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CASE STUDY

Sub-Saharan Africa • Ghana

Linking Traditional Banking with Modern Finance: Barclays Microbanking - Susu Collectors Initiative

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Sector • Financial Services
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Summary

The majority of Ghanaians, especially the poor, do not have access to banks, credit unions or similar financial institutions. However, the need for both savings and access to credit is most urgent among this section of the population. This situation has led many of people, including small enterprises and traders, to turn to informal mechanisms such as the Susu collectors and moneylenders to meet their financial intermediation needs. These informal sources, unlike the formal institutions, are usually convenient for smallholders and the poor because of the absence of bureaucracy. They do not involve legal documentation and are based primarily on a personal or business relationship. Susu collection, which has been practiced for over three centuries in Africa, is an informal arrangement for mobilizing savings deposits from clients. The Susu operators collect a pre-determined installment of money on a daily or weekly basis from their clients. With about 4,000 Susu collectors in Ghana and each collector serving between 200 and 850 clients a day, Susu collection has become an institution (albeit informal) that meets an important development need. In November 2005, Barclays Bank of Ghana embarked on an unconventional initiative to connect modern finance with Susu collection in Ghana. The aim of the initiative is to extend microfinance to some of the least affluent in Ghana, like the small trader at the market or the micro-entrepreneur selling from road-side stalls. This case examines how the Barclays Ghana initiative augments the Susu collection scheme in Ghana and examines some of the key challenges associated with scaling up such an initiative.

Introduction

Access to Financial Institutions

In Ghana, a recent report by the National Development Planning Commission noted that only about 26 percent of the population has a bank account with a financial institution. The proportion is even lower for the rural areas where only about 17 percent have an account (see Table 1).

Table 1: Proportion of Households with Accounts in a Financial Institution

| | % With Accounts | % With No Accounts | Not Mentioned |
|-----------------|------------------------|---------------------------|----------------------|
| National | 25.5% | 69.4% | 5.1% |
| Rural | 17.1% | 77.8% | 5.1% |
| Urban | 34.1% | 60.9% | 5.0% |

Source: National Development Planning Commission, 2006¹

¹ Similar figures were found by the 1999 Ghana Living Standards Survey, which indicated that only about 28 percent of all households had a savings account. The majority of households maintaining savings account are in the capital city, Accra (35 percent), whereas in northern rural areas only about 13 percent maintained an account.



The majority of Ghanaians do not actively engage with formal financial institutions. Most rural people in Ghana do not have access to a bank, credit union or similar financial institution. The Ghana Living Standards Survey estimated that access to financial services by small clients, such as the rural and urban poor, was around eight percent in 1999. However, the needs for both savings and access to credit are most urgent among this population, especially among women. Over 60 percent of the money supply is outside the commercial banking system and the rural banks, savings and loans companies and the semi-formal and informal financial systems play a particularly important role in Ghana's private-sector development and poverty reduction strategies.

Informal mechanisms, such as the Susu collectors and moneylenders, most often fill the access gap, but there are many challenges confronting their operations. Generally, small and semi-formal credit schemes have been more successful than the formal systems in reaching the poor, particularly women in the rural areas.

Financial Institutions in Ghana

Three broad categories of financial institutions can be identified in Ghana: banks, non-bank financial institutions and the informal financial sector. As of mid-2006, there were 26 licensed banks, 37 non-bank financial institutions, 122 rural banks and 275 licensed forex bureaus operating in Ghana.

BANKS

The formal financial institutions are those that are incorporated under the Ghanaian Companies Code 1963 (Act 179), giving them legal status as limited liability companies. These institutions are subsequently licensed by the Bank of Ghana under either the Banking Law 1989 (PNDCL² 225) or the Financial Institutions [Non-Banking] Law 1993 (PNDCL 328) to provide financial services under Bank of Ghana regulation.

Banks reach only a relatively small proportion of households, due to their strong urban bias. Indeed, about 35 percent of all commercial bank branches are located in the capital city, Accra, where less than 13 percent of Ghanaians reside. Even within urban areas, the majority of individuals with low-incomes are not able to access the services of these banks due to high deposit requirements. For instance, the minimum deposit requirement for most of the banks ranges between ₵500,000 to ₵2,000,000 (US\$55 to \$220).³ Punitive deductions are made against balances below the stipulated threshold, with these deductions ranging between ₵5,000 to ₵20,000 (US\$0.50 to \$2.00) per month.

