EDITED BY

DANA T. REDFORD • GRIETJIE VERHOEF

TRANSFORMING AFRICA

HOW SAVINGS GROUPS FOSTER FINANCIAL INCLUSION, RESILIENCE AND ECONOMIC DEVELOPMENT

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Transforming Africa: How Savings Groups Foster Financial Inclusion, Resilience and Economic Development

EDITED BY

DANA T. REDFORD

Policy Experimentation & Evaluation Platform (PEEP), Portugal

University of California, Berkeley, USA

And

GRIETJIE VERHOEF

University of Johannesburg, South Africa and Monash University, Australia

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To the savings group leaders across Africa who are helping to lead their communities in this time and always.

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About the Contributors[1]

Dana T. Redford (Editor/Conceptual Chapter) is Founder & President of the Policy Experimentation & Evaluation Platform (PEEP) based in Lisbon, Portugal and Senior Fellow at the Institute of European Studies at UC-Berkeley. His research interests include entrepreneurship, sustainability, education and development studies.

Grietjie Verhoef (Editor/South Africa) is Professor at the University of Johannesburg and Adjunct Professor Monash University, Australia. She has published extensively on banking and financial development in Africa, as well as on voluntary savings organizations.

James Atta Peprah (Conceptual Chapter) is Senior Lecturer at the Department of Applied Economics, School of Economics, University of Cape Coast, Ghana. His research interests include development finance, microfinance, enterprise development and access to credit among people living with disability.

George Muruka (Conceptual Chapter) is an Independent Development Finance Consultant based in Kenya working with NGOs, banks, and MFIs on pro-poor products. His research interests include community finance, agriculture value chains integration and social entrepreneurship.

Lenora Biche (Conceptual Chapter) is a Junior Researcher at PEEP and student at John Cabot University. Her research interests include African fashion, education, and entrepreneurship.

Christian Wolf (Conceptual Chapter) is a Senior Researcher at PEEP and member of CEsA - Centre for African and Development Studies at the University of Lisbon. His research interests include entrepreneurship and financial inclusion.

Katherine Rickard (Conceptual Chapter) is an Advisor in women empowerment and inclusive finance. Her research interests include payment digitization, enterprise development, agriculture value chains and savings-led solutions having worked for UNCDF, World Bank, FCDO, BMGF, SEEP Network and CARE International.

Sakola Djika Ali (Burkina Faso) is a Lecturer and Researcher at Thomas Sankara University. His research interests include entrepreneurship and microfinance.

[1]In order of the chapters in the book.

Sako Siembou (Burkina Faso) is a civil servant at the Ministry of Trade, Industry and Crafts of Burkina Faso.

Cyrille Michel Bertand Onomo (Cameroon) is Lecturer at the University of Douala where he teaches finance. He is Secretary General of the CERAME (Centre d'Etudes et de Recherche Africaines en Management et Entrepreneuriat) at the ESSEC Business School of Douala.

Raphaël Nkakleu (Cameroon) is Professor at the University of Douala, and Director of the CERAME (Centre d'Etudes et de Recherche Africaines en Management et Entrepreneuriat) at the ESSEC Business School of Douala.

João António Furtado Brito (Cape Verde) is Professor at University of Cabo Verde and holds a PhD in Economics. His research interests include economic growth and development, development of small island countries and financial economies.

Deogratias Bugandwa Mungu Akonkwa (DRC) is Full Professor in the Faculty of Economics and Management, Catholic University of Bukavu and University of Goma. His research areas include microfinance institutions and the governance of higher education institutions.

Eddy Balemba Kanyurhi (DRC) is Professor at the Faculty of Economics and Management, Catholic University of Bukavu and Institut Supérieur de Commerce (Goma); and Invited Researcher at Center for European Research in Microfinance. His research fields are marketing of microfinance institutions and women entrepreneurship.

Guillaume Bidubula Juwa (DRC) is Lecturer at Catholic University of Bukavu, and General Manager of the provincial hospital. He has published on micro-insurance and group lending performance.

Albert Masheka Hongo (DRC) has a Msc. in Finance and Accountancy (Catholic University of Bukavu). He works as Budgeting and Management Officer at World Health Organization. He specialises in village savings and loans associations.

Konjit Hailu Gudeta (Ethiopia) is a Researcher at Maastricht University and an Assistant Professor at Addis Ababa University. Her research interests include wellbeing, decent work, women entrepreneurship, work-life experiences and savings groups.

