



# Informal savings mechanisms for maintaining a rural water system, Ghana

Maxwell Agbenorhevi

**A *susu* group – an informal financial scheme – has been developed by the women of Zorkor-Kanga to pool resources to establish and maintain their handpumps.**

**S***usu* groups are informal savings schemes, which are particularly popular in northern Ghana where most poor people have no access to banks. *Susu* groups are noted for their outstanding efficiency, a feature that may even exceed that of most modern banks.<sup>1</sup> The traditional *susu* methodology, which has several variants in other African and Asian countries, consists of the collection of agreed (fixed) sums of money from a number of people at regular intervals, by a *susu* collector. This money is meant to be securely deposited for a specific period of time. At the end of this period, the deposit, less a small commission for services, is returned to the depositor. At times, emergencies arise and women need to withdraw the funds earlier. *Susu* collectors usually deposit the money with a bank. Sometimes they invest the funds in their own businesses or lend it to others. This savings device has been copied by formal microfinance institutions (MFIs), who have crafted various adaptations to this methodology to satisfy the different socio-economic features of their clients in the delivery of services.<sup>2</sup>

## How the fund works

The *susu* scheme developed by the women of Zorkor-Kanga is used for the operations and management of water facilities in the area, and involves about 140 homes with a population of 400 women. Zorkor-Kanga is in the deprived Bongo District of the Upper East Region of Ghana.

The microfinance scheme started after the women and landlords (male heads of households) in the community

had initially mobilized funds for the installation of a water pump and from which revenues were being generated from sales of water. This fund was augmented by other sources of income generated from undertaking other productive ventures.

Regular annual mobilization of funds for the *susu* started in 1999 with the payment of ¢1000 per annum by the women and ¢2000 by landlords (US\$0.11 and \$0.22 respectively). This level of contributions was increased to ¢2000 and ¢4000 per in 2000 and since then to ¢4000 and ¢8000 (\$0.44 and \$0.88 per woman and landlord respectively). (Unlike the general *susu* scheme described above, the amounts collected are not paid back to the women, they become part of an accumulating fund.)

Substantial incomes also derived from productive ventures such as land preparation, planting, harvesting, housing construction and these activities were used to create and augment the *susu* fund.

Figure 1 illustrates how the *susu* fund provides microfinance for water O & M and for livelihoods activities, which reinforce each other financially.

Under the *susu* credit scheme, the various income generating groups whose members are also part of the pump community are given credits by the management committee of the pump community at specified rates of interest to pay within a stipulated period of time. With this arrangement, beneficiary groups have joint collateral responsibility to pay back the loan with interest at the end of the agreed period. To qualify for the loan, one has to belong to both to the pump community

and also participate actively in other group income-earning activity. The timing of the disbursement of the loans is scheduled to be close to the farming season to enable farmers and other entrepreneurs to access credit conveniently. At this time, the management committee of the pump community meets to take decisions on the funds that have accumulated for the *susu*.

Considerations that are factored into fund allocations include requests for business loans from the various enterprise groups, interest rates and minimum but sufficient amounts to undertake repairs of pumps should faults occur, taking current spare parts prices into account. A substantial amount of funds is thus always kept for O & M. Regular maintenance usually keep pumps in good operating condition.

The maximum and minimum loan sizes are ¢25 000 and ¢15 000 respectively (\$2.7 and \$1.7), although the interest rate is fixed at ¢1000 (\$0.11) per loan in order to encourage women to borrow higher amounts and undertake productive ventures. The fixed, low interest rate also takes into consideration the serious incidence of poverty in the area: it is acknowledged that high interest rates are likely to push people further into poverty in case of default. Beneficiaries also have joint collateral responsibility to pay back their loans with interest at the end of the agreed period; however, flexible arrangements, which tie repayment to harvest periods, are instituted to ensure that very poor members of the community are able to participate. Interest payments are considered profits, which are

