

How Saving in Small Groups Can Provide the Financial Services that the Poorest Need and that Microfinance Cannot Provide

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The Informal Economy

According to a recent report by the Bill & Melinda Gates Foundation, 60% of the world's population participate in the informal sector – these are the legions of subsistence farm owners, market traders, street food sellers, seamstresses, and cobblers we see when we visit a poor country.

Since the 1970s, international development practitioners, including many International Rotarians, have supported the idea that with a small loan, those running “microbusinesses” in this informal economy will begin to prosper. Over the past several years, however, a growing body of evidence shows that while those with the best established businesses are prospering, most loans are used for immediate needs – food, medicine, school fees. For those living on the edge of survival, repaying these often costly loans is [very difficult](#).

Savings is More Important than Credit.

For centuries, and invisible to us outside tight-knit local communities, many of those too poor to profitably lend to, are saving in informal rotating savings circles they organize and manage themselves. In their simplest form, a group of twenty or so agree to put a fixed amount in a collective pot every week. Each member in turn takes out the total collected that week until the cycle is completed. If the agreed on amount is \$1 per week, each will receive \$20.

These groups work because they are based on mutual trust and support. To not contribute after you have received your payout is “social suicide,” one Nepali woman told me.

According to the World Bank, half a billion people in developing countries participate in informal savings circles. **This is nearly four times the number of microfinance borrowers (134 million.)** That's the good news, but over two billion save the bit they can" under the mattress, not in savings circles or financial institutions. These are the ones that most need our help.

NGOs, building on these rotating savings traditions, developed a simple cooperative model, the Savings Group that reaches "under the mattress" savers. About twenty women in a village save what they can each week. Then they take out loans from the group fund that they repay with interest. Savings plus interest is returned to the women when money is scarcest in the village. As Oxfam America's Director of Community Finance I lead "Saving for Change" where trainers from twenty-five local NGOs organized 35,000 of these groups with three quarters of a million women members in more than 10,000 villages across five counties. There are one million savings groups worldwide. Check out the videos from Mali, Guatemala and the Dominican Republic to understand how savings groups work and the difference they have made in these women's lives.

Our Big Idea

Although it is said that "credit is a human right," for the poorest, saving is more important than credit. Who better to train more groups than those who already run groups? They live in the village and know the language and culture; they are passionate about helping their communities and are brimming with ideas for how to accomplish this. What the leaders of these groups need to train more groups in their own and neighboring villages, is a small financial nudge - \$1 to \$3 per day, and the chance to exchange ideas and set objectives with others doing the same work. As funding as dried up for savings groups, these group leaders are on their own. It wouldn't take much to encourage them to do more.

Testing Our Big Idea in Solola, Guatemala, and Lynn, Massachusetts



Solola Guatemala

In Guatemala, the Minneapolis City of Lakes Rotary Club, together with Host Club Rotario Guatemala de la Emita, received a Global Grant from the Rotary Foundation. Emita partnered with IEPADES, a Guatemalan NGO that had been training savings groups, and Grassroots Finance Action. We asked IEPADES to select and support ten Lideresas Comunales (Community Leaders) and have them train new groups.

Eight months into the fifteen-month project, in the face of pandemic, the collapse of the local economy due to Covid, skyrocketing food costs and political uncertainty, these ten lideresas accomplished the following:

- Trained 51 savings groups with 733 Mayan women members
- In April these groups saved \$8,293, an average of \$11.13 per member (there was no external funding to these groups)
- In April the groups issued 101 loans averaging \$129
- Virtually all the loans were used for business – weaving, embroidery, jewelry, stores, and chicken raising
- None of the groups disbanded

Lynn, Massachusetts



Grassroots Finance Action recognizes that when immigrants come to this country they bring traditions of saving in small groups with them. The difference is that instead of saving a dollar a week, they often save \$100 per week, and often more.

In Lynn, Massachusetts, with its large Guatemalan population, Grassroots Finance Action, in partnership with the Latino Support Network, selected three Guatemalan women who had participated in “Cuchubales” (the Guatemalan name for a rotating savings circle) to train more Cuchubales and provided each of them a \$2,000 stipend. The results exceeded our expectations:

- The three leaders organized one Cuchubal with 30 members with each saving \$200 per week. Each of the thirty members receives a \$6,000 payout (30 X \$200) until the cycle is completed in 30 weeks.
- They organized a second Cuchubal that is about to start saving and a third Cuchubal is in the early organizing stage.

In a second stage, if we can secure funding, the three will train more groups in Lynn as they serve as trainers for similar women in nearby cities with a large Latino population.

Experience and Expertise Are Available to Help Rotarians Serve Those Beyond the Reach of Microfinance

Both the Savings Group model being tested in Guatemala and the model building on traditional savings circles in Lynn, MA should be widely replicated. Our hope is that

Rotary will take a key role in replicating projects such as these in many countries and immigrant communities.

Within the Rotary Action Group for Community Economic Development (RAGCED) and Grassroots Finance Action, there are experienced savings group practitioners who are eager to work with International Rotary clubs interested in launching projects such as these. We know how to design, implement, and evaluate these projects.

We are available to discuss these ideas further with your club. Contact me at jeffaashe@gmail.com.

Follow Grassroots Finance Action on [YouTube](#).

IF YOU WANT TO LEARN MORE ABOUT IMMIGRANT SAVINGS CIRCLES AND SAVINGS GROPS READ:

- [Excerpt from “In Their Own Hands: How Savings Groups Are Revolutionizing Development”](#)
- [“How to Achieve the American Dream on an Immigrant’s Income”](#)