Atsede Tesfaye Hailemariam (Ethiopia) is an Assistant Professor in School of Commerce at Addis Ababa University where she teaches project and operations management and statistics. Her research interests include women entrepreneurship and innovation.

Bantie Workie Gessese (Ethiopia) is an Associate Professor of Business Leadership in the School of Commerce at Addis Ababa University and Consultant in the areas of Human Resource and Social Performance Management. His research interest includes corporate performance and quality management.

Christopher Boachie (Ghana) is Lecturer at Central University, Ghana. He received his education in Ghana, Germany, UK and Malaysia. His research interest is in microfinance, financial markets, corporate social responsibility and development finance.

Eunice A. Adu-Darko (Ghana) is a development finance economist. She is an academic with research interests in econometrics, financial sector development, microfinance, institutional quality, and the finance of the extractive industries.

Ismael Mendes de Medina (Guinea-Bissau) is a Guinea-Bissau and Portuguese qualified lawyer with 15 years of experience practicing law. He began his career in Miranda Law Firm in Lisbon and is Co-Founder and Head of the GB Legal office in Bissau.

Filipa Monteiro (Guinea-Bissau) is a Portuguese qualified lawyer with over 20 years of experience with expertise in African capital markets and M&A transactions. For Miranda Alliance she advises companies in a wide range of sectors related to their operations in Africa.

Ana Pinelas Pinto (Guinea-Bissau) is a Portuguese qualified lawyer with over 20 years of experience. She is Co-Founder of the GB Legal office within the Miranda Alliance and has been the Supervising Partner for Guinea-Bissau for the past 15 years.

David Mathuva (Kenya) is Senior Lecturer and Director, Undergraduate Programmes at Strathmore University Business School. Previously, David worked at KPMG Kenya in the Risk Consulting department. He currently serves as a board member in a mid-sized financial cooperative.

Graham Sherbut (Mozambique) is an independent researcher and was previously the Director of Monitoring, Evaluation & Research with the Aga Khan Foundation in Mozambique and Madagascar.

Tiago Borges Coelho (Mozambique) is a social entrepreneur and founder of UX Information Technologies. His research interests include digital platforms, financial services, civic engagement and environmental preservation.

Eugénio Gujamo (Mozambique) is a lecturer and researcher at Universidade Zambeze. His research interests include informal saving systems, organizational behaviour, gender-based violence, masculinity and HIV/AIDS.

Ogechi Adeola (Nigeria) is an Associate Professor in Marketing at Lagos Business School, Nigeria. Her research interests include marketing, financial services and gender in sub-Saharan Africa.

Ifedapo Adeleye (Nigeria) is an Associate Professor of Practice at Georgetown University, USA. His research interests include financial services management in Africa and global human resources, diversity and compensation.

Garzali Muhammed (Nigeria) is a Strategy and Policy Development Specialist at the Central Bank of Nigeria and is a seconded expert to the Nirsal Microfinance Bank, where he is a Senior Special Advisor to the Managing Director.

Babalola Josiah Olajubu (Nigeria) is the Lead Psychologist at Olive Prime Psychological Centre. His research interests include SMEs and indigenous business practices.

Chijioke Oji (Nigeria) is Research Fellow at the University of Waterloo and teaches at Conestoga College, Canada. His research interests include the intersection of policy and finance within a global context.

Oserere Ibelegbu (Nigeria) is a Research Assistant at Lagos Business School, Pan-Atlantic University, Nigeria. Her research interests include consumer behavioural studies and service quality.

Edoé Djimitri Agbodjan (Senegal) is Lecturer and Researcher at CESAG, and Coordinator of the CESAG and MasterCard Foundation's co-financed project on capacity building for financial inclusion. His research areas include financial inclusion and results-based project management.

Mawuli Couchoro (Togo) is Professor at Faculté des Sciences Economiques et de Gestion (FASEG) of the University of Lomé in Togo.

Germain Lankoande (Senegal) is a PhD candidate in Economics at the Cheikh Anta Diop University in Dakar. His research interests include development finance, financial inclusion and inclusive growth.

Karen Hidden (South Africa) is an Independent Researcher and works with various non-profit organisations. Her research interests include inclusive innovation, corporate sustainability and entrepreneurship and social innovation.

Vincent Bagire (Uganda) is Associate Professor at MUBS. His teaching/research areas are management, strategy, organizational theory and corporate strategy. Currently he studies managerial practices in the public sector, civil society and SMEs.