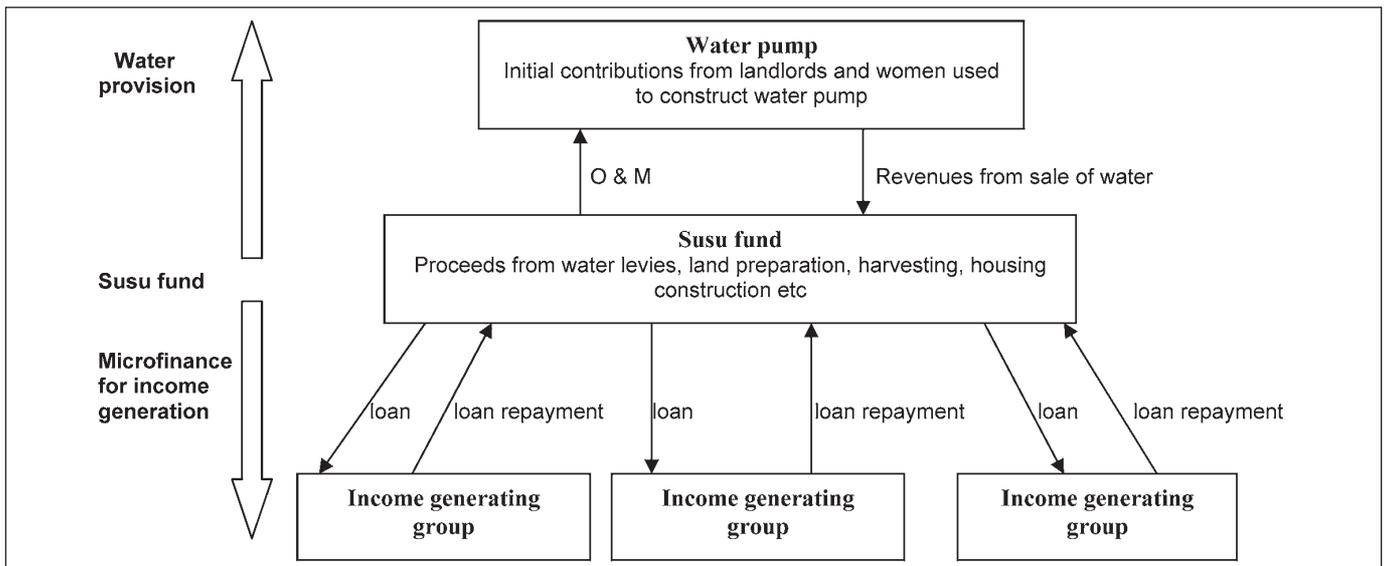


Figure 1 Integrated fund for water provision, repairs and microfinance for income generation

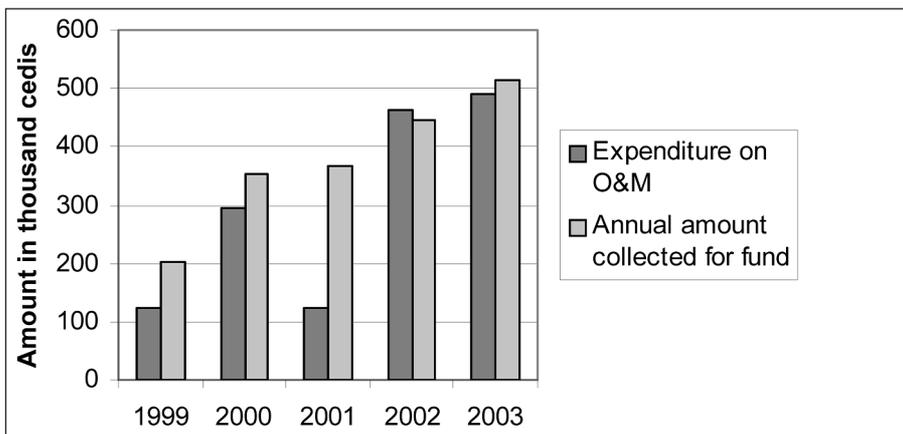


Figure 2 Annual amounts collected and spent on operation and maintenance of water supply (¢1000=\$0.11)

ploughed back into the fund, along with water levies and other income sources, to support the ongoing operations and maintenance of the water facilities. Impressively, the loan repayment rate has been 100 per cent for each loan cycle.

Although the scheme is flexible for beneficiaries, it is accepted that non-payment of water levies threaten the fund's sustainability; and severe measures are taken using collectors from various parts of the community to collect monies from defaulters at the service points. These measures are indeed severe, as refusal to honour debt

obligations results in exclusion from the water services provided by the pump community. As demonstrated in Table 1, which illustrates the volume of funds mobilized since 2000, the fund has been increasingly successful.

### Coverage of maintenance costs

Importantly, expenditures for operation and maintenance (O&M) and the amount of lending provided to participants through the scheme have been rising since the fund's inception, as seen in Figure 2. O&M costs include spare

parts and travel costs to fetch mechanics from the city. These costs respond significantly to inflationary rates. For example, the rate of inflation in 2000 was as high as 45 per cent, but then dropped dramatically to 21 per cent in 2001. This reduction may have had a very favourable impact on the price of spares, as they could be obtained at relatively low prices, and translate into minimal increases in transport fares.

By mid-2004, the scheme had mobilized ¢1 016 000, or about \$112. While minimal by some standards, it represents a tremendous amount of savings by a community that is one of the poorest in Ghana, where 40 per cent of the country's population lives on under \$1 a day. This type of mobilization has helped the community to maintain its water systems consistently throughout the year.

### References

1. Seibel, H.D (2000) 'Informal finance: origins, evolutionary trends and donor options', IFAD Rural Finance Working Paper Series, No.A3 1999 (revised 2000).
2. CHORD (2000) 'Inventory of Ghanaian microfinance best practices', Accra: Report for Ministry of Finance, Non-Banking Financial Institutions Project.

### About the author

Maxwell Agbenorhevi is with TREND Training Research and Networking for Development, Kumasi, Ghana (email: [agbenorheri@yahoo.com](mailto:agbenorheri@yahoo.com)). This article was made possible due to the WELL Resource Centre in Water, Sanitation and Environmental Health.

Table 1 Cumulative fund mobilization by the susu scheme (¢1000=\$0.11)

	2000	2001	2002	2003	2004*
Susu fund	324 750	647 750	490 623	910 620	1 016 600

\*Amount collected until June 2004