

THE ROLE OF MICRO CREDIT SCHEMES
IN PROMOTION OF SAVINGS:
CASE STUDIES FROM LILONGWE DISTRICT

MASTER OF ARTS (DEVELOPMENT STUDIES) THESIS

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UNIVERSITY OF MALAWI
CHANCELLOR COLLEGE

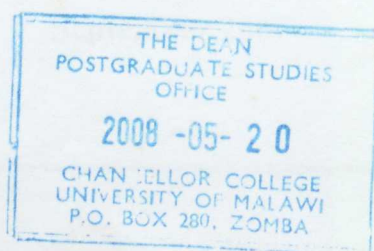
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Master of Arts (Development Studies) Thesis

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B.Soc.Sc. (University of Malawi)

*Submitted to the Faculty of Social Science, Chancellor College, University of
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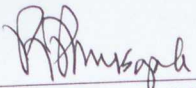


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CANDIDATE'S DECLARATION

I, the undersigned declare that this thesis is my original work and that it has not been presented for any degree award at this or any other university. Where work of others has been used, acknowledgement has been duly given. Any errors in this document are entirely mine.

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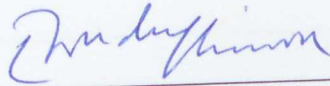
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We, the undersigned, declare that this thesis is from the student's own work and effort. Where he has used other sources of information, it has been acknowledged. This thesis is submitted with our approval.

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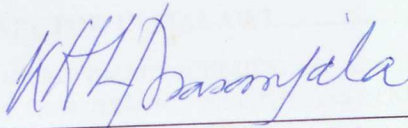


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ACRONYMS/ABBREVIATIONS

CRS	Catholic Relief Services
CUMO	Concern Universal Microfinance Organisation
CYCI	Commonwealth Youth Credit Initiative
CYPAC	Commonwealth Youth Programme Africa Centre
DEMATT	Development of Malawian Traders Trust
DfID	Department for International Development
EAP	Economic Activities Programme
EDECP	Entrepreneurship Development and Employment Creation Programme
ECLOF	Ecumenical Church Loan Fund
GDP	Gross Domestic Product
FGD	Focus Group Discussion
FINCA	Foundation for International Community Assistance
GOM	Government of Malawi
IHS	Integrated Household Survey
MAMN	Malawi Microfinance Network
MASAF	Malawi Social Action Fund
MGDS	Malawi Growth and Development Strategy
MFI	Micro Finance Institution
MMF	Malawi Mudzi Fund
MOU	Memorandum Of Understanding
MPRSP	Malawi Poverty Reduction Strategy Paper
MRFC	Malawi Rural Finance Company
MSB	Malawi Savings Bank
MUSCCO	Malawi Union of Savings and Credit Cooperatives
MYDS	Ministry of Youth Development and Sports
NABW	National Association of Business Women
NGO	Non Governmental Organisation
NRDP	National Rural Development Programme
OIBM	Opportunity International Bank of Malawi
PAP	Poverty Alleviation Programme
PFPA	Policy Framework for Poverty Alleviation
PM	Pride Malawi
ROSCA	Rotating Savings and Credit Association
SACA	Smallholder Agricultural Credit Administration
SACCO	Savings and Credit Cooperatives
SEDOM	Small Enterprise Development of Malawi
SHDI	Self Help Development International
SMEF	Small and Medium Enterprise Facility
SPSS	Statistical Package for Social Scientists
TA	Traditional Authority
VH	Village Headman
WOCCU	World Council of Credit Unions
WVI	World Vision International
YED	Youth Enterprise Development

DEDICATION

To my wife **Salome**; and our children, **Precious**, **Gift** and **Flynes**, for enduring my absence during the study period. To my father Petros and late mother Flynes (RIP) for their love and moral support.

ABSTRACT

Poor access to affordable credit by especially poor Malawians has been a critical constraint to micro and small enterprises. Micro credit schemes were introduced to help provide small loans to low income households too poor to qualify for traditional bank loans under flexible and easy to understand terms and conditions. However, these schemes' emphasis on credit provision has effectively screened out the very poor who are reluctant to take debts while at the same time other members fear that such people may not be able to repay the loans. Furthermore, their operations are limited to urban areas only. The critical constraint therefore, facing the poor is lack of appropriate savings services and institutions which can assist them to mobilize and accumulate their savings for investment and other purposes.

This study sought to examine the role that micro credit schemes play in the promotion of savings among beneficiaries. Specifically the research aimed at establishing whether participation in micro credit schemes and participants socio-economic characteristics affect the level of savings. It further aimed at establishing effects of institutional and organizational arrangements put in place by micro credit schemes on participants' savings behaviour. A sample survey was conducted in Lilongwe focusing on two micro credit schemes. One scheme had external financial injection with a credit focus while at the same time encouraging its beneficiaries to save. The other scheme had a savings focus where the participants were mobilized to form savings groups and raise savings from which they could borrow locally. The research adopted both quantitative and qualitative methods of data collection and analysis for complementary purposes.

Results show that participation in micro credit schemes increases the level of savings. Those who were participating in the micro credit schemes were making significantly higher savings than non participants. This means the availability of savings facilities provides a better option to saving at home where savings may be withdrawn to help relatives, neighbours or used on less pressing needs. The study also confirms that income is an important factor in as far as savings mobilization is concerned. Those who were saving in both schemes had higher average incomes compared to those who were not saving and those with higher incomes were making much more savings than those who had lower incomes. This means that to successfully improve savings from the poor communities there is need to improve their income earning capacities like supporting income generating activities. Micro credit schemes should therefore not only focus on credit provision and loan recoveries, but should ensure that the enterprises are profitable to sustain saving.

CHAPTER ONE

1.0 Introduction

1.1 Background

In Malawi, poverty is widespread and severe with 52.4 percent of the population falling below the poverty line (GOM, 2005). The Integrated Household Survey (IHS) conducted in 2004-2005 shows that one in every five people lives in extreme poverty such that they cannot afford to meet minimum recommended food requirements on a daily basis. Across the regions the picture is such that more people (60 percent) live below the poverty line in the Southern Region as compared to 54 percent in the Northern Region and 44 percent in the centre. There are fewer people (25 percent) in the urban areas that live below the poverty line than in the rural areas where 56 percent of the population are poor. Over a period of seven years between IHS1 and IHS2 there has been no significant change in poverty according to the Malawi Growth and Development Strategy (MGDS) (GOM, 2006).

One of the means through which households can increase their household incomes and therefore alleviate poverty is through access to credit. It is however, very difficult to access credit in Malawi such that the productive capacity of poor households is negatively affected. The IHS1 reported that only 18.8 percent of the households received a loan and the situation did not improve but instead worsened to 13 percent in 2004-2005 as reported in the IHS2 (GOM, 1998; GOM, 2005). From the small proportion that received credit, access and size of loan was biased against the poor who got on average MK1,206 against the non poor who got nearly three times as much (MK3,354) in 1998 (GOM, 1998). In 2004-2005, seventeen (17) percent of the households in the highest expenditure quintile had accessed credit while only 8 percent in the lowest quintile received loans (GOM, 2005). Furthermore findings show that women face more constraints in accessing credit than their male counterparts. Green and Badden (1994) found that apart from the small sizes of loans that women received, only 29 percent of total loans from Small Enterprise Development of Malawi (SEDOM) were given to women and only 7 percent of all credit beneficiaries from Investment and Development Fund (INDEFUND) were women in 1993. In 2005 there were more males (14 percent) against 11 percent of female headed households that received the loans GOM (2005).

Contributing to poor access to credit is the fact that money lending institutions and commercial banks are not willing to provide credit to the poor and this leaves the informal

sector assume a more prominent role. More than 50 percent of all the non poor and the poor households that obtained credit received it from friends and relatives including money lenders and religious institutions while only 2 percent accessed their loan from the commercial banks (GOM, 1998; GOM, 2005). While Daniels and Ngwira (1993) found that only 19 percent of all the Micro, Small and Medium Enterprises (MSMEs) had received loans, very few i.e. only 1.2 percent of these had received these loans from formal credit institutions while the majority 81 percent had never received any loans. Due to credit limitations, some people have been operating small scale investments financed from their own small savings. A survey conducted in 1986 revealed that out of 1,400 small scale enterprises, 80 percent had initial investments of less than MK1,000 and nearly all were financed from personal savings (GOM, 1988). Government policy documents like the Policy Framework for Poverty Alleviation (PFPA) (GOM, 1995), the Vision 2020, (GOM, 1996), the Malawi Poverty Reduction Strategy Paper (MPRSP) (GOM, 2002) and the Malawi Growth and Development Strategy (MGDS) (GOM, 2006) have identified limited access to credit as one of the causes of poverty and a major set back to the development of micro and small enterprises.

To improve access to credit, government through the Ministry of Trade and Industry intervened and facilitated creation of institutions like the Investment and Development Fund (INDEFUND), Small Enterprise Development Organisation of Malawi (SEDOM), and Malawi Union of Savings and Credit Cooperative (MUSCCO) to provide credit, business and technical advisory services (Chipeta and Mkandawire, 1991; GOM, 1988). Under the same initiative, the Small Agricultural Credit Administration (SACA) and Malawi Mudzi Fund (MMF) were introduced to help the rural poor access small credit. There has been increased activity by both government with donor support and relief or development based non-governmental organizations in setting up credit improvement initiatives especially after political liberalization in 1994 (Chirwa, 2002). These establishments however, focused so much on credit provision and relied heavily on external resources through foreign aid to the disadvantage of promoting local saving habits and mechanisms for mobilizing savings (Chipeta and Mkandawire, 1991). This led to serious resource constraints in these institutions and as a result not many could benefit their services and therefore the fight against poverty alleviation remains a challenge until now.

Reddy et al. (2003) observe that introduction of micro financing schemes by governments of developing countries in response to lack of savings by households is not only costly, but it is also unsustainable because the society is not empowered to save. The neglect of savings

services may have come about because definitions of poverty based on inadequacy of income attribute this to shortage of capital for investment. Interventions hence, attempt to alleviate this constraint by use of external funds to make such capital available.

The critical problem facing the poor is lack of proper saving facilities which they can use for financial savings, as formal financial institutions hold that the poor cannot save. But against the bias of the formal financial institutions that the poor cannot save, Rutherford (1995a) in Johnson and Rogaly (1997) presents evidence that the regular repayments on loans demanded by the non-governmental finance institutions in Bangladesh clearly demonstrates that the poor are able to save. Remenyi (1991) observes that the poor lack savings services and institutions which can assist them to mobilize their own savings. He further notes that while in the formal economy banks fulfill this role, in the deprived socio-economic environment in which the poor operate, where banks accept savings from the poor; this money is recycled to borrowers who are able to meet collateral. In Malawi, the banking procedures of formal financial institutions and their concentration in the urban areas leaves the rural poor, estimated at 85 percent, not well served. In addition some institutions which have penetrated the rural areas (Malawi Rural Finance Company (MRFC), Malawi Savings Bank (MSB) and MUSCCO) to some extent are not enough such that demand for savings far exceeds capacity in formal financial institutions (Ndalama, 1999; Burritt, 2006). Burritt (2006) concludes that on the basis of increased knowledge about the way poor households manage their financial lives; demand for savings is greater than is supplied through formal sources, limited to only 3 percent.

There are a number of theoretical justifications for the demand for savings by the poor. First, the poor need savings for the sake of securing a loan for businesses. Second, they need to manage and deal with their daily expenses and occurrences including emergencies. Third, they need savings for consumption smoothing or safeguard against uneven income streams due to seasonal variations. They are able to hold their savings from high income periods and use to finance consumption expenditures during low income periods. Fourth, the poor save for purposes of wealth accumulation so that they can undertake future large expenditures like purchasing of agricultural inputs or paying school fees or purchase of large consumer durables. Lastly, savings serve as insurance against irregular events like funerals and illnesses and other contingencies (Fiebig et al. 1999; Johnson and Rogaly, 1997; Mutesasira et. al, 1999).

The general design of micro credit or microfinance programs tend to include an aspect of savings mobilization to enable the poor people access this long time denied service. Some NGOs have approached this through the organization of communities into savings groups which raise their savings among themselves and are loaned out within the group members. Others have used the credit approach and emphasise the importance of saving beyond the collateral demands in their training components. It is therefore worthy exploring whether the micro credit/microfinance institutions can encourage the beneficiaries to save.

1.2 Research Problem

Malawi has not been able to generate enough domestic savings to meet its investment requirements. The only period that recorded growing domestic savings and investment was between independence and 1979 (Chipeta and Mkandawire, 1992). At independence domestic savings and investment were estimated at 0 percent and 8 percent of GDP respectively, but by 1979 they increased substantially to 29 percent and 17 percent of GDP respectively. This period was also characterized by sustained economic growth with per capita growth rate of 5.5 percent.

However, owing to some exogenous shocks, like recurrent droughts, transport bottlenecks mainly due to the disruption of the rail route to the sea through Mozambique, and shortage of foreign exchange among others, growth was depressed resulting in a crisis period between 1979 and 1987. This period registered the lowest growth in 1981 at -5.2 percent of GDP attracting the intervention of the World Bank and International Monetary Fund, which recommended stabilization and structural adjustment programs¹ to government. This however, further led to increases in multilateral debt for the country. Since then the growth of the economy has been unstable and domestic savings and investment have remained low. In terms of undertaking development activities, the country has relied so much on external assistance in terms of bilateral and multilateral grants.

Recent data show that the country has worsened from the little savings to the dissaving position like -11 percent in 2003 and -8.8 percent in 2006. The overall low volume of deposits mobilized in Malawi is largely due to the fact that the majority of Malawians based in the rural areas have been excluded from the formal financial institutions which are urban biased.

¹ Structural adjustment programs are a series of reform programs aimed at changing the structure of the economy from government controlled to private sector led. They also became a requirement for obtaining financial and investment resources.

The few microfinance institutions which have been introduced by government with support from development partners and some NGOs have also been concentrated in urban and semi-urban areas. Most of these however, have also focused more on credit provision as such the popular savings product which they provide is the compulsory savings which are used as collateral for loans. Those therefore who would want to save or accumulate their little amounts over time for future investment do not have appropriate facilities for the purpose. This calls for deliberate government policy and strategies to mobilize savings including from the rural poor households to increase resources for investment.

Few studies have been done in the country on savings in general and none has been done to our knowledge on how micro credit schemes encourage savings mobilization. Studies by Ndalama (1999) and Mwanamveka (1990) focused on the determinants of gross national domestic savings. Both studies reveal factors that are responsible for influencing the gross domestic savings especially made in the formal sector which excludes the majority of Malawians because of accessibility challenges. Within the microfinance sector, while Chirwa (1998) looked at the performance of micro credit schemes, Masanjala (2002) dwelt on whether the Grameen Bank model would be replicated in Africa with FINCA as a case study. Both of these studies by Chirwa and Masanjala touched to some extent on the savings schemes in the micro credit schemes. No specific study has been done on the contribution of micro credit schemes to the savings culture. This study is therefore aimed at establishing the role of micro credit schemes in promoting savings behaviour among participants to meet their investment requirements and contribute to national savings.

1.3 Research Objectives

Given the research problem the main objective of this study is to examine the extent to which the micro credit schemes contribute towards the promotion of a saving culture among beneficiaries.

The specific objectives are: -

1. To establish whether participation in micro credit schemes increases level of savings.
2. To find out the relationship between the participants' socio-economic characteristics and level of savings.
3. To establish institutional and organizational arrangements that encourage participants to save.

Study Hypotheses

1. Participation in the micro credit schemes does not increase the level of savings.
2. There is no systematic relationship between participants' socio-economic characteristics and the level of savings.
3. Institutional and organizational frameworks do not have effects on savings behaviour.

1.4 Research Justification

This study will provide some information on saving behaviour of participants in micro credit schemes. It will establish whether participation in the micro credit schemes increases the participants' savings and therefore contribute to literature on understanding the role of micro credit schemes in mobilization of savings. Findings from this study could help in formulation and design of inclusive policies and strategies especially targeting the rural poor in their majority who are also credit constrained in mobilizing the savings. This will eventually help to alleviate poverty at household level and improve the status of the domestic resources to finance investment.

