## Skill Set #2: Internal Savings and Lending Skills

### *Description and importance*

*What are internal savings and lending skills?*

This skill set includes the ability to save regularly, to manage these savings so that they are protected, to lend group savings to members of the group at a reasonable interest rate. The group should be able to follow and enforce its own rules so that the savings and lending decisions of the group are transparent to the group as a whole.

*Why is internal savings and lending important for agroenterprise?*

Internal savings and lending skills contribute to agroenterprise development by developing people's capacity to maintain and grow their financial assets in groups. Poor households and poor women in particular generally lack ways to safeguard and grow their financial assets. This intensifies their poverty as well as their vulnerability to risk. Internal savings and lending can help to reverse this in several ways. It can help households to accumulate income by practicing thrift instead of draining it in non-productive ways (such as cigarettes). It can act as a kind of insurance policy against household emergencies such as sickness, funerals, weddings, school fees, or natural disaster, because members can borrow for immediate needs. At the same time, it supports longer-term investments in productive enterprises.

Internal savings and lending also provides benefits beyond increased savings and income. It teaches group decision making and can lead to group cohesion in times of need. It can also lead to the increased power of group members within the household and the community due to their increased control over financial resources. Participating in internal savings and lending teaches financial management skills which can be applied to agroenterprise activities.

### *Tips for facilitators*

➤ *Be aware of important resources in internal savings and lending*

➤ *Promote flexible and voluntary savings*

➤ *Encourage regular savings*

Some groups may prefer to save weekly, others monthly.

➤ *Base the contribution level on the financial ability of the poorest members*

This will promote participation of the poorest. The group can decide whether all members will contribute the same or differing amounts; as well as whether the contributions will be in cash or in kind.

➤ *Only group members should determine the specific size, terms, interest rate and use of the loans.*

**Do not** direct the size or schedule of group savings–these should be decided by the group. Remember, you are a facilitator.

➤ *Promote safe internal lending*

You can ensure group members develop a capacity to govern their lending activities if they follow these pointers:

- Encourage flexible terms on group loans. This will help maximize the chance of successful repayment. Then both the group and individual borrowers avoid the negative consequences of high loan defaults.
- Promote loans that match the needs of the borrowers. In particular, promote smaller loans while a group is just beginning to experiment with lending. Over time, loans may increase as group members gain more experience and if their enterprises grow. This helps to ensure that each member gets what he or she actually needs, with realistic terms for repayment.
- Set interest rates that are low enough to encourage repayment but high enough to grow the group's capital visibly. This will help group members to receive a real return on their savings.
- Make sure every member who needs and is able to repay a loan receives one from the group over time. In other words, promote equitable lending within the group.

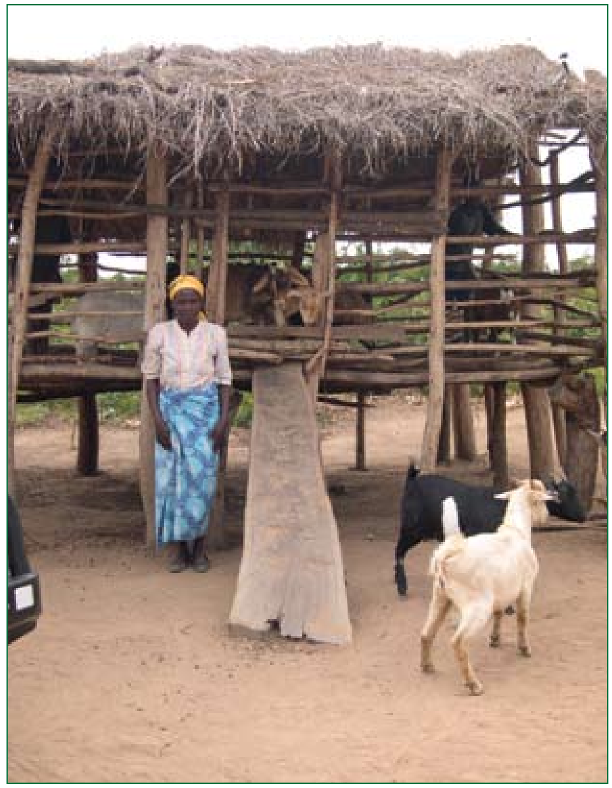
**Do not** encourage internal lending when the group has not decided so. Facilitate the decision. Be sure that trust among members and management capacity exists.