Sheila Namagembe (Uganda) is an Associate Professor at MUBS. She has researched and published in areas of sustainability, energy and management.

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Introduction

Dana T. Redford and Grietjie Verhoef

The swift development of modern financial services all around the world, powered by technological innovation and high-speed communications and computer networks, has extended the benefits of banking and finance to billions. At the same time, there remains a vast informal financial sector, serving communities that still lack access to formal banking. We believe a pan-African investigation of these informal financial networks – the 'savings groups' found in almost every African country, with many different structures and methods but featuring many common threads – reveals their potential for growth and collaboration, while technological changes emerge as tools to unify strategies, empower communities and smooth the path to formal financial integration.

Africa is a vast continent, with thousands of languages and dialects reflecting the rich ethnic and cultural diversity of the continent and its long and often turbulent history. Savings groups have long been a part of Africa's development, used to overcome existential threats (Besley, Coate, & Loury, 1993; Bouman, 1995; Huppi & Feder, 1990; Levenson & Besley, 1996; Sudarwan, Phaengsoi, & Suksri, 2015; Van den Brink & Chavas, 1997) and support economic and social activity.

The basic function of a savings group is to pool funds in a community, among a trusted group of family members, friends or business partners, and pay the pool out according to need. In practice, they are highly diverse in structure, purpose and organisation, and the names vary by country: what is called *stokvel* in South Africa, *tontine* in several French-speaking countries and *susu* in Ghana may differ in the details of organisation and form, but the foundations are strikingly similar. Savings groups are culturally embedded, as illustrated by the link between Kenya's *chamas* and *harambee* – Swahili for 'all pull together' – which is such a central notion in Kenyan culture that it is enshrined in the country's coat of arms.

This collective action has deep roots. While there are no definitive statistics available on participation in savings groups – not in Africa, nor anywhere else in the world – a reasonable estimate is that between one-third and one-half of the population in sub-Saharan African countries participates in informal savings groups (Gash, Jahns-Harms, Odell, Carmichael, & Panetta, 2017; SEEP Network, 2018; Van den Brink & Chavas, 1997). Indeed, only 23% of people in Africa had a formal bank account in 2013 (Trinki & Faye, 2013, p. 44), and the pace of financial

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inclusion varies greatly among countries, from 4% in the Democratic Republic of the Congo to 54% in South Africa (African Development Bank. Financial inclusion in Africa, 2013, pp. 58–59). Global statistics also indicate that women comprise about 80% of savings group membership (SEEP Network, 2018), and in Africa, women also represent the vast majority of this cohort, which means these informal financial structures underpin women's empowerment.

This is only part of the complex configuration of African savings groups. Our extensive primary research across 13 countries, in each of the broad geographical regions of the continent, testifies to the sustained reliance on savings groups as an alternative for formal financial services. The research finds that it is incorrect to consider savings groups to be the exclusive preserve of 'the poor', and our research shows instead that they have emerged as a preferred vehicle for savings and wealth-building strategies also for people of more stable means, the rapidly growing African middle class as well as the higher-income strata of society.

Given this context, this book testifies to the sustained and widespread engagement in the power of communal action through savings groups. Savings groups are fundamental to self-driven capacity-building, using informal social capital, as a path to self-empowerment and, eventually, formal financial inclusion, in line with the World Bank's Universal Financial Access 2020 goals (World Bank, 2020). Savings groups in Africa are typically agents of economic growth, self-driven to address the existential phenomenon of poverty through informal community action. The embrace of digital technology helps strengthen their integration into the broader economy and the formal banking system.

Although various studies explore savings groups in Africa, they tend to be country-specific, see, for example, the recent study by Feather and Meme (2019) and Sithole, Mort, and D'Souza (2021). There is no comprehensive systematic study from a pan-African perspective covering different countries in each of the geographical regions. Gash (2017) presents a systematic review of impact studies in the savings group context, addressing several continents including Africa. A systematic pan-African approach is needed to grasp the dynamic adjustment of savings group behaviour during the recent acceleration of Africa's economic development. It is necessary to show how traditional savings groups coexist with savings groups among the emergent middle-class in this new growth era. This book delivers an understanding of how these groups align with market developments and adopt new technology, and their integral role in market-oriented, inclusive economic growth.

