



# Strategies leading to sustainable Savings and lending Groups (SLGs) in communities of Paramount Chief Chikulamayembe of Rumphi District.

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## Abstract

Savings and lending groups (SLGs) are communitybased financial institutions that provide access to credit and savings for low-income households. SLGs have been shown to improve the economic and social well-being of their members, especially women and marginalized groups. However, SLGs face several challenges that threaten their sustainability, such as high dropout rates, low repayment rates and weak governance. This paper reviews the literature on the strategies that can enhance the sustainability of SLGs, such as strengthening group cohesion, improving financial literacy, diversifying income sources, building linkages with formal financial institutions, and good governance. The paper also identifies the gaps in the current knowledge and suggests directions for future research.

## Key Words

GoM: Government of Malawi

MNSSP: Malawi National Social Support Programme

N.G.O: Non-Governmental Organization SLG: Savings and Lending Groups

SPSS: Statistical Package for Social Scientists

USAID: United States Aid for International Development

## I. Introduction

This study falls under Social Work and it specifically focuses on an investigation of strategies leading to sustainable Savings and Lending Groups (SLGs) in communities around Paramount Chief Chikulamayembe of Rumphi District in the northern part of Malawi. According to Plan International

(2023), Savings and Lending Group (SLG) are selfmanagedgroups of 15 to 25 people who meet regularly to save their money in a safe space, access small loans within their group, and obtain emergency insurance. Savings and Lending Groups are a popular way of providing financial services to people who are not served by formal financial institutions. These are self-selected and self-managed groups of people who save together and take small loans from those savings. The groups are usually formed around a common bond such as living in the same area or belonging to the same social group. These groups are often sponsored by Government, Non-Governmental Organizations and sometimes they are self-sponsored. The SLG methodology emphasizes accountable governance where transparency reigns supreme always, standard procedures that guides the entity in all its operations and simple accounting terms or procedures that everyone within the group can understand and trust. Savings and Lending Groups help members to save regularly in small, flexible amounts. These are amounts which in normal circumstances one would find it difficult to save on their own at home because it could be looked upon as a very small amount not worth keeping but within the group such small amounts are appreciated and even earn interest in the process. Keeping that small amount over a period of twelve months brings back very lucrative and viable returns. The SLGs also gives its members access to loans from their own savings to invest in their businesses or pay for big expenses like agricultural inputs, access emergency support through a basic insurance fund, and access periodic lump sums to pay for school fees of their wards, or in other cases using the cash to engage in other home expenses like repairs of bicycles, motor vehicles, oxcarts and home renovations. Savings and Lending Groups can also



help members improve their financial literacy skills and reach a more formal and wider array of financial services. It can be seen from the above attributes of the savings and lending that this intervention is a game changer, it has a lot of positives and has the potential of fighting poverty at all levels if it can be carefully rolled out and implemented, a lot of individuals can benefit and they can register many gains in life. This is in line with Sustainable Development Goal number which aims at ending poverty. (UN 2015).

But this important life changing initiative is meeting sustainability challenges, many SLGs are either stagnant or they have disbanded altogether despite the many gains that they offer. Many SLGs start on a very high and promising note but eventually with the passage of time they can no longer be traced. Therefore, a study to unearth strategies that can bring about sustainability is very important. The assumption is that the study will be able to unearth the bottlenecks which are suffocating this game changer and bring about strategies which will lead to sustainable SLGs. The study setup starts by giving the background of the SLGs, the problem statement, the research objectives, the research questions to be investigated and the goal to be achieved. The study also highlights the justification and literature reviews to recognize what other writers have written on the strategies leading to sustainable SLGs. It is also respecting limitations which can affect the study and ethical consideration that will be observed to ensure that the project is undertaken professionally. The research will use a mixed methods approach, combining quantitative data from surveys and administrative records with qualitative data from interviews and focus group discussions. The research will compare different types of SLGs in terms of their structure, performance, and resilience, and identify the best practices and lessons learned from successful cases. The research will also examine the role of external actors, such as NGOs, donors, and governments, in supporting or hindering the sustainability of SLGs. The research will contribute to the literature on financial inclusion and community development, as well as to the policy and practice of SLG promotion and regulation

## II. Literature Review

Studies by different scholars have discussed several factors which are hindering sustainability in savings and lending groups. A study by Jackson H L (2016) on Dynamics and Sustainability points out that

literacy levels play a big role leading to sustainability of SLGs. Being literate is the ability to read and write, as well as to comprehend and communicate effectively.

