WHAT YOU NEED TO KNOW ABOUT COMMUNITY SAVINGS AND CREDIT GROUPS PROMOTED BY PROFIRA

Meaning of a Community Savings and Credit Group (CSCG)

A Community Savings and Credit Group (CSCG) is a group of 25 people who voluntarily come together to save and take loans from those savings on a regular basis. The activities of a CSCG run in "cycles" of about one year, after which the accumulated savings and profits are shared among the members according to the amount each of them saved.

How Do Community Savings and Credit Groups (CSCGs) Work?

- CSCGs are made up of 25 members who are self -selected usually from amongst the poor and vulnerable households.
- CSCG composition is 25 members (70% women and 15% youth; 18-30yrs).
- CSCGs are member managed.
- CSCGs are required to meet on a regular basis at intervals that they select; weekly, fortnightly, monthly.
- Savings first approach is always promoted.
- CSCG formation follows through 3 phases; Training and Intensive Phase, Development Phase and Maturity Phase.
- CSCG members save through the purchase of between 1 – 5 shares every meeting. The share-value is decided by the CSCG members at the start of each cycle. At each meeting all members have the right to buy between 1-5 shares. The share value does not change during the cycle.
- The CSCGs comprise of a general assembly and a management committee. The general assembly is the supreme body from which the management committee is be elected and from which it derives its authority.
- The management committee of the CSCG consists of 7 people: a chairperson, Secretary, Treasurer 1 money counter and 3 Key keepers. 4 out of the 7 members on the committee shall be women. It is preferable that the chairperson and the treasurer have to be women.
- Accountability, security and transparency through clearly defined accounting, savings and credit procedures.
- CSCG Management Committee members shall be subject to annual re-election at the start of a new cycle.
- Every CSCG is guided by a constitution that is duly signed by all members of the CSCG.
- CSCG members agree on a set of rules or a constitution to guide their activities. CSCG constitutions are reviewed every cycle to take care of the changing needs of the members.
- CSCG members agree on an operating cycle; before starting to save or to lend, CSCG members agree on how long they will operate before terminating savings and lending activities and sharing out all or part of the accumulated funds.
- Conduct an annual share-out to distribute savings and profits.
- All members have individual passbooks where share purchases are recorded in the first half of the passbook using a rubber stamp. Loans are recorded in the back of the passbook. Social fund balances are noted by the record keeper in a notebook and memorized by all members at each meeting.
- Low tolerance of arrears; this aims at instilling a culture of saving among group members and ensuring that there is no fund loss to defaulters. All arrears should be publicly acknowledged in CSCG meetings, and, in general, the percentage of borrowers in arrears should not be encouraged.
- CSCGs begin by collecting weekly savings from members. Savings are accumulated in the form of shares, with a low price agreed upon by the group for one share to allow the poorest members of the community to participate. Once sufficient savings have accumulated, loans are then offered to members. Early loans (in the first 6 months of the cycle) typically range from 50,000- 300,000= but gradually become higher. The group sets the interest rate for loans between 5%-10%. CSCGs should never charge interest beyond 10%.
- All members shall have the right to borrow up to a maximum of 3 times the value of their shares/current savings. However, CSCG members can access loans 3-4 weeks after the group has started the cycle.
- CSCG cycle is between 8-12 months.

