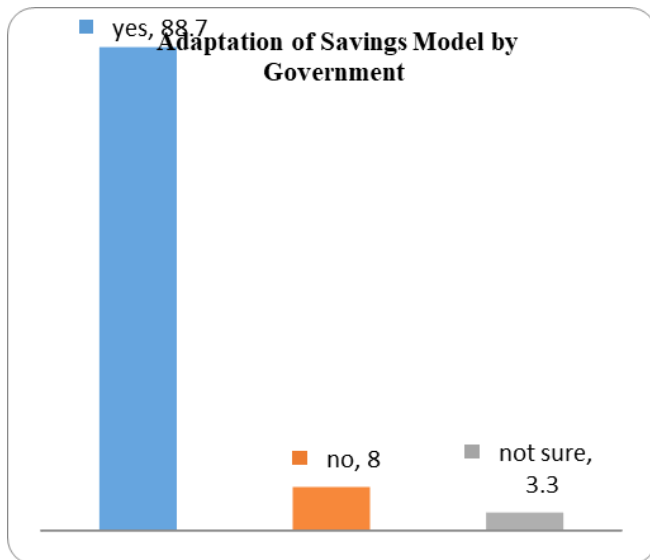
Source Researcher (2014)

Findings as presented in Fig: 5 above show that 86 percent said yes and 8.7 percent did not agree that people have accumulated more property because of being involved in the Savings model, while 5.3 percent said they were not sure if the model contributed to the accumulation of property of members. Nonetheless, the inference here is that people have used loans, skills and knowledge they got from the Savings and Loans Association model effectively and this has resulted in them accumulating property. According to Getaneh (2006) the Savings and Loans Association model in which members create their own capital through own savings was a development scheme and that the approach was stimulating members self-help capacity, resulting in social and economic empowerment for the poor especially women.



Source Researcher (2014)

Fig 6 above reveals that out of 150 respondents, 131 i.e. 87.3 percent respondents said yes, 7 percent indicated no while 5.7 percent said they were not sure. However, the majority of the respondents mentioned that the main factors that enhanced the performance of Savings and Loans Association in promoting rural based enterprises were conducting of capacity building trainings to members, constant onsite mentoring and coaching in various project management aspects, availability of non-collateral loans, having permanent structures for conducting business, increased savings by individual members, paying back loans in time, being transparent, participatory decision making process as well as holding regular meetings as a group to discuss critical issues. The understanding derived from the chart is that performance of the savings groups is enhanced by providing capacity building trainings in the area of governance and entrepreneurship skills. This is in line with Needham (1996) who described the need for education for developing participant’s skills in order for members of these groups to fit into new and changing economic situations. He explains that the approach helped members of savings groups to apply a range of skills and techniques to develop a variety of ideas in the creation of new and modified products.



**Figure 7: Responses to whether Government should adapt the savings and Loans Association model in empowering vulnerable groups, especially Women groups in the Ministries of Community Development, Gender, and Youth and Child Development.**

Source Researcher (2014)

Fig 7 above highlights that out of 150 respondents 133 i.e. 88.7 percent respondents indicated that yes, the Government should adapt the Savings and Loans Association Model in all the Ministries that are involved in economic empowerment of vulnerable groups. 8 percent out of 150 respondents said no while 3.3 percent mentioned that they were not sure. Accordingly, the inference drawn from the above figure is that there is need for Government Ministries and other NGOs to adapt the model as it was the best way to empower vulnerable communities with savings and business skills in a more sustainable way. In line with that Basu (2006) says that in India women savings self-help groups using the Savings and Loans Association model have been heavily promoted by government particularly in the southern states since 1980’

because they were a good strategy to empowering the most vulnerable members of society economically resulting in poverty alleviation among them.

IV. CONCLUSION

The study revealed that savings and loans association Model used by Matipa Development Association was an important approach for the rural people of Masaiti as it had helped in mobilising funds for loans through own savings, resulting in micro enterprises development to the extent that many people were now self-employed, and able to finance socio-economic projects.

The study found also found that there is a strong positive relationship between factors enhancing Savings and Loans Association and promotion of micro enterprises among the rural people. In Zambia the Policy on the provision of micro loans to the rural poor and vulnerable communities is done through commercial banks, Non-bank financial institutions/ micro financial institutions and savings and credit cooperatives. All these are regulated and supported by government, whose main objective was to increase the use of sustainable financial services that should promote greater financial inclusion and deeper access to financial services by all. However, these institutions demand collateral before any loan could be given. This makes the rural population face a number of bottlenecks in accessing loans from the government supported financial service providers and constrain them to integrate in the productive sector. As a result most of the rural Zambian Adult Population remains totally financially excluded, because most Zambian financial systems focus on meeting the needs of the corporate sector and the working class elite who manage to get collateralized business loans that the poor cannot afford.

Micro financing for rural people is certainly at a critical stage of its development and current legislation about Micro financing Institutions in providing rural finance need to be revised in the Zambia.

Therefore, in order to reduce vulnerability and promote prosperity in rural areas ,it is vitally important that Government adapts the Savings and Loans Association model and make the model policy for economic empowerment of the rural poor as it is a clear strategy that is commonly understood ,widely accepted and can easily be applied across all Government agencies such as the Ministries covering areas of economic, finance, community development, commerce, trade, industry, gender ,agriculture and cooperatives and other that have a stake in rural finance agenda.

This means that the Savings and Loans Association Model has a positive contribution on micro enterprise among the rural people of Masaiti District and should be adopted by all Cooperatives and Women development groups.

ACKNOWLEDGMENT

Firstly I thank the Almighty God for the great gift of life he has blessed me with since my birth. May his light keep on guiding me and shining upon people who guided me throughout the study. My sincere appreciation goes to my Supervisor Mr. Clement Mwaanga for his guidance, innumerable reviews and comments as well as

encouragement throughout my study.

I am also thankful to members of my discussion group; Mulemwa, Christopher, Mundia, Kelly, and Ilunga for the cooperation they offered me during our class work especially in discussions and the knowledge we shared during my research. I cannot forget to extend my sincere thanks to my friends; Christian, Alvin, and Sakala for the courage, prayers and words of wisdom they contributed during my studies and research. My sincere appreciation also goes to my family members; my sisters: Gertrude, Iness, Jackline and Prudence and my brothers Francis and Paul for the good moments we shared and the encouragement given to me during my studies. I am highly thankful to my Mother Ms. Mbaita Muyoba whom I dedicate this study to her for the moral support during my studies which has been more than of a golden value.

Finally my gratitude goes to my sweet sons; Chono, Mutumbisha, Anthony and my dear wife Mutinta who gave me a conducive environment for my studies. Completion of the study without their support would not have been possible. Appreciation also goes to my late Father who taught me how to work hard and my late Sister Phoebe Mutumbisha for her determination and who forever, will remain my role model. My apologies to those not mentioned.

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