According to the observation and results of the study by Jackson H L (2016) it showed that the majority of the members in the savings and lending groups have low literacy levels. It was revealed that eighty nine percent (89%) of respondents interviewed had seven (7) years of education and also that 30% of standard 7 leavers cannot do standards Two level Mathematics, and about 20% of standard 7 leavers cannot read Standard Two Level Swahili story.

Literacy is essential for personal, social and economic development, as well as for human rights and democracy. The benefits of being literate are many. It is an eye opener, literacy enables access to information and knowledge, which can empower individuals to make informed decisions and participate in civic life. Literacy also improves health outcomes, as it allows people to understand health information easily, seek medical help when need arises and follow preventive measures accordingly. As a result, it leads to a happy and health nation. Literacy increases the chances for employment because it opens up doors of opportunities for education, training and work. Literacy has the power of inducing social inclusion and cohesion, because it reduces inequalities, promotes diversity and tolerance, and strengthens social bonds and networks. Literacy enriches personal and cultural identity, in the sense that it enables people to express themselves creatively, appreciate literature and arts, and preserve their heritage and traditions. Therefore, being literate is not only a basic skill but a giant step for human development and well-being.

Another study by Government of Malawi through MNSSP (2018) revealed that Poor quality training (capacity building) provided to some groups affects performance of the SLGs. Training quality is a crucial factor that influences the performance and outcomes of any organization. Poor training quality can have negative effects on various aspects, such as participant's motivation, productivity, retention, customer satisfaction, and profitability. The effects of poor training quality are many. Some of the effects of poor training quality are that participants may feel frustrated, confused, or bored by the training content, which can reduce their engagement and interest in learning new skills or knowledge because they are switched off from participating. In other cases participants may not acquire the necessary competencies or abilities to perform their tasks



effectively and efficiently, which can lead to errors and mistakes. The errors and mistakes have the potential of breaking a group because in some cases other participants may take it as deliberate. Participants may not be able to adapt to changing situations or demands, which can affect their creativity. For group members to fully implement and benefit from an intervention, they must fully understand the modalities, objectives and the implementation arrangement. This can be a solid foundation for sustainability. In order to achieve this, the facilitator must design a tailor-made training in order open the minds of the intended recipient of the training

Savings and Lending is a form of social protection. In line with this, some schools of thought are advocating for an investment in human capital. Ruck M (2019), suggests that investing it in human capital development can lead to higher use of health services, higher nutrition status, higher school attendance. Members are looking for multiple benefits from savings and lending groups. Investing in human capital development is a strategic decision that can bring many benefits to SLGs and individuals. Human capital development refers to the process of enhancing the skills, knowledge, abilities and competencies of employees through education, training, mentoring and coaching. This investment is of several benefits. Some of the benefits of investing in human capital development are that it can improve the productivity and performance of SLG leaders, as they become more capable, efficient and innovative in their work. It also can increase the motivation and engagement of the SLG members, as they feel valued, respected and supported by the system. Human capital development can foster a culture of learning and continuous improvement within the organization, as people are encouraged to acquire new skills and knowledge and share them with others. Lastly it can enhance the reputation and competitiveness of the organization, as it attracts and retains high-quality talent and customers. Investing in human capital development is not only beneficial for the present, but also for the future. It can help organizations and individuals adapt to the changing needs and demands of the market, the industry and the society. It can also create a positive impact on the economic, social and environmental aspects of the world.

SLGs can make participants graduate from poverty. Slater R (2009) observes that graduating out of poverty is a significant achievement that can have many benefits for individuals and society. Some of the benefits include are the improved health and

wellbeing of the individuals. It is a known fact that poverty is associated with higher rates of chronic diseases, mental health problems, malnutrition, and mortality. Graduating out of poverty can reduce the exposure to these risks and improve the access to quality health care and preventive services. It can also lead to enhanced education and skills in the sense that it opens the doors of opportunities for education and skill development, which are essential for personal and professional growth. Graduating out of poverty can increase the motivation and resources for pursuing higher education and lifelong learning, which can lead to better employment prospects and income levels. Another point is that it leads to increased social capital and civic engagement since the poor in most cases isolate people from social networks and civic participation, which are important sources of support and empowerment. Graduating out of poverty can strengthen the sense of belonging and trust in society, and encourage more involvement in community activities and democratic processes. Graduation from poverty will lead to reduced inequality and injustice simply because poverty is a manifestation of structural and systemic barriers that prevent people from realizing their full potential and rights. Graduating out of poverty can break these barriers and contribute to a more equitable and inclusive society, where everyone has a fair chance to thrive and prosper. Poverty is evil, it must be avoided in any form.

