Journal of Economics and Sustainable Development www.iiste.org
ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online)
Vol.4, No.3, 2013

Susu: A Dynamic Microfinance Phenomenon in Ghana

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Abstract

Susu is a popular form of savings in most developing economies. It is practiced in different forms and under different names in both developing and developed countries. In spite of its contribution to the socio-economic development of both developing and developed countries, it remains under-researched. There is therefore the need for further research into this complex financial phenomenon. This paper thus, critically examines existing literature on Susu and other micro savings phenomenon. It shows that Susu is a complex and dynamic social phenomenon. In substance, it discovered that susu shares similarities with other micro savings schemes such as rotating savings and credit schemes, accumulating savings and credit associations as well as Christmas hampers and Christmas clubs in England and the United States respectively. It establishes that similar to other micro savings schemes, the object of Susu is to help rural, poor and low income earners meet their economic, social or communal needs.

Keywords: Microfinance, Susu, Ghana, Informal Finance, Micro Savings, Rural Economies

1. Introduction

This paper examines susu collection (susu) as a microfinance activity in a broader context and distinguishes it from other micro savings schemes. It shows that susu is a complex and a dynamic social phenomenon. It establishes that susu is practiced in different forms and under different names in both developing and developed countries. In spite of its dynamism and contribution to the socio-economic development of both developing and developed countries, it remains under-researched. Thus there is the need for further research into this complex financial phenomenon.

Susu is a micro savings mechanism where individual collectors pick up daily deposits from savers over an agreed period of time and return the accumulated savings minus one day's deposit as fees (Aryeetey and Udry 1995; Aryeetey 1994). As a social phenomenon, susu forms part of that section of the financial system unregulated by formal rules. Instead, it is regulated by social control measures inherent in the phenomenon itself. It is an example of a financial phenomenon found mostly in developing countries (Aryeetey and Udry 1995; Ardener 1964).

1.1 Micro Savings in Ghana

Micro savings in Ghana covers both susu and group savings schemes also known as susu associations. The group schemes usually operate in the form of rotating savings and credit associations (ROSCAs) and accumulating savings and credit associations (ASCRAs) (Aryeetey and Udry 1995). Steel and Andah (2003), in their study of rural and microfinance regulation in Ghana, identified two additional types of susu savings schemes which they described as susu clubs and susu companies. Amongst existing micro savings schemes, susu is the most prominent and widely participated, by both low and middle income earners in Ghana. The collectors mobilise a great deal of savings albeit without being prudentially regulated by any governmental body (Steel and Andah 2003). As a microfinance activity, micro savings form part of the financial component of informal economies. Portes, Castells & Benton (1989) refer to this as a phenomena unregulated by the institutions of society in a legal and social environment in which similar activities are regulated.

Little (1957) also identified friendly societies including the susu of Yoruba origin. The aim of these societies was limited to mutual aid and benefit to its members. In Ghana, he observed that the Nanamei Akpee society headquartered in Accra had over 400 members, most of whom were educated or semi-literate women traders. Members of this group paid monthly subscriptions for funeral expenses. Monies were also collected on a weekly basis and given to members, starting with the one whose name came first in the members' book and continuing until everyone received their share (Little 1957). Subsequently, in the early 1960s, Little (1962) conducted another study where he observed the existence of societies and associations of various forms whose purpose was to help members save money or provide mutual benefit. Some of these associations based in Accra had existed for more than 30 years. These societies were not formed on tribal or religious lines and accepted all into their membership. Even though Little's (1962) studies attempted to identify mutual aid groups and societies with some form of savings and credit facilities for their members, they were limited to group schemes of a formal nature. His studies lack data on informal savings schemes and provide no information on susu.