1.5 Limitations of the study

Respondents especially those who had defaulted in the Youth scheme were reluctant to be interviewed because they feared the exercise was an undertaking by MRFC to track defaulters and recover the loan. This led to two problems. Firstly, it became difficult to meet some potential respondents who never showed up for interviews despite making several appointments. Secondly, although an assurance was given to them that the information collected was not going to be used by MRFC, there is a possibility that some information on income and savings was withheld.

The data on savings and on income was mostly out of recall memory because most people do not keep records of income. Combined with the unwillingness for many to reveal their financial information may mean that the financial information was a misrepresentation of the true amounts.

In some areas where the study was conducted, respondents were expecting remuneration for their participation in the survey. Some indicated that they had participated in a number of surveys with different organizations and some were offering financial rewards. Since the study was not providing any financial rewards their commitment to the survey was not full and the information supplied may have been compromised.

CHAPTER TWO

2.0 Microfinance sector in Malawi

2.1 Background of microfinance schemes

The microfinance activities date back to a period before independence when the Nyasaland African Loans Board and later after independence in 1964 the Central Loans Board was offering cash or seeds and fertilizers to farmers for improving crop production (Chirwa, 2002). Since then agricultural credit continued to dominate the field with the introduction of the National Rural Development Programme (NRDP) in 1968 which facilitated credit provision across the country for agricultural development. In 1987, the Smallholder Agricultural Credit Administration (SACA) was established as a department in Ministry of Agriculture to provide agricultural loans to smallholder farmers through farmers club (Diagne and Zeller, 2001). The scheme, however, collapsed in 1992 due to poor repayment as a result of severe drought and political liberalisation.

In an attempt to reach out to the rural 'poor' and 'core poor' who were not reached by the SACA, a parallel rural finance institution, the Malawi Mudzi Fund (MMF) was established on pilot basis in two districts of Chiradzulu and Mangochi mainly to provide business loans for non-farm income generating activities to households with less than 1 hectare of land (Chirwa, 2002; Diagne and Zeller, 2001). With design features of the Grameen Bank of Bangladesh, it benefited mostly female clients as male counterparts registered high default rates. One other important component of MMF was savings mobilization as an integral part of the services. The scheme was incorporated into Malawi Rural Finance Company in 1995 before its expansion to other areas beyond its pilot.

In general Malawi has witnessed an increase in the number of players² and activity in the microfinance sector after 1992, offering credit for micro and small enterprises for farm and non farm activities. Microfinance activities have been accelerated in Malawi because of firstly the development goal that government embraced in 1990s that focused on poverty alleviation (Chirwa, 2002). Secondly, it has been due to the popularity of the Grameen Bank and other micro finance institutions in the East Asia region and Latin America following achievements they have made in making credit accessible to the poor who would otherwise not benefit from the formal financial institutions.

² The micro credit schemes players include specialised microfinance institutions, relief or development driven NGOs

2.2 Some features of microfinance institutions in Malawi

In Malawi microfinance services have been dominantly provided by government initiatives, commercial banks, microfinance institutions and Non Governmental Organisations (NGOs) (Table 1). While there seems to be wider participation in microfinance services, government owned banks and government backed programmes are dominating the sector accounting for 70 percent of credit and 80 percent of savings services (Burritt, 2006). Some of the programmes included Economic Activities Programme (EAP) under the Ministry of Women and Child Development; the Small and Medium Enterprise Fund (SMEF) and the Entrepreneurship Development and Employment Creation Programme (EDECP) under the Ministry of Commerce and Industry. Other institutions in which government has major stakes include MSB, Development of Malawian Traders Trust (DEMATT), SEDOM and MRFC (Burritt, 2006; Chirwa, 2002; Pitamber, 2003).

The extent to which financial institutions reach out to communities reflects how accessible the services they provide are to clients considering transaction costs (time and travel costs). The only institution in the country that has substantial outreach is MRFC followed by the MSB which took over financial service activities from Malawi Post Office Savings Bank. Most of them even though they appear to be in all regions, have not gone beyond the cities and secondary towns leaving the rural poor communities unserved.

Further, most of these institutions largely provide loan or lending services mostly in groups, to their clients with the aim of supporting small scale businesses. This approach and innovation is justified to obviate the need for collateral and thereby easing access to credit by the poor who otherwise do not qualify for credit in formal financial institutions (Chirwa, 2002). Apart from the lending services, the institutions also receive savings from their clients. It should however, be noted that most of them are involved in receiving the mandatory savings to be used either as collateral or are pre-condition for accessing loans. The only institutions which are allowed by regulation to take deposits are Opportunity International Bank of Malawi (OIBM), MRFC, MUSCCO and MSB. The savings mobilization function has therefore not been aggressively adopted by the microfinance institutions in the country; as such most of them have not performed well. Tsegaye (2003) observes that only a few microfinance institutions have been able to provide deposit services and therefore have had minor impact on savings mobilization despite the willingness of the clients to save at the micro level. Table 1

below shows some micro credit/microfinance institutions with details of some features like their extent of outreach and services they provide to their clients.

Table 1: Micro-credit/Microfinance Institutions in Malawi

FI/Credit Institution.	Source of initial funds	Legal status	Outreach	Lending Services	Saving Services	Type of Savings
SB	Government	GOM Corporation	All Regions	Yes	Yes	Voluntary
RFC	Government	GOM Corporation	All Regions	Yes	Yes	Compulsory /Voluntary
EDOM	Government	GOM Corporation	All Regions	Yes	No	-
EMAT	Government	GOM Corporation	All Regions	Yes	No	-
USCCO/S CCOs	WOCCU	Corporation	All 3 Regions rural and urban	Yes	Yes	Voluntary
INCA	FINCA International	Corporation	All Regions 26 districts	Yes (groups)	Yes	Compulsory
UMO	Concern Universal	NGO	One Region 3 districts	Yes	Yes	Compulsory /Voluntary
RIDE Malawi	UNCDF	Corporation	All Regions (13 branches)	Yes	Yes	Compulsory
DIBM	USAID & DfID	Bank	2 Regions 3 districts	Yes (groups)	Yes	Voluntary
Project Hope	US Humanitarian org.	Project	1 Region 4 districts	Yes (groups)	Yes	Compulsory
NABW	Donors	NGO	All Regions 10 districts	Yes	No	-
ECLOF	Donors	NGO	All Regions 27 districts	Yes (groups)	No	-
The Hunger Project	Donors	NGO	1 Region	Yes		
MoGYCS	Government	Project	All Regions	Yes	Yes	Compulsory /Voluntary
CARE International	Donors	NGO	3 districts	Yes	Yes	Compulsory /Voluntary
SHDI	Donors	NGO	1 Region 1 district	Yes (groups)	Yes	Compulsory /Voluntary
World Vision	Donors	NGO	5 districts	Yes (groups)	No	-

Sources: Chirwa (2002), Pitamber (2003), Burritt (2006), Tsegaye (2003)

2.3 Policy and Regulatory Environment

2.3.1 Microfinance Policy

In 2002, the government came up with a policy statement on micro finance in Malawi. The overall objective of the policy is to promote the development of a sustainable microfinance industry, which provides credit, savings opportunities and other financial services to low-income people for wealth and employment creation. Specific objectives include:- improving the legal and regulatory framework and overall economic policies, improving capacity of implementing institutions, promotion of best practices in the industry, and to increase coordination among the various actors in the micro finance sector by encouraging donors to coordinate their capacity building efforts in collaboration with government (Burritt, 2006; GOM, 2002; Chirwa, 2002).

There are challenges however, facing the full achievement of some of the objectives that the policy and plan of action outlined. The microfinance sector is not clearly covered by any specific legislation or regulatory instruments and is not supervised like other financial institutions. This is so because the existing MFI players are registered under different legislations. The NGOs for instance are registered under the Trustees Incorporation Act; the parastatals are created under specific Acts and the SACCOs under the Cooperative Societies Act (Pitamber, 2003; Kalanda, 2006). These instruments fall outside the jurisdiction of the Reserve Bank of Malawi (RBM) the formal regulatory authority for financial services sector and are hence difficult to administer.

Pitamber (2003) observes that the Reserve Bank of Malawi (RBM) which is mandated to supervise all financial institutions does not have adequate capacity to supervise or regulate all microfinance institutions directly. Secondly, when the policy talks about best practices, it seem to be more concerned with the conduct of the microfinance institutions and investors and not to service the poor. Dunford (1998) argues that the 'best' in 'best practices' seem to mean best for performance of microfinance institutions and not the targeted poor people. Further the emphasis seem to be on building large scale financial service systems with remarkably little regard for how or to whom services are delivered. The 'best practices' therefore suggest adopting the performance standards of the commercial banking industry. If adopted, it will mean that the microfinance sector will be adopting the standards of the industry that created the failure of the market to meet the demand of the poor for financial services.

The other challenge is to do with how government will be involved in the development of a sustainable microfinance industry. The policy states that government shall mainstream microfinance initiatives in all ministries in order to allow for proper coordination. The intended meaning of this is unclear and gives rise to expectations that line ministries or its parastatals may be involved in direct implementation of programmes. The management of the Malawi Rural Development Fund (MARDEF) within the Ministry of Finance demonstrates that government is involved in management of credit programmes. At the same time government ignored the best practices and went ahead dictating the methodology that Malawi Savings Bank (MSB) must follow to implement MARDEF (DMS, 2005). The general feeling is that MARDEF is risky to the sector in general and MFIs in particular as it offers subsidised interest rates.

2.3.2 Malawi Microfinance Network (MAMN)

MAMN is an association of organizations currently providing microfinance services or having provided them in the past have an interest in the sector. The institution was created and officially launched in 2002 with an initial membership of 12; it now has a membership of 13 institutions (Mbewe, personal communication June, 2006). The objectives of the network include:- development, promotion and regulation of microfinance activities to ensure good governance and practices among members as a way of ensuring their sustainability and enhancement of their capacities to stimulate and enhance private sector development and be key players in rural economic and social transformation in Malawi. Secondly the MAMN seeks to facilitate the exchange of experiences, ideas, innovations, information and technologies to strengthen microfinance operations among member institutions and build capacity within the sector as a whole. The challenges of the network include non compulsory membership to the network which means it will not be able to sort out the challenges in the sector. Kalanda (2005) also observes that membership of the five parastatals to this network creates an opportunity for the introduction of politicized policies and practices. MSB for instance was directed to lend government money (MARDEF) at below market prices against the network's code of conduct.

2.4 Case Study Schemes

This study will consider the two micro credit schemes implemented by government and an International NGO respectively. The government scheme is implemented through the Malawi

Rural Finance Company using the credit approach while CARE scheme is implemented by the CARE International using the savings mobilisation approach.

2.4.1 The Commonwealth Youth Credit Scheme

The Commonwealth Youth Credit Initiative (CYCI) is a component of Youth Enterprise Development (YED) Programme. This is a micro credit and enterprise development initiative designed to promote youth employment and contribute to poverty alleviation among young people in commonwealth member countries. The overall aim of the scheme is to contribute towards economic empowerment of young men and women and alleviate poverty (Phiri, 2004)

The Government of Malawi, through the Ministry of Youth, Sports and Culture (MYSC), the Malawi Rural Finance Company Limited (MRFC) and the Commonwealth Youth Programme Africa Centre (CYPAC), signed a Memorandum of Understanding (MOU) and a Financial Agreement (FA) in October, 2003. The agreements were aimed at piloting the Commonwealth Youth Credit Initiative/Youth Enterprise Development (CYCI/YED) programme in Malawi. Malawi Rural Finance Company was selected to deliver credit fund amounting to £27,000 through its network of field offices. Government on the other hand through the Ministry of Youth, Development and Sports (MYDS) had to establish institutional arrangements of the project to facilitate activities of the implementing agencies. The pilot project was implemented in Lilongwe district with a target population 200 young men and women in four (4) Traditional Authorities where seventeen (17) groups were mobilized with total membership of 176 (Phiri, 2004; MYSC, 2005). By August 2005 there were 25 groups with a total of 255 members (82 females and 173 males) and 309 loans had been disbursed to the young people and the loan value was MK4.258 mn. (MYDS, 2005).

The initiative took a holistic approach to micro credit delivery, emphasizing credit provision as part of an integrated package that included skills, marketing, management training and business counseling to achieve project effectiveness. The reasoning behind this approach was based on the understanding that running a successful business requires skills which young people as first time entrepreneurs may not have. This category of beneficiaries therefore needed assistance to prepare business plans and turn their business ideas into reality.

At the onset MRFC as the implementing agency conducted sensitization meetings for staff members and stakeholders. Following this was customer group mobilization and sensitization about the scheme conducted by the department of Youth officials and MRFC staff. The youth

groups already existed and were involved in various other activities like human rights, HIV and AIDS, home based care and natural resource management and food security. These groups were then screened to establish if they can pay back the loan. Those that passed the screening test were then given training lasting up to 16 hours covering the following: - Group dynamics (how to make the group strong), credit procedures and how to save. Each member was then required to present a business plan to the implementing agency. Before loans were given out the members were asked to open a collateral savings account and deposit at least 10 percent of the loan requested. Apart from the collateral savings account, members were also encouraged to open ordinary savings accounts to which they would be depositing their voluntary savings. The implementing agency was charging commercial interest rates on the scheme loans. First time borrowers were charged 33 percent, while repeaters and prime customers were charged 32 percent and 30 percent respectively. Loans were supposed to be paid within twelve months on monthly installments.

2.4.2 Care International Micro Credit Scheme

The CARE International Micro credit scheme is known as the Village Savings and Loans Scheme. It is a component of the food security objective under the I-Life Project which was born out of the Central Region Livelihoods Project which phased out in 2004. I-Life project's overall aim is to improve food security through increasing the capacities of the targeted beneficiaries in vulnerable communities. The project has the following objectives: firstly, to enhance and reduce food insecurity through crop production, agricultural produce marketing, infrastructure development and through the village savings and loans initiative; secondly to mitigate the effects of HIV and AIDS and improving nutritional status; thirdly to achieve institutional development for the communities.

The project implementation is co-led by CARE International and Catholic Relief Services (CRS). With the experience that CARE International has had with the concept of village savings and loans in its other programmes within Malawi and other countries, it is providing the lead and has helped to build institutional capacity in other partner organizations. The other organizations implementing the project in each of the seven districts are World Vision International (WVI), Salvation Army, Emmanuel International, Africare, and Save the Children (US).

CARE International is implementing this project in Lilongwe district. It has targeted four Traditional Areas of Masula, Masumbankhunda, Mazengera and Chitekwere. The approach of the scheme is such that field workers from CARE International conduct awareness meetings through the local leadership i.e. TAs, and village headmen (VH) to introduce the concept of Village Savings and Loans. The Village Savings Scheme is a community based saving scheme, driven by the members who come together with the purpose of saving to meet their own needs. Community members come together usually in a group with members ranging from 10 to 30 and choose the executive comprising the chairperson, the secretary, the treasure and the committee members. Each saving group is self-governing and comes up with its own regulations like minimum amount each individual should be saving and frequency of saving. To facilitate this, groups agreed to be meeting on average once a week. Each member has a passbook in which records of savings are maintained, in addition to the records kept by the treasure. The savings are kept in a cash box secured with three locks and keys are kept by different people to ensure that no one opens the cash box in absence of other members. During the time they are saving members borrow from the same savings at an agreed interest which ranged from 10 percent to 50 percent to be repaid at the end of one month. Accumulated savings are shared among members after 8 to 12 months. The groups are given training lasting up to six weeks with a total of six days. This training covers business management and operation, group formation and management, loan procedures and credit management, investment, economic activity selection and planning and savings mobilization. As of May, 2006 the scheme had a total of 1,547 members (1,186 females and 361 males). The groups had mobilized savings in excess of MK1million over a period of five months from January 2006, having shared the savings from the previous cycle between December 2005 and January 2006 (Chafulumira, personal communication, June 2006).

CHAPTER THREE

3.0 Literature Review

3.1 Theoretical Literature

Generally, savings are defined as a portion of income that is not spent on current consumption but instead reserved for future use (Daniels, 2001; Livingstone and Goodall, 1970). Savings can be distinguished based on economic agents involved. According to Daniels (2001) personal savings are made by individuals, corporate savings by companies while public savings are made by governments. At all levels savings are very important for providing investment resources and especially at the national level, they make a nation rely on its own resources.