Loan default is also another factor worth evaluating in SLGs. Loans are part and parcel of the SLGs. A well-managed loan brings profits to the one borrowing as well as the one lending. In case of SLGs, both the borrower and the SLG benefits. But when a borrower fails to service the loan, it becomes a thorn on the flesh, it impacts negatively on both parties because cash has been held by an individual and it is not predictive. According to USAID (2019) Loan defaults are a serious problem for savings and lending groups, as they affect the financial performance and sustainability of the group. When a member fails to repay their loan on time, the group loses income from interest payments and faces liquidity challenges. This reduces the amount of funds available for lending to other members, and may also erode the trust and cohesion among the group members. Loan defaults can also damage the reputation and credibility of the group, making it harder to attract new members or external funding sources. Therefore, savings and lending groups should adopt effective strategies to prevent and manage loan defaults, such as screening borrowers, enforcing



repayment rules, providing financial education, and offering flexible repayment options. Loan defaults deters development.

Little support from Government/NGOs also plays a role in SLGs life. Savings and lending groups (SLGs) are community-based financial institutions that provide access to credit and savings for lowincome households. They are often supported by external organizations, such as NGOs, governments, or microfinance institutions, that provide training, supervision, or linkages to formal financial services. However, some SLGs receive little or no support from these organizations, which can have negative effects on their performance and sustainability. Some of the effects of getting little support from organizations to SLGs are a lower quality of financial management and governance. This implies that without adequate training and monitoring, SLGs may face challenges in keeping accurate records, enforcing rules, managing risks, and resolving conflicts. This can lead to lower transparency, accountability, and trust among members, and increase the likelihood of fraud, default, or savings and lending group dissolution. The other effect is limited outreach and impact, this means that without linkages to formal financial services, SLGs may have difficulty in meeting the diverse and growing needs of their members, such as bigger loans. This can limit their ability to expand their membership, diversify their products, and increase their social and economic impact. The other effect is the reduced resilience and sustainability and it implies that without external support, SLGs may be more vulnerable to external shocks, such as natural disasters, health crises. These shocks can disrupt their operations, reduce their income, and increase their expenses. Without contingency plans or emergency funds, SLGs may struggle to cope with these shocks and recover from them. Therefore external support is paramount.

Integration with other intervention is another factor worth exploring in SLGs. This can be a plus to the SLG. According to Gash M (2017), integrating the savings and lending with other interventions such as health and nutrition can help sustain the savings and lending. One of the key challenges for poverty alleviation programs is to ensure that the beneficiaries have access to adequate financial services that can help them improve their livelihoods and resilience. Savings and lending activities, such as microfinance, self-help groups, and village savings and loan associations, are often used as tools to promote financial inclusion and empowerment among the poor. However, these activities alone may not be sufficient

to address the multiple dimensions of poverty, such as food insecurity, health, education, and environmental degradation. Therefore, it is important to integrate savings and lending activities with other interventions that can address other aspects of life in a holistic and sustainable manner.

### III. Methodology

Research methodology is a crucial aspect of any study that aims to investigate the functioning and impact of savings and lending groups. It refers to the systematic process of designing, conducting, and analysing data collection methods and tools that are appropriate for the research objectives and context. Kumar (2020) emphasizes that this is where a researcher acquaints with self on the various steps generally adopted to study a research problem along with underlying logic between them. Research methodology helps to ensure the validity, reliability, and generalizability of the findings, as well as the ethical conduct of the research. A well-designed research methodology can also enhance the efficiency and effectiveness of the data collection and analysis, and facilitate the dissemination and utilization of the results.

This research used a mixed type of research methodology. The research used both quantitative as well as qualitative methods. This is because some of the questions were open ended questions that captured people's opinions and expressions while some were closed ended questions ranked using Likert scale.

### IV. Methods of Data Collection

There are various methods of data collection which were used in this research depending on the type, purpose, and scope of the survey. The following data collection methods were used.

Questionnaires: This method involves asking questions to the respondents in a written form, either on paper or online. Questionnaires are either be closed-ended, open-ended or mixed, depending on the type of responses expected. Questionnaires have the potential to reach a large and diverse sample of respondents, but they may have low response rates and lack of depth. Questionnaires are able to measure various aspects of a phenomenon, such as attitudes, opinions, behaviors, preferences, knowledge, or satisfaction. Questionnaires can also be used to test hypotheses, compare groups, or evaluate interventions. Questionnaires are widely used as data collection tools in research, especially in the social





sciences. They allow researchers to gather standardized and quantifiable information from a large number of respondents, often at a relatively low cost and time.