- Interest charged on loans falls due every four weeks/month. A declining method of calculating interest on loans shall be used or a flat rate; CSCG members decide on this.
- Anyone needing support from the welfare fund, or a loan puts forward his or her request publicly to the CSCG members. Approval of a welfare fund benefit or a loan rests with the General Assembly. However, members may access welfare fund from the welfare treasurer anytime but they are required to have a guarantor to sign for them before they can access the welfare funds.
- CSCG members shall set loan terms; during the first cycle, the loan terms shall not exceed 3 months. However, during the subsequent cycles, the loan term may be increased to a maximum of 6 months. The borrower is free to in whatever amounts she/ he wishes at each loan meeting, but must pay the total sum owing within the agreed – upon period.
- The size of the loan available to a member is linked to the total value of his/ her savings.
- Loan principal repayments are made when due or earlier as the borrower wishes; as long as the borrower is still within the repayment period.
- When the operating cycle comes to an end, the CSCG members share out the total value of its financial assets amongst the members.
- All CSCGs maintain a welfare fund. CSCG members must agree on a regular fixed contribution with every one contributing the same amount. Welfare fund borrowing does not attract an interest. Due to the kind of needs that the welfare fund addresses, the welfare fund may be accessed during the group sitting time or outside the group sitting time from the welfare treasurer. However, clear records and updates are made from time to time.
- At the end of every annual cycle, all outstanding loans are recovered and the loan fund (which included profits). is shared out
- Once a new cycle begins, members agree to change the minimum value of savings or even maintain the one for the previous cycle.
- All CSCGs must own a cashbox where they keep all their valuable items and their weekly collections; savings and loan repayments.

A CSCG LOCKABLE CASHBOX

Composition of the Cash Box

- Three good quality padlocks, each with two keys
- 15-30 Passbooks
- 1 Rubber stamps
- Rubber stamp ink pad
- Ruler
- Two ball point pens: one black or blue, the other red.
- Calculator
- 2 plastic bowls, (one for fines and one for managing contributions to the Social Fund, collection of share-purchase/savings and loan repayments)
- 3 fabric money-bags, with draw strings: one for the Social Fund, one for the Loan Fund and one for the savings.

Principles Guiding the Operations of CSCGs Promoted by PROFIRA

1. **Independent Groups;** Service Providers are expected to train the groups in such a way that the groups reach a point, within about 12 months, at which they need no further visits or support from the Service Provider. Thus all CSCG promoters aim at building groups' capacity to enable them become self-sustainable and allow free methodology replication.
2. **"Ring fenced" box;** No funds should enter or leave the box except in conformity with the CSCG acceptable practices.
3. **Periodic Action Audit;** CSCGs are expected to set a date in advance at which they will carry out the Action Audit. Groups that do not want to begin again at zero after the Action Audit may do a partial contribution as starting shares to begin the next loan cycle. It is at this time that the group revisits it operations in terms of new membership, review of the savings value, revisit of the leadership performance, and bye-laws amendments.
4. **Low/Zero tolerance to arrears;** this aims at instilling a culture of saving among group members and ensuring that there is no fund loss to defaulters. All arrears should be publicly acknowledged in-group meetings, and, in general, arrears are not encouraged.

Criteria for Selection of a Mature CSCG to Benefit from PROFIRA

Category	Criteria - CSCG:-
1.	Has 70% women and 15% youth membership
2.	▪ Has existed for at least 2 years and has been operational, conducting the main activities of saving and loaning amongst others
	▪ Upholds the principles and practices of the CSCG methodology; "Ring fenced" box, periodic Action Audit, low-zero tolerance to arrears, and independent groups.
	▪ Should at all times maintain the following records: - Cash Book, Savings Ledger, Loan Ledger, welfare, updated and signed Constitution by all members, record of members' attendance of meetings, and a management committee (70% of management positions held by women, and preferable a woman chairperson).
	▪ Portfolio at Risk of the previous cycle should not be more than 5%.
3.	▪ Has a membership of 25 minimum, and 30 maximum.
	▪ Attendance rate for meetings should be 95% for the two previous cycles.
	▪ Amount written off in the last share-out should not exceed 3% of the total loan portfolio.
	▪ 95% of the members should be aware of the group constitution and meeting procedures.
4.	▪ Loan fund utilization for previous 2 cycles should be 75% and above.
	▪ Dropout rate for the previous 2 cycles should not exceed 5%.
	▪ Share-out for the previous cycle should not be below 5 million for CSCGs to be linked for loan and savings products.
	▪ Share-out for the previous cycle should not be below 2 million for CSCGs to be linked for savings products.
5.	▪ Savings Volume in the current cycle should be a minimum of 500,000/=.
	▪ Percentage of members with active loans should be above 60%.
	▪ Decision making on loans should involve 90% of the CSCG members.

