

The Savings and Loans Scheme



ACAT's Partnership Series

Introduction

The Savings and Loans Scheme

Module Outcome

After completing this module you will know:

- The potential benefits of a Savings and Loans Group for its members.
- How to set up and run a successful Savings and Loans Group.

Purpose of manual

The purpose of this manual is to provide the Savings and Loans Scheme Facilitator with the information needed to set up, and oversee the operation of, a Savings and Loans Group (SLG) in a Zone where the Integrated Livelihoods Programme (ILP) is being implemented. After attending the training course at which this manual is presented, the SLG Facilitator will be able to train target group members wishing to join a Savings and Loans Group. Savings and Loan forms are included at the end of this manual.

Note to the Facilitator:

In the Integrated Livelihoods Programme (ILP), development of the members of the target community is overseen by a Community Governing Board (CGB). The CGB oversees an area of 30km radius, which consists of a number of zones. In each zone, a Zone Implementing Committee (ZIC) is responsible for all aspects of implementation of the development programme in their zone. The ZIC is assisted by Community Volunteers (CV's) in the implementing of the ILP in each zone.

The aim of the Integrated Livelihoods Programme is to empower families with the skills they need to overcome poverty and to improve their quality of life. Community members wishing to join the ILP form themselves into groups of 5 (G5's), and approach their local Zone Implementing Committee (ZIC) for assistance.

The CGB, ZIC and CV's, together with the G5's, therefore form a development team in the area. During the next few years, the G5's will gain knowledge and learn to apply it to their lives. They receive training in the fields of:

- Healthy Lifestyle
- Basic Business Practices, including Savings and Loans
- Home Food Security
- Life Skills (Capacity Building)
- Relationship with God.

With the exception of Savings and Loans, these lessons are all found in the Basic Life Skills manual. The aim of this course is to provide the G5 member and CV with the information they need to set up and run a Savings and Loans Group (SLG). They will be assisted in this process by you, the trained SLG Facilitator, appointed by the CGB and ZIC for this task.

Unit 1

Why form a Savings and Loans Group (SLG)?

When you open a savings account and save money at a bank, the bank benefits by making use of your money. The bank puts your money to work by lending to others and earning interest on the money. The bank then pays you a small portion of the interest it has earned on your money, and keeps the rest to pay for its costs and to contribute to its profits.

The benefits which the zone Savings and Loans Scheme offers are:

- A direct interest in the SLG - since it is democratically run, every member has a say in it;
- Training in Savings and Loans – this helps members to improve their household budgeting skills and financial ‘literacy’;
- The opportunity to borrow money (loans) at an affordable interest rate.

Case Study 1:

Read through the case study together, then divide into groups for discussion. Return to the main meeting and answer the questions which follow.

At the beginning of the year, Mrs Mkhize went to Sikhunyana Secondary School to pay the school fees for her son, Jabulani. The fees for the year were R800. Mrs Mkhize only had R400, and asked the Headmaster if she could pay the balance in instalments over the next few months.

The Headmaster told her that, because there were so many other children wanting to be enrolled at the school, he could only give her until the next day to pay the remaining R400. If she failed to pay by the next day, one of the other children would be enrolled in place of Jabulani.

Mrs Mkhize was desperate, and went to a moneylender (‘mashonisa’) to ask for a loan. The moneylender gave her a loan, which had to be repaid with 50% interest in a month’s time.

Questions:

What can we learn from this story?

How could Mrs Mkhize have avoided this situation?

Many countries in the world today are in debt, and many people have borrowed more money than they can repay with the income they earn. This is because people have not learnt the discipline of saving a portion of their income. They want to buy something on credit **NOW**, rather than save money each month until they have enough to buy the item for cash.

As is the case with many things, people can accomplish more in a group than they can as individuals, and there are rewards for members of a savings group. Through joining a SLG, you are empowered to gain more control over your finances.

1. Services to be offered by the SLG

The SLG members must decide on the following issues relating to the service offered to the members:

1.1 Savings

With regard to saving, the SLG management committee must decide:

- How often savings are to be made.
- The amount to be saved each time. This may be a certain minimum amount of money, or any amount above that, according to how much each member has available for saving.
- The interest rate to be charged on money borrowed. This interest paid on loans is what provides the 'return on capital' for each member of the group.