It is widely agreed by most economists that income and/or wealth is the main driving force behind consumption and saving. Theories that explain why people save include Keynesian's absolute income, Freidman's permanent income, Modigliani's permanent income over the life-cycle of a household, and Duesenbery's relative income (Schmidt-Hebbel and Severn, 1996 cited in Wright, 1999). These theories fall within the four major motives which influence economic agents' decisions to save. These motives are life cycle saving, precautionary saving, bequest saving and saving for the purpose of purchasing *lumpy* assets (Norman and Owens, 1997).

The Absolute Income Hypothesis

The *Absolute Income Hypothesis* was developed by Keynes in 1936 as part of his work on the relationship between income and consumption. This model links savings to income and stresses that households allocate their income to either current or future consumption. In this model savings would increase with the disposable income if other factors are held constant. When income is allocated for current purposes, it is known as consumption but if allocated for future purposes it is savings. The act of not consuming the current income is the act of saving. According to this theory as household's income increases at any given time, it consumes and saves more though not necessarily at the same rate.

The Permanent Income Hypothesis

Developed by Milton Friedman in 1957, the theory states that choices that consumers make on consumption patterns are determined by longer term income expectations and not current income. In this theory individuals tend to consume a constant proportion of permanent income and such income not considered permanent is saved without having effects on the consumption behaviour of the agent. Permanent income is defined as lifetime anticipated income and the difference between actual income and permanent income gives transitory income from which savings are made. For rural poor households for instance in times when there is high transitory income like a period just after harvest and when ones business is performing well there should be corresponding increases in saving rather than consumption.

The Life Cycle Hypothesis

The *Life Cycle Hypothesis* was formulated by Modigliani and Ando in 1957. The theory assumes that individuals consume a constant percentage of the present value of their life income dictated by preferences, tastes and income. It argues that average propensity to consume is higher in young and old households whose members are either borrowing or running down life savings. Middle aged people on the other hand tend to have higher incomes with lower propensities to consume and higher propensities to save. This is the most common approach to consumption and saving at the micro level (Loundes, 1999). This theory further assumes that plans for consumption are made to achieve a smooth or even level off consumption by saving during periods of high income and dissaving during periods of low income and that yearly income varies over the stages of the life cycle. The theory makes predictions that people save a lot when their income is high relative to lifetime average income and dissave when their income is low relative to lifetime average. The implication of this model is that young people do not save but as they advance into mid ages they save and accumulate assets which are drawn in their old ages. If the theory was working perfectly well, Malawi would have enjoyed the highest saving rates given that its population is dominantly youthful and policies targeting the middle aged would maximize savings. But just as Ndalama (1999) observes, despite Malawi having a young population savings have remained low. This could in part be attributed to low incomes among this group also considering that there is high unemployment in the country.

Practical aspects for saving by the poor

An understanding of the practical aspects of saving by the poor is useful for design of appropriate savings policies and products which take care of poor people's needs. The poor make savings to fulfill future expenses for a range of reasons. Firstly, according to Wright (1999) and Fiebig et al. (1999), savings contribute towards moderating seasonal variations of income streams. Savings made during high income periods are used to finance consumption expenditure in low income periods. This is especially important for households that depend on few cash crops for their cash flow. Such savers require a safe place which should also be convenient and accessible for their savings. Secondly, savings are used as substitute for social security systems for the poor where they are not available. Accumulated savings are used as insurance against bad health or disease, sudden income losses and other contingencies. Thirdly, savings help in accumulating wealth which can then be used to meet long term goals like social and religious obligations and may also help to facilitate future investment and purchase of consumer durables. The other reason why poor people save and is implicit in other reasons highlighted above, is that of *reciprocity*. Many poor people tend to set up reciprocal arrangements where they save by lending such that if one lends to a friend the expectation is that this person will lend back in times of need.

The range of motives for saving that have been outlined above have implications on the demand for deposit facilities and need therefore to be carefully considered so as to meet the needs of the poor people. Robinson (1994) in (Fiebig et al. (1999:4) points out that demand for deposit facilities is determined by a number of motives and determinants and can therefore best be met by a mix of savings products offering different levels of liquidity and return. The key motives which need to be satisfied for savers to effectively demand deposit facilities from the supply side include safety and security of the savings, ease and immediate access of such savings and positive return on savings.

Factors influencing saving

Among the factors that affect savings are national policies pertaining to the real deposit rate. Such policies influence the decision of whether one deposits their money in formal commercial institution or opt for an informal arrangement even if the latter is riskier or ties up their money for longer (Otero, 2003). The other factor is the distance of the banking facility from the potential savers. If there is higher bank density, there is a greater possibility of mobilizing savings (Meyer et al. (1988) cited in Otero (2003); Padmanabhan (1988)). The distance and inaccessibility of a bank branch influence a person's decision on how to save, encouraging savings in kind rather than deposits with a financial institution. The third is the trust which according to Otero (2003) and Padmanabhan (1988), once the savers perceive that their deposits are safe they may then decide to entrust the institution with savings. Otero (2003) further argues that the trust factor becomes very important to the poor since they seldom interact with formal banking institutions, understand little about investment practices and are often denied other services such as credit. Additionally small farmers saving to even out their income stream over the year need a safe repository for their savings which is convenient, accessible and protects the value of their deposit from being eroded by inflation.

Institutions used for saving

Micro financial institutions and services are generally categorized into the informal sector, formal sector and semi formal sector. The informal sector include saving at home, savings clubs, Rotating Savings and Credit Associations (ROSCAs), Accumulating Savings and Credit Associations (ASCAs) and others; the formal sector includes formal banks and insurance companies while the semi-formal sector comprises the microfinance institutions (Mutesasira et al., 1999; Johson and Rogaly, 1997).

The informal financial sector is the largest and widespread in almost all African countries and is known by different names (Steel and Aryeetey, 1994). The sector includes user-owned or profit-oriented deposit takers and lenders providing the services for profit. Savings are made either at home, savings clubs, ROSCAs, ASCAs, deposit collectors, money guards and others Rutherford cited in (Harper, 2003). Because the services in the informal financial sector are readily accessible with low transaction costs and relatively flexible in service provision they tend to be used more by the majority who are not reached by the formal banking sector (Musona and Coetzee, 2001). The poor however, pay a very high price in terms of high risk and low or negative interest rates for such services Rutherford cited in (Harper, 2003).

Musona and Coetzee (2001) further add that the savings may be exposed to theft, destroyed by fire and animals and may be lost due to dishonesty apart from temptation to spend and demands from relatives and friends for assistance.

The formal financial sector comprises institutions which are subject to banking laws of the country. They provide conventional retail facilities and engage in a wide range of financial intermediation including savings accounts; current accounts; deposit accounts and loan accounts (Kirkpatrick and Maimbo, 2002). In terms of outreach most of them are concentrated in urban areas with no or poor branch network in the rural areas and therefore are not well placed for mobilization of savings. They also demand high opening and minimum account balances to the disadvantage of the poor who may not be able to set aside such high amounts. In Zambia for instance the study by Musona and Coetzee (2001) found that the opening balance ranged between K50,000 to K500,000 while minimum account ranged from K30,000 to K500,000. This became a barrier to most poor people who were unable to raise and set aside such amounts.

Mutesasira et al., (1999) also found in Tanzania that before restructuring, with government policy there was wide outreach of the bank and postal bank branches providing such services as mobile banking and daily deposit collections. However, with restructuring such services were withdrawn and they were only operating in small towns. They also revised upwards the opening and minimum balances and this put off the small savers. This scenario, argue the researchers, is a reflection of the bankers and economists views that it is not profitable to deal with small savers and that savings are held primarily to earn income. Such views do not take into account that the poor want savings into lumpsums maintained in a reliable and accessible environment to meet their needs. Apart from high opening and minimum balances and distant location of bank branches, the poor do not use the formal banks because of inconvenient opening hours, complicated transaction forms and transaction costs relating to travel and waiting. It is further argued that even where formal financial institutions have managed to reach the rural areas to mobilize savings, such savings are not utilized by the rural poor. The institutions instead channel these savings to urban areas where they have more attractive clients associated with export-oriented investment to the disadvantage of rural communities.

The semi-formal financial sector comprises institutions that are formally organized but do not have full legal ability to accept and intermediate deposits. They include NGOs or banks with special charter, village savings and loans being organized by some NGOs, village banks, self

help groups or member savings being undertaken by micro credit NGOs (Kirkpatrick and Maimbo, 2002). They are able to provide improved financial services to sectors of the population comprising small savers and borrowers, which would otherwise have limited or no access to these services (Cuevas, 1988). Before they came on the scene in the 1980s governments with donor assistance they were involved in providing services especially subsidized rural credit to improve access to credit for the poor who could not afford it in formal institutions. These were however, characterized with politicization, high default rates and inability to reach the poor rural households among others and were abandoned (World Bank, 2001). Semi formal financial institutions assumed greater prominence in the 1980s with new lending approaches to provide micro credit to poor individuals and groups without assets to pledge at the formal banks. According to Kirkpatrick and Maimbo (2002), the MFIs recognized that despite lack of collateral the poor were capable of repaying loans with appropriate incentives. MFIs have been criticized for advancing pre-determined loans, rigid group sizes; and pre-agreed access and repayment dates. It is argued that such an approach obstructs the development of services and products that people want like the flexible savings and deposit facilities, loans for education and health and this eventually leads to high drop outs and exclusion of the poorest among the poor (Wright cited by Kirkpatrick and Maimbo, 2002:295)

Semi formal financial institutions commonly use forced and voluntary savings mechanisms to mobilize savings. In cases where compulsory or forced savings are required they are either a condition for membership or access to a loan. In voluntary saving on the other hand, members are allowed to make deposits whenever they wish (Johnson and Rogaly, 1997). According to Robinson in (Fiebig et al. 1999:15) compulsory and voluntary savings reflect two different philosophies. Compulsory savings schemes perceive savings as an integral part of credit and that the poor must be taught to save and learn financial discipline. In this theory for one to qualify for credit they need to have a convincing savings record made of small regular payments that contribute to repayment performance. Johnson and Rogaly (1997) have criticized compulsory savings schemes arguing that they do not favour the poor. The poor may not participate because they are reluctant to take up debt or because existing members will avoid them because they are not sure whether they may repay the loan. This approach has also been criticized for presenting difficulties to savers when they want to withdraw their savings. Either one has to quit the MFI altogether to access their savings or withdrawals reduces the subsequent loan amounts one can take (Wright, 1999; Dowla and Alamgir, 2003).

Depending on the purpose for saving, others would however prefer to have locked in savings. Mutesasira et al. (1999) has shown from the research that some people especially those who join the MFIs with the objective of saving up for a major expenditure welcome the idea of locked savings to safeguard them from trivial expenditures.

The flexible or voluntary savings schemes on the other hand assume that the savings are a component of financial intermediation and that savers already know why and how to save. It has been argued that flexible and voluntary savings facilities which allow people to build savings independently of debt have high demand from the poor which is not met (Rutherford cited in Johnson and Rogaly, 1997). Further, savings facilities for the poor which involve small but regular deposits create a sense of obligation and positive attitude in these people to save. Observations have been made in light of this that a focus on savings mobilization should lead MFIs to develop a variety of demand driven savings products which give options to clients to set funds aside without necessarily reducing their ability to access loans when they need to liquidate their savings (Wright, 1999; Fiebig et al, 1999).

3.2 Empirical Literature

Participation of the poor in saving

Against the notion that the rural poor cannot be involved in saving, Dowla and Alamgir (2003) argue that household savings particularly in the rural areas comprise the largest component of the total savings in Bangladesh. Three other studies by Maloney and Ahmed (1988), Rahman (1998) and Rutherford (2002), confirm the observations. A survey by Maloney and Ahmed of 300 households in rural Bangladesh found that the poor were saving between 2-12 percent of their income and the moderately poor were saving between 12-14 percent of their income. Rahman (1998) in another survey found that the average saving rate of 370 households in two rural villages in Bangladesh was 9 percent. Further, in his examination of annual households' financial transactions, Rutherford found that of all transactions that were being made, saving at home was used by all the 42 households observed. Households were making small to medium value lump sums to help them with immediate use confirming that households make small savings to close the gap between consumption and uncertain income.

Saving facilities used by the poor

The rural poor however, tend to use informal institutions rather than formal institutions for saving which are not familiar to the communities. Mofunanya (1992) in a survey to find out farmers attitudes to formal and informal institutions in mobilization of rural savings in Nigeria, found that despite heavy presence of bank offices in the rural areas the rural poor were still not saving with them. The banks were regarded as institutions for the relatively well off, the powerful and the educated. He further found that instead non financial institutions like the rural self-help organizations and credit and savings associations were able to encourage or promote the habit of saving. The mere membership in these organizations made small farming households to become accustomed to saving small amounts of money on a regular basis.

Using qualitative research methods, Moyo et al. (2002), Musona and Coetzee (2001) and Mugwanga (1999) conducted studies in South Africa, Zambia and Kenya respectively to find out how poor people save and the impact of savings on households. They found that the low income groups in the three countries have limited access to formal banks because the banks are located far from the peoples' neighbourhoods and that the opening and minimum balances are too high for the poor people. The studies also found a wide variety of informal saving mechanisms. These findings compare to Chipeta and Mkandawire (1991), who makes a comparison of private sector savings made in the informal financial sector to those made in the formal and semi formal sector for the private sector and concludes that the informal financial sector is larger than the formal and the semi formal sectors in Malawi. The three studies further found that savings impact the poor in terms of wealth accumulation to finance households' long term goals (consumer durables and business assets), insurance against (illness, death, sudden income losses and other contingencies), safeguard against uneven income streams due to seasonal variations (savings of high income periods use to finance consumption expenditures during low income periods) and savings for future investments in education for children and other human resource investments. The important recommendation that the studies make is that for an MFI seeking to diversify its saving products it should listen to clients and examine the strength of informal saving products and adapt those aspects that make the informal sector attractive.

Microfinance institutions have mobilized considerable savings from the poor participating members through their savings products. The first product is the compulsory savings which has however, been criticized for not being accessible to the savers and therefore not responsive to precautionary savings motives (Dowla and Alamgir, 2003). Chirwa (1998) also

observes that in most successful rural financial intermediaries, savings have remained an integral part of the credit facilities. In his study of FINCA, Chirwa (1998) found that savings of village banks with commercial bank had grown from MK1.3 million in 1995 to MK4.5 million in 1996. The introduction of flexible savings products further increases the potential of MFIs in mobilizing savings since more people can then save with them instead of banks which are farther away from the people. This is further in line with the realities of the poor people who have desire for flexible accounts to meet their consumption and income needs. Dowla and Alamgir (2003) found that MFIs in Bangladesh (like Association for Social Advancement (ASA) and the BURO-Tangail) that had removed restrictions on withdrawals from members compulsory saving and provided flexible savings accounts experienced larger deposit amounts and did not experience rapid withdrawals but members continued depositing even with the opportunity to withdraw at will.

Savings and socio economic and demographic characteristics

Nana-Fabu (1992) in her study on savings mobilisation in Cameroon found that savings attitudes of households are linked to many variables, including socio-demographic characteristics. On education she found that arguments that commonly link illiteracy among households to low or no savings are less reasonable in the Cameroonian context because the most successful indigenous businessmen were not highly educated. Besides, the majority of the labour force in agriculture was only educated to primary level but the rural sector was thriving with high savings capacity among the low education group of women (De Lancey quoted by Nana-Fabu, 1992:188). On size of household according to Snyder cited in Nana-Fabu (1992), the probability of positive saving for a sample of Sierra Leonean households was not affected by household size with large and small households likely to have positive savings.

Reddy et.al (2003) in their study on determinants of household savings behavior in an emerging economy, examined the savings behaviour of two ethnic communities in Fiji. This study focused on market and non market factors and using the descriptive statistics and econometric analysis, the results showed that among the market factors, access to banking services and income levels were key determinants of saving. They drew conclusions that banks must try as much as possible to ensure that their operations do not lead to exclusion as having a bank account plays an important role in savings.