According to this research paper a questionnaire of a total of 24 questions comprised of both open ended and closed ended questions was issued out to 60 respondents to capture the variables of the research. The information collected from the questionnaires was further used for data analysis.

Focus group discussion is a qualitative data collection method that involves a moderated interaction among a small group of participants on a specific topic. It is widely used in social science research to explore the opinions, attitudes, beliefs, experiences and behaviors of the target population. Focus group discussion do provide rich and in-depth insights into the research problem, as well as generate new ideas and hypotheses. Focus group discussion can also complement other data collection tools, such as surveys or interviews, by providing contextual information and clarifying the meanings of responses. The focus group in this research were extension workers around T/A Chikulamayembe who are the focal point of the SLGS grouping and offer guidance and capacity building for the sustainability of SLGS groups. This research utilized a maximum of 6 focus groups across the clusters around T/A Chikulamayembe.

**V.Data Analysis Tools** This research used SPSS software for analyzing quantitative data set and Excel was used for analyzing qualitative data.

The research used t-test which was used to test for the significance of the variables.

Correlation test was also used to test for correlation between the dependent variable and the independent variables

## VI. Results

This paper presents the results of a systematic literature review on the strategies leading to sustainable Savings and Lending Groups (SLGs). SLGs are community-based financial intermediaries that provide access to savings and credit services for low-income and marginalized populations. SLGs have been shown to have positive impacts on income, consumption, asset accumulation, social capital, empowerment, and resilience. However, SLGs also face challenges such as governance issues, operational inefficiencies, business as usual approach, little support from outside, and high interest rates. The

research used correlation test and the findings identified four main strategies that can enhance the sustainability of SLGs:

1. Strengthening the capacity and autonomy of SLG members and leaders. 2. Active participation of group members

3. Constitution enforcement

4. Fostering linkages and partnerships with other stakeholders such as NGOs, government agencies

The paper discusses the implications of these strategies for policy and practice, and suggests directions for future research.

## VII. Discussion

Savings and lending groups (SLGs) are community-based financial institutions that provide access to credit and savings for low-income households, especially in rural areas. SLGs operate on the principle of self-help, mutual trust and solidarity among members, who pool their savings and lend to each other at affordable interest rates. SLGs have been shown to improve the economic and social well-being of their members, as well as to foster local development and empowerment. However, SLGs also face several challenges that threaten their sustainability, such as governance issues, operational inefficiencies, business as usual approach, little support from outside, and high interest rates. Therefore, the strategies that can enhance the sustainability of SLGs have been identified. These strategies must be part and parcel of the SLG setup. If fully implemented and sustained, the SLGs in Paramount Chief Chikulamayembe will be on going and have the potential of growing into very powerful cooperatives. The expectation is that these strategies must be incorporated in all SLGs wherever they are.

## VIII. Conclusion

This research paper has explored the strategies leading to sustainable Savings and Lending Groups (SLGs) in low-income communities. The main findings are that SLGs can improve the financial inclusion, empowerment and resilience of their members, especially women and marginalized groups, by providing them with access to savings, credit and social support. However, the sustainability of SLGs depends on several factors, such as the quality of group governance, the level of trust and cohesion among members, the availability of external support and linkages and affordable interest rates. The paper has also discussed some of the challenges and opportunities for scaling up and replicating SLGs in



different settings. The paper concludes with some recommendations for policy makers, practitioners and researchers who are interested in promoting and supporting SLGs as a viable and effective model of community-based microfinance.

#### Limitations of the study.

One of the challenges of conducting a survey is to acknowledge the expected limitations that may affect the timeline, validity, budget and reliability of the results. The limitations come in different dimensions. Some of these limitations are; sampling bias, measurement error, nonresponse bias, response bias, analysis error, funerals and fuel scarcity. These limitations were considered and addressed in the design, implementation, and reporting of the survey, as well as in the interpretation and application of the results.

#### Ethical consideration

Ethical consideration in a survey is the process of ensuring that the research design, data collection, analysis, and reporting are conducted in a way that respects the rights and dignity of the respondents and the researchers. Ethical consideration before doing research is not only a moral obligation, but also a practical necessity. Research that is conducted without regard for the rights, dignity and well-being of the respondents, or that violates the norms and values of the society, can have negative consequences for both the researchers and the research subjects. Ethical consideration in this research looked into the following; seeking informed consent, respecting confidentiality, privacy, protecting vulnerable populations, and minimizing harm.

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