1.2 Lending

Once the SLG has been operating for a period, and has accumulated enough money for loans (e.g. after 3 months), members may begin to borrow money from the SLG funds. The group must therefore decide on:

- The amount that may be borrowed (e.g. twice what has been saved);
- The term of the loan (e.g. 5 months for a business start-up loan);
- Rules for personal loans.
- Who may borrow from the SLG (i.e. members of good standing).
- What is the interest rate (or service charge) on the loan?
- What steps are to be taken if a member does not repay a loan?
- What happens if a borrower dies?
- Will there be priorities for loans? (e.g. will loans for starting or growing a business take priority over personal loans?)

1.3 Social Fund

The group must decide whether or not to establish a 'social fund' to support group members in emergencies. This would take the form of a grant to the person being helped, and would not have to be repaid. The Social Fund is intended only for emergencies, and cannot be used by the general membership of the SLG. This fund must be kept separate from the members savings. There must be rules relating to the social fund, e.g:

- What will be the contribution each member must make to the social fund?
- How often?
- For what kind of emergencies will the social fund be used?

Administration fund

The group must decide on an amount of money to be set aside and kept separate to cover the administrative costs of the SLG, such as stationary or bank charges, etc. This amount may be collected once a year or monthly as decided by the group. The group must also decide on a Joining Fee – this is added to the administration fee to cover group expenses. This is recorded on the Register of Payments form (see Appendix 2).

1.4 Advantages of SLG Membership

The SLG exists for the benefit of its members. When you join a Savings and Loans Group, you are taking a step towards building your own **personal wealth**.

It is the lending of money to members that earns interest on the SLG fund. When members are using the SLG money productively, the return on the group's money is far higher than at any formal bank.

As long as you have savings in the SLG, and group members are borrowing money from the SLG, your money is earning interest. **In order to build wealth, you should not withdraw your savings every year.** You should rather leave your savings in the SLG, and borrow the money you need from the SLG. In this way, your savings balance becomes an asset that generates wealth for you. You will also be able to use your dividend amount that is paid out to increase your income.

There are many advantages in being a member of a SLG:

- Actual interest rates are lower – even though the **quoted** interest rate is high, the fact that each member receives a share of the 'profit' of the SLG, means that the **real cost** of the borrowed money is lower;
- Members can borrow small amounts of money, while small loans are not easily available from the formal banks;
- The money generated by the SLG remains in the community;
- Loans to members are quickly approved by the SLG without the paperwork required by formal banks;
- A social fund is available to help members in the event of an emergency;
- You can purchase for cash and get items for a better price;
- You can borrow money from your savings and loans scheme, for planned expenses or in an emergency. As a member of a SLG, you do not need to go to a 'mashonisa' (moneylender) when you need money;
- You can begin to plan your finances and, through savings, be able to work towards a goal, e.g. to make large purchases – fridge, stove, school fees, home improvements, etc.
- You can pay for unforeseen expenses (e.g. medical, funeral, etc).
- Because you have a better idea of exactly what finances you have, you can manage your finances better.

A practical example:

Mrs Zondi, a member of Siyaphambili SLG, saves R50 per month. At the end of the first year of savings, she has a savings balance of R600.00 in the SLG. At the end of the second year, her savings balance will be R1,200.00, and at the end of year 3, it will be R1,800.00.

This is shown in the table below:

Year	Amount saved per month	Amount saved per year	Balance saved
Year 1	R50.00	R600.00	R600.00
Year 2	R50.00	R600.00	R1,200.00
Year 3	R50.00	R600.00	R1,800.00

As long as members of Siyaphambili SLG are taking loans with the SLG, Mrs Zondi's money will earn interest.

If Mrs Zondi needs money to buy something, she can borrow from the SLG rather than take money out of her savings. While she will have to pay interest on the money she borrows from the SLG, she will get it back when 'dividends' are paid out to the members.