Ardener (1964), Acquah (1958) and Ardener (1953) undertook some studies on informal savings and credit schemes. These studies, however, concentrated on group savings and credit schemes and contribution clubs, with no significant data on susu. For instance, Ardener (1964) dealt extensively with ROSCAs in India, West, Central, East and South Africa but only made reference to the existence of susu amongst the Ga, a tribal group in the then Gold Coast and said nothing more about it. It is unclear whether Ardener's (1964) reference to susu in that context referred to susu per se or ROSCAs. Acquah (1958) also examined associations in Accra whose members contributed monies for their mutual benefit. Since then, the most substantial work on susu and other informal savings schemes have been produced by (Steel, Aryeetey, Hettige & Nissanke 1997; Aryeetey and Udry 1995; Aryeetey 1994; Steel and Aryeetey 1994). In most of their studies, both Steel and Aryeetey focused on microfinance generally, in Ghana and other developing countries. They provided detailed information on the role of microfinance, albeit with in-depth data on the credit side of the market to the neglect of the savings segment (Steel et al 1997; Aryeetey 1993).

However, in 1994, Aryeetey examined the operations of susu collectors in Ghana. Nevertheless, his study was limited to a brief description of susu, with an even more brief account on why people pay to save with a susu collector. He observed that mobile bankers found in West Africa help market women through daily savings collection to accumulate capital for their businesses. Aryeetey (1994) explained that susu serve as a financial management service through which savers protect their savings from friends and family. There was, however, no in-depth data on the institutional framework of susu with empirical observation as he concentrated on the collectors themselves, their lending activities and their earnings. He also focused on the need to establish linkages with the banks to enable collectors to meet the demands for credit by their clients without evaluating the implications of forging such linkages. He failed to analyse the structural deficiencies of the scheme together with an analysis on why it works.

1.1.1 Susu

Susu has been part of Ghana's micro financial system for at least three centuries (Williams 2006). It forms part of the financial phenomena occurring beyond the functional scope of countries' banking and other financial sector regulations (Jones, Sakyi-Dawson, Hartford & Sey 2000; Aryeetey 1998). Strictly defined, susu is an informal savings mobilisation mechanism where individual savings collectors help savers accumulate savings through daily deposits in consideration of a day's deposit. It involves a regular pickup of cash with unrestricted rights to withdraw it at a later date (Ashraf, Karlan & Yin 2005; Aryeetey and Udry 1995; Aryeetey 1994). Susu is commonly referred to as susu or esusu in West Africa where it is very popular (Alabi, Alabi & Ahiawodzi 2007; Aryeetey and Udry 1995).

Central to the susu system is the provision of saving schemes to depositors, purposely to help them accumulate their savings over periods ranging between one month and two years. Even though credit is not the main objective of susu, it is quite common for depositors to be advanced credit facilities (Steel and Andah 2003; Aryeetey 1994). In 1997, The World Bank's report on informal financial markets and financial intermediation in four African countries observed that some susu collectors sometimes advanced monies to their clients before the end of the agreed period. (The World Bank Group 1997)

Susu operates primarily on the savings side of the market and is based on a simple system devoid of bureaucratic procedures and complex documentation. It is operated by collectors who are mostly men operating from kiosks which are usually located in the markets. The collections are often of low but regular value and are usually kept by the collector for each of his clients until the accumulated amount, minus one day's collection, is returned to the depositor. Whilst some collectors hold onto savings collections for safe keeping, others deposit them in their bank accounts. Others still invest them in their businesses or lend them to others (Jones et al 2000; Aryeetey 1994).

1.1.2 Susu Clubs

The concept of savings clubs have been examined in a number of studies in various forms (Buijs 1998; Duggleby, Aryeetey & Steel 992; Miracle, Miracle & Cohen 1980; Ardener 1964). An examination of these studies shows that the word 'clubs' has been used to describe group savings and credit associations such as ROSCAs and, in a few instances, susu. Steel and Andah (2003) however classified susu clubs as an entirely different type of susu. According to them, susu clubs have the characteristics of both susu savings and credit schemes. They suggested that members commit to save toward a sum that each member decides over a period ranging between a fifty and a hundred week cycle with an amount equal to 10% of each deposit paid as commission. An additional fee is charged where a member is advanced the total amount which he has committed to save earlier than agreed

Aryeetey (1994) and The World Bank Group (1997), however, suggest that with the increased demand for financial support, some susu collectors introduced credit as part of their susu scheme, sometimes advancing credit to their clients before the end of the agreed saving period. This suggestion is corroborated by empirical evidence from Agomenya, where a wealthy susu collector who supplied groceries to traders in the market explained that, in addition to advancing loans to his trustworthy savers, he often supplied some of them with groceries and collected their daily sales in payment until the cost of the supplies are paid for. The introduction of this credit facility, in addition to the savings scheme, may have led to the belief by Steel and Andah (2003) that susu clubs are different types of susu schemes in Ghana. The only data on what Steel and Andah (2003) described as susu clubs is what they themselves provided in their study. Buijs (1998), Miracle et al (1980) and Ardener (1964), for instance, only used the description "club" as an alternative to associations in their study of informal savings and credit associations. The classification of susu clubs as types of susu schemes therefore raises doubts.