Using the Melbourne Institute Household Saving Survey and the Westpac-Melbourne Institute Survey of Consumer Sentiment, Loundes (1999), considered the motives for Australian household saving and the form in which household savings are held. Using descriptive analysis the research found that a range of motivations for saving are in effect at any one time for a household ranging from life-cycle, to precautionary and leisure motives. On income, the study found that low income households were either running into debt, drawing on their savings or were just managing to make ends meet as opposed to the high income households which were able to save a lot. The most important motive for the low income groups was precautionary; most households indicated that they were saving to cover for unexpected events like illness or unemployment. The study also found that couples which were smaller without children had higher saving rates than those with children and lowest for the lone parents. Those without children were saving for holiday, those with children were mostly saving for education and this was increasingly becoming important with the number of children in the household.

CHAPTER FOUR

4.0 Research Methodology

4.1 Research Design

The study adopted a combination of participatory and non-participatory approaches to investigate the role micro credit schemes play in promoting savings of the participants. Use of the two approaches was for complementary purposes. The study adopted a case study approach where two micro credit schemes were selected on the basis of the different approaches the two schemes have in provision of credit to the participants. This will provide clear evidence as to the effect of the different approaches on their savings mobilization efforts.

4.2 Target population and research sites

The target population comprised participants of the Youth scheme and CARE scheme in Lilongwe district. These schemes were selected because they use different approaches in providing the loans to the participants. The Youth scheme uses funds from an external grant to extend loans to young people. In contrast CARE scheme does not provide funds but only seeks to motivate the participants into cooperative saving by mobilizing their own resources internally and then extending loans to members. Due to differences in the design, it was believed that contrast between these schemes will illuminate the design of micro credit programs with emphasis on savings to solve the problem of lack of investment capital among the poor people.

The total sample size for the study was 200 individuals. Using purposive sampling, 161 respondents were selected from the micro credit schemes (78 out of 255 beneficiaries were from the Youth scheme while 83 were from the CARE scheme out of 1,547 participants). This sample represented 31 percent and 5 percent respectively for the Commonwealth and the CARE schemes respectively. The remaining 39 were non participants sampled from the catchment areas of the micro credit schemes who served as a control group. In the Youth scheme all the 17 groups ended up being selected for interviews. This was so because most participants were not available for interviews for various reasons. In the CARE scheme 16 clubs belonging to three cluster groups were randomly sampled out of 74 groups. All participants who were available were selected for interviews from both schemes. A total of

four focus group discussions two in each scheme were organised with the aim of complementing the structured questionnaire by obtaining more detailed information for the open ended questions. In the Commonwealth Youth Credit Scheme they comprised of males only while the in the CARE International micro credit scheme they comprised all females. These group interviews were conducted in different clubs from those that were visited using questionnaire interviews with the aim of broadening the scope of the survey. A total of 7 key informants were interviewed in this research. These included an official at the Malawi Microfinance Network, 2 district officers for MRFC, 1 district and 1 head office officials in the department of youth, 1 field officer and 1 official at the CARE head office.

4.3 Data collection instruments

This study used three instruments to collect data. Firstly, a survey questionnaire (Annex 2) was used to collect mostly quantitative information from individual respondents within the two schemes and the control group. Secondly, there was the focus group discussions (FGD) checklist (Annex 4) which guided the group discussions. The last was a checklist which guided the semi structured interviews with the key informants (Annex 3). The questions in this tool mainly focused on policy issues with regard to the schemes' implementation and challenges and constraints in savings mobilization and their suggestions for improvement. Before actual survey implementation, the questionnaire was pre-tested in the field and was adjusted accordingly.

4.4 Data processing and analysis techniques

4.4.1 Quantitative data

Upon completion of the data collection exercise from the two micro credit schemes, the participants' questionnaires were thoroughly checked to ensure completeness, accuracy and uniformity to achieve validity of collected data. This step was complementary to training before the onset of fieldwork and regular checks of the completed questionnaires during the entire data collection exercise. The questionnaires were then coded (especially open ended questions) in preparation for data entry. Data was entered and analysed using a computer software –Statistical Package for Social Scientists (SPSS) for windows.

The analyses conducted on the data included descriptive statistics, cross tabulations, regression comparisons and frequency calculations. Variables like age, gender, education, household size, occupation, marital status, income of the household and participation in micro

credit schemes were explored using a regression model to establish whether such socio-economic characteristics have any relationship with participants' savings. This analysis was also useful to find out whether participation in micro credit schemes would affect the level of savings one makes. To achieve this, the following model was used:-

$$S_i = \alpha_0 + \alpha_1 Age + \alpha_2 Hhsize + \alpha_3 Income + \alpha_4 DGen + \alpha_5 DOccp_j + \alpha_6 DMar_k + \alpha_7 DEdu_z + \alpha_8 DPart + \varepsilon_i \dots \dots \dots (1)$$

An additional variable (scheme type) was introduced to the model for scheme participants to establish if there are any institutional and organizational arrangements responsible for the participants' savings behaviour in the two study schemes. The savings function that was used is specified below:-

$$S_i = \alpha_0 + \alpha_1 Age + \alpha_2 Hhsize + \alpha_3 Income + \alpha_4 DGen + \alpha_5 DOccp_j + \alpha_6 DMar_k + \alpha_7 DEdu_z + \alpha_8 DSch + \eta_i \dots \dots \dots (2)$$

Where

- S = total savings in Malawi Kwacha
- Age = age of respondent in years
- Hhsize = size of household (number of members)
- Income = total annual household income in Malawi Kwacha
- Dgen = dummy for gender (1 = male and 0 = female)
- DOccp_j = dummy variable for occupation where D=1 when occupied and D = 0 otherwise and Occp₁ (1= farming, 0 = otherwise), Occp₂ (1 = Business, 0 = otherwise) Occp₃ (1 = Ganyu, 0 = otherwise)
- DMar_k = dummy for marital status where D =1 belongs to the marital status and D = 0 does not belong to the marital status. Mar₁ (1 = married, 0 = otherwise), Mar₂ (1 = widowed, 0 = otherwise), Mar₃ (1 = divorced/separated, 0 = otherwise)
- DEdu_z = dummy for education level where D = 1 when attained the education level and D = 0 when not attained). Edu (1 = primary, 0 = otherwise), Edu (1 = secondary, 0 = otherwise), Edu (1 = tertiary, 0 = otherwise)
- DPart = dummy for participation in micro credit scheme (1= participating in scheme, 0 = not participating in scheme (control))
- DSch = dummy for type of scheme where D = 1 when Youth scheme and D = 0 when CARE scheme
- ε_i and η_i = are error terms

Expected Signs

Savings

Savings is a dependent variable. It comprises financial savings either deposited in the banks, club or group or kept at home.

Age

Age refers to the number of years for a respondent. The Life Cycle model implies that over the course of a life time, young individuals borrow to consume of future income, repay and save through middle years and finally draw down their savings in old age. The middle aged earn more and are thus expected to save more than old people. The sign of the coefficient for this variable will depend on the composition of the sample households surveyed. It is expected that older households will save relatively less than middle aged ones.

Household Size

Household size is the total number of people that belong to a household. The household may have children and the aged which need to be supported. Depending on household composition, the consumption needs and magnitude will be different. The larger value of the coefficient implies higher consumption level and therefore fewer savings. A negative relationship exists between the size of household and the amount of savings made.

Income

Income is the total amount of income that a household earns from agricultural as well as other non farm related income generating activities. Both Absolute Income Hypothesis and Permanent Income Hypothesis state a positive relationship between income and savings. Since increased income is expected to have a positive effect on savings, low income households would be expected to save less than high income households.

Gender

The dummy for gender is explaining whether savings are influenced by gender of respondent. The coefficient is expected to be positive if males save more than females and negative if otherwise.

Occupation

The dummy for occupation is explaining whether occupation influences the level of savings from participants. Since occupation is closely linked to income, those engaged in high income earning occupations are more likely to make more savings. A set of four variables were considered (farming, business, *ganyu* and salaried employment). Three variables were included in the model with salaried work as the reference category. It is expected that those with high income earning occupations will have a positive influence on savings.

Marital Status

The dummy for marital status explains whether marital status influences the amount of savings the individual makes. A set of four variables of this variable were considered (married, widowed, divorced/separated and single). Three variables were included in the model with single as the reference category.

Education

The dummy for level of education had a set of four variables (no education, primary education, secondary education and tertiary education). Three variables were included with no education as a reference category. Education level attained influences savings decisions and enables individuals to make rational economic decisions. Education is positively related to savings.

Participation

A dummy for participation was used where 1 stands for respondent participating in the micro credit scheme 0 stands for the non participants. We therefore expect a positive relationship between the participation dummy variable and the level of savings.

4.4.2 Qualitative data

Qualitative data generated from the focus group discussions and key informant interviews was analysed manually. Close attention was paid to responses obtained from the various respondents on a particular area of investigation. Consistent themes emerging from the discussions were then synthesized and interpreted. The responses were also used to corroborate findings emerging from the quantitative results.

CHAPTER FIVE

5.0 Research Results and Discussions

5.1 Demographic Characteristics of Respondents

Table 2 below presents demographic and socio-economic characteristics of respondents. The evidence shows that forty-nine percent of the respondents were males while 51 percent were females. In the schemes, 55 percent were females while 45 percent were males. There were more females in the CARE scheme than the Youth scheme. About sixty six percent (65.5 percent) of all the respondents were married and 26.5 percent were single and the rest were either widowed or separated. Forty two percent were heads of households and 35 percent were spouses while 17.5 percent were children living with their parents. Of those who were household heads 86 percent were males while 14 percent were females. The average household size was 4, ranging from 1 to 9 people in the household. In Commonwealth Youth Credit scheme the average size of the household was 4 while in CARE scheme there were on average 5 members per household. Age range of all the respondents was between 20 years and 69 years with the average age 33 years. Age differences were apparent between the two schemes with younger participants in the Youth scheme on average 27 years compared to those in the CARE scheme averaging 38 years.

The majority of participants had attained some secondary school education (37 percent up to form 4 and 30 percent up to form 2 in the Commonwealth Youth Credit Scheme). On the contrary only 8 percent had some secondary school education in the CARE International Micro Credit Scheme. The majority in this scheme had not even reached up to standard eight. About thirty nine percent (38.6 percent) had attained education between standard one to standard four, the rest 27 percent had their highest education between standard five and standard seven.

Table 2: Household Characteristics

Characteristic		Youth scheme	CARE scheme	All Participants	Control	Total
Sex	Male	69.2	21.7	44.7	66.7	49
	Female	30.8	78.3	55.3	33.3	51
Marital Status (%)	Married	62.8	88.0	75.8	23.1	65.5
	Widowed	3.8	6.0	5.0	5.1	5.0
	Single	30.8	1.2	15.5	71.8	26.5
	Divorced	2.6	2.4	2.5		2.0
	Separated		2.4	1.2		1.0
Average Household size		3.92	4.82	4.37	4.51	4.41
Average Age (Years)		26.99	37.84	32.6	23.82	30.96
Education (%)	None	3.8	18.1	11.2		9.0
	Adult literacy		1.2	.6		.5
	Std 1-4	5.1	38.6	21.7		18.0
	Std 5-7	6.4	26.5	16.7	7.7	15.0
	Std 8	12.8	7.2	9.9	10.3	10.0
	Form2	26.9	4.8	15.5	17.9	16.0
	Form4	37.2	3.6	20.5	59.0	27.0
	Technical	7.7		3.7	5.1	4.0
Occupation	None	5.1	2.4	3.7	30.8	9.0
	Farming	32.1	90.4	61.5	25.6	55.0
	Business	43.6	7.2	24.8	15.4	23.0
	Ganyu	10.3		5.0	5.1	5.0
	Salaried Work	5.1		3.1	15.4	5.0
	Schooling	2.6		1.2	7.7	2.5
	Other	1.3		.6		0.5
Relationship to head of household	Head	57.7	31.3	44.1	33.3	42.0
	Spouse	16.7	67.5	42.9	2.6	35.0
	Son/Daughter	19.2	1.2	9.9	48.7	17.5
	Grandchild	1.3		.6		0.5
	No relation	1.3		.6	2.6	1.0
	Other relatives	3.8		1.9	12.8	4.0

5.1.1 Socio-Economic Information

Farming was the main occupation for participants in the two schemes as reported by 55 percent of the respondents and was ranked as the most important economic activity by 33 percent of the respondents who depended on cash crops like tobacco, ground nuts and maize as the most important source of income. Farming was the single most important occupation in CARE scheme as reported by 90 percent of the respondents from the scheme with 52 percent relying on it for income while only 32 percent reported that they regarded it as an important occupation in the Youth scheme. Despite assuming a very important role for the majority of respondents, own harvest last on average 8 months. This forces the people to resort to other

means like small businesses and *ganyu* to meet their food requirements. The second important occupation was business (23percent) providing income to 40 percent of the respondents. This was especially an important occupation in the Youth scheme for 44 percent of the participants and 40 percent in this scheme depended on it for income. Because people use returns from businesses to buy food during the lean period, it was reported that most of these businesses close down during this time especially considering their small capital base. Other important occupations included *ganyu* and salaried work both with 5 percent of the total respondents and up to 19 percent regarded it as an important source of income for the household.

Total income was computed from the various earning sources like crop sales, livestock and livestock product sales, small business, remittances, *ganyu* and salary for the household over a twelve month period up to the survey period. The computation was similar to the one used for the household income analysis in the IHS2 (GOM, 2005). Results show generally higher average incomes in the Youth scheme than the CARE scheme. On average participants in the Youth scheme had MK83,218 which was more than twice the average income at MK33,884 in the CARE scheme.

5.1.2 Ownership of Micro Enterprises

Table 2 presents the type of business enterprises that respondents owned. The findings show that the most common enterprise among participants was in trading (84 percent from the Youth scheme and 55 percent from CARE scheme) which was also indicated as the most important enterprise for them. Trading included such items as agricultural produce, second hand clothes, fish, charcoal, hawkers and small groceries. After trade enterprise, production enterprises largely comprising baking *mandasi* and brewing of *kachasu* were also ranked important in CARE scheme. Similar findings were reported in the IHS1 where the dominant non farm business for the non poor in the rural areas was trading while manufacturing was regarded very important for the rural poor (GOM, 1998).

Table 3: Type of enterprises operated

Business Type	Youth scheme	CARE scheme	All Participants	Control
	%	%	%	%
Production enterprise	11.7	41.5	25.2	10.5
Service enterprise	14.8	2.0	8.9	22.2
Trade enterprise	83.9	54.9	70.8	72.2
Livestock/Agriculture	9.8	18.4	14.0	12.5

However, 70 percent of the participants in the two schemes owned some sort of business enterprise while only slightly above half (51 percent) in the control group were running some business. These results suggest that the micro credit schemes encouraged business enterprises among participants. The findings further showed 30 percent of total scheme participants (22 percent from Youth scheme and 39 percent from CARE scheme) did not have any business. This was a rather interesting finding especially for the Youth scheme considering that it was introduced to help establish or support small businesses. Some respondents indicated that the businesses had failed to perform because of their seasonal nature, non payment by customers who get their items on credit, heavy responsibility on their families, and use of the same money to repay the loan before making returns out of it.

Table 4 shows sources of initial start up capital for important enterprises. Savings either from *ganyu*, agriculture or non agriculture played a very important role in establishing most enterprises for both participants and non participants. Up to 47 percent of the participants (66 percent from the Youth scheme and 24 percent from the CARE scheme) reported that the savings clubs/ micro credit schemes had provided initial capital for their businesses followed by own savings from agriculture. One third of respondents from CARE scheme and 13 percent from the Youth scheme indicated that initial start up capital for their business was from savings from agriculture. Comparisons with non participants show that the most important source of capital was *ganyu* (30 percent), savings from agriculture (25 percent) and savings from neither *ganyu* nor agriculture (20 percent).