With a domestic deposit base of about US\$1.3 billion, Ghanaian commercial banks are the most important players in the financial market. Only 38 percent of the total assets of the commercial banks are in the form of loans. Banks prefer investing in liquid and low-risk

² Provisional National Defence Council Law (PNDCL)

³ US\$1 = 9,000 Ghanaian Cedis (¢), approximately, at February 2007.



government securities, which constitute about 25 percent of their total assets. In addition, state owned enterprises also attract a substantial part of the lending from the commercial banking sector. Consequently, commercial banks are estimated to devote less than 20 percent of their total loan portfolios to agriculture, with the commercial farmer being their target. Operating in this way has been sufficiently profitable and therefore banks have traditionally not been interested in providing financial services in rural areas and to low-income individuals, because these sectors involve higher transaction costs and risks.

RURAL AND COMMUNITY BANKS AND RURAL WOMEN

The Bank of Ghana introduced the concept of rural banking in 1976 as a means to promote financial intermediation in the rural areas and bring financial services to farmers, as well as the large rural population in the country. The 122 rural and community banks and their network of branches, which are widely dispersed in various regions of the country, undertake a mixture of commercial and microfinancing activities structured to satisfy the needs of the communities they serve. However, most rural women and men find the costs of accessing the services of the rural banks too high. The cost of a trip to the bank is often considerable, in terms of time and transportation expense; the process involved in accessing a microfinance loan often requires several trips to the bank. Rural women are usually further handicapped from using rural banks for a number of reasons:

- They have to leave their children and household duties for quite some time to be able to go to the bank.
- The predominantly male staff can be intimidating for some women: about 90 percent of staff in most institutions is men.
- Since most rural women are illiterate or semi-literate, the paperwork and loan application process can present a significant obstacle.
- Poorer women lack control over resources, such as land and labour, and this limits their eligibility for loans.

In instances where the rural poor are able to reach a bank and successfully apply for a loan, there is often only a limited amount of the total funds allocated for microfinance loans. In these cases, it is most often the women who receive the lowest priority.

Susu Collection in Ghana

Susu, or daily deposit collection, is a traditional and informal financial institution in West Africa and can be traced back at least three centuries. It is called “*ajo*” among the Yoruba of Nigeria, “*nago*” in Ivory Coast, “*Yesyes*” in Southern Togo and “*Susu*” in Ghana.

There are about 4,000 Susu collectors in Ghana. The typically Susu collector serves between 200 and 850 clients a day, however there are some who have up to 1,500 clients. The normal arrangement for mobilizing savings deposits from clients is for the Susu collectors to collect a pre-determined installment of money on a daily or weekly basis. The amount paid is recorded in a notebook that is held by the collector. Although not all the clients keep records of how



much they pay to the collectors, this is usually not a problem, because a collector will make his or her book available upon request.

At the end of a cycle of about thirty days, an accumulated sum is paid to the client, less one day's deposit as commission to the Susu collector. In this way, the Susu collector acts as a mobile savings account and charges a monthly interest rate of about 3.3 percent of the client's deposit as their commission. For this fee, the Susu collectors offer basic banking to some of the least affluent in Ghana, such as the small trader at the market or the micro-entrepreneur selling from roadside stalls.

Although each client contributes only a small amount in a day, the aggregated total scale of financial intermediation offered by each Susu collector is large. Table 2 offers an example of the magnitude of savings generated by the clients of one Susu collector and the corresponding fees collected.


Table 2: Scale of Financial Intermediation by Susu Collectors

| Net Savings of Clients (in US\$) | | | |
|---|----------------|-----------------|--|
| Number of Clients | Monthly | Annually | Annual Fees paid to Susu collectors |
| 1 | \$27 | \$322 | \$11 |
| 100 | \$2,685 | \$32,222 | \$1,111 |
| 500 | \$13,426 | \$161,112 | \$5,555 |

This calculation is based on a client contributing ₵10,000 (US\$1.10) per day over 25 days in a month. The interest payments to the Susu collector are 3.3 percent of the total amount in the month. With these assumptions, a client's net savings come to about US\$27 in a month, translating into US\$322 annually. This amount represents the net savings for the client, having deducted payments to the Susu collector. The total charge for this service, by the Susu collector, is about US\$11 annually for each client. In the case where the Susu collector has 100 clients, the total net savings that they collect is about US\$32,222 for which they get an annual gross income of about US\$1,111. For a client size of about 500, the net savings is about US\$161,112 and the Susu collector gets an annual gross income of about US\$5,555. Clearly, the level of savings generated by these Susu collectors is not insignificant. Barclays estimates that the collective incomes for the country's traders and small scale entrepreneurs amounted to about US\$150 million in 2004.