The similarities between the alleged susu clubs and susu go to show that susu clubs do not in fact exist as a separate type of susu. At best, it only shows the absence of uniformity in the operations of susu collectors. The non-existent of susu clubs as separate susu schemes was made more apparent in Duggleby et al (1992) study of formal and micro finance for small enterprises in Ghana, when they used the description 'susu clubs' to refer to group saving schemes. In their words:

> "Dominant on the savings side were different versions of the susu system, while the operations of moneylenders dominated the lending side. The susu system of saving has two versions: rotating savings through susu clubs; and individual susu collectors who operate a deposit facility for any number of people. The second is believed to have developed out of the first".
>
> (Duggleby et al 1992)

Their description of the susu system reinforces the evidence that there are in fact only two main susu schemes in Ghana, that is; susu per se and susu associations. Gallardo (2002) hit the nail right on the head when he suggested that a susu club is another form of the susu system, where, rather than collectors going to depositors to pick up their savings, savers instead went to their collectors at a designated place to deposit their savings.

1.1.3 Susu Companies

Another misconception about the types of susu schemes in Ghana has been the classification of what Steel and Andah (2003) described as susu companies. This misconception may have resulted from the use of ascribed susu methods by some companies who found the susu system attractive. These incorporated bodies providing financial services in the form of susu are, according to Steel and Andah (2003), susu companies constituting another type of susu scheme in Ghana. They suggested that some registered businesses joined the stream of susu scheme organisers in the late 1980s. As part of their scheme susu companies used susu techniques to collect daily savings from depositors with promises of loans almost twice the amount deposited after a minimum period of about six months (Steel and Andah 2003).

Unfortunately, due to capital inadequacy, most of these companies were unable to fulfil their promises. Some companies were also alleged to have mismanaged depositors' savings and soon became unsustainable which, in most cases, led to their collapse Steel & Andah (2003). Under the Non-Bank Financial Institutions Act, 2008 (Act 774) and its predecessor the Financial Institutions (Non-Banking) Law, 1993 (PNDCL 328), the practice of giving out loans in such manners by businesses were brought under the regulatory regime and thus ceased to be an informal activity. These susu companies were therefore phased out as they were, by virtue of the law, illegal. Under the law, incorporated entities providing financial services were required to raise the requisite minimum capital and obtain the relevant licenses in order to operate, money-lending services and non-deposit-taking microfinance services among others (Non-Bank Financial Institutions Act, 2008 (Act 774). The schedule to the law specifically mentioned savings and loans companies as one of the institutions required to obtain the requisite licenses from the Bank of Ghana. Unfortunately, most of the susu companies could neither meet these requirements nor obtain the relevant licenses. It is worth noting that the Bank of Ghana has in recent times promulgated some regulatory guidelines which seek to regulate the activities of susu companies and other individual susu collectors (Bank of Ghana 2011).

The regulation of these susu companies transformed the collection of savings from an informal activity to a formal one. Thus the classification of susu companies as one of the types of susu schemes by Steel and Andah (2003) is erroneous. This is because susu companies, which were in existence prior to the passage of the repealed Financial Institutions (Non-Banking) Act, 1993 (PNDCL 328) and the Non-Bank Financial Institutions Act, 2008 (Act 774), were by virtue of their incorporation formal entities. Therefore, susu companies did not qualify as informal enterprises and should not be classified as part of susu schemes. As formal entities, they were subject to the regulatory regime and supervised by regulatory bodies. It is contended that the provision of a financial service, ordinarily recognised as informal, by a registered business does not in itself qualify the business or the service as an informal concern. The promulgation of the then PNDCL 328 (repealed) and subsequently Act 774, only reinforced the position that the act of incorporating an entity, that used informal means to provide micro financial services, takes away the cloak of informality and clothes the entity with formality.

