University Meets Microfinance

CASE STUDY

Better Financial Tools or More Financial Education?

Behavioral Changes and Financial Literacy Messages Embedded in Savings Group Activities in South Africa

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Introduction

South Africa has made a long-term commitment to financial education (Messy and Monticone 2012). Research has shown that financial literacy has economic importance (Lusardi and Mitchell 2014), yet there remains a considerable knowledge gap in determining how to best improve financial literacy through financial education (Berg and Zia 2013, 2). Two recent meta-analyses have called into question whether efforts to improve financial literacy work at all (Miller et al. 2015; Fernandes, Lynch, and Netemeyer 2014). These studies document minimal impact of financial education on financial literacy and financial behavior, and importantly, reveal low demand for such programs. At the Responsible Finance Forum, held in September 2015 in Turkey, Greg Fischer therefore points out that perhaps we need to rethink our goals: the few success stories we know have been about basic financial tools and changing a few simple behaviors, rather than about financial literacy (Fischer 2015). He raises the question whether we care about financial literacy per se, or whether it is about finance to work better for the people who need it most?

Fischer's questions link up with an ongoing debate around what constitutes relevant financial knowledge and behavior. A lack of savings, planning and budgeting, excessive use of debt and ignorance of basic financial concepts such as (compounding) interest are often regarded as knowledge deficits or financial illiteracy and have been correlated with poverty[1]. This correlation has precisely been the impetus for the development of financial education programs, which are assumed to 'correct' this illiteracy and as a result lead to improved financial decision making. This approach however strikes with some of the anthropological accounts of how the poor manage their money: these accounts show that the poor are often extremely sophisticated and do in fact save, plan, calculate and anticipate, within the limited financial tools that they have available (Guérin, Morvant-Roux, and Villarreal 2014; Collins et al. 2009). Their financial decision-making appears far from sub-optimal, given the financial services available to them. This raises the question to what extent the financially excluded need more literacy, or rather better (basic) financial tools at their disposal, precisely the question that is raised by Fischer too.

This case study attempts to illustrate the successes and challenges of introducing a basic financial tool in changing the behavior of the financially underserved, by presenting evidence gathered from

[1] More specifically financial literacy scores on these type of scales are correlated with age, sex, education and ability, income, employment, race and ethnicity, geography, family background and financial behavior (Lusardi and Mitchell 2014).

28 in-depth interviews with savings group members in the KwaZulu-Natal Province in South Africa. The savings group model under study has an embedded financial literacy component to it. In this model, financial education activities are an integral part of the savings process, and thus as it were become part of the design, or terms and conditions, of the financial tool. Rather than looking at the effectiveness of this financial literacy component (compared to no financial literacy), the study treats the embedded financial education component as part of the financial tool.

The study consists of two parts: the first part discusses the difficulty, from the members' perspective, to disentangle engaging with a new financial tool, and receiving financial education. To the members, any interaction with the NGO, whether it is through facilitation of savings groups activities or 'formal' financial education, is perceived as an intervention and is therefore seen as something that is related to both the financial tool and education component. This intervention can be seen as conversations about money, the topic of which is dependent on the need of that moment. This confirms the study's approach to treating the embedded financial education as a component of the financial tool itself. The second part of the study looks at how this combination of engaging with a new financial tool, coupled with financial education (for some), impacts financial behavior.

As this case study will show, introducing a basic financial tool in the form of savings groups to financially underserved women 'naturally' changes their financial behavior in a number of ways. Moreover, the saving model itself has certain financial literacy lessons *embedded* in it. Most importantly the savings group members learn about the value of saving, borrowing cheaply, and paying and accumulating interest. In addition, however, this study finds that introducing savings groups also has potential unintended consequences, which, if left unaddressed, may negatively impact members' wellbeing. This study therefore concludes that having access to basic financial tools does not negate the need for continuous discussions about managing money, beyond what these discussions currently are.

This following sections will first describe the case under study in more detail, after which the methodology and the results & analysis section will follow. The study concludes with a discussion about what the findings mean for future efforts in the space of financial services for the poor.

SaveAct

This study focuses on the case of SaveAct, a non-profit organization promoting and supporting the formation of savings and credit groups in the KwaZulu-Natal Province in South Africa. SaveAct's Savings and Credit Group Model is based on a savings group program that was originally developed by CARE International in 1991 in Niger. This model is also known as the Village Savings and Loans

Association (VSLA) model, which has spread to at least 73 countries, with over 11 million active participants worldwide ("VSL Associates" 2015).

The Village Savings and Loans Association (VSLA) Model

SaveAct's groups are self-selected, voluntary, and consist of an average of 10-25 members. Both men and women can join, but the overwhelming majority of SaveAct's members are female. Upon forming a savings group, the members develop a constitution that documents the basic principles of the group's government. Group members save money in the form of share purchases, the price of which is determined at the time when they develop their constitution or as annually determined by the group. A share in South Africa is normally 50 or 100 Rand (3.30 or 6.60$). The groups usually meet once a month, during which they can buy up to five shares. The money gets collected in a money-box specific to the group, and transactions are recorded in each member's personal savings booklet. Members can also borrow money from the group, limited to three times[2] the overall number of shares contributed to the group by the member at that point. The group charges interest for the loans, which in most groups is set at 10% per month. The interest rate is also decided on by the group at the time of developing the constitution, and cannot exceed 10% per month. At the end of the savings cycle, which usually lasts 12 months, the group has a 'share-out' during which the group's capital (savings from shares bought + interest from loans made) are shared proportionally to the amount each member has saved throughout the cycle ("SaveAct's Model" 2015; Karlan et al. 2012).