**Do not** direct how loans will be used or what groups should charge for interest rates. Facilitate the development of rules for internal lending.

**Do not** direct the size of loans or loan terms. Train group members on how to analyze and evaluate internal loan applications.

➤ *Manage external lending gradually*

Wait until internal lending functions smoothly before encouraging groups to link to



external sources of credit. In particular, ensure that group members have learned financial management skills and have demonstrated healthy group functioning.

Make sure that all group members are clear about the purpose of external lending, how it relates to the group process and their responsibilities for repayment.

**Do not** encourage groups to link to other sources of credit until they have mastered internal use of their group funds. Define criteria to evaluate group readiness for borrowing from external sources.

➤ *Manage transparency and accountability in the group by following these principles:*

- Promote trust and gratification by creating opportunities for members to withdraw all of their savings and their share of the interest accumulated on the loans, elect new

- leaders and change the membership. Do this early on with a new group (within a year from start-up) to renew commitment.
- Create ways of tracking resources that all members can understand. Have group members do their own books or find a trusted local person with bookkeeping skills to do them.
- Have groups hold their own cash in a safe place and create mechanisms for accountability between the holders of the cash, the bookkeepers and the rest of the group.

**Do not** offer to hold or transfer group cash. Facilitate the development of internal rules for cash management.

**Do not** do group bookkeeping. Encourage self sufficiency and look for local support.

### *Tracking group progress in internal savings and lending skills*

Box 2 provides five characteristics of this skill set that you should look for in a group that is successfully managing internal savings and lending.

**Box 2. Internal savings and lending**

**A farmers group that successfully practices savings and lending:**

- Saves regularly and manages savings so that they are protected
- Grows group funds by lending savings to group members at an interest rate decided upon by the group
- Has an equitable internal lending system
- Manages group funds transparently
- Keeps good records

## *Resources for internal savings and lending*

**MicroSave**. This website offers practical guidance, research papers, briefing notes, training toolkits and other resources on market-led microfinance. http://www.microsave.org/

Siebel, H. 1992. **Self Help Groups as Financial Intermediaries. A Training Manual for Self Help Groups, Banks and NGOs**. CGAP. http://www.microfinancegateway.org/content/article/detail/1963

**How to Build Self Help Groups for Successful Banking with the Poor**. 1995. FDC. Draws on the experience of NGO MYRADA in India. http://www.microfinancegateway.org/content/article/detail/1559

**A Handbook on Forming Self Help Groups.** 2005. NABARD. http://www.microfinancegateway.org/content/article/detail/35017

**Indian School of Micro Finance for Women (International Training Program).** http://www.schoolofmicrofinance.org/

Karunakaran, C., G. Jayaraj, T. Venkiteswaran, and R. Nazar. 2005. **Microenterprise development with innovative community and market linkages.** New Jersey: Montclair State University. http://www.microfinancegateway.org/content/article/detail/27820

Kabeer, N. and H. Noponen. 2005. **Social and economic impacts of PRADAN's Self Help Group.** Microfinance and Livelihoods Promotion Program. Brighton, UK: The Institute of Development Studies, University of Sussex. Retrieved March 2006. http://www.microfinancegateway.org/content/article/detail/27899.

Wilson, K. 2002. **The New Microfinance: An Essay on the Self-Help Group Movement in India**. Journal of Microfinance. 4(2). http://marriottschool.byu.edu/microfinance/view_archive.cfm?id=74&issue=fall02