2. Group Savings Schemes

2.1. Susu Associations

Amongst the other forms of savings mobilisation schemes are susu associations which are usually group based and often formed for the mutual benefit of the group. Susu associations operate as either ROSCAs or accumulating savings and credit associations (ASCRAs). The practice of communal support in most African cultures, including Ghana, may have engineered the development of susu associations. Membership of this type of susu usually ranges between five and forty. For instance, out of the total population of ROSCAs surveyed in Northern Ghana, 63% were found to have membership ranging from ten to twenty. Unlike susu collectors who are mostly men, leaders of ROSCAs as well as their membership are predominantly women. Most of these women engage in informal economic activities such as processing and marketing. In an overall sample of ROSCAs, 46% were found to be women in Ghana, with 57% and 80% in Tanzania and Nigeria respectively (Jones et al 2000; The World Bank Group 1997).

Members of ROSCAs make regular fixed contributions, either weekly or monthly. The total sum contributed is given to each member in turn and in accordance with a procedure agreed upon by the members themselves (Steel and Andah 2000; Geertz 1962). All members of the group, except the last recipient, receive pooled savings earlier than if the member had saved that amount all alone. Most ROSCAs have a lifespan that runs with the number of the membership and the periodic frequency of contributions. A ROSCA might therefore come to an end after all members have received their share of contributions (Bouman 1994).

Ardener (1964) however, argues that the definition given to ROSCAs is often restrictive and does not cover all forms of ROSCAs found worldwide. For instance, it has been observed amongst ROSCAs in Keta, a town in Ghana, that contributions are not always fixed (Little 1957). Further, the whole contributed sum is not always given to members (Ardener 1953). The nature of ROSCAs as perceived by Geertz (1962) as well as Steel and Andah (2003) by the use of the word 'sum' appears to imply that contributions are only made in cash. Evidence from other communities including some Chinese and Japanese associations suggests that, contributions made by members can be partly cash and partly kind (Ardener 1964; Embree 1946).

Unlike ROSCAs, members of the accumulating type make regular contributions but are not given to members in rotation. Contributions are instead lent to members under certain agreed terms. Whilst loans under ROSCAs are automatic, the grant of loans with ASCRAs are based on decisions of a board or with the consent of members and therefore not automatic. A member of an ASCRA could also benefit under the scheme in an emergency or upon the occasioning of an event such as death of a family member, marriage or payment of school fees or festivals (Steel and Andah 2003; Bouman 1994). Consequently, ASCRAs, which are also known as non-rotating susu, serve a different economic purpose. It provides a cheaper savings and credit facility to members. It offers low transaction costs and inexpensive safekeeping of savings, as well as an easy and flexible accessibility to loan funds made up of members' savings.

Similar to ROSCAs, ASCRAs operate on mutual trust and continuity of membership during an agreed contribution period. The associated risks of such group schemes are therefore borne by the group. The non-rotating susu group thus serves as an insurance scheme which protects members against risks associated with the system. In cases where a contributor ceases to be a member by reason of death or withdraws from the group or fails to settle any outstanding debt, the group shoulders any loss arising thereof. Contributing members then stand the risk of losing part of their savings (Aryeetey and Udry1995). Whilst ROSCAs involve no administrative work as loans are given automatically and upon each collection date, ASCRAs require some administration and transaction costs. This is because the process of granting and managing loans plus the provision of collateral in some cases require decision making and record keeping (Bouman 1994; Bouman 1977).