Savings Groups for Africa (SG4Africa) was launched in April 2018 to engage in a pan-African research effort to investigate the emergence of the new era savings groups alongside more established savings groups in Africa (See: www.sg4africa.org). SG4Africa embarked on inclusive primary research to contribute to an enhanced understanding of the fundamental role of savings groups. Led jointly by the Policy Experimentation and Evaluation Platform (PEEP) and the University of Johannesburg, the SG4Africa consortium consists of member institutions from 13 African countries, led at the country level by researchers from established universities and other credible private institutions. The participating countries are: Burkina Faso, Cabo Verde, Cameroon, the Democratic Republic of the Congo, Ethiopia, Ghana, Guinea-Bissau, Kenya, Mozambique, Nigeria, Senegal, South Africa and Uganda. The country-based research teams comprised researchers familiar with each country's savings group landscape and who live and work in each of these countries.

From the outset, SG4Africa formulated the scope of the research to be 'savings groups *plus*'. In other words, the consortium sought to understand savings groups as an integral part of a wider ecosystem of financial behaviour, financial inclusion for empowerment, wealth creation and sustainable development. The main trends identified by SG4Africa as relevant to savings groups in the modern context include urbanisation, use of new technology and the rise of new forms of integration with formal financial services, especially micro-finance institutions. The research paid particular attention to these emerging trends. The growth of the middle class in many African countries is a focus of the research into modern savings groups. While prevalent among the poor, the savings group phenomenon clearly extends to Africa's growing middle class, fostering economic resilience in a segment that is still in its early days. Our research shows that savings groups are a powerful tool for community participation, economic growth and entrepreneurial development, with the social and economic potential to empower people, regardless of age, class or gender.

This book presents the outcome of the research in two parts. In the first part, a set of conceptual chapters establish key themes in the savings group space, providing the context for the second part, which presents country-specific research results.

A significant characteristic of sub-Saharan Africa is the rapid emergence of a middle class (Deloitte, 2012). One of the conceptual chapters defines the middle class and explores how it interacts with savings groups, setting the stage for the chapters in which country studies explore the integrated nature of organisations and savings groups with this emerging middle class. Another aspect of the savings group landscape is how international non-governmental organisations affect their operations. A chapter positions these activities within global initiatives to address poverty and encourage women's empowerment. The general perception that around 80% of savings group members are women (SEEP Network, 2018) prompts a closer look at the question of empowerment, an aspect that arises in each country. The last chapter of the first part of the book addresses the competences typically required by leaders of informal savings groups to manage the group interests efficiently. While existing research focuses mainly on financial literacy, our investigation into leadership capabilities identifies a dimension of future significance, especially considering the sophistication of members, group goals and the use of new technology. This chapter presents findings that help the reader appreciate the wide range of skills needed to lead a modern savings group.

The second part of the book offers country chapters based on the primary fieldwork conducted by the SG4Africa teams. Each country chapter explains the local manifestation of the informal savings group phenomenon, indicating country-specific naming and distinctive operational features, from *stokvels* in South Africa to *susu* in Ghana and *tontine* in Senegal. Some countries have a more complex typology of savings groups, based on historical developments, grounded in regional differences or ethnic diversity. Each chapter also details the extant literature on savings groups in the specific country. This exposition is significant because it reveals the limited nature of scientific analysis on savings groups in Africa. The chapters reflect on some of the generic literature on savings groups and the limited specific studies on the manifestation of the phenomenon. Because the literature is scant, the country studies also consider popular pamphlet-like material and a growing stream of official survey literature produced by micro-finance enterprises, financial institutions and state agencies. The studies often include both savings group activities and micro-finance operations. The reason for this blended perspective is the growing engagement by financial entrepreneurs with savings groups because of the enormous sums accumulated by those networks. This underlines an important entrepreneurial opportunity for technology operators and development agencies.

Operations of informal savings groups are not regulated universally across Africa. Our specific country chapters reflect various levels of regulation either by a central bank, as in Nigeria, Ghana and South Africa, or centrally through state statutes regulating micro-finance institutions. Central bank regulation in Africa is emerging and on different levels of international compliance. In South Africa, the South African Reserve Bank was established in 1923 and has since regulated formal banking operations, but central banks in many other African countries have taken shape primarily after independence since the 1960s. As discussed in each chapter specifically, regulation on state level seeks to protect savers' interests by stipulating prudential compliance measures in respect of Micro-finance Institutions (MFIs). Regulation of informal savings activities does not constitute the scope of central bank regulation. Once formally registered financial services organisations transgress statutory requirements, thereby impacting the interests of depositors, central bank regulation applies. The innovative trend of high-end savings groups engaging in capital projects, large asset accumulation and property development projects moved savings group closer to the regulatory radar. Future research may address the development of this trend.