Caption

TIPS FOR ENHANCING SACCO SUSTAINABILITY PROSPECTS

PROFIRA is building on the successes of the IFAD-financed Rural Finance Services Programme (RFSP). It is facilitate the strengthening of 500 SACCOs to enable them to become sound and financially sustainable organizations that can provide their communities with a range of services.

A SACCO is said to have reached sustainability when the operating income from the loan is sufficient to cover all the operating costs. This definition adopts the bankers' perspective and sticks to "accounting approach" of sustainability. The concept of sustainability includes, amongst other criteria - obtaining funds at market rate and mobilization of local resources. The performance assessment criteria for the financial viability of any SACCO include repayment rate, operating cost ratio, market interest rates, portfolio quality, and "demand driven□ rural systems in which members themselves demand the loans for their projects. The following tips can position a SACCO on the right roadmap to sustainability;

i. **Diversification of loan products.** One of the biggest challenges in the provision and expansion of financial services by SACCOs remains that of designing appropriate financial products and delivery mechanisms that reflects an understanding of the reality of this market. SACCOs that desire growth will need to understand the financial needs of both their existing and potential clients. This will enable them develop and match the products and delivery methodologies to the diverse needs of these clients and thus creating an avenue for sustainability.
ii. **Competition.** Competition is a key challenge within the financial landscape. SACCOs are avenues for savings mobilization, with high transaction costs limiting their expansion. Commercial banks should establish a franchise system with the SACCOs and use them as their agents at an agreed fee structure. This will enable them expand both their network and outreach as well as improve the market service delivery as the SACCOs must be able to measure up to the bank's standards.
iii. **Co-existence with other financial institutions.** For SACCOs to be sustainable, they need to work with a variety of other financial Institutions to help them to deepen their outreach of financial service provision. They need to redefine their relationship with commercial banks.
iv. **Identification of competent Board Members.** Cooperative members need to elect the most qualified and responsible people to the board who can ensure efficiency and productivity, apply good corporate governance practices framed on the pillars of; (i) Accountability, (ii) Efficiency and effectiveness, (iii) Integrity,(iv) Responsibility (v) Transparency and open leadership. In order to promote, improve and strengthen co-operative management, the Management Committee should appoint and delegate to a professional team of managers for ongoing operations and decisions. This will enable rapid decision-making on ordinary business issues like approving loans that required taking advantage of opportunities in a fast paced business environment.
v. **Proper loan recovery strategies.** SACCOs should try to look into their loan recovery strategies and security for their loans. For example, member savings and guarantors are not adequate measures to loan defaulting. SACCOs should adopt loan insurance like other financial institutions in order to cushion their members from unnecessary burden from defaulted loans and collateral securities.
vi. **Client retention strategy.** For the SACCOs to remain relevant in today's competitive business environment they should come up with member retention policies and new competitive strategies. For example, majority of SACCOs are giving loans three times the members contributions at the lending rates of 1% on reducing balance, on the other hand, some MFIs are giving nine times of members' savings at the same lending rates with SACCOs. Therefore, SACCOs should look for more member retention strategies rather than the dividend aspect.
vii. **Strong internal controls.** SACCOs should try to improve on their internal controls and also strengthen the role of internal audit departments as this will reduce cases of misappropriations of funds in SACCOs thus enabling them to be sustainable.
viii. **Proper investment decisions.** Although majority of SACCOs invest their funds prudently and their Investment Committees are functional, they should consider diversifying their investments and put conditions on elections of members to the Investment Committee. Sustainability plans should be well designed and implemented alongside investment objectives.
ix. **Members, and savings mobilization.** Low level of income and limited outreach have been cited as a constraint to the growth of SACCOs. SACCOs should mobilize active members. They should widen their outreach and allow members who are not from the same areas to also join the institutions.
x. **Member sensitization.** Members need to be sensitized on issues that can deprive them of being active and committed members of a SACCO. For example like the problem of multiple borrowing among members could be minimized if the SACCO agree and collectively develop a mechanism of identifying such clients to enable each of them make better decisions in the process of assessing debt capacity.