Table 4: Source of initial start up for most important enterprise

Source	Youth scheme		CARE scheme		Total Participants		Control	
	N	%	N	%	N	%	N	%
Loan from family/friends	1	1.6	2	3.9	3	2.7	2	10
Given free from family/friends	4	6.5	10	19.6	14	12.4	2	10
Money lender (<i>Katapila</i>)	1	1.6	-	-	1	0.9		-
Own savings (<i>ganyu</i>)	3	4.8	5	9.8	8	7.1	6	30
Own savings (agriculture)	8	12.9	17	33.3	25	22.1	5	25
Own savings (non-agric., non- <i>ganyu</i>)	1	1.6	4	7.8	5	4.4	4	20
Agriculture input credit	2	3.2	-	-	2	1.8		-
Inherited business	1	1.6	1	2.0	2	1.8	1	5
Savings clubs/micro credit scheme	41	66.1	12	23.5	53	46.9		
Total	62	100.0	51	100.0	113	100.0		100.0

These findings show that savings play a very big role in establishing businesses by the poor households implying their very critical role in improving economic activities of the rural poor

households. It would therefore do the poor great benefits if the saving facilities are made available so that they accumulate in a secure facility lumpsums which can then be invested in their business ventures.

5.1.3 Micro Credit Schemes and Micro Loans

Micro credit schemes which were studied provided an opportunity for the credit constrained participants to access small loans. The findings show that despite wide knowledge (73 percent) of existence of other micro credit schemes like FINCA, MRFC, PRIDE Malawi and OIBM, there was limited participation in such schemes because they were not accessible. Only about 10 percent (9.7) of all the participants had taken some loan from these organizations.

Even considering those who had obtained the loans before joining the schemes, the findings reveal a bias towards informal rather than the formal sources of loans. Out of the fifteen participants in micro credit schemes who indicated having accessed other types of loans before they joined the micro credit scheme none got the loan from the commercial banks, only 2 had received such loans from MRFC. The rest got their small loans from moneylenders, grocery or local merchants, relatives and neighbours. The findings are consistent with the IHS2 (GOM, 2005) which reported that of all the loans that were given out, only 2 percent originated from the commercial banks. This is a further confirmation of the scarcity of financial services for the poor despite the available demand for such services and is consistent with what was also reported in the Malawi National Gemini MSE Baseline Study (2000) that only 19.8 percent of rural households and 10.5 percent of urban households reported acquiring a loan from some source, both formal and informal.

In light of the difficulties that the poor experience in accessing credit, micro credit schemes provided an opportunity for the majority of participants to obtain loans. The results show that nearly 84 percent of all participants (all in the Youth scheme and 71 percent of those in CARE scheme) were able to take a loan. The average loan size that participants got from the credit schemes was MK9,565. The amount was higher in the Youth scheme with an average of MK15,117 than in CARE scheme with only MK2,194. In terms of loan use there was more flexibility on loan use in the CARE scheme than in the Youth scheme where most loans were meant for either business start up capital or to support existing businesses, some respondents however, in small proportions reported that they used loan money to purchase assets, pay for school fees and for other household needs. In CARE scheme on the other hand most

participants borrowed for other expenses like purchase of agricultural inputs, food and other household needs like clothing and utensils, paying school fees, purchase of assets, paying for medical fees, supporting other relatives and settlement of other loans owed to other people. The two important reasons participants cited for obtaining loan confirms the reasons that were established in the IHS2 where respondents also cited loans most commonly being used as business capital and for purchase of agricultural inputs (GOM, 2005).

5.2 Participation in Micro Credit Schemes and Savings

Table 5 presents involvement of schemes’ participants in saving. It can be observed that apart from providing loans to clients, the micro credit schemes provided an opportunity and encouraged the poor to save. To establish the extent of saving, the study found out from the schemes’ participants who were involved in saving before they joined the schemes, continued saving after joining the schemes and those who started saving when they joined the scheme.

Table 5: Participation in saving

		Youth scheme		CARE scheme		Total		Control	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%
Saving Before	Yes	29	37.7	23	28.8	52	33.1	-	-
	No	48	62.3	57	71.3	105	66.9	-	-
Continued Saving* (Current)	Yes	27	93.1	22	95.7	49	94.2	-	-
	No	2	6.9	1	4.3	3	5.8	-	-
Started Saving with Scheme** (Current)	Yes	41	85.4	57	100	98	93.3	17	44.7
	No	7	14.6	-	-	7	6.7	21	55.3

Notes: * Current savers who had started saving before joining the schemes. **Current savers who started saving when they joined the micro credit schemes. These two groups add to the total number of scheme participants who were making and had savings at the time of survey compared to the non participants.

The results in table 5 show that nearly one out of every three participants were making savings before they joined the schemes leaving the majority 67 percent who were not making any savings. There were more participants (38 percent) in the Youth scheme who were making savings compared to only about 29 percent in the CARE scheme. Further analysis reveals that of those saving in the Youth scheme 76 percent were males while 24 percent were females. In the CARE scheme on the other hand 35 percent were males while the majority (65 percent) were females. Of those that were saving before joining the schemes, 94 percent continued and were maintaining current savings while only 6 percent were not saving after joining the schemes. It is further observed from table 5 that about 93 percent of the scheme

participants who were currently saving started to save after joining the schemes compared to 45 percent of the non participants who were saving at the same time. In addition the savings rate was also computed for both the participants and the non participants and the results show that participants had a higher savings rate of 22.5 percent compared to 14.3 percent of non participants. This therefore is an indication that participating in the micro credit schemes provided an opportunity and influenced participants to start and make more savings.

The average current savings for the participants was MK7,736 lower than the control whose average savings were MK13,344. There were however, higher average savings in the Youth scheme (MK11,352) than in the CARE scheme with average savings of MK4,737. Some participants had indicated though that they had lower savings at the survey time because they had withdrawn savings for their daily financial management while others had invested in some businesses or assets. A male participant from Mgoni-Chatata Youth Organisation (MCOBAYO) indicated that he had reduced the savings because he was involved in construction of a dwelling house, while others had bought plots for future development. Another respondent from Thawale Youth club reported that he used the money to purchase maize grain locally for resale to ADMARC. Meanwhile he had over 80 bags of 50 kilogrammes each stored for resell.

5.2.1 Methods of Saving

The study also explored the saving methods which the scheme participants were using before and after they joined the micro credit schemes. The results indicate that before joining the scheme, 52 percent and 45 per cent of the participants from the Youth scheme were saving with the commercial banks and in their homes respectively. In the CARE scheme however, more (87 percent) were saving at home. After joining the scheme there was an increase in use of the banks for saving. The increase is however, more pronounced in the Youth scheme than in the CARE scheme where everybody started saving with the savings groups. It should however, be noted that a significant percentage was still saving at home despite the introduction of the schemes. The following Table 6, shows the saving methods which are commonly used by participants.

Table 6: Utilisation of different saving methods

Method of saving	Before joining			After joining			
	Youth scheme	CARE scheme	Total	Youth scheme	CARE scheme	Total	Control Group
Bank	52	9	65.4	63	14	71.4	47
Friend or Relative	3	0	6.3	4	0	6.3	0
Savings group/club	7	9	21	7	100	72.7	6
Home	45	87	89	44	27	69.2	59

* Percentages do not add up to 100 because of multiple responses

Although micro credit schemes helped to facilitate saving at the bank for some participants, the general picture from the results in the foregoing table is that banks are less accessible to the majority of the participants and the rest of the people who make small deposits. Across the different groups, although respondents kept their savings with either the banks or the savings clubs, some still kept their savings at home. Similar results were reported by Pelrine and Kabatalya (2005) who in their study of Savings Habits, Needs and Priorities in Rural Uganda found that clients of financial institutions also saved a lot in their homes apart from saving in property and livestock. Focus Group Discussions and further discussions with some individuals during interviews revealed that participants keep very small amounts with the savings clubs but maintain much bigger amounts in their homes. One lady for example in Mitundu area was keeping MK3,000 with the savings club under CARE scheme but as much as MK95,000 was kept in her home. Mofunanya (1992) also found in his study that the majority of the farmers preferred to keep a bigger proportion of their savings at home and made only small contributions to the saving clubs. This is an indication of the fact that the different saving methods do not meet the needs of the savers.

5.2.2 Reasons for saving

The study found that respondents were saving for different purposes. In the CARE scheme most of them (47 percent) were saving to accumulate large lump sums which they could use to purchase agricultural inputs. In the Youth scheme on the other hand most of them (30 percent) were saving to support their enterprises. These two most important reasons for saving were a reflection of the main emphasis of the two schemes. The rest of the results are presented in the table 7 below:-

Table 7: Reasons for keeping savings

Purpose	Youth scheme		CARE scheme		Total		Control	
	N	%	N	%	N	%	N	%
Support existing enterprise	21	30	9	11	30	20	3	17
Start an enterprise	11	16	5	6	16	11	3	17
Buy food/household needs	12	17	13	16	25	17	3	17
Pay school fees	8	12	2	3	10	7	2	11
Purchase assets	16	23	12	15	28	19	2	11
Purchase livestock		-	1	1	1	1		-
Purchase agricultural inputs		-	37	47	37	25		-
Take care of eventualities	1	1		-	1	1	2	11
Develop farm		-		-		-	1	6
Security		-		-		-	2	11
Total	69	100	79	100	148	100	18	100

These findings are in agreement with observations by Rutherford cited in Wright (1999, p.3) that the poor experience many occasions in their lives when they need larger sums of money than what may be currently available to them. This includes opportunities that require large sums of money such as starting or running businesses, acquiring productive assets like land and housing or buying consumer durables. The research findings by Maloney and Ahmed (1988) as reported by Dowla and Alamgir (2003), also revealed a variety of reasons for saving ranging from buying land, providing family security against unforeseen contingencies including education and purchase of agricultural inputs. The variety of reasons for saving above means that one can not come with a clear picture of the motives for saving across the two schemes and within the schemes and for an individual over a period of time. These motives may be in effect at the same time when for instance the individual is saving for education, home improvement (the life cycle needs) as well as emergencies or unexpected shocks (precautionary motive) and starting or running a business acquiring productive assets including land and buying durables (fulfilling opportunity needs). Because of the variety of reasons Pelrine and Kabatalya (2005) suggests that rural financial institutions should carefully examine people's priorities when designing savings products and planning savings mobilization strategies.

5.3 Participants' socio-economic characteristics and savings

To find out if there is any relationship between participants' socio economic characteristics and level of savings, the current savings that participants had made were cross-tabulated with the various socio-economic characteristics. Tables 8 and 9 present results of cross tabulations and chi- square tests respectively to establish associations and strength of such associations between each factor and savings.

Table 8: Cross tabulations of Savings and Socio economic characteristics

Scheme	Savings	Annual Income				Total
		<=MK30000	MK30000-60000	MK60000-100000	=>MK100000	
Participants	<MK1000	20.5	19.4	31.3	4.2	18.8
	MK1000-5000	54.8	61.1	25.0	25.0	48.3
	MK5000-10000	12.3	11.1	6.3	16.7	12.1
	>MK10000	12.3	8.3	37.5	54.2	20.8
Non Participants	<MK1000					
	MK1000-5000	50.0		20.0	50.0	38.9
	MK5000-10000	25.0	100.0	20.0		16.7
	>MK10000	25.0		60.0	50.0	44.4
Highest Education attained						
Participants		None	Primary	Secondary	Tertiary	Total
	<MK1000	36.8	15.3	18.9	-	18.7
	MK1000-5000	52.6	61.1	34.0	16.7	48.7
	MK5000-10000	5.3	11.1	17.0	-	12.0
	>MK10000	5.3	12.5	30.2	83.3	20.7
Non Participants	<MK1000	-	-	-	-	-
	MK1000-5000	-	50.0	33.3	100.0	38.9
	MK5000-10000	-	-	20.0	-	16.7
	>MK10000	-	50.0	46.7	-	44.4
Marital Status						
Participants		Married	Widowed	Divorced	Single	
	<MK1000	20.2	12.5	33.3	9.1	18.7
	MK1000-5000	47.4	75.0	30.0	45.5	48.7
	MK5000-10000	12.3	-	-	18.2	12.0
	>MK10000	20.2	12.5	16.7	27.3	20.7
Non Participants	<MK1000	-	-	-	-	-
	MK1000-5000	40.0	-	-	41.7	38.9
	MK5000-10000	20.0	-	-	16.7	16.7
	>MK10000	40.0	100.0	-	41.7	44.4
Age						
Participants		<25	25-29	30-39	40-49	>50
	<MK1000	7.7	23.4	17.5	20.0	20.0
	MK1000-5000	38.5	44.7	42.5	60.0	80.0
	MK5000-10000	23.1	12.8	7.5	15.0	-
	>MK10000	30.8	19.1	32.5	5.0	-
Non Participants	MK1000-5000	33.3	50.0	33.3	-	-
	MK5000-10000	11.1	16.7	33.3	-	-
	>MK10000	55.6	33.3	33.3	-	-
Household size						
Participants		Small 1-3	Medium 4-6	Big >6		
	<MK1000	24.5	15.2	16.7		18.7
	MK1000-5000	35.8	54.4	61.1		48.7
	MK5000-10000	18.9	8.9	5.6		12.0
	>MK10000	20.8	21.5	16.7		20.7
Non Participants	MK1000-5000	20.5	66.7	25.0		38.9
	MK5000-10000	37.5				16.7
	>MK10000	37.5	33.3	75.0		44.4

		Main Occupation							
		None	Farmi ng	Busine ss	Ganyu	Salarie d work	Schoolin g	Other	
Particip ants	<MK1000	33.3	21.5	8.6	25.0	-	50.0		18.7
	MK1000-5000	50.0	58.1	34.3	12.5	40.0		100	48.7
	MK5000-10000	-	9.7	17.1	25.0	-	50.0		12.0
	>MK10000	16.7	10.8	40.0	37.5	60.0			20.7
Non Particip ants	MK1000-5000	-	60.0	50.0	100.0	25.0	-	-	38.9
	MK5000-10000	25.0	20.0	25.0	-	-	-	-	16.7
	>MK10000	75.0	20.0	25.0	-	75.0	-	-	44.4
		Gender of respondent							
		Male	Female						
Particip ants	<MK1000	17.2	19.8						18.7
	MK1000-5000	31.3	61.6						48.7
	MK5000-10000	18.8	7.0						12.0
	>MK10000	32.8	11.6						20.7
Non Particip ants	<MK1000								
	MK1000-5000	50.0	16.7						38.9
	MK5000-10000	25.0							16.7
	>MK10000	25.0	83.3						44.4

Note: Columns represent % saving different amounts within each category

Table 9: Summary of Chi-square tests on savings and socio-economic characteristics

Indicator type	Scheme	X ²	Df	p-value
Income	Participants	31.630	9	0.000
	Non Participants	8.041	6	0.235
Education	Participants	31.710	9	0.000
	Non Participants	2.218	4	0.696
Marital Status	Participants	6.473	9	0.692
	Non Participants	1.352	4	0.853
Age	Participants	21.544	12	0.043
	Non Participants	1.452	4	0.835
Household size	Participants	7.949	6	0.242
	Non Participants	6.629	4	0.157
Occupation	Participants	34.689	18	0.010
	Non Participants	7.752	8	0.458
Gender	Participants	19.295	3	0.000
	Non Participants	5.705	2	0.058

Savings and Income

To facilitate the analysis on the relationship between the level of savings and income of participants, total household income from the various earning sources over a twelve month period was computed. Total current savings were then cross tabulated with this total household income to find out if there was any relationship between them. The results of the

chi square tests from table 9 above shows that there is a significant association existing between savings that one makes and the amount of income. It is observed from the cross tabulation summary tables that an increasing proportion of participants were making more savings as income increased.

Savings and Education

The cross tabulation chi-square test results for current savings and education (Table 9) shows existence of a significant association between the two. Results of the cross tabulation in table 8 reveals that participants who had attained higher level of education were making more savings than those with lower level of education.

Savings and Marital Status

The chi-square tests of association presented in table 9 shows that there is no significant association between current savings and participants' marital status, the cross tabulation showed no particular relationship between the two.

Savings and Age

Results in table 9 show that there is a significant association between savings and age of respondent. It is observed in table 8 that more participants were making more savings as age increased. These findings are in agreement with the life cycle theory which implies low savings for the young increasing into middle age before falling again in old age. The respondents in this study were on average in their middle age.