The innovative contribution of this volume is the in-depth focus on country-specific manifestations of savings group operations and the interface with the growing micro-finance industry. Our researchers did extensive fieldwork to source first-ever micro-studies on the rich tapestry of savings group behaviour in the 13 countries under review. These chapters present a selection of case studies, typically zooming in on savings groups or actors in the ecosystem surrounding them, and illustrate how savings groups organise themselves around a range of existential needs in the diverse context of modern African societies. The chapter on Ethiopia focuses entirely on savings groups in the urban environment, while the Kenyan chapter illustrates the migration between urban and rural contexts, as the use of Kenya's leading mobile technology streamlines and extends operations nationwide. The Senegalese chapter includes a case about *MaTontine*, a digital financial services platform established by entrepreneurs to make technology available to enhance accumulation of capital and access to credit, helping ease the transition from rural savings groups to similar groups in urban areas.

An important common theme is the relationship with the formal financial services industry, including banks, micro-finance institutions and state-initiated credit unions. In some countries, such as Guinea-Bissau, the micro-finance industry is the only connection between savings groups and more structured financial services. In the case of South Africa, savings groups are incorporated into the financial services regulatory framework, and all the major banks have developed specialised savings accounts for them. In Burkina Faso and Cabo Verde, financial inclusion remains low, and most savings group link with micro-finance institutions and credit unions rather than formal banks. In Nigeria, Cameroon and Kenya, the formal financial system has more depth and tenure. Private banks have developed accounts suited to the needs of savings groups (Ghana, Nigeria, South Africa, Kenya), but a significant proportion of savings groups still rely on collectors to deposit their cash (Cabo Verde, Burkina Faso, Guinea-Bissau, Cameroon). The chapter on Ghana reports on the links between informal savings groups and formal finance, which includes banking institutions. A strong link to the focus of formal banks in Nigeria, Kenya and Uganda, but less so in Guinea-Bissau, the Democratic Republic of the Congo and Mozambique where savings groups organise into larger collectives, such as Village Savings and Loan Societies (VSLAs). Several of our case studies include discussions of VSLAs as these groups establish more functional connections with formal banking institutions and in many cases with international and local NGOs. The South African chapter reflects on the initiatives by formal banks to create special accounts tailored to the needs of the different types of *stokvels*, and the chapter on Nigeria presents examples of banks establishing savings group electronic platforms and group accounts.

Several country chapters (Kenya, Uganda, Nigeria, South Africa) present cases of savings groups organised at the place of employment, closely linked to the rise of formal employment by larger organisations in contrast to the more traditional rural, subsistence farming context that has long shaped African economies. The empowerment dimension of savings group activity in poorer rural landscapes, as described in the chapters on Guinea-Bissau, Burkina Faso, Senegal, Mozambique and Cabo Verde, still constitutes the backbone of these groups in Africa.

This volume also investigates the growth of the voluntary informal savings group structure in a high-income or middle-class urban environment, such as employees at universities. The transition from the rural poor to a higher income urban context shows the development of voluntary collective savings behaviour beyond a pure survival strategy, and into wealth creation for the next generation. This is the key contribution of this pan-African research project. The operation of savings groups in the high end of the market, displaying entrepreneurial dynamics, is significant and has clear implications for the alignment of informal savings with the formal financial sector.

The growing sophistication of urban and rural savings group organisation and management has major policy implications for overall socio-economic development and financial inclusion in Africa. These new studies on savings group activities highlight the market for cutting-edge electronic and mobile technology beyond urban centres. Members of the urbanised middle class maintain strong connections to more remote rural areas and make significant contributions to sustain livelihoods there through the savings networks. In this respect, access to credit through savings behaviour presents a significant opportunity to fund micro and small enterprises in the start-up stage. This occurs without involving higher-cost financial service institutions or potentially corrupt state officials, underlining the importance of leadership, management and governance capabilities in savings groups. In the reverse direction, savings group operations often constitute an empowering channel for education, training and professional careers in urban centres. Here, equal emphasis is placed on capable management and governance.

The case studies provide a clear picture of the dynamics of the existing savings group landscape, not just through numbers but also through a deep understanding of the core of modern-day savings group realities. These cases are the result of qualitative research carried out by the country teams, who conducted in-depth interviews with members of savings groups as well as actors in the surrounding ecosystem from late 2018 to late 2019 before the current Covid-19 pandemic.