ROSCAs are known by different names in different countries. Unlike susu, which is more common in West Africa (Aryeetey and Udry 1995), ROSCAs are known worldwide and operate under different names. They are known as esusu in Nigeria and Sierra Leone, chilemba or chiperegani in Malawi, upatu or mchezo in Tanzania and tontiniers or tontines in francophone countries (The World Bank Group 1997; Aryeetey and Udry 1995; Bouman 1994; Burton 1865). It is commonly called osusu in some parts of Ghana (Martin, 1956). In China the commonest types of ROSCAs are known as lun-hui, yao-hui and the piao-hui (Goh 1964). It is also known as bisi in Pakistan (Van der Horst 1974), ho in Vietnam and ko in Japan (Geertz 1962). In 1825, savings clubs, some of which operated in a rotating manner, were found in parts of Scotland and northern England under the name ménage (Ardener 1964; Jeffreys 1951). Similar saving associations were also found in some mining areas in England (Kuper and Kaplan 1944, cited in Ardener 1964). The belief that rotating savings associations existed in England or Scotland does not seem to find favour with Ardener (1964), as she observed that there does not seem to be evidence of any rotating activity in Europe. Ardener's (1964) view seems to carry some weight, as recent evidence suggests that even though some form of informal savings schemes exist in parts of England and Scotland, they do not operate in a rotating manner. An example of such schemes is the Christmas hampers scheme and Christmas clubs.

2.1.1 Christmas Hampers

The Christmas hamper scheme involves the deposit of savings which may serve as down payment for goods or vouchers at the end of the year. It appears users do not consciously use the scheme as a means of saving but with a retail mindset. The schemes are marketed at the local community level and by local agents known to the users either as friends or family. These agents receive about 2.5% of their collections as commission or up to 25% of the cost of a hamper (Opinion Leader 2007; Shaoul 2006).

The Christmas hamper scheme provides a flexible and convenient means of saving which could be used for food and gifts, or adapted to suit family circumstance. Users enjoy the convenience of having agents collecting their deposits and delivering goods to their door steps. It also granted users some peace of mind knowing they could avoid running into debt during Christmas. In spite of these benefits enjoyed by users, the hamper scheme is embedded with various risks such as the provision of poor value for money. The scheme also imposes restrictions on redemptions which are usually limited to certain shops where vouchers could be used. The nature of the hamper scheme makes it vulnerable to collapse (Opinion Leader 2007; BBC 2006). Its risky nature was made more evident by the collapse of Farepak savings club, where hundreds of thousands families lost their savings (Carrell 2006; Shaoul 2006; BBC 2006). Farepak operated with about 35,000 local agents who collected weekly contributions from savers.

2.1.2 Christmas Clubs

Similar to the Christmas hamper schemes in England and Scotland are Christmas clubs which are mainly operated by banks in the United States. These clubs have been found to have no officers, they hold no meetings, and have no mutual undertakings. Members of the club simply agree to deposit savings for a fifty week term with no access to their deposits until the end of the term. Some depositors save as little as 25 cents per week with $1 per week being more popular. Occasionally, others deposit as much as $20 per week. These deposits are usually evidenced by records of deposits made in coupon books, punch cards, or bank books.

Unlike susu which is more common in rural and low income communities, Christmas clubs differ in procedure and form from other types of informal savings schemes such as the ROSCAs often found amongst immigrants in the United States (Light 1972).

3.0 Micro-Credit in Parts of Asia

Microfinance institutions, largely in developing countries, particularly Asia, have for some time now been engaged in the provision of micro-credit facilities to the poor as well as middle income earners. An example is the Green bank in the Philippines which expanded its and Gupta 1996; Jain 1996).services to include the regular door-to-door pick-up of cash from poor and low income households. The Grameen bank is also a classical example of a formal institution that has successfully engaged in microfinance activities through the provision of credit facilities to rural, poor and low income farmers and households in Bangladesh (Dowla and Barua2006; Morduch 1999; Rahman 1999; Hossain 1988; Goetz

Even though most developing countries' governments have failed to achieve any appreciable results in microfinance programs, the Grameen bank's microfinance activities have proved fruitful. The bank's activities in providing credit to the poor in Bangladesh have been described as a case of exceptional success. In 1994, it was reported that the bank's micro-credit programs covered over 34,000 villages and supported about two million poor landless villagers in Bangladesh. The Bank's success has been attributed to its preference for quality service over subsidising the cost of credit facilities to the poor, who are mostly women. It seems the delivery of rural credit to the door steps of the poor and covering a large poor and rural area has been a major factor in its success story (Jain 1996; Grameen Dialogue 1994; Desai and Mellor 1993; Yaron 1992; Adams, Graham & Von Pischke 1984).