Savings and Household size

To find out if those with either bigger or smaller household sizes were making more or lower savings, savings were cross tabulated with size of household. The results from cross tabulation table 8 show no particular relationship. The chi-square tests of association from table 9 do not show any association between these variables. The participants reported that they either are able to make more savings which cater for the young ones or the other way those with more people in the homes are unable to make savings as they struggle to meet their daily subsistence requirements. These findings are similar to what Nana-Fabu (1992) found in a sample of Sierra Leonean households where savings were not affected by size of households.

Savings and Occupation

The other variable that was considered to find out if it influences the level of savings that individuals make was occupation. The cross tabulation table 8 shows that more of those participants who were either in salaried employment or in business were making more savings than those who were occupied in farming and *ganyu*. The chi-square test of association results shows a strong association between current savings and participant occupation.

Gender and Savings

The gender of respondent was found to be significantly associated with the savings that participants were making. The cross tabulation summary in table 8 shows that more males were making higher savings than women. The chi-square test of association obtained reveals that there is a significant association between the savings and the gender of respondents. Perhaps this is a reflection of the income earning opportunities and control of resources tilted in favour of men.

5.4 Effects of Participation and Socio-economic characteristics on savings-Regression

Results

To find out if participants in micro credit schemes were making more savings compared to non participants, and whether different socio economic characteristics had an effect on savings, further analysis was conducted using regression analysis was conducted. Table 10 below presents results of two savings regressions. The first one comprising all respondents (participants and non participants) the variable of interest is participation in scheme. The second one was for participants only and the variables of interest were socio economic characteristics and scheme type.

Table 10: Effects of Participation and Socio-economic characteristics on Savings

Variable	All Respondents	Participants
(Constant)	-7454.363 (9075.285)	-11643.2 (10708.749)
Age	84.737 (139.423)	106.280 (131.723)
Household size	-96.445 (599.183)	650.597 (610.522)
Income	8.474E-02*** (.016)	.103*** (.017)
Gender	3457.062 (25.21.499)	3447.851 (2555.162)
Farming	-16265.489*** (4562.268)	154.874 (6405.836)
Business	-7863.493* (4607.008)	6362.244 (6262.898)
Ganyu	-13130.327** (6226.337)	-2081.649 (7209.595)
Married	318.655 (3787.083)	2334.802 (3553.606)
Widowed	149.388 (6008.021)	1967.831 (5883.416)
Divorced/separated	10607.894* (5892.816)	14534.601** (6144.556)
Primary education	-557.912 (3466.994)	2299.445 (3327.434)
Secondary education	-8786.460* (4534.887)	-1326.498 (4637.808)
Tertiary education	7476.161 (5334.715)	31282.644*** (7013.438)
Participant in scheme	22402.181*** (6899.215)	-
Youth scheme	-	364.689 (3359.864)
R-squared	0.319	0.451
Adjusted R-Squared	0.255	0.392
Durbin-Watson	1.829	1.989
Mean dependent var.	8454.85	7856.12
S.D. dependent var.	9030.326	10687.122
F Statistic	5.013	7.734
Sig.	0.000	0.000

Notes Figures in parenthesis represent Standard error. ***=significant at 99%, ** = significant at 95% and * =significant at 90%,

5.4.1 Effect of Participation

Table 10 above –the second column presents the results of total amount of savings model for all respondents (both the schemes participants and non participants). The goodness of fit of

the model given by $R\text{-squared} = 0.319$ means that approximately 32 percent of the variation in the total amount of savings surveyed respondents make is explained by the variation in the explanatory variables considered. The F statistic (5.013) is statistically significant implying that the independent variables are explaining the variation in the total amount of savings made. The results above based on a sample of 165 respondents show that participation in schemes is positively related to total amount of savings and is one of the significant explanatory variables of savings. The findings show that if one is a member of the micro credit scheme, their savings will on average be higher by MK22,402 over the non members. This is a demonstration that micro credit schemes have a positive influence on the savings level of participants and might help improve the savings in the community.

5.4.2 Effect of Socio economic characteristics

In the third column in table 10 above, we modeled the dependent variable, amount of savings, as a function of a number of explanatory variables including age, household size, income, gender, occupation, marital status, education type and scheme to which the respondent belonged to find out the relationship between the participants' socio economic characteristics and amount of savings. The goodness of fit of the model given by $R\text{-squared} = 0.451$ means that approximately 45 percent of the variation in the total amount of savings participants make is explained by the variation in the explanatory variables considered. The F statistic (7.734) is statistically significant implying that the independent variables are explaining the variation in the total amount of savings. The results above based on a sample of 161 participants from the two micro credit schemes show that income, marital status and education level of participants which are also positively related to the total amount of savings are significant explanatory variables of savings. Other variables on the other hand like age, household size, gender of respondent, occupation and type of micro credit scheme to which one belongs are not significant explanatory variables of savings.

Income has the expected positive coefficient of 0.103 which is significant with a p-value of <0.001 . The estimated positive sign of the coefficient implies that income has a positive effect on total amount of savings an individual makes. The absolute value of the coefficient implies that if income would increase by 1, there will be a corresponding increase in savings by 0.103 or if one's income increases by MK1,000 the savings will increase by MK103. The significant effect that income has on savings may be obvious, indicating that unless income levels for households increase they may not be able to save. This finding is similar to what Reddy et al.

(2003) found and observed in their study on determinants of household saving behaviour in an emerging economy that the general low levels of income in developing countries are responsible for poor savings and investment and households tend to remain trapped in poverty forever. Lunt and Livingstone (1991) also found in their study on psychological, social and economic determinants of saving that income was a significant of both current and total savings. These findings further support income theories that people who save more tend to have higher incomes than those who do not save. From descriptive analysis respondents from both schemes reported that current income is very important in determining the savings levels (37 per cent of all respondents from the two schemes). The respondents from the CARE scheme indicated that once they have a good harvest and get enough sales from their crops they are able to make more regular savings in substantial amounts with their savings clubs just as Fiebig et al. (1999) emphasizing the savings capacity of rural households observes that they are induced to save during harvest periods when their income streams are higher than consumption levels. Pelrine and Kabatalya (2005) also found that across all the regions in rural Uganda, the highest savings are recorded during harvest season. This is an indication of the prevalence of agriculture as the most significant and predominant economic activity in the rural areas. Respondents from the Youth scheme especially those running enterprises indicated that they make more consistent savings to their bank accounts when their enterprises are thriving. Most of those who had stopped making savings reported that it was because their businesses had collapsed and so they were not getting any steady income.

One dummy variable for marital status is statistically significant while the other two are not. We observe a positive and significant coefficient for divorced/separated dummy variable (14534.601). The estimated positive sign of the coefficient implies a positive relationship of this variable on the total savings while the absolute value implies that when someone is divorced or separated, their savings would on average be higher by MK14,535 over the single. All participants who were either divorced or separated were females and 67 percent were from the CARE scheme. The divorced and separated could have been making more savings because they have to fend for themselves without any expectations of assistance from elsewhere. Additionally it could mean that such single women assume more control over their resources than their counterparts who are married and their spouses are alive.

On education one dummy variable is statistically significant while the others are not. A positive and significant coefficient was observed for tertiary education dummy variable for education (31,283). Its estimated positive sign implies a positive relationship between tertiary

education variable and total amount of savings. The absolute value of the coefficient implies that if someone is educated up to tertiary level their total savings would be higher by MK31,283 above those with no education. While those who had primary education were saving more, and those with secondary education were saving less, their savings were not significantly different from those without education. Similar findings were obtained by Lunt and Livingstone (1991) in their study where savers tended to have more education than the non savers. These findings seem to be in agreement with arguments that generally more educated people are more aware of the wide range of services and facilities provided for savings and that lack of education may hinder the capacity to formulate and carry through rational economic decisions (Mofunanya, 1992 and Nana-Fabu, 1992). Further, Carpenter and Jensen (2002) argue that greater education beyond literacy and numeracy while important for bank use also implies a better understanding of the availability and benefits of banks..

The dummy variable for type of scheme of participant could not be determined before hand. The regression results show a positive coefficient for participants in the Youth scheme. Although this is not significant, it shows that participants in the Youth scheme were making more savings by MK365 compared to the participants in the CARE scheme.

Further analysis³ on the effect of participants' socioeconomic characteristics on the level of savings in the two schemes revealed that income and tertiary education with positive coefficients were significantly related to the level of savings in the Youth scheme. In the CARE scheme on the other hand income and business had positive coefficients which were also significant. These findings confirm the importance of higher education and business enterprises in contributing to total household income which is an important determining factor in savings accumulation.

5.5 Institutional and organisational arrangements

The analysis has shown that participants in micro credit schemes were making more savings than non participants. It has further been shown that Youth scheme participants were making on average more savings than those in CARE scheme. The question to be considered under this section is to try to identify institutional and organizational mechanisms that help to encourage participants to save. Respondents appreciated the role played by micro credit

³ See Annex 1: Regression results by type of scheme.

schemes in promoting savings. Ninety percent of the respondents in the Youth scheme and 93 percent of the respondents in the CARE scheme reported that schemes had played a very big role in promoting savings. Some of the arrangements which micro credit schemes have put in place to encourage participants to save include:-

5.5.1 Frequency of meetings and deposits

One aspect that can be useful in analysing the saving behaviour of participants is the frequency of making deposits apart from the size and timing of withdrawals of such deposits (Johnson and Rogaly, 1997). The results show that the respondents in CARE scheme save more frequently than those in the Youth scheme. While 63 percent of those who were saving before and had continued after joining the scheme and 50 percent of those who actually started saving after joining the scheme were depositing on a monthly basis, 95 percent and 98 percent of those who have continued saving and those who started saving after joining the scheme indicated that they were saving on a weekly basis. There is a deliberate policy within the CARE groups that every member should bring forth an amount for saving at every weekly meeting. The small and regular deposits create a sense of obligation and positive attitude to saving. In his study, Mofunanya (1992) also found that mere membership in savings associations made the farming households to become accustomed to saving small mounts of money on a regular basis. Those in the Youth scheme they were not compelled to make monthly savings, they only did so when they had the money to save. In the control group 44 percent were making deposits on a monthly basis followed by 28 percent who indicated they save as and when they have the cash with only about 17 percent saving on a weekly basis. The important lesson from these results is that once there is a firm agreement between members on their saving pattern, there is commitment from members to such agreements that begin to save whatever amounts thereby forming a habit and enforcing the discipline of saving. The other factor which was more important to the CARE scheme was the regular saving arrangements that were agreed by scheme members (12 percent of respondents from the CARE scheme and only 2 percent of respondents from the Youth scheme).

5.5.2 Accessibility to Savings Institution

The second factor which explains saving behaviour is the savers' access to the saving institutions and ease in withdrawing. Easy access was related to proximity or distance of the

financial facility to the savers and its related formalities including the terms and conditions governing the financial services (Table 11). Physical proximity is important since it entails the ease and cost of getting to the financial facility. Other aspects of physical proximity include opening and minimum balances, fees and other direct transaction costs and rules governing withdrawals. According to Rutherford cited in Wright (1999), the poor consider proximity to home or workplace and ease of withdrawal when need arises before deciding where to save. Unlike in the Youth scheme, savers in the CARE scheme indicated that they are encouraged by the fact that the facilities are located within their community. This makes it easy for them to use this facility whenever they want to get the small loans which may substitute savings providing similar liquidity benefits to the poor. Savers in the Youth scheme also reported simplicity of transactions of savings accounts at the bank and how readily their accounts can be accessed as being responsible for either encouraging or discouraging them to save. Most respondents in the Youth scheme who had savings accounts were maintaining them at OIBM which was viewed to be more flexible than other commercial banks. The low minimum balance, less demanding formalities required for opening the account and the electronic card for withdrawals make it more attractive for savers. The electronic card seems also to have made smaller transactions often demanded by small savers relatively faster.

5.5.3 Interest rate

The other factor which is considered by the small savers is interest that accrues to their savings. Table 11 below also reveals that while out of all the participants 16 percent indicated that interest rate on their savings motivate them, 19 percent and 13 percent from the Youth scheme and CARE scheme respectively had indicated so. Respondents especially in the CARE scheme reported that they get encouraged with the higher returns they obtain from their savings at the end of the year when they share their money. Pelrine and Kabatalya (2005) found however, that interest rates paid on savings was an insignificant impediment to savings. They argue that although clients find interest rates low, they nonetheless remain clients as this is not enough of disincentive to cause them to exit. In terms therefore of product design this should be taken into consideration.

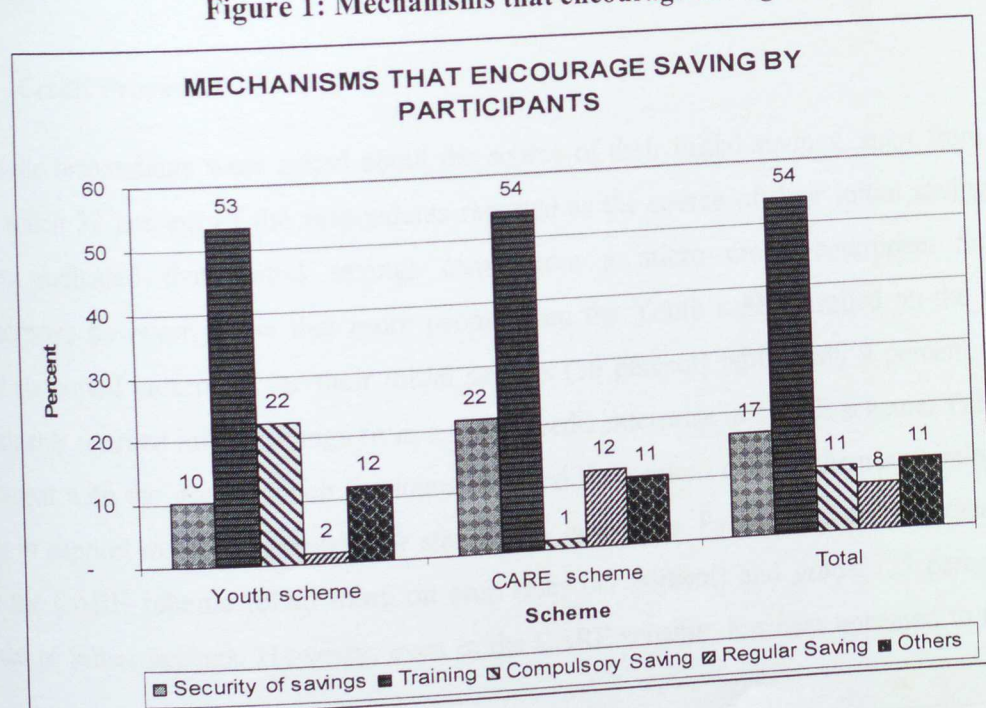
Table 11: Factors encouraging saving behaviour

Factor	Scheme					
	All		Youth		CARE	
	N	%	N	%	N	%
Interest rates	23	15.54	13	18.84	10	12.66
Size and structure of family	19	12.84	11	15.94	8	10.13
Current income	54	36.49	20	28.99	34	43.04
Inflation	2	1.35	2	2.90		
Ease of access to my savings	25	16.89	8	11.59	17	21.52
Proximity to savings facility	6	4.05	1	1.45	5	6.33
Formalities at the bank	7	4.73	6	8.70	1	1.27
Future use in case of uncertainties	12	8.11	8	11.59	4	5.06
Total	148	100.00	69	100.00	79	100.00

5.5.4 Training in Savings Mobilisation

Figure 1 below shows some of the mechanisms that micro credit schemes put in place to encourage savings from the participants. As can be observed participants from both schemes ranked training the highest among other factors. Apart from topics like on how to start and run a profitable business, marketing and group management, participants are taught on the benefits and how they can mobilize savings. This training was an eye opener for most (85 percent in the Youth scheme and all of those in the CARE scheme who were also saving for the first time in their life time with the schemes.