SaveAct's Embedded Financial Education Model

Besides introducing the savings group model to communities, SaveAct also offers financial education to its members. In 2014 SaveAct started a six-month pilot to refine existing financial education (FE) material based on feedback from the field[3]. The main aim of this process was to develop FE modules in such a way that FE becomes an integral part of the savings process ("SaveAct's Model" 2015). SaveAct's embedded approach contrasts with 'traditional' FE, where a curriculum gets taught in classroom-based settings, separate from the financial service activity that unites the education deliverer and the member (or client) of the financial service provider. The program aims to help members to make more informed and better decisions in the use of financial services. To this end, SaveAct developed seven different modules:

1. Orientation to managing your money

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[2] The standard practice is 3 times, but in selected places SaveAct promotes a limit of 2 times the overall number of shares to reduce the risk for the group.

[3] The pilot was developed in conjunction with PlaNet Finance and Microfinance Opportunity, complementing SaveAct's earlier April 2013 Award from Citi Foundation.

2. Budgeting
3. Long-term financial planning
4. Managing debt
5. Daily/monthly cash-flow management
6. Keeping your money safe
7. Linkages with banks

The outcome of this pilot was a set of educational materials, consisting of a learning map (a square of cloth which represents a village and can be used to discuss different uses of money) and teaching protocols that the SaveAct Field Officers (FOs) or Community Based Promoters (CBPs) can draw on for their FE activities. SaveAct strongly believes that for FE to be relevant, the messages and delivery method has to be embedded into the savings methodology. Thus, in addition to fine-tuning the teaching materials to make them as relevant to the local context as possible, SaveAct has also opted for an embedded delivery of the FE activities by offering the FE sessions on the same day as the saving activity happens. Apart from starting the conversation with the module on managing money and budgeting when groups are originally formed, there is no set schedule for the FE sessions; members can indicate which topic is relevant to them at that point of time, based on which the FO or CBP will deliver the respective session. Members can also ask for sessions to be repeated, if there is a need for that. The choice element of which module to focus on is a crucial aspect of SaveAct's embedded FE model.

Methodology

This case study draws on 28 in-depth interviews to illustrate the successes and challenges of introducing a basic financial tool, savings groups coupled with financial education, in changing the way participants manage money on a daily basis. The main outcome variable, 'managing money' is studied by looking at members' tendency to plan and budget (does she plan what to spend her loan, or share-out money on? Does she stick to that plan? Does she budget to put money aside for her savings? Are there others who demand parts of her money?), how she deals with emergencies and her decisions to borrow money (when there is an emergency, where would she get the money? If the emergency happens after the savings group meets, where does she get the money from? What happens if she cannot repay in time?), and her financial habits (in the last two years, is there anything that changed the way she handles money? Does she feel different about handling money? Does she think more or less about money compared to two years ago?).

The interviews were conducted between 5th and 14th August 2015 in the KwaZulu-Natal region in South Africa, with the help of two experienced facilitators. The interviews were audio-recorded, transcribed in Zulu and translated into English. Interview records are available upon request. The study was reviewed by the Central University Research Ethics Committee (CUREC) of the University of Oxford and is registered under reference number SBS C1A 15-041.

Sample Selection

Members were eligible for the interview if their savings group had reached the maturity phase and were a member for at least 14-20 months. Savings groups typically are trained and mentored by SaveAct's FOs and CBPs over a period of 18 months. During this period, the groups go through an 'intensive monitoring phase' for the first four months, where the FO or CBP is present at every monthly meeting. This frequency reduces by half during the 'development phase' in next 8 months, where the FO or CBP only monitors 4 out of 8 meetings and help prepare for the share-out. When the savings group enters its second cycle, the group graduates to the 'maturity phase'. In this phase, the FO or CBP is present during the first two meetings to ensure the constitution is reviewed (for new members). After that, the FO or CBP will attend one more meeting within the next 6 months, before the group is ready to 'graduate' and operate independently.

Interviews were conducted before or after the regular monthly savings group meeting. Savings groups meet on the same day every month, for example every first Friday of the month. Group selection was based on logistical convenience: visits were determined by the FOs' regular schedules. From each visited group, one or two members were randomly selected ensuring a mix of literacy levels, age and household composition. All except one interviewee were women.

The interviewed members reside in two different areas: The majority (21 members) live in Table Mountain, a peri-urban area 25 kilometers from Pietermaritzburg, the capital of the KwaZulu-Natal region. An additional 7 members live in villages around Bergville, a smaller town in the Drakensberg area. Including members from two different areas ensured a mix of peri-urban and more rural circumstances.

Semi-structured Interview Protocol

Interviews took between 25-35 minutes and were guided by a semi-structured interview protocol, which covered the following topics:

- Income: what are the household's different sources of income and how is it spent? How does the money flow through the household?
- Relationships & money: how are financial responsibilities divided between the household members? Is there ever any tension around money? Does she ever worry about money?

- Experiences of participating in savings groups: how does it feel to be part of a savings group? Does it help her managing her money? How? Does it help her achieving any goals in life?
- Safety issues: where does she keep her cash (generally, and around share-out day)? Does she ever feel unsafe having cash? Do people (household members, family members) ever ask her for money?
- Planning & budgeting: does she plan what to spend her loan, or share-out money on? Does she stick to that plan? Does she budget to put money aside for her savings? Are there others who demand parts of her money?
- Emergencies/borrowing: When there is an emergency, where would she get the money? If the emergency happens after the savings group meets – where does she get the money from? What happens if she cannot repay in time?
- Financial habits: In the last two years, is there anything that changed the way she handles money? Does she feel different about handling money? Does she think more or less about money compared to two years ago?
- Luxuries: what are luxuries for her, and her family?
- Financial education: Did she ever use a learning map with her savings group? What is the key message that she remembers from these sessions? Did she discuss any topic in the group that she thought was very inspiring, or she thought was very useful?
- Aspirations: What are her hopes, dreams, aspirations for the future, for herself and her children?