During the pandemic, savings groups have taken on added importance. In a Small Enterprise Evaluation Project (SEEP) study at reviewing women's savings groups, it was found that, 'For example, households with a female savings group member in Nigeria were less likely to experience food insecurity and more likely to have savings, which was critical to face the Covid-19 crisis' (SEEP, 2021). Furthermore, researchers from the SG4Africa network observed in their case studies that the majority adapted well and shown tremendous potential for resilience during the pandemic. They utilised digitalisation and mobile money and other ways in adapting to the lockdowns and were effective to distribute personal protective equipment (PPE) to members and emphasise hygiene measures. They have been tasked with providing members with emergency funds and have been focussing on overcoming the economic and social challenges such as school closures and loss of income. Social distancing has also required groups to change how they function. The economic shocks initiated by pandemic in 2020 has in many cases reduced the income and viable prospects for groups and their members. These may ultimately result in the dissolution of groups due to the lack of financial capital and/or investments. On the other hand, they have served as insurance, social protection and a source of business capital. On the whole, these are informal measures, and often savings groups do not have an advocacy group that represents their needs to governments.

In South Africa where National Stokvel Association of South Africa (NASASA) is the only broad-based organisation representing *stokvels*, savings groups are subjected to regulation within the same framework as other financial institutions. In March 2020, NASASA issued the following recommendations:

(1) Stokvel meetings are to be suspended while Stokvel activity continues;
(2) As such instances are both transactional and social, we encourage groups to continue with the transactional aspect, while avoiding meeting physically, groups are to seek alternative group communications mechanisms;

(3) We encourage the prudent use of available mobile/digital platforms. Where possible, Stokvel members are to make their contributions electronically;
(4) Stokvel groups with bank accounts should encourage members to make group contributions via electronic transfer;
(5) We are aware that some banks don't allow such functionality on their Stokvel accounts, and we encourage group leaders to enquire with their bank of choice. NASASA has started engaging with banks around increasing functionality so as to accommodate such transactions;
(6) Unbanked Stokvels such as Rotational Clubs are to pay the receiving member through available instant payment platforms, or electronically into the receiving member's personal bank account.

This kind of umbrella organisation is unusual, and the absence of such representative institutions in the other countries has policy implications for the future agency of savings groups in small and micro business development. As the South African case shows, a firm market position of such umbrella organisations could strengthen entrepreneurial opportunities and support, and mitigate experience and leadership deficiencies, while operations benefit from regulatory oversight. This could also be a significant mechanism for women's empowerment and wealth creation. The research confirms a direct link between successful savings group operations and the empowerment of women, and notes that these groups strengthen society through the mobilisation of social capital. The risks of a breach of trust remain, but a firm social fabric of trust and established social capital networks provide resilient deterrents from this kind of mischief, underlining the need for leadership and the development of managerial competence in savings groups.

Several country teams reported very thinly spread comprehensive or in-depth research on savings groups in their country. Where research was present it was uncoordinated. This underlines the need for further research on the core managerial and leadership capabilities needed for success, the enhanced technology innovation to support independent operations in the market and the optimal interface with regulatory regimes. The research output from the SG4Africa consortium will map out policy reference points and inspire future researchers.

Informal savings groups are a pan-African phenomenon closely linked to economic development and social progress. These voluntary organisations are channels of empowerment for the poor. They remain an integral part of society despite the rise of the middle class. That this phenomenon is embedded explains the sustained prevalence among the no-longer-poor Africans. These voluntary institutions are also firmly integrated with the strategies for financial empowerment and financial inclusion, and this research highlights the lack of systematic acknowledgement of this fact, as well as the failure to embrace the inherent entrepreneurial opportunity. There is a vast, unexplored market opportunity to enhance the entrepreneurial capabilities of savings groups as independent drivers of economic growth.

In addition, the development of entrepreneurial ability in Africa will also benefit from a refocusing on savings groups – from sustaining the poor and empowering self-help to funding small and micro enterprises from accumulated sources of funds.

The policy environment requires harmonisation with market opportunities to assist entrepreneurial initiatives, rather than slowing them down in inefficient and bureaucratic state-led business development programmes. The diverse case studies in this book show the prevalence of an entrepreneurial spirit, the identification of entrepreneurial opportunities and the development of social capital networks capable of supporting new enterprises through the difficult establishment phases. This is the contribution savings groups make to the growth of Africa's economy.

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