Figure 1: Mechanisms that encourage saving



5.5 Compulsory saving arrangements

The other mechanism which is responsible for savings levels in the two schemes is the compulsory saving arrangements. The results in Figure 1 above show that this was more important in the Youth scheme as reported by 22 percent against 1 percent from the CARE scheme. This may be one of the reasons why the participants in the Youth scheme were making more savings than their counterparts in the CARE scheme. Respondents explained that the compulsory saving arrangements forced most of them to have deposit accounts which provided a chance to create a sum of their savings which could be available at the appropriate time when they finish servicing their loan. This means that although compulsory saving arrangements have been discredited for assuming that the poor do not have the discipline and cannot save, and viewed as part of the cost of credit by the poor themselves, they can provide useful sums for the clients which may be useful at some point. Since compulsory saving is viewed negatively, the option as Wright (1999) observes would be to come up with well designed contractual saving agreement schemes. These schemes would provide effective opportunity to lock away funds that would otherwise be transferred to relatives or friends or used for household consumption due to social, ethnic or religious obligations (Fiebig et al., 1999). This finding is in agreement with Wright (1998) who observes that compulsory savings schemes become acceptable to the clients especially when the amount to be saved is defined by clients themselves and also if the savings accounts are readily accessible. Apart from the discipline of saving Wright also observes that regular saving arrangements enhance group cohesion.

5.5.6 Credit Provision

When the respondents were asked about the source of their initial savings, apart from crop sales which 32 percent of the respondents reported as the source of their initial savings, 21 percent indicated that initial savings came from a micro credit enterprise. Scheme comparisons however, show that more people from the Youth scheme relied on the micro credit supported enterprise for their initial savings (36 percent) while only 9 percent of the participants sourced initial savings from a micro credit enterprise in CARE scheme. This is in agreement with the use to which the loans obtained from micro credit schemes were put i.e. either to support existing enterprise or start a new enterprise. Participants on the other hand from the CARE scheme relied more on crop sales (41 percent) and *ganyu* (25 percent) as sources of initial savings. However, even in the CARE scheme, business appeared to have a

significant effect on savings (See annex 1). This could be one of the arrangements that may have contributed to differences between savings levels in the two schemes.

5.6 Challenges in the promotion of savings

The promotion of savings in the communities is not without challenges. About 48 percent of participants and 73 percent of non participants respectively reported that there are challenges in savings mobilization. Out of the participants who answered in the affirmative, 64 percent of respondents were from the Youth scheme and 33 percent of respondents came from the CARE scheme. Table 12 below depicts the details of the responses from the two schemes and the control group on perceived challenges in promotion of savings.

Table 12: Challenges in Promotion of Savings

Challenge	Youth scheme		CARE scheme		Total Participants		Control	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Poor security	16	36.4	2	8.0	18	26.1	11	40.7
Bank charges	9	20.5	-	-	9	13.0	8	29.6
Savings as collateral	5	11.4	-	-	5	7.2	2	7.4
Delays in loan repayments	1	2.3	10	40.0	11	15.9	-	-
Default in loan repayment	-	-	8	32.0	8	11.6	-	-
Others	13	9.1	5	20.0	18	26.1	6	22.2
Total	44	100.0	25	100.0	69	100.0	27	100.0

As can be seen from the table, poor security of savings in homes was rated as the biggest challenge as reported by 36 percent of respondents from the Youth scheme and 41 percent from the control. Discussions revealed that since it is difficult to access bank services due to distance to the banks, respondents were concerned that their savings in their homes were prone to theft. Apart from theft they also reported that their savings can be easily used on such needs which are not planned for, but also relatives may want assistance or loan from them and it becomes easy to withdraw from their homes than if the money were kept in an account. Money kept in the bank would therefore be safer and when individuals prefer to save there they are actually opting for *illiquid accounts* which necessitates the poor in identifying savings mechanisms that prohibit them from withdrawing to meet trivial needs or unnecessary spending (Wright, 1999). Even when choosing the financial institution for savings security is seriously considered just as Pelrine and Kabatalya (2005) found that security was the overall most important aspect considered when choosing a savings institution. Respondents suggested that poor security of savings in the homes could be overcome if the savings were kept in a

savings account or facility which would ensure that their money is safe. With regard to long distances to banking facilities, respondents suggested that such facilities should be brought closer to the communities to minimize on cost of travel both when depositing and when withdrawing their savings.

Related to security of savings, respondents in CARE scheme were more concerned with group members' delays in repaying the loan from the group savings (40 percent) and defaulting such loans (32 percent). The feeling was that their savings were not safe especially if some borrowers decided to default the loan on the group savings. It is probably for this reason that even those like the lady respondent in Mitundu area under the CARE scheme referred to who had the potential to make substantial savings with the groups only made small contributions and opted to keep much bigger amounts in their homes. Respondents suggested that members should be continually encouraged to pay to group account once they borrow so that other group members can benefit from the funds. They also suggested that defaulters should be removed from the group or advised to start reliable businesses from which they can repay the loan. They finally recommended that their committees should be empowered to make forcible recoveries on those people who are defaulting willfully.

Bank charges or high fees on savings accounts charged by financial institutions was also viewed negatively by participants in the Youth scheme and the control group (21 percent of respondents from the Youth scheme and 30 percent of the control group). Focus group discussions revealed that respondents find it more discouraging when they deposit money on their savings account and find a balance lower than the deposit even when they did not withdraw. The small savers complained that the high charges on their accounts deplete their already small savings and suggested that such charges should be reviewed and reduced or removed completely on small savings accounts in order not to discourage potential savers.

Respondents from the Youth scheme (11 percent) and the control group (7 percent) were also not happy with the arrangement where savings are tied to loans as collateral. This makes their savings difficult to access and utilise when they are faced with other pressing needs. Although this challenge was not mentioned by the respondents from CARE scheme, the official in CARE explained that tying of savings to credit eventually leads to deterioration of savings. There were some groups which had been linked by the organisation to OIBM so that they would access credit. Their savings were used as collateral and were depleted while at the same time they were not making any savings. The group members seem to have been satisfied that

they had the loan they wanted and they no longer needed to save. When they realized this they discontinued their relationship with OIBM and started saving again as a group in the village. Other challenges included poor records keeping by the groups, formalities at the bank, and low interest the banks offer on savings accounts. This acted as disincentives to savers who were also complaining of bank service charges on a monthly basis.

The discussions with scheme officials on challenges related to savings revealed that security and accessibility are critical challenges in the Youth scheme and chronic food security, lack of business skills and challenges in programming affect saving by the participants in CARE scheme. Key informant interviews with the official from Youth scheme also revealed some security concerns. Since the banking facilities are centralized at the district headquarters, when members from distances far from the district want to withdraw from their accounts, they have to go through the field officer for MRFC who withdraws on their behalf. This process has led to loss of money before it is given to the owners through robbery. It was also reported that since the customers are scattered, very high transport costs are incurred to facilitate withdrawals of savings in the Youth scheme. The other challenge that was reported was the high cost that is associated with production of passcards for each account despite the amount of savings being maintained in those accounts. The official from the Youth scheme further indicated that MRFC is already working on improvements in the system which will among other things help to ease withdrawal procedures and improve the savings mobilisation in the rural areas.

The official from CARE scheme indicated that chronic food insecurity reduces saving in the hunger months. During this period instead of saving the members commit their money to purchase of food and others actually borrow to finance consumption. Another challenge which was reported in the CARE scheme is lack of business skills among participants for them to make good business decisions which can earn them higher profits from which savings can be made. The other challenge in the CARE scheme relates to the programming approach. While the organization adopted the holistic approach to rural development, in terms of implementation, the officials have their own biases in terms of which programme components they place more emphasis on. The official felt village savings and loans component should have its own dedicated staff that can pay much closer attention to issues of the savings promotion among the poor.

CHAPTER SIX

6.0 Conclusions and Recommendations

6.1 Summary and Conclusions

The study was undertaken to investigate the role of micro credit schemes in promoting savings from the poor sections of the community so that they can become active participants in the economy. There were three objectives that were set to be achieved or investigated on. The first one was to find out the relationship between the participants socio-economic characteristics and level of savings. The second was to find out if beneficiaries had made increased savings due to their participation in the credit schemes. The third was to establish if there are institutional and organizational mechanisms which encourage participants to save.

A survey was conducted in Lilongwe district, with respondents from two micro credit schemes. Using both quantitative and qualitative approaches, the survey involved 200 individuals from the two schemes and a control group of non participants. Information was collected using questionnaires administered to individuals, checklists and semi structured interview guides for focus group discussions and key informant interviews respectively. The analysis conducted included descriptive statistics, Chi-square tests, frequency calculations and regression analysis.

It has been shown from the regression analysis that a significant relationship exists between participation in schemes and the level of saving. Those who were participating in the micro credit schemes were making significantly higher amounts of savings than those who did not belong to micro credit schemes. The results also show that micro credit schemes had provided an opportunity for 54 percent of the participants in the Youth scheme and 69 percent in CARE scheme, that had never saved before to start saving. This means that the presence of micro credit schemes can help to influence people to start making and might help improve the savings in the community.

It has been shown that there is a relationship between income, marital status; education and occupation and savings while gender, age and household size head were not significantly related to level of savings.

With respect to income, the results show that those who were saving in both schemes had higher average income compared to those who were not saving. Further those participants

higher incomes were making more savings than those who had lower incomes. The regression analysis showed a significant positive relationship between income and savings implying an increase in savings if someone's income increases. It is important therefore that efforts should be made to increase household income levels to stimulate significant savings. It has been observed that those who were making more savings in both schemes were involved in off farm income earning opportunities like salaried employment followed by business and farming in that order. This means that although people in low income groups dependent on farming are able to save, they make much lower savings than the rest. Efforts therefore to improve on their farming away from subsistence or diversified income earning opportunities will help them improve the household income and therefore increase their savings. Due to high level of unemployment the feasible option would be to encourage small scale enterprises among participants and give them proper training on business management so that they can run successful businesses. Another option would be to introduce income transfer programs in the initial stages which may help to capitalize their small businesses and eventually leading to relatively larger savings.

The study has also shown a significant relationship between marital status and savings. Those who were divorced or separated were making significantly more savings than the singles, widowed and the married. The divorced and separated who were all females could have been making more savings because they have to fend for themselves without any expectations of assistance from elsewhere. Additionally, the women were able to make independent economic decisions unlike their counterparts in families. Programs therefore targeted at supporting this category of participants have a higher likelihood of succeeding because they provide an opportunity for this resource constrained group to utilize the arising opportunities and can help to hedge them against the unexpected conditions.

With regard to education, it has been shown that those with higher education make more savings than those with lower education. While tertiary (post secondary school) education is highly significant as it is associated with high income earning opportunities it has been observed that those with primary education save more than those with secondary education although the difference was not significant. It would appear that even at the lowest level of education people are able to make savings but become limited with the income earning opportunities and unemployment with those that have achieved secondary education.

The study has also shown that micro credit schemes have some institutional and organizational characteristics which encourage participants to save. Between the two schemes there were higher savings being made by those members in the Youth scheme. Although both schemes had some mechanisms which may have influenced participants to make more savings than non participants, there were some mechanisms which may have been responsible for different savings levels in the two schemes. Compulsory saving arrangements and credit provision are some of the factors which may be responsible for more savings in the Youth scheme participants than in CARE scheme.

6.2 Policy Recommendations

Savings are very important for economic agents and especially the rural poor who are credit constrained affecting their productive capacity. Findings show that those who belonged to micro credit schemes were more likely to make more savings than the non participants. This means that the most important factor to consider to encourage savings is to make the savings facilities available. It would therefore be important to deliberately make micro credit schemes more accessible to the majority in the rural communities currently without access to savings facilities to mobilize more rural savings and improve on the locally available resources to improve their productive capacity. In addition if savers in the micro credit schemes are linked to the formal financial institutions they can contribute towards making resources available for other investors.

Since savings are significantly affected by income, with those having higher incomes making more savings, efforts to increase savings from the communities should also have built in initiatives to increase income levels in the targeted groups. There should be efforts to encourage diversified income earning opportunities like off farm employment and promotion of small businesses to improve household incomes. Credit led micro credit schemes should therefore, instead of focusing on loan recovery, also make sure that loan supported businesses are properly supervised since they can become important sources of savings for participants.

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ANNEXES

Annex 1: Results of a Savings regression by scheme

Variable	Youth scheme	CARE scheme
(Constant)	-28231.492 (19832.100)	12370 (13290.858)
Age	736.395 (568.407)	27.854 (110.100)
Household size	614.656 (1130.305)	376.874 (634.263)
Income	.108 (.024)**	8.618E-02 (.023)**
Gender	2304.583 (4880.868)	778.410 (2908.805)
Farming	4512.724 (8091.277)	-
Business	7386.393 (7906.240)	14085.362 (4579.352)**
Ganyu	303.763 (8971.70)	-
Married	3130.160 (4668.282)	-17881.120 (11468.169)
Widowed	-3487.618 (11776.381)	-16767.348 (12410.391)
Divorced/separated	-2258.373 (12247.935)	2693.353 (11778.136)
Primary education	-656.997 (10046.502)	3212.724 (2839.735)
Secondary education	-2285.823 (10336.418)	-3870.397 (5344.249)
Tertiary education	29829.717 (12037.911)*	-
R-squared	0.732	0.651
Adjusted R-Squared	0.419	0.424
Durbin-Watson	1.993	2.040
Mean dependent var.	11650.61	4764.32
S.D. dependent var.	14109.010	7669.756
F Statistic	4.609	5.143
Sig.	0.000	0.000

Notes. Figures in parenthesis represents Standard Error. **=significant at 99% and * =significant at 95%

Annex 2: Individual Participant Questionnaire

A General Information

1. Name of District _____
2. Traditional Authority _____
3. Name of Village _____
4. Name of Respondent _____
5. Name of Enumerator _____
6. Date of interview _____

B-Household Roster & Characteristics.

Provide details of each household member in the household (starting with respondent)

ID	Name of Household Member	B1 Sex	B2 Age	B3. Relation to Head of Household	B4. Marital Status	B5. Highest level of education completed	B6. Main Occupation
1							
2							
3							
4							

Codes

1. Sex: 1=Male, 2=Female

2. Relation to Head of household: 1= Head, 2=Spouse, 3=Son/daughter, 4=Grandchild, 5=Other relative, 6=No relationship,

3. Marital Status: 1=Married, 2= Widowed, 3=Divorced, 4=Separated, 5=Single.

4. Education attained: 1=None, 2=Adult literacy, 3=Std 1-4, 4= Std 5-7, 5=Std 8, 6=Form2, 7=Form4, 8=Technical college, 9=Univesity.

5. Main Occupation: 1=None, 2=Farming, 3=Business, 4=Ganyu, 5=Salaried work, 6=Schooling, 7=Other (specify).....

Socio – Economic Information

B7. What are the **two** main sources of income for household?

- 1= Sales from staple crop
- 2= Sales from cash crop
- 3= Sales from dimba crops
- 4= Remittances
- 5= Small business

- 6= Artisan
- 7= Sale of livestock and livestock products.
- 8= Ganyu Wages
- 9= Salary from employment

1 st	
2 nd	

B8. Indicate in how many months and how much income you received in the last 12 months from the following sources

Sources of Income	Number of months	Monthly Income (MK)	Annual Income (MK)
a) Crop sales			
b) Livestock and livestock product Sales			
c) Small Business			
d) Artisan			
e) Remittances			
f) Ganyu			
g) Salary			

B9. Of what material is the main house made of?

	Material
Roof of house	
Walls of house	
Floor of house	

Codes:
 Roof: 1=Grass thatch, 2=Iron sheets, 3=Clay tiles, 4=Concrete, 5=Plastic sheeting
 6=Other (specify) _____

Walls: 1=Burnt bricks with plaster, 2=Burnt bricks without plaster, 3=Sun dried bricks with plaster,
 4=Sun dried bricks without plaster, 5=Mud and poles, 6=Iron sheets, 7=Compacted earth
 8=Grass, 9=Other (specify) _____

Floor: 1=Cement, 2=Earth, 3=Tiles, 4=Other (specify) _____

B10. How much land do you as a person have?

Acres _____

B11. What is your total household landholding size? (Upland and any other land not under cultivation at present).

Acres _____

B12. How much land is under cultivation?

Acres _____

B13. What are your **two** main cash crops?

1=Tobacco
 2=Cotton
 3=Rice
 4=Groundnuts
 5=Cassava

6=Maize
 7=Beans
 8=Sweet potatoes
 9=Soy beans
 10=Banana

11=Sugarcane
 12=Tomato
 13=Green leafy vegetables
 14=None

1 st	
2 nd	

B14. What are your **two** main food crops grown.

1=Maize
 2=Rice
 3=Cassava
 4=Banana
 5=Sweet potatoes

6=Beans
 7=Green leafy vegetables
 8=Groundnuts
 9=None

1 st	
2 nd	

Months _____

B15. For how long does food from your own harvest usually last?

B16. When your own food stocks run out how do you normally meet your food requirements?

1=Purchases (ADMARC/Local markets)
 2=Receive from children, friends/relatives
 3=Transfers from NGOs/Government
 4=Ganyu for food,
 5=Begging from strangers
 6=None
 6=Other (specify) _____

B17. If purchased, main source of cash for purchasing?

1=Salary
 2=Ganyu for cash
 3=Begging from strangers
 4=Credit from moneylenders
 5=Income transfers
 6=Business
 7=Other (specify) _____

B18. Ownership of property

Does the household own the following property?	Yes=1 No=2	Number	Number functioning	Value if wanted to sell (MK)
Bicycle				
Radio				
Car				
Sewing machine				
Plough/Ridger				
Oxcart				
Fridge				
Video/TV				
Treadle Pump				
Others (Specify).....				

319. Ownership of livestock

Does the household own the following livestock?	Yes=1, No=2	Number
Cattle		
Sheep		
Goats		
Pigs		
Chicken		
Pigeons		
Ducks		
Guinea Fowls		
Others (Specify).....		

C. Micro enterprise Ownership & performance

C1. Do you own any enterprise/ business? Yes =1, No =2

C2. If yes, how many businesses do you have?

C3. What type and when did your business start?

Type of business	When started (Months ago)
1=Production enterprise	
2=Service enterprise	
3=Trade enterprise	
4=Livestock/Agriculture	
5=Other (specify) _____	

C4. Which is the most important enterprise to you? _____

C5. What is the ownership structure of this enterprise/Do you have any partners?

1= Sole proprietor

2= Family partnership

3= Non-family partnership

4= Co-operative group

5= Other (Specify) _____

C6. What was the source of the initial start up capital for this enterprise?

1= Loan from family/friends

2= Given free from family/friends

3= Money lender (*Katapila*)

4=Own savings from ganyu

6=Own savings from non agric, non ganyu
7=Agriculture input credit
8=Inherited business
9=Savings clubs

3=Own savings from agriculture 1 10=Other sources (Specify) _____

7. Are you a member of any micro credit and savings schemes? Yes=1, No=2(Go to G1)

8. Which micro credit/savings schemes are you a member?

- 1= Youth Credit Scheme 6= MUSCCO/SACCO
2= Care International Micro credit Scheme 7=MRFC
3= FINCA 8=NGO Programme
4= PRIDE Malawi 9=Other (Specify) _____
5= Women World Bank

9. If Yes in C7 and respondent is a member of either 1 or 2 in C8, which of the businesses you have is supported by the micro credit scheme?

10. How much was the start up capital for the micro credit supported business?

MK.....

11. What was the source of the initial start-up capital for this business?

- 1= Loan from family/friends 6=Own savings from non agric, non ganyu
2= Given free from family/friends 7=Agriculture input credit
3= Money lender (*Katapila*) 8=Inherited business
4=Own savings from ganyu 9=Savings clubs
5=Own savings from agriculture 10=Other sources (Specify) _____

12. Since your business started how has the volume changed?

- 1=Large increase 5=Large decrease
2=Small increase 6=Don't know
3=No change
4=Small decrease

13. Enterprise performance

	No. Months	Av. monthly sales	Av. costs	Av. Profits
High sales				
Average sales				
Low sales				

14. What is the most important thing that you do with profits realized from the business?

- 1=Use for household needs 6=Use for entertainment
2=Re-invest in this business 7=School fees
3=Re-invest in another business 8=Use for medical/funeral expenses
4=Support other family relations 9=Other sources (Specify) _____
5=Put into savings

15. How many people are working for your business?

- 1=Owners _____
2=Paid workers _____
3=Unpaid workers _____
4=Total Number of workers _____

16. What is the contribution of the micro credit supported business to total household income?

- 1=All or almost All of income
2=More than half of income
3=Less than Half of income
4>About Half of Income
5=Don't know

A. Micro credit Schemes

D1. For how long have you been involved in the micro credit scheme?

_____ Months

D2. How did you come to know about the credit scheme?

- 1=Friends
- 2=Radio
- 3=Extension worker
- 4=Credit scheme staff
- 5=Other (Specify) _____

D3. What were the criteria for entry into the credit scheme?

- 1=Collateral
- 2=Self-selecting solidarity/business group
- 3=Initial savings contributions
- 4=Existing business
- 5=Other (Specify) _____

D4. Do you know if there are other micro credit/saving schemes in the area? Yes = 1 No = 2

D5. If yes do you also participate in any of them? Yes = 1 No = 2

D6. If no in D5, why don't you participate in those other schemes?

- 1=Collateral
- 2=Didn't have initial savings
- 3=Frequency of repayments
- 4=Not interested
- 5= Other (specify) _____

Microcredit scheme and microloans

E1. Have you ever taken a loan from the micro credit scheme? Yes = 1, No = 2  E10

E2. How many times have you benefited loans from scheme?

E3. What is/was your latest loan amount?

MK _____

E4. When did you obtain it?

- 1= 1-3 months ago
- 2= 4-6 months ago
- 3= 7-9 months ago
- 4= 10-12 months ago
- 5= Over 12 months ago

E5. What is the interest rate?

_____ %

E6. What are the repayment arrangements?

- 1= Weekly
- 2= Fortnightly
- 3= Monthly
- 4= Other (Specify) _____

E7. Do you like the repayment arrangements? Yes=1, No=2

E8. What was the main purpose for the loan in question?

- 1= Support the existing enterprise
- 2= Start the enterprise
- 3= Buy food
- 4= Pay school fees
- 5= Purchase assets
- 6= Other (Specify) _____

E9. Is your loan-assisted enterprise your main source of income? Yes = 1 No = 2

E10. Have you accessed other types of loans before? Yes = 1, No = 2

E11. If yes where did you obtain them?

Source of loan	Yes=1, No=2	Value (MK)	Interest rate (%)	Loan schedule
Banks				
Relative				
Neighbour				
Grocery/Local merchant				
Moneylender (Katapila)				
Employer				
Religious Institutions				
MRFC				
SACCO				
NGO				
Other (Specify).....				

Codes for loan schedule

1= Weekly, 2= Fortnightly, 3= Monthly

4= Other (Specify) _____

E12. Do you like the repayment arrangements? Yes = 1 No = 2

Explain why _____

E13. Have you received training since you joined the credit scheme? Yes = 1 No = 2

E14. Did you receive training before obtaining the loan? Yes = 1 No = 2

E15. How long was the training?

_____ Days.

E16. Who provided this training?

1= The extension worker

2= Staff from the micro credit scheme

3= Fellow members

4= Others (Specify) _____

E17. What aspects did the training include? (Multiple responses)

1= Business management and operation

2= Group formation and management

3= Loan procedures and credit management

4= Investment

5= Savings mobilisation

6= Other (Specify) _____

E18. Has there been follow-up training? Yes = 1 No = 2

E19. If yes, how many times have you attended?

E20. Do you think the training was important /useful? Yes = 1 No = 2

Explain _____

F. Micro credit scheme and micro-savings

F1. Did you have any savings before you joined the credit scheme? Yes = 1 No = 2 **➔ To F9**

F2. If yes where were you holding your savings?

1= Bank

- 2= Friends
- 3= Group/Club
- 4= Home
- 5=Others (Specify) _____

F3. How much were the savings?

MK _____

F4. a. Have you continued saving your money after joining the scheme? Yes = 1, No = 2

b. If yes, in which of these are you saving? (*Multiple responses*)

- 1= Bank
- 2= Friends
- 3= Group/Club
- 4= Home
- 5=Others (Specify) _____

F5. If yes how often do you save?

- 1= Weekly
- 2= Fortnightly
- 3= Monthly
- 4= Other (Specify) _____

F6. When did you last save your money?

- 1= Last week
- 2= Last fortnight
- 3= One month ago
- 4= Over a month ago

F7. How much in total are your savings now?

MK _____

F8. If no to F4, why have you not been saving?

F9. If no to F1, Did you start saving when you joined the micro credit/saving scheme? Yes = 1 No = 2

F10. If yes how often do you save?

- 1= Weekly
- 2= Fortnightly
- 3= Monthly
- 4= Other (Specify) _____

F11. When did you last save your money?

- 1= Last week
- 2= Last fortnight
- 3= One month ago
- 4= Over a month ago

F12. How much in total are your savings now?

MK _____

F13. Were initial savings a precondition for entry into credit schemes? Yes = 1 No = 2

F14. How did you raise money for your initial savings?

- 1= Micro enterprise
- 2= From crop sales
- 3= Livestock sales
- 4= Ganyu
- 5= Gifts/Transfers
- 6= Public works programme
- 7= Others (Specify) _____

F15. What would you want to use the savings for?

- 1= Support the existing enterprise 6= Other (Specify) _____
2= Start the enterprise
3= Buy food
4= Pay school fees
5= Purchase assets

F16. What factors encourage or explain your saving behaviour?

- 1= Interest rates 6= Proximity to savings facility
2= Size and structure of family 7= Formalities at banks
3= Current Income 8= Other (Specify) _____
4= Inflation
5= Ease of access to my savings

F17. Has the micro credit scheme played a role in promotion of savings?

Yes = 1 No = 2

Explain

F18. Are there any challenges related to saving? Yes = 1 No = 2

F19. What are these challenges?

F20. How can they be overcome?

F21. If the credit scheme discontinued the loan facility would you continue saving? Yes = 1 No = 2

Why

F22. Who decided that you join the micro credit scheme?

- 1= Own decision 6= Own & Spouse
2= My spouse 7= Other specify _____
3= Group
4= Guardian/Parent
5= Micro credit scheme officials

F23. Who decided on the size of the loan/savings?

- 1= Own decision 6= Own & Spouse
2= My spouse 7= Other specify _____
3= Group
4= Guardian/Parent
5= Micro credit scheme officials

F24. Who decides on how the loan or savings are utilised?

- 1= Own decision 6= Own & Spouse
2= My spouse 7= Other specify _____
3= Group
4= Guardian/Parent
5= Micro credit scheme officials

F25. Who made the decision on the choice of the business location?

- 1= Own decision 6= Own & Spouse
2= My spouse 7= Other specify _____
3= Group
4= Guardian/Parent
5= Micro credit scheme officials

(For Non participants only)

G. Micro credit Schemes

G1. Do you know if there are micro credit/saving groups in your area? Yes = 1, No = 2

G2. If Yes, how many groups do you know?

G3. Why are you not participating in these saving groups?

1=Collateral

2=Didn't have initial savings

3=Frequency of repayments

4=Not interested

5= Other (specify) _____

G4. If you were invited to the saving groups, would you join? Yes = 1 No = 2

H. Micro credit Schemes and micro loans

H1. Have you obtained any loans before? Yes = 1 No = 2

H2. How many times?

H3. What is/was your latest loan amount?

MK _____

H4. When did you obtain it?

1= 1-3 months ago

2= 4-6 months ago

3= 7-9 months ago

4= 10-12 months ago

5= Over 12 months ago

H5. What was the main purpose for the loan in question?

1= Support the existing enterprise

5= Purchase assets

2= Start the enterprise

6= Other (Specify) _____

3= Buy food

4= Pay school fees

I. Micro credit Schemes and micro savings

I1. Do you have any savings? Yes = 1 No = 2 ➡ 19

I2. If yes where are you holding your savings?

1= Bank

2= Friends

3= Group/Club

4= Others (Specify) _____

I3. When did you start saving?

MK _____

I4. How much are the savings in total?

I5. What are the reasons for saving?

1= Support the existing enterprise

2= Start the enterprise

3= Buy food

4= Pay school fees

5= Purchase assets

6= Other (Specify) _____

9. If yes how often do you save?

- 1= Weekly
- 2= Fortnightly
- 3= Monthly
- 4= Other (Specify) _____

10. When did you last save your money?

- 1= Last week
- 2= Last fortnight
- 3= One month ago
- 5= Over a month ago.

11. How did you raise money for your initial savings?

- 1= Micro enterprise
- 2= From crop sales
- 3= Livestock sales
- 4= Ganyu
- 5= Gifts/Transfers
- 6= Public works programme
- 7= Others (Specify) _____

12. In your opinion, are there any challenges related to saving?

Yes = 1 No = 2

13. What are these challenges?

14. How can they be overcome?

Annex 3: Semi-structured Questionnaire for Key Informants

A General Information

- A1. Name of District
- A2. Traditional Authority.....
- A3. Name of Village
- A4. Name of Respondent
- A5. Name of Enumerator.....
- A6. Date of interview.....

B. The Micro-credit/Savings scheme

- 1 What are the objectives of the scheme?

.....

- 2 What services does the scheme provide?

.....

- 3 What are the rules and regulations of the scheme?

.....

C. Identification of participants

- 4 Who qualifies to participate in the scheme?

.....

- 5 How are beneficiaries identified?

.....

- 6 Is there a set criterion for beneficiaries to participate in the programme? What is the criterion?

.....

D. The Savings and Credit functions of the scheme

Savings Services

- 7 Between provision of credit and provision of deposits/savings services, which is the most important component of the scheme? And why?

.....

- 8 What savings products are being promoted by the scheme?

.....

- 9 What are the beneficiaries' responses to the different savings products? Is there an apparent preference for specific products? Why?

.....

- 10 Does the scheme have flexible savings products apart from compulsory ones?

.....

- 11 What are the reasons for introducing flexible savings?

.....

- 12 Apart from financial savings what other forms of savings do scheme participants maintain?

.....

- 13 How often do clients make financial deposits?

.....

- 14 What conditions are attached to savings and credit provision?

.....

15 What facilities and incentives does the scheme have to encourage savings?

16 How do you compare the level of savings that participants have now to the level of savings they were maintaining before joining the scheme? Explain

Withdrawal of savings

17 Are clients allowed to make withdrawals on their savings? _____

18 If yes are there any requirements/conditions attached? What are these conditions?

19 How often are they allowed to make withdrawals?

20 If they are not allowed to make withdrawals what are the reasons?

21 What is the minimum balance on the clients' deposit accounts? MK _____

22 How do most people use their savings?

Constraints to mobilization of micro savings

23 Are there any costs to the scheme associated with collecting micro-savings? What are these costs?

24 What challenges does the scheme face with regard to mobilization of micro savings?

25 Does the scheme have a legal provision for mobilization of savings? How does this affect savings mobilization by the scheme?

26 Are there any deliberate policies and actions to mobilize savings from participants? What are these initiatives?

27 What should be done to ensure increased and sustained savings from your target group?

Annex 4: Focus Group Discussions (FGDS) Guide.

1 Poverty and Participation in Micro credit Schemes

- Conceptual definition of poverty in the study areas
- Characteristics of the poor
- Poverty or wellbeing groups
- Participation of the each poverty or wellbeing group in micro credit schemes

2 Availability of micro credit schemes in the study areas

- Are the schemes available?
- Names and how many are they?
- What services do they provide?

3 Identification of Participants in Micro credit schemes

- How does one become a member of the micro credit scheme? How are participants identified? Any set criteria?
- Assessment of the criteria. If good why? And If not good why?

4 Operations of the micro credit schemes

- What are the rules and regulations governing the operations of the micro credit schemes
- What are the requirements for participating in the schemes?
- Are there any conditions attached to micro credit schemes services (credit/saving). What are these conditions?

5 Saving Culture

- What is their understanding of saving?
- What are the different forms of saving? / How do people save?
- Why do people save? And why don't others save?
- What factors encourage/explain saving behaviour?
- What savings products are available from micro credit schemes?
- What has been the role of micro credit schemes on savings mobilization?
- What problems do you face with regard to saving?
- What do you think should be done to improve household savings and mobilize/encourage savings?