Box 1: Susu Collector With One of His Clients at Kaneshie Market in Accra



Mr. Aboagye Manu, a Susu collector, is visiting a client. This particular client, Naa Okailey contributes about ₵150,000 (US\$16.60). Depending on the type of goods the clients sell as well as their scale of operation, clients contributions range from a minimum amount of ₵5,000 (50 cents) to a maximum of ₵200,000.00 (about US\$22.00) daily. Mr. Aboagye Manu, who operates in the Odorkor area, a suburb of Accra, mobilizes about ₵14million a day (US\$1538.50), which he deposits at the bank the following day. Although the highest currency note is the ₵20,000 note, most of the money collected will be in ₵10,000 notes. This means that by the close of day, Mr. Aboagye Manu will be carrying about 14 bundles of notes, with each bundle having 100 notes. Clearly, this exposes him to the risk of being mugged.

Typically starting from noon each day, Susu collectors begin mobilizing daily deposits. Timing in this manner provides the clients with an opportunity to transact business and earn some income before saving. This strategy is very convenient for the rural and urban poor women whose income is too low to deposit large amounts of money with the formal banking institutions.

Market centres are locations with a large density of enterprises, especially those operated by women. They provide substantial business opportunities for Susu collectors with low transaction costs. Traditionally, the funds mobilized each day by Susu collectors were usually placed in home safes. However, in recent times, and with the help of Barclays in Ghana, many more collectors are depositing their money at the banks. Since they start mobilizing savings from their clients at noon, they use the mornings to visit the banks.

Some of the major drawbacks of operating the scheme in this way are as follows:

- There is a high risk of losing the money. Because they keep large sums of money at home or carry them about during the day, Susu collectors are targets for armed robbers.
- Susu collectors are usually unable to lend to customers over and above the clients' savings. This is because they have limited access to capital outside of what they hold for their clients.

DEMAND FOR SUSU SERVICES

The limitations associated with the banking system have compelled women petty traders and women with small off-farm businesses to use informal institutions such as Susu collectors for credit and savings. These informal sources, unlike the formal institutions, are usually convenient for smallholders and the poor because of the absence of bureaucracy. Informal financial transactions do not involve legal documentation and are based primarily on a personal or business relationship. This makes them more accessible to women, the illiterate



and the poor. Susu collectors offer the following advantages to clients over formal financial institutions:

- Excellent knowledge of the local market and understanding of the needs and limitations of their clients and their businesses
- Flexibility to adjust to changed circumstances, such as emergencies
- Good outreach to clients; door-to-door services
- Low transaction costs: since the client base is not too large, no sophisticated tracking, security systems, or other facilities are needed which would add to their costs of operations
- Very little or no bureaucracy or paperwork
- Quick turn-around time

Unfortunately, there are other factors, which work against the business of the Susu collectors. Some of these factors include the following:

- A loss of value of the clients' savings; because no interest is paid on the Susu system, part of the value of the money saved is lost as a result of inflation
- High interest rates
- Trust can be abused; the Susu scheme is dependent on trust, and there are reported cases of Susu collectors absconding with significant amounts of money
- Weak links between savings and access to credit; an individual's access to credit, and the cost of that credit, bears little relation to an individual's saving performance.
- Limited financial products; the range of financial products offered by these informal arrangements are mainly limited to savings and some limited borrowing.
- Little recourse to legal institutions for dealing with defaulters or those accused of fraud

Despite these drawbacks, and because of the advantages that they also offer, these informal financial services have an established presence amongst the informal sector and the majority of low-income earners in Ghana.

Barclays Bank Ghana Limited

Barclays Bank of Ghana is a wholly owned subsidiary of Barclays Bank PLC. Barclays Bank PLC was originally established in 1917 but started operating, and was incorporated, in Ghana in 1971. The core of Barclays Bank of Ghana is business investment and middle-upper income level retail banking. It also offers a settlement and custody service to institutional investors and has been doing this since 1994.



In the past, Barclays has made efforts to attract low-income customers. However, it has not been very successful. In 2005, the financial inclusion team at Barclays' head office decided to explore the opportunity for Barclays to get involved in financial inclusion in the African context. This had to be done with a clear understanding of the embedded indigenous financial systems of each country, and the company had to find the best way to work with the relevant actors.

THE BARCLAYS MICROBANKING - SUSU COLLECTORS INITIATIVE

As part of Barclays Microbanking, Barclays Bank Ghana is embarking on an unconventional initiative to connect modern finance with informal financial systems such as Susu collection in Ghana. This will extend microfinance to some of the least affluent in Ghana, like the small trader at the market or the micro-entrepreneur.

The underlying philosophy of the Barclays initiative is that a truly inclusive society can only be achieved by supporting existing indigenous financial institutions that already provide services such as loans and savings to the least affluent. