From Debt to Savings:

Five Talents' Story of Transition

Five Talents is the Anglican microfinance agency, born of the Lambeth Conference 1998. ***Rachel Lindley*** *explains that it was a victim of its own success, unable to keep up with the demand while keeping its principles of low interest; simultaneously the sector became tarnished and Five Talents began to question whether debt was really the answer to poverty. They now train villages and churches to form savings groups, which are relieving not only poverty but also social deprivation and exploitation.*

"When we save money, it shows we believe in tomorrow"

Claudette Kigeme, Mothers' Union Co-ordinator, Burundi

When you think of poverty, you probably think first of material lack, but the psychosocial aspects are acute too. Lack of dignity (which of us wants to be dependent on others?); lack of choice (those of us familiar with Amartya Sen's *Development as Freedom* will recognise that); lack of hope. That's why Claudette's quote encapsulates so well what Five Talents is all about. When we began, we thought we were offering financial services – savings and loans, with training. Now we've learnt we're offering hope – a belief in tomorrow.

Five Talents' impact surveys reflect these non-material dimensions of poverty too. When we ask our members what has changed for them since they joined a Savings Group, they almost never talk about money or material items. Time and again they speak first of non-financial impacts they have experienced:

- "Now I have a place to run to when I'm in trouble."
- "When I need advice, I come to my group"
- "Before, I was ashamed to speak."
- "Alone I could do nothing. With my group, I can do anything."
- "I used to be lonely and I used to fear, but we learnt about expressing ourselves and now I can tackle injustice. We go together if a husband is beating someone."
- "Now we can solve our own problems."
- "Now we live peacefully with our neighbours."
- "The group gives you ideas, and confidence, and unity."
- "No one can underestimate me now."

Development as Freedom
poster in a Persian translation
Photo: Tavaana, Iran

A Biblical Approach to Savings

There is material in the Bible which commends a community-based approach to savings. The obvious example of someone who exercised thrift on a large scale, saving in times of plenty to provide for others in times of need, is Joseph as Chancellor of Egypt (Genesis 47). However, this had the disadvantage of centralising resources and making ordinary people dangerously dependent so that they ultimately became slaves, a case perhaps of benefactors ('great ones') becoming tyrants (Matthew 20:25). At the poorer end of the spectrum, a jar of oil goes a long way in the story of Elisha and the widow (2 Kings 4:1-7), the woman involving her neighbours who provide the jars for her to fill – a mini entrepreneurial community! The book of Proverbs repeatedly encourages storing ('In the house of the wise are stores of choice food and oil, but a foolish man devours them all' 21:20 NIV), while distinguishing it carefully from hoarding ('People curse the man who hoards grain, but blessing crowns him who is willing to sell' 11:26). Ants are a collective example of 'extreme wisdom' because 'they are creatures of little strength, yet they store their food in the summer' (30:25). Saving money is storing it for a time when it can be put to effective use. The early Christians shared and sold what they had so that they could give to any of their community in need (Acts 2:44-45, 4:34-35). But to sustain the community some at least will have needed to create further wealth. Paul instructs both the Corinthian and Galatian churches to save ('each one of you should set aside a sum of money in keeping with his income, saving it up' 1 Cor 16:2) in order to contribute to the collection relieving Christians impoverished by famine.

Of course, Five Talents collects data on the number of members joining our Savings Groups, the amounts they save and borrow, repayment and default rates, what types of business members invest in, how many training sessions they have attended.... But these quantitative indicators are only ever a proxy for the social impact of our work. Our mission is to transform lives, not to count coins. Skills training and savings groups are simply the vehicle driving that transformation.

Around eight years ago, Five Talents began a phased exit from its microcredit programmes and for the last five years we have invested solely in Savings Groups. What's the difference between microcredit and Savings Groups, and why did we change?

Microcredit: Origins, Rise and Fall

Microcredit has, of course, always existed. People have made small loans to one another for centuries. But it shot to fame in the mid-2000s when the UN declared 2005 the Year of Microcredit, and Muhammad Yunus and the Grameen Bank won the Nobel Peace Prize in 2006. Lending to people too poor to access credit from banks appeared to be an outstanding success story.

But despite the widespread accolades showered upon microcredit, it soon slipped from its pedestal. Ironically, its very popularity drove its downward spiral.

More commercial lenders moved in, keen to experience the high repayment rates and capture some of the profit for their investors. The market in some regions became saturated, with microcredit clients borrowing from one lender to repay another, rather than borrowing to invest in their businesses. With no regulation, there was nothing to stop this proliferation. Lenders stopped investing in business skills training or other social goods – these were costs which ate into the profits. Coercive debt collection methods were used. Tragically, in 2010 a number of women in Andhra Pradesh, India took their own lives due to over-indebtedness.

One critic noted in 2006 that 'Micro-credit has remained somewhat insulated from critical scholarly enquiry';[1] as this began to change, a series of impact studies were commissioned which showed that microfinance had mixed impacts on poverty alleviation. "Pro-poor microfinance" (charging affordable interest rates, reaching remote, rural areas, offering training as well as loans) simply wasn't profitable – and profitable microfinance simply wasn't pro-poor. As the tragic suicides in Andhra Pradesh showed, it not only failed to do good; it also failed one of development's core principles of 'Do No Harm.'

Where was Five Talents during this period?

Five Talents is the Anglican microfinance agency, born of the Lambeth Conference 1998 as a practical response to poverty. In 1999, we opened our US office and six years later, in 2005, the UK charity was founded. In 2016 we launched our Kenyan office, Five Talents Kenya, in Nairobi.

As the name of the charity (taken from the parable of the Talents – Mt 25:14) suggests, our work has always been about enabling people to use and multiply their God-given talents. The Archbishop of Canterbury is our patron, and says:

"Creativity is a gift of God in creation. From the very beginning of the Biblical story of Creation, we see that human beings are meant to develop and oversee and create. I am pleased to be a Patron of Five Talents, an organisation that, working through the local Anglican Church around the world, celebrates the creative potential of enterprise to bring human flourishing and to support people to lift themselves out of poverty."[2]

When Five Talents opened an office in the UK in 2005, just as microcredit was at the peak of its popularity, we began supporting programmes in Kenya, Tanzania and Uganda. Perhaps unsurprisingly, our programmes in

Jean Bizimana
2019 - Five Talents
UK, Kenya
Photo: Takings Pictures, Changing Lives

Tanzania and Uganda were microcredit programmes. Through our Anglican Church partners, we made microloans to women and men in rural communities where there were no banks – or, if there were banks, our clients were unable to access them.

Why were our clients unable to access banks? In the UK, 96% of the population has a bank account but in DR Congo, for example, one of the countries where we now work, 76% of women do not have access to an account at a bank or financial institution, rising to 82% for those with primary or below education and 83% for those in rural areas (the majority of our members are women in rural communities who did not complete primary school).[3] What are the barriers?

On the supply side, it is simply not profitable for banks to serve customers who can only deposit or borrow tiny amounts. The transaction costs for the bank on a $5 loan are similar to the transaction costs on a $500 loan, so the bank naturally gravitates towards serving one $500 customer rather than 100 $5 customers, especially as the $5 customer typically has no collateral or assets to offer as security for a loan. On the demand side, where banks have a minimum deposit threshold, charge fees for every transaction, require ID documents you don't have, require you to pledge assets you don't have as collateral, give you forms to fill in a language you don't speak or can't write... The practical barriers are clear. The psychosocial barriers we opened with also feature; I met a woman who told me she felt she couldn't walk into a bank as she had no shoes.

So microfinance – providing basic financial services for those excluded from mainstream banking – clearly has a role to play in reaching the places and customers mainstream banking couldn't or wouldn't reach. In Five Talents' microcredit programmes, no collateral was required; instead, a group of friends co-guaranteed one another; thus, if I fail to repay my loan, four of my friends will repay. This form of social collateral recognises that the most valuable asset many of us have is our relationships. In our programmes, trained Loan Officers would help fill in the minimal paperwork and members could sign with a thumb print if they were unable to write. Crucially, interest rates remained affordable and all clients took part in regular business skills training to ensure they invested their loans in sound businesses which would enable them to repay.

The results were fantastic. Whether entrepreneurs by nature or by necessity, members of our early microcredit programmes were testament to Welby's belief in creativity (echoed by Yunus: "The first and foremost task of development is to turn on the engine of creativity inside each person."[4]) Take Priscilla in south-western Uganda, right on the border with Rwanda, who invested a loan in a pool table and served truckers drinks and snacks as they played pool and waited for the border control bureaucracy to creak slowly through. Take Zawadi in Tanzania. Over the course of three years and five loans she turned her yard from a meagre tomato and cabbage stall to a fruit and veg market, with second hand books, hot snacks and even cough medicine on the side. Thanks to the profits, her own children and those of her deceased sister, whom she had taken in when they were orphaned, were able to go to school.

So why did we pivot away from microcredit? As a Christian charity with a mission to transform lives, our interest rates were never excessive. We did not seek profit. We always offered business skills training and additional 'social' elements aiming at holistic development. Repayment rates were generally strong. And whilst not all of our branches were 100% self-sustaining (able to cover all operating costs from the interest charged on loans), we came close. Given all that, why does this microfinance charity no longer lend a single shilling?

The Power of Savings Groups

Five Talents shifted away from credit-led microfinance for reasons of both principle and pragmatism, as well as impact.

Principle: We became disturbed by some of the poor practice in the sector where profit was the motivator. The sector was becoming tarnished, and impact evaluations showed the results of microfinance were mixed. We too began to question whether debt was really the answer to poverty.

Pragmatism: We increasingly found we were unable to scale up to keep pace with demand. On paper, our model was that after four or five loan cycles with Five Talents, members would ‘outgrow’ us and have the confidence and capacity to graduate to a larger microfinance bank or even mainstream bank for a wider range of financial services. But in practice, we found that as our members reached their fourth or fifth cycle, they didn’t want to leave us! They valued the training, fellowship and ethos we offered. So we had a large number of successful clients wanting to take ever larger loans whom we had to refuse if we wanted to serve new clients seeking to borrow their first ever loans. We simply couldn’t raise enough loan capital to keep pace with demand from clients new and old.

We explored the potential to borrow for lending onwards ourselves, through social investment bonds for example, but the exchange rate risk and some default risk meant we couldn’t make the numbers balance without increasing the interest rate to clients too much.

Impact: At the same time, we had been piloting savings-led microfinance programmes in Kenya and Burundi for some years, and we had begun to notice that these programmes scaled up faster and the impacts members talked about were much more holistic. Intrigued by these results, we delved further.

How do Savings Groups work?

The key difference between credit-led and savings-led microfinance is that in credit-led microfinance, Five Talents provided the loan capital. In savings-led microfinance, Five Talents provides no loan capital. Instead, we simply train members to save their own money in community savings groups – and it is this money, members’ own savings, which they lend to one another.

The benefits of savings-led microfinance

- Savings Groups are owned by the members. They elect their own leaders, set their own interest rates, make their own rules and all their own credit decisions. This creates agency, giving members power over their own affairs and often increasing their confidence in other areas of their lives too.
- Repayment rates are stronger. When members are lending their own hard-earned, hard-saved money to one another, they make excellent credit decisions. Of course they know one another extremely well, which helps. Like credit unions in the UK, there is a ‘common bond’ in the Savings Groups in that members are from the same village and often attend the same church.
- Our relationship with the Church is essential in making our programme design and delivery effective. The Church knows the most vulnerable and remote communities, and enables us to reach and serve these communities. We find the Church is trusted by people of all and faiths and none, especially in conflict and crisis areas as it has been there since before the crisis started and remained throughout crises, unlike most other agencies.
- The Bishop helps to identify the right local leaders to steer our programmes; local church leaders know their communities best and can identify the right teams to design and deliver the work within the cultural contexts. Clergy and Mothers’ Union reps help to promote the programme too.
- This Church partnership also means that the fruits of our work continue permanently as the Church will of course continue to be there and to support the community long after Five Talents’ grant funding ends. We encourage the Bishop to set up an independent Trust or Steering Committee to own and oversee the work permanently.

- As the Bishop of Karamoja told us when he invited us to start this programme: 'Other NGOs are like firefighters, they come and go in their land-cruisers but nothing changes. What our people need is mindset change, a way to save and use what they have. I like the fact that Five Talents builds sustainability and is there for the long-term.'
- There is much less risk of over-indebtedness or coercive practices. The group as a whole sets the rates and our trainers guide them to do so appropriately. There can be a risk of capture by elites where rich or powerful villagers get themselves and their friends elected to the leadership roles, but again our trainers help to guard against that. Members of the Group will typically know if a loan applicant is already in debt and will refuse the loan. Similarly, if a member defaults, the Group will know whether the default is due to genuine misfortune (for example, the member has had to pay emergency hospital fees) – in which case, they will simply restructure the loan to allow a grace period and even offer help with the hospital fees from the Group's emergency fund.
- There is no constraint on growth. Every time a new member joins, they bring their own capacity to save, to capitalise the group. This contrasts with the credit-led model where Five Talents constantly had to seek new loan capital. The savings-led model is therefore much easier to scale up. In our Burundi programme, more than 50,000 families have benefited from Savings Group membership.
- Savings Groups are sustainable. Five Talents invests in a network of trainers who support Savings Groups in remote villages, training them to manage their own affairs and money. Donations to Five Talents help pay the trainers. They don't take commission although we have explored what is called 'fee for service' – where members pay a small fee for training - to boost sustainability. After (typically) two to three years of training and support from our trainers, Groups are able to self-manage and Five Talents' trainers can move on to a new area. Five Talents began work in Burundi ten years ago, and groups formed in the very first year are still operating today. A DFID study of Saving Groups in Zanzibar similarly found that all of them had survived four years after NGO support ended, and another study in Nepal showed 64 percent of groups survived unaided for five years and 25 percent of the groups had self-replicated.[5]
- Another benefit of this model which has been to the fore in 2020 is that Groups are often supported by a volunteer from within the community itself. These Community Volunteers are trained by our network of trainers and then form and support groups within their own villages. This means that there is no travel required for group meetings, so groups can continue to meet even when travel restrictions (cf COVID) are in place. This would not be the case in a credit-led model which relies on Loan Officers travelling to and from groups to collect and disburse funds.
- Similarly, groups are very adaptable. During coronavirus restrictions, each group decided its own response (with support from our trainers); some ceased meeting, some met in sub-groups of five members, some invested more in their 'emergency' funds to cater for emergency needs; others invested in soap-making or face masks, giving them to neighbours unable to afford to buy them.
- Groups are also a ready-made platform for other interventions which improve people's lives. We have recently piloted Trauma Healing training, for example, finding that members who trust one another with their savings will also trust one another with their traumas. Groups can provide a way to talk about social issues such as early child marriage, female genital mutilation or gender-based violence. They can also be a vehicle for discussion on resilience to climate change, tackling health and sanitation issues or seeking peace and reconciliation after conflict. This issues-based learning approach[6] is a core driver of impact in our programmes where, crucially, it is the community itself which decides which issues it needs to discuss and take action on.

MEET ZIPPORAH

Before Zipporah joined her Savings Group in Embu, Kenya, she was working as a teacher. Sometimes she found it very difficult to feed her four children as her salary was often not paid on time, if at all.

Having joined her local Five Talents Saving Group, saved for six months and received some business skills training, she took a loan and bought some rabbits. She now sells rabbit meat and cabbages in her community, meaning she has income every day to buy food for her family even when she isn't paid her teacher's salary.

Today she employs a workman to help, creating local employment too. Zipporah is proud to support her community as an employer. She is also using her knowledge and teaching background to train others in her community on good farming practices and techniques she has learnt, so they can benefit too.

We asked her what had changed for her, and here is what she said:

- I no longer strain to buy foods since I receive income daily
- I save for future investments
- I have more time to visit the elderly and sick in my neighbourhood
- Being a lay minister in church, I am able to assist my pastor in ministering
- I visit my grandchildren and have time for story telling

MEET WINIFREDA

Winifreda is married with six children and lives in the Morogoro region of Tanzania. Before joining our Savings Group, Winfreda used to keep her savings in a wooden box hidden in her house but now she says that her money is more secure.

"I feel safer knowing that it cannot disappear".

Winifreda is a shrewd businesswoman and an accomplished seamstress. She has found her niche in making colourful bedsheets and is developing her business plan to meet the now growing demand.

Excited by her future prospects, Winifreda has already made plans for her first loan. "I have hope for the future. I want to buy more sewing machines and employ other people to produce more clothes and give those I employ the opportunity to improve their lives."

Putting agency and the topics the community itself cares about at the centre is important as the international development sector seeks to tackle systemic racism in the light of the Black Lives Matter and Charity So White (http://charitysowhite.org/) movements. Recognising that international development was born of colonialism and is still too often done 'to' black communities 'by' white donors, Five Talents is seeking to become more actively anti-racist and support the 'Shift the Power' agenda. Whilst we still have much to learn and improve, our Savings Group model, owned by the communities themselves and supported for just a short time by Five Talents, is inherently a less 'colonial' form of international development than many.

The Impact of Savings Groups

As with microcredit, the evidence on Savings Groups is mixed. There is no silver bullet in development.

A systematic review of 53 studies[7] conducted between 2004 and 2017 shows that Savings Group have strong positive impacts on member savings and access to credit, increased investment in small businesses, increased food security, solidarity amongst members, increased self-confidence, and increased resilience (members' ability to cope in a crisis – a particularly relevant indicator for this year).

However, so far there is mixed evidence of impact on asset accumulation and less conclusive evidence of impact on female empowerment, increased business profits and increased expenditure on health and education. Five Talents own impact data for Savings Groups is strong; an independent evaluation in 2017[8] showed:

- Relief of poverty: 82% of households increased their household expenditure after joining our programme.
- Resilience during emergencies: 78% of the most vulnerable members can now cope in an emergency.
- Female members empowered: as women become literate and earn their own income, they are more respected in the community and home. 80% said their domestic relationships had improved.

Next year, we hope to commission further research to understand better the drivers of this impact. How far is it due to our savings-led approach, our agency-creating training or our partnership with the Church?

There is much to learn – and much still to do. Five Talents is seeing increased demand for our programmes as coronavirus restrictions are lifted. Communities have seen the value of savings for a time of crisis, and the benefit of access to small loans to revise microenterprises. Using our Church network as a delivery channel, we hope to reach even more communities with our skills training and Savings Groups, so that more people can "believe in tomorrow."

1 Jude L. Fernando (ed.), *Microfinance: Perils and Prospects*, Oxford, Routledge, 2006.
2 https://www.fivetalents.org.uk/about/history
3 https://globalfindex.worldbank.org/sites/globalfindex/files/countrybook/United%20Kingdom.pdf and https://databank.worldbank.org/reports.aspx?source=1228#
4 Muhammad Yunus, *Creating a World without Poverty*, Public Affairs, 2007, p.56
5 Hugh Allen and David Panetta, 'Savings Groups: What are they?' The Seep Network 2010 https://mangotree.org/files/galleries/PANETTA_D__SEEP__Savings-Groups-What-Are-They.pdf
6 This approach is used by the Mothers' Union in partnership with Five Talents in our adult literacy programmes. It was pioneered by Paulo Freire.
7 Megan Gash, Understanding the Impact of Savings Groups,' The SEEP Network https://seepnetwork.org/Resource-Post/Understanding-the-Impact-of-Savings-Groups
8 https://www.fivetalents.org.uk/resources/reports

***Rachel Lindley** is CEO of Five Talents. Rachel has almost 20 years' experience in the charity sector, including roles supporting church-based community projects, fundraising and ethical campaigning programmes in the UK, microfinance in Kenya and managing savings group programmes in Sub Saharan Africa for Plan International. Rachel read English Literature at Cambridge and has a Masters in International Development from SOAS. Outside work, she is a trustee of Maji Mazuri UK, secretary of Song in the City charitable trust, treasurer of Croydon Amnesty Group and a keen runner. www.fivetalents.org.uk.*