The operations of these institutions are, however, significantly different from that of susu. Susu operates at the lower end of microfinance and is mostly engaged in by traditional deposit collectors using informal means to collect daily savings from poor and rural households, as well as low to middle income earners. Contrastingly, these institutions are formal organisations operating at the upper end of microfinance and within the semi-formal and formal segments of the financial sector. Notwithstanding their formal nature, semi-formal and formal banks such as the Green and Grameen banks provide micro-credit and savings facilities, using informal means and agents to pursue such micro-credit and other financial activities to the poor and rural communities (Ashraf et al 2005; Basu, Blavy & Yulek 2004; Patten et al 2001; Seibel and Schrader 1999; Jain 1996). Unlike susu which is more common in rural and low income communities, microfinance activities occurring within the semi-formal and formal segments of the financial sector is accessible to all levels of income earners as well as small to medium size businesses (Microfinance Gateway 2009; Ashraf et al 2005 and Azam, Biais, Dia & Maurel 2001).

4.0 Microfinance in Africa

In Africa, however, the definitional scope of microfinance extends over several operations including arrangements that deal only with certain categories of persons who meet specified and distinct criteria (Aryeetey 1998). Such informal arrangements falling under the definitional scope in Africa cover units grouped under three different categories. They comprise of savings mobilisation schemes that provide little or no credit facilities, credit schemes that hardly provide savings facilities and schemes providing both savings and lending facilities to its members (Aryeetey and Udry 1995). These informal financial practices usually occur in both urban and rural communities in Africa. In Senegal for instance, ROSCAs are predominant amongst market women as well as persons with regular incomes such as public employees, doctors or teachers. The spread of these traditional saving associations in Senegalese urban areas is in response to the deteriorating economy, banking crises, rapid urbanisation, rural-to-urban migration and the failure of the state to provide public services (Aryeetey and Udry 1995; Bouman 1994).

These informal financial schemes existing in both villages and cities help pool funds to support community projects in the villages, as well as provide a mechanism for saving by migrant city dwellers (Dupuy 1991). For instance, the tontine in Francophone West Africa serves as a multifunctional financial phenomena functioning as ROSCAs, mutual aid, collective investment and community development schemes in villages. Tontines are diverse in nature and exist in different forms. Not all tontines perform all or the same functions. They operate in the form of insurance schemes, financial intermediaries, and promoters of community development projects in cities. More importantly they serve as a point of integration between rural and urban lifestyles (Bouman 1994).

In Cameroon, the tontine plays four major roles in the lives of its members and the community as a whole. Firstly, it provides a social security fund for emergencies and life cycle events. This type of fund is made up of irregular ad hoc contributions made at the time of need to support such emergencies. Secondly, tontines operate as ROSCAs where contributions are collected for members in a rotating manner until each member receives their share. Thirdly, it functions as an ASCRA and grants loans with interest rates of about 10% per month. Fourthly, a tontine serves as a collective investment scheme where profits accrue to members (Laffite 1981; Bouman 1994). The tontine, the esusu in Anglophone West Africa, the stokvel in South Africa and bishi in India are all collective names composed mainly of ROSCAs (Bouman 1994).

Ghana's informal financial practices are no different from the above. The operations of the sector evolve around susu, ROSCAs and ASCRAs. In addition to these savings and credit schemes, other financial activities occurring beyond financial regulations include trade creditors, self-help groups, personal loans from friends, relatives, neighbours and landlords (Steel &Andah 2003; Aryeetey1998; Aryeetey 1994). Informal financial activities exist in various forms, such as susu, ASCRAs and ROSCAs, and are purpose oriented. They develop to meet specific needs of particular communities, taking into consideration the peculiar socio-economic needs of that community (Aryeetey and Udry1995).

5.0 Conclusion

As a purpose oriented and dynamic financial activity *susu* is found in varying forms in both developed and developing countries. It is capable of meeting the socio-economic and communal needs of both rural and low income earners. *Susu* is also distinguished from other savings phenomenon by its individualistic approach towards savings. Whilst any arrangements in ROSCAs and ASCRAs are group based and members are bound by the rules of the group, any arrangement between a collector and saver in the case of *susu* is a personal one.

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