Results & Analysis

Background Characteristics

The study participants are between 23 and 26 years old[4]. The households they belong to vary widely. Some belong to households consisting of 4-7 people, others to households of 10 to 16 people. A household is defined as those who share the same cooking pot, a common definition used in development economics. In many instances, the husband and several children live elsewhere for a large part of the year, and in some cases a household would consist of a grandparent with grandchildren (and no children at home) only. In other cases, a household would consist of for

[4] Age was recorded for 18 out of 28 interviews. The facilitator forgot to ask the question in these cases.

example two sisters, an aunt, and 8 of their children. All households have at least one (grand)child staying with them.

All study participants have some form of income, mostly in the form of social grants for children and/or an old age pension. Some women have additional jobs as a community worker, or make some extra money by selling their produce or by running a small shop in the village. Having a job, rather than fully relying on social grants is an exception rather than the norm, however. The women use their income mostly for groceries, transportation, children's lunch boxes and other school/child related expenses. In most cases the household expenses get covered with help of a husband, who in some families works somewhere else and contributes via remittances.

Monthly savings vary from 50 Rand (3.30$) per month (i.e. 1 share) to 750 Rand (50$) per month (e.g. 5 shares in 3 booklets simultaneously). The median monthly savings amount is 250 Rand (16.50$) per month. To put this amount into context: the social grant is 330 Rand (22$) per month per child, and the old age pension is 1400 Rand (93$) per month. In terms of experience, 14 out of 28 participants had completed one cycle of saving and had thus experienced 1 share-out. Another 4 members had started in 2013 and had thus participated in 2 share-outs, and 1 member had experienced 3, or 0 share-outs. For the remaining 8 members this information was not available[5], but they were members of groups that had reached the maturity phase.

Financial Education: Where Does it Start and End?

The majority of the members received some form of financial education: 14 members recalled having used the learning map that was developed during SaveAct's pilot phase. Another 7 members recalled receiving financial education during the start-up of their group, but not specifically using the learning map. The remaining 7 members did not recall having received any FE, but by definition of being a savings group member would have been part of developing the constitution.

Recalling the research question of this study, has introducing a basic financial tool, savings groups coupled with financial education, changed the way participants manage money on a daily basis, the next sections of this study will show that participants are very knowledgeable when it comes to money. In particular, being part of the savings groups has taught them how to budget, separate needs from wants, and has demonstrated rules of thumb when it comes to interest rates, including compounding interest. These are all concepts that are part of the core questions traditionally used to measure someone's financial literacy (Lusardi and Mitchell 2014; Atkinson and Messy 2012).

[5] The facilitator forgot to ask the question in these cases. But since they were all members of groups that had reached the maturity phase, it is most likely that these members had experienced 1 share-out.

It turns out difficult to attribute any specific learning to the impact of the saving activity or financial education respectively. The interviews reveal that from the members' perspective, there is no apparent difference between embedded FE and talking about the workings of the savings group, for example at the time of writing the constitution. Sabelo (32) for example, when asked about whether she received financial education and whether she was taught using a learning map, explains:

> *'They told us about the trainings, the constitution, all of those things, how to save, the rules governing the savings group, they also told us about the benefits of saving. We got the basic training.'*

For Sabelo, financial education refers to 'the basic training' she received at the beginning of joining SaveAct and is thus not very different from simply participating in the savings group. Moreover, when asked about financial education she refers to an interaction with someone from SaveAct, which for her entails a specific teaching moment where someone from outside, 'they', explain something about using money. Members can thus experience a teaching moment regardless of using 'the learning map', which is SaveAct's flagship tool of embedded financial education. Sithandiwe (44) also refers to 'they' when recalling a teaching moment:

> *'On the learning map, they showed us pictures of our lives and the things that we do on a daily basis like buying insurance, funeral policies etc., the important things. Then there were shebeens [local shops], airtime, the unimportant things. So from that map we were able to see which are the important things and which things were not important.'*

While Sithandiwe remembers covering budgeting and using your money wisely, which is essential to being able to put money aside to save, it is not evident that members would not budget or use money wisely without having received FE using the learning map. For example, Zimba (48) who did not receive any FE explains:

> *'No I don't remember any map. What I remember is that they told us if you are a member here you have to know what you are going to do with your share out before you receive it so that you don't just spend it haphazardly and when the year begins you don't have money and you don't even know what you did with it.'*

The words of Zimba demonstrate that educational messages are also embedded in the saving activity itself. Being part of a savings group, more specifically getting to understand the workings of the group and being able to save, requires a change in money management. In fact, a lot of (informal) conversations around money happen during the saving meeting, and these conversations might therefore serve as substitute or complement to financial education. In the next sections, this case study will explore this further. This is not to say that FE does not have the potential to introduce financial concepts to savings group members in a structured way. The question is rather where financial education starts (and ends), what topics of conversation are still being left unaddressed, and to what extent it is embedded (or not) into the financial tool, in this case: savings groups.

The potential behind embedding financial education in the financial activity itself is that it provides a timely learning moment. Perhaps counter-intuitively, in SaveAct's case, also not providing any structured FE is very close to the idea of embedded FE. This is simply because the saving activity itself requires members to plan and budget, and the savings group offers a way to save and borrow money cheaply. Moreover, at the time of group formation, when the rules of the saving group are being laid out, budgeting and topics such as when (not) to take out a loan are clearly explained and agreed on by the members. And as will be described in more detail below, once the saving activity starts, the learning by doing component of VSLAs is very impactful. Thus, the saving model itself indeed has certain financial lessons *embedded* in it.

This all raises the question how the intrinsic learning process of the VSLA model supports members managing their money, and how these insights can provide lessons for further improvements to the model, and other financial tools. In what follows, this case study highlights which embedded lessons have been particularly helpful for the members, and what topics may need further attention.

Financial Education Messages Embedded in the Saving Activity

Joining a savings group has a strong impact on members' financial management. Firstly, many women would now be saving in a structured way for the first time in their life. The majority of the women depend on social grants (either for their children or old age) for their income, which they receive at the beginning of the month. Before joining the savings group, it would not be an exception to spend most of it on the day when the social grant gets paid. Take for example Bongi:

> *'Previously I used to go and collect the grant money in town and then I would go into the shops and buy things. By the end of the day I would just have transport money to come home. […] I would buy things that I wanted and not needed. I would buy just because I have the money.'*

Now, after having joined the savings group, Bongi keeps a budget and only buys what is needed in terms of groceries for the month. The remainder, she puts aside for the savings group. Distinguishing between needs and wants, and keeping a budget stands out as a clear impact. Bongi continues:

> *'But now, although I may have the money, I need to make sure that I account for every cent of it. I also know that I have a loan which I must pay off and I need to budget accordingly so as to pay off that money. So I know that this money I will save, and this money I will use for "ukuphusha" [Zulu for interest]. Even my husband has said that he is impressed with the way that I am handling money now.'*

Bongi's experience is an exemplification of what most of the interviewed women expressed: being part of SaveAct helps women managing to keep money aside for savings. The savings group activity is indeed known to function as a commitment device to overcome present-bias (Karlan et al. 2012). It provides a tool to save for the future, rather than spend money now. Samke (29) explains that…

> *'It is nice being a member here, because I am not able to save the money that I am saving here on my own. I won't be able to discipline myself to do it, I will be tempted to buy all the unnecessary things.'*

Not only does it help to actually commit to saving money, it also helps in defining a purpose for those savings, and to continue saving diligently. As Bongi goes on to explain:

> *'Previously, I did not save with a purpose, I just saved money, and if I needed it, I would just use it. But now with the savings group, I know that as I save, I am saving towards the share out and I know exactly what it is that I will do with that money.'*

Bongi mentions the share-out as providing a clear goal to save. As will become apparent in the next section, the share-out provides an incentive that fuels a lot of the success of the VSLA model.

Learning by doing, dreams and aspirations

VSLAs are designed to be self-replicating and self-sustaining (Karlan et al. 2012). The study participants indeed have many stories about how new groups have been formed spontaneously since the first groups started in the region. The strength of self-sustainability and -replication appears to revolve in particular around the share-outs, when members receive their year's worth of saving, plus interest. Many participants describe this experience as a moment of revelation. Feni (34) explains that at first …

> *'… people were very skeptical about this savings group. But when we got our share-out, that is when people saw that it actually does work, so more people came and joined.'*

Likewise, Nelisiwe (45) tries to explain to her family that she did not get the money through any magic:

> *'I just saved the money. Last year when we got our share out, we got more money than what we were actually saving because there was also the interest that we had earned on money we borrowed. I cried last year when I saw how much money I was going to be getting. […] I was so happy. I could not believe it. The share out was a lot of money. I took the money and hid it on me. You should have seen me walking home. I was walking like a crazy person. I just wanted to get home.'*

The quotes reveal the excitement about the share-out. For many women the sum of money they receive during the share-out is the largest amount of (non-borrowed) money they have ever had in their hands at one point in time. Going through the cycle of saving, borrowing, paying and accumulating interest, and seeing it result in an actual sum of money has a very strong 'learning by doing' effect on the women. The share-out acts as a great motivator to save more (many members have more than 1 booklet after the first year), and spreads the enthusiasm for the saving model within the community (other family members or neighbors joining in too).

The learning by doing, and in particular experiencing and physically *seeing* the result of the savings at the time of the share-out, induces existing members to save more, and new members to join. It is important to recognize that the attractiveness of the large share-out carries potential risks in it too, however. On the one hand, being part of more than one saving group can help managing cash flow and keeping money safe, assuming that the groups meet at different times of the month. On the other hand, having multiple saving booklets within a household can introduce financial (and social) pressure when loans are being taken from these different groups simultaneously, and all have to be repaid around the same time. It is for that very same reason that SaveAct has introduced the rule that one member can not belong to more than two groups with one book in her name in each group. In practice, however, this is hard to monitor[6] and this research found that it is not uncommon for group members to have 3 or more booklets, or find ways around the rule by having booklets in the name of their children or husbands. While no evidence was found for this to result in any financial pressure on the households yet, it is something to monitor closely in the years to come.

Going back to the share-out, it is interesting to note how saving helps members achieve new goals. This appears to be of two types: consumption (including celebrations), and investments in for example better housing, education for children or cattle. Since the share-out is towards December, a lot of the members use their money for Christmas related expenses such as groceries and new clothes for their children. More generally, a large part of the share-out spending is on children; members often use the money to pay school fees and buy new uniforms in January. The second big share-out spend is on household related items. This varies from TVs, to cupboards, sofas and (bedroom) furniture. Home-improvement is also a popular purpose: at least six interviewed members had used the money for either building a new home or plastering walls.

These examples demonstrate the tangible impact of the saving activity. In almost all cases, the purchases made with the share-out were carefully planned, with plans being made months in advance. Yoliswa for example planned her purchase (bedroom furniture) from the moment she joined the savings group:

> *'I started thinking about buying a new bedroom set on the day that I joined the group last year and I kept on thinking that once I receive my share at the end of the year I am going to change the way my bedroom looks.'*

Zandile (62) has a similar story about using her share-out money:

> *'I paid for my daughters driving lessons because she was always complaining that every time when she sends in an application form for jobs they always require a driver's license which she doesn't have. […] It was always on my mind at that time, I used to keep on telling myself that when I get the share out Xolo needs to go and do her driver's license.'*

[6] In some regions the spread of saving groups is almost 'viral', which challenges SaveAct's resources and for example naturally puts pressure on the training time available per saving group.

The goals for what the share-out money will be used for are a motivation to save. It is part of the commitment device function of the savings group. In fact, most members started dreaming about what they would do with their next share-out, which is due in December, right after the previous share-out. These plans were mostly an extension of the previous year. In sum, being a member of a savings group has turned dreams about aspirations and wants into something that is conceivable to become reality, by diligently saving every month.

Borrowing money and thinking about money

Managing cash flow is a very demanding process when having to get by on a low-income budget. The participants explained that the VSLA methodology provides a welcome additional instrument to their financial toolbox. Most evidently, it provides an alternative to local moneylenders, or loan sharks. Instead of paying 30 to 50% interest on loans, the savings groups offer loans at 10%. This is clearly a much more favorable rate, and the VSLA model has been lauded for that reason. The impact of savings groups goes beyond the direct financial implications of having access to cheaper loans, however. This case study looks into the emotional impact of joining a savings group, and in particular of having an alternative to moneylenders. Borrowing money from moneylenders is often associated with worries and other negative emotions. It is not without reason that moneylenders are colloquially being referred to as 'sharks'. Loan sharks are described as people who have no mercy, and are troublesome:

> *'If you owe them and you cannot pay, then they will demand their money or there will be trouble. […] They can come to your house and take whatever they want.' (Bongi)*

The threat of loan sharks coming to your house to take your belongings is very credible in the regions where SaveAct operates: almost everyone who has ever borrowed from a loan shark has always managed to repay their loans in some way, and those who did not had (some of) their belongings taken away. One lady, Nosisa, took a different approach, however: when she had repaid the principal she took the loan shark to court and won the case. But Nosisa's case is a clear exception.

Breaking the cycle of borrowing from the loan sharks is not easy. Yoliswa explains that people using loan sharks often think it is impossible to stop once you have started to rely on them. Though trying to break with the dependency on loan sharks is hard at the beginning, joining the savings group has been a way out of that vicious cycle for many. Thembi describes that …

> *'… since I have started here I see the difference. In the previous years I used to borrow money from the loan sharks and my financial situation wasn't good at all but now it has improved even though it hasn't gotten to where I want it to be. Before I wasn't going to be able to be part of this savings group because I wouldn't even have money that remains after I have done everything. I would spend every last cent paying the loan sharks.'*

But as alluded to earlier, the savings groups not only provide a much cheaper option for borrowing money, they also mitigate a lot of anxiety on the borrower's side. This is clearly illustrated by the reaction of participants to the question whether they now think more or less about money, compared to before they joined the savings group. Zandile (62), for example explains that in the last two years the way she thinks about money…

> *'…has changed, before I used to be broke after receiving my salary. I used to go to the loan sharks every month, I used to borrow money from one loan shark to pay back another loan shark. But now I don't even know the sight of the loan sharks. I just borrow money here if I need it.'*

For her, not having to rely on the loan sharks anymore has changed how she thinks about money. Thinking about money, or ruminating on your finances can be very tiring. Joining the savings group appears to have altered the way members think about money, moving away from chronic rumination and worrying about constraints to thinking in terms of possibilities. Siziwe explains she still thinks a lot about money; she used to think a lot about money back then, and she still thinks a lot about money now. But the nature of her thoughts have changed:

> *'Prior to joining the saving group, I used to think about money a lot. Although my husband would provide for me, money is never enough. You always want more. I could also see that my husband would struggle to make ends meet, and I would think a lot, trying to find ways that would assist him in making ends meet. Now, I can still say that I think and even dream about money a lot. The difference is that now I am more forward thinking. Now I think about how I can get more money, how can I get to make money even on the side.'*

While Siziwe calls it forward thinking, others describe how budgeting (which basically is projecting future income and expenditure) has allowed them to shift away from worrying about making ends meet, or even wasting money. Sithandiwe (44) for example explains:

> *'I thought more about money back then because it used to worry me a lot. I used to have money, but because I did not know how to save, I would use that money anyhow. But now I am able to draw up a budget and that assists me knowing how much money will be going to what.'*

In sum, being part of a savings group appears to have helped members move away from thinking about money in ruminative, taxing ways, to more enabling, positive ways.

Ethics of Borrowing

As described in the previous section, the savings groups provide a valuable alternative to loan sharks. It has not completely replaced borrowing from loan sharks, however. This is mostly due to three features of the VSLA methodology: (1) members meet once a month, (2) a member can only have one loan per booklet at the same time, and (3) the amount cannot be larger than three times the total shares she has bought from the group at that point in time. This means that if an emergency arises in the middle of the month, or when a member already has an outstanding loan or when the required amount is large, members may still have to divert to other sources to borrow money. There are a variety of ways in which members deal with such emergencies: some will have a small business that they can use as a buffer; others will reach out to family members or neighbors. Borrowing from family members or neighbors often tends to be interest free. But in some occasions people still rely on loan sharks. Even though it is the last preferred option, if people cannot find the money elsewhere there will always be a loan shark who is willing to lend money.

Another practice that appears to be quite common is that members borrow money from the savings group on behalf of others. This can be a savings group member from another group who has a cash flow issue, but it also happens regularly for non-members. While on the one hand this illustrates the success of the VSLA methodology (it is a very popular source for credit, not just for savings), this practice also introduces a potential risk. What if the person to whom the loan was made does not repay? Zandile worries about that. If the person on whose behalf she borrowed money does not repay her then she will have to pay up herself. The liability is on her side: in case of non-payment her share-out at the end of the year will be reduced by the outstanding debt plus interest. The only basis upon which she can rely is *trusting* that the debtor will repay her. By helping another person in need, Zandile has introduced a significant risk into the group, bypassing the basic principles of the savings model. A point for further study would be whether Zandile and other members conduct any due diligence before lending out money borrowed in her name. Another question would be whether the loan is made on ‘family terms’ (i.e. at low interest rates), or whether the member charges additional interest on the loan, for her own benefit, and thus in a way become a loan shark herself. Educational lessons would look rather different in the ‘family terms’ scenario, compared to the ‘loan shark’ scenario.

More generally, the VSLA model relies on trust, carefully constructed by a constitution and during regular meetings, that every member repays her loan (regardless of whether she used the loan for herself or gave it to someone else). And when a member fails to repay it creates a problem: members can borrow up to three times the number of shares they have saved, hence writing off the accumulated shares would not cover the original credit taken out, let alone the interest that is due. In other words, in case of non-payment the whole group suffers. Feni’s (34) group experienced such a situation, when a member took an 8000 Rand (530$) loan and never returned the money. The group has considered going to the debtor’s house to take her furniture, but they are worried about the police, and they would also not know where to keep the furniture. Another option they considered was approaching the person's employer on payday and demanding the money. But thus far the group has not taken any action and suffered their loss. Their threats are not credible; they do not have any mechanism in place to enforce repayments or issue consequences.

These issues raise questions about the ethics of debt. Clearly, the VSLA methodology has helped members moving away from more expensive forms of borrowing. Because of its success in doing so, and its attractive loan terms, demand for loans from members is high. This introduces a risk of not just defaults on debt repayment, but also increased tension on community relationships. In other words, moral and social values, and issues of identity and power (Guérin, Morvant-Roux, and Villarreal 2014, 11) are possibly affected. The next section elaborates on this trade-off between introducing a much desired financial tool to the financially underserved, and the unintended consequences that arise from this.

Eat your own interest

Part of the success of the savings groups is that during the share-out members see the actual effect of charging, and paying interest on their loans. Recalling Nelisiwe (45) for whom the share-out was a very emotional experience partly because she received significantly more money than she saved:

> *'I just saved the money. Last year when we got our share out, we got more money than what we were actually saving because there was also the interest that we had earned on money we borrowed. I cried last year when I saw how much money I was going to be getting.'*

Nelisiwe's quote illustrates the strength of the learning by doing effect of the savings groups; at the time of the share-out you not only get your year's worth of savings, you also receive interest gained over the loans. The realization of this can be very powerful, as Nelisiwe's quote reveals. The VSLA methodology thus provides a very tangible way to grasp the interest concept. Previously, members would only know interest as something that you would pay to the loan shark. It meant that for every 100 Rand you borrow, you have to repay 130 to 150 Rand. The savings groups provide a way to understand interest as something that is also linked to saving: with the money one member saves, another member can buy something and return the money with interest. At the end of the year, the interest is shared (proportionally to the number of shares each member has), and thus each member receives more than the nominal amount she saved. Siziwe described this process of fattening themselves (and not the loan shark), by eating their own interest:

'There is no need for us to go and fatten a loan shark when we can fatten ourselves. […] In the share out, we will have our share out which is the money that the individual has been saving. Then the money that is charged as interest is split amongst us. So we want to eat our own interest. That is also why we will not go to a loan shark.'

In other words, the savings groups provide an embedded way of learning to appreciate the accumulating power of interest over savings.

This is how its members largely understand the VSLA methodology: (others or myself) paying interest will increase my share-out at the end of the year. While this understanding is correct, it neglects the mechanism through which the savings grow and therefore carries a potential risk in it too. Members have become very savvy in understanding that lending money makes the total pot grow. They have also discovered that if someone does not repay the loan for a few months, the total pot grows even more, because the principal does not reduce, and hence the monthly interest fee remains high. As a result, some groups have taken up the practice to encourage each other to only (start to) repay the loan after three months. Zinhle explains:

'I take three months to pay back the loan. For example if I had borrowed R300, I Pay R30 in the first two months and pay everything on the third month.'

When asked whether she is allowed to pay it back in less than three months she says:

'No it's not forced, it depends on one's affordability; if you are able to pay everything on the first month you are allowed to do so. However, you cannot stay with the loan for more than three months. But because we all want higher returns at the end of the year, we all pay it bits by bits even if we can afford it in one month.'

While in Zinhle's group members are not forced to not repay the loan until after three months, everyone seems to withhold repayment voluntarily. In an extreme case, Nompilo (28) who is a member of a different group explains that sometimes she…

'…borrows money not needing it just so that it will gain interest'

Clearly, an individual's return at the end of the year would be higher if the person had not taken out a loan but had (repaid her loan immediately and) bought shares instead[7]. The monthly interest members end up paying on their loans (for example 30 Rand in Zinhle's case) is almost equivalent to the price of one share (50 Rand). It thus is more rational to buy a share, rather than to pay interest (assuming that someone is postponing repayment of the loan while in fact the money for repayment is available). But the interest-gaining feature of the loans seems to blur this understanding, and to point attention towards the opportunity to 'grow money' instead. Members also sometimes seem to

[7] Recall that the share-out is based on the proportion of shares someone has.

think that the interest is shared equally (in which case postponing loan repayment indeed does not matter), whereas in fact the interest is shared based on the proportion of shares someone has. This practice of postponing repayments thus raises the question of a need for (more) financial education on this topic. While the saving activity has certain financial education messages embedded in it, it does not address this unintended consequence of the savings model. The financial education currently provided appears to address this issue insufficiently.

It is important to note that this is not a practice in all groups. Mantombi (23) for example returns the money as soon as possible:

> *'I do not like having money that is not mine in my possession. So I bring it back as soon as I have it.'*

And Xolile never borrows money that she does not need. More generally, paying interest over loans and seeing it decrease every month as you repay parts of your loan also provides the potential of a learning by doing, or embedded approach to understanding the concept of interest on loans. It turns out many of the members are very financially literate on this point. Nosisa explains that her…

> *'… last loan was R1000. I paid R200 with an interest every month for five months. When I pay R200 every month even the interest gets lower on the following month.'*

Zandile (62) is even more precise than that. Her last loan was 500 Rand (33$), which she normally halves until she finishes repayment. Her needs don't allow her to repay the full amount plus interest at once. When asked what she means by 'halving the loan', she explains:

> *'I pay R250 on the first month and a R500 interest which is R50, then on the second month I pay the remaining R250 and its interest which is R25.'*

The majority of the members seem to know their calculations. This is interesting, because interest is a notoriously difficult concept for individuals to grasp, in particular for the illiterate. But given the other practice of 'eating your own interest' described before, it is unclear whether everyone has this detailed understanding of the workings of compounded interest, and the rationality of paying off a loan versus accumulating savings through buying shares. The VSLA methodology appears to offer an effective embedded approach to understanding the workings of interest for some, but may require further guidance for others.

Safety

One of the other appealing features of the VSLAs is that it provides a safe place to save. By literally locking the money up in a box that no individual has access to by herself (the box is locked with three locks, the keys of which are kept by three different members), any temptation to spend the money before the share-out is being mitigated. Besides this commitment feature avoiding personal temptation, it also helps saying no to others, when they ask for money. Vami, who has seven saving booklets, explains that…

> *'…it's that now I am able to save. Before I used to keep money with me and people used to borrow it and it was hard for me to refuse…'*

Also Sithandiwe has no money 'lying around' in the house anymore since she started saving. But the savings groups meet only once a month, and there usually are a few days, if not weeks in between receiving income and being able to put it into the saving box[8]. Members have a variety of ways in which they keep money in the mean time: many keep it at home, for example in their bag or wardrobe, or sometimes at a secret place so no other family member knows where the money is. Thembi keeps her money on her body, at all times. Vuyo is a bit more concerned: she has dug a hole somewhere in her house to keep her money. No one except her daughters knows where the money is, so that in case something happens they know where to find it. Vami on the other hand sometimes gives money to her neighbor to keep it safe.

Another obvious place to keep money is in the bank. There is a large variation in terms of using the bank: some members have a bank account but withdraw everything as soon at they receive their income, others use it for savings (at times), and again others do not have a bank account at all. A few members expressed concerns that banks would 'eat their money through bank charges'. More generally it appears that for a few members, joining the savings groups has made them move away from using their bank account as a safe place to keep money. On the one hand, this is worrisome because the VSLA methodology is often regarded as a first step towards financial inclusion in the formal banking system. On the other hand, it shows that the current financial services offered by financial institutions do not fulfill the need of VSLA members: most notably, they do not induce savings and do not provide VSLA members access to much needed credit. An avenue for further research is to explore what features make the VSLA model particularly interesting for its members, and how to tailor formal bank account services to better meet this population's needs.

The areas where SaveAct's members live are regarded as safe by most of the members. Even if they keep (small amounts of) money at home they appear not too worried about it getting stolen. There is a safety concern amongst members around the share-out, however. It has happened in previous

[8] This is not a general VSLA norm, but specific to the South African context where savings groups tend to meet just after the social grants are paid, which is a significant driver of savings groups participation. As mentioned before, being a member of two saving groups that meet at different points in the month can assist in keeping money safe.

years that the saving group's money was stolen right before the share-out was to happen. During the year, the money boxes usually are not very full: even though the total amounts saved increase throughout the year, the members also start taking (increasingly large) loans, and it is no exception for money boxes to be almost empty at times. Thus, keeping the money box is generally not regarded as something risky. During the last meeting of the year, however, everyone has to pay back any outstanding loans plus interest, so that the year's worth of saving and interest is all collected in the box for the share-out. This can easily amount up to 100,000 Rand (6,630$) and a couple of groups even exceed 200,000 Rand (13,260$), which are very large sums of cash. Given the popularity of the VSLA methodology, it is no secret in the communities that at the end of the year savings group members receive large amounts of cash payouts. It is not hard to imagine the risk of attracting criminals with ill intensions.

Gladys (50) has been the victim of such a robbery. As a secretary she was in the possession of three money boxes (from three different groups) filled with share-out money, and the thieves who came to her house allegedly had been tipped about that. They arrived at 8.30pm at night, tied Gladys and her children up and took the cash that she had in her home. She had around 13 000 Rand (862$) at home at the time because her sisters who stay in Johannesburg had given her their share to repay to their group for the upcoming share-out. Luckily for Gladys and her group members she had kept the money boxes elsewhere so the thieves were unable to steal them. The thieves came back a second time the same night to look for the money boxes, but by then Gladys had moved to her neighbors and could call the police. When the police arrived the thieves had run away.

Gladys is a strong woman: she decided to continue saving with SaveAct after the incident. She explains: *'I am not going to leave something that I love and that sustains me just because I am scared.'* This pro-active attitude seems to be shared by most members. For this year's share-out some of the groups are considering asking the police to be present when they do the share-out. SaveAct also facilitates mitigating these safety concerns as much as possible. For example, the exact time and place of the share-out will only be communicated to members a few hours in advance, to leave as little room for casualties as possible. These dynamics do raise concerns with regards to the sustainability of the VSLA method in the long run, however.

Discussion & Conclusion

The aim of this case study was to look at how participants manage money on a daily basis, and whether being part of the savings group coupled with financial education, has helped them doing so. Distinguishing lessons learned from the saving activity or financial education respectively turned out difficult because they are heavily intertwined. The case study therefore treats the embedded financial education component as part of the financial tool, and looks at the successes and challenges of the introduction of this tool in changing the way participants manage money on a daily basis.

The study finds that the VSLA methodology has structural aspects built into it, that actively promote learning. The savings groups provide a learning platform that is a combination of learning by doing complemented with (in)formal group discussions. As a result, the VSLA model has several financial education messages *embedded* in it: going through the cycle of saving, borrowing, paying and accumulating interest, and seeing it result in an actual sum of money has a very strong learning by doing effect on the women. In order to be able to save, women have to budget at the beginning of the month when they receive their income. Next, the possibility to take out loans from the saving groups facilitates understanding the power of (compounding) interest over time. Furthermore, being part of a saving group appears to have helped members moving away from thinking about money in ruminative, taxing ways, to more enabling, positive ways.

The savings group activities also have a number of unintended consequences or risks associated with it. Firstly, this case study identifies having multiple booklets beyond the recommended number by SaveAct as a potential risk for over-indebtedness or cycle lending (repaying one loan with another). The study did not find any evidence for this to be a serious problem yet, but the interviews did reveal the potential for this dynamic to spin out of control. It would not be the first time that over-indebtedness becomes an unintended consequence of a financial innovation: the microfinance sector has suffered similar pressures and is still struggling with addressing over-indebtedness.

The second risk that this case study identifies is the tendency to take out loans from saving groups on behalf of others. By helping another person in need, members introduce a significant risk into the group, bypassing the basic principles of the savings model. While this tendency arises from the lack of access to cheap, trustworthy lenders at the community level, in the short run this behavior has the potential to upset local moral and social values, and issues of identity and power (Guérin, Morvant-Roux, and Villarreal 2014, 11), in particular when loans are not being repaid, or additional interest is charged by the member for facilitating a loan.

A third unintended consequence identified by this research is the practice of taking out loans but dragging its repayment over a maximum number of months, so that the group as a whole gains from the interest payments. While this is optimal from a group's point of view, it is suboptimal from an individual member's point of view. The interviews reveal that some groups seem to (perhaps unknowingly) favor the group's benefit over the individual member's benefit. Whether this behavior is a result of limited financial knowledge or peer pressure (or a combination of the two) is a question for further research.

The fourth and last unintended consequence identified by this study relates to safety. Importantly, the VSLA methodology has induced members to save. These savings are all kept in cash in the village, however, rather than in the bank. This has a potential safety implication, given that there have been incidences of money-boxes being stolen at the end of the year when they are filled with cash. Some members have lost their full year's savings because of this, and others expressed an increased concern about their (money's) safety. Mitigating this identified safety concern will be important for the VSLA model's sustainability. Better understanding what features make the VSLA model particularly interesting for its members, and incorporating those lessons into formal financial products will be a necessity for the VSLA methodology to function as a first stepping-stone into formal finance. Multiple initiatives of this kind are on its way in several countries, led by the savings group movement.

It thus appears that there are two types of financial education messages that are naturally embedded in the saving activity: on the one hand, it teaches members how to budget in order to put money aside for savings or to repay loans, and it provides an interactive way to learn about compounding interest over savings. On the other hand, it 'teaches' members the possibility to expand their financial toolbox by having multiple booklets, having access to cheap loans (not just for themselves), and the attractiveness of benefitting from (other people's) interest payments. These last set of messages carry the potential risks or unintended consequences as described in this study. It thus seems that while the savings group activity carries a set of potential 'natural behavior changes' through learning by doing, not all of them are intended, and not all of the unintended consequences are desirable.

It is of course important to keep the limitations of this study in mind. Its sample size is limited and therefore the findings cannot be generalized. As with any qualitative study, the purpose of this research is rather to bring to light potential mechanisms and observations that inform behavior and decision making. This study's findings are to be taken as a guide for future research on the effectiveness of embedding financial education in the design of financial tools, and on the inherent value of the VSLA methodology in particular.

The unintended consequences identified by this study may call for active adjustment, and thus for an intervention, for which financial education may or may not be an appropriate route. Miller et al. (2015) for example would argue that financial education will not be helpful in the domain of negative outcomes, because individuals may not have the ability to exert greater control in this domain. They suggest that arguably, negative outcomes like loan default are imposed by external agencies and can only be avoided by changing consumers' borrowing decisions in the first place. But it is important to note that the unintended consequences identified by this study have not yet developed into negative outcomes: they are 'merely' risks that have the potential to result in negative outcomes. Most of the risks are related to unsound borrowing decisions and practices, which are immediate and primary decisions by the group members, not by external agencies. Moreover, this case study has shown that the VSLA model has structural aspects built into it that actively promote learning. The group meetings, and in particular the joint determination of the constitution provide important formative moments for VSLA members. Further exploring ways to capitalize on these VSLA structural aspects conducive to learning, appears of vital importance and will contribute to designing better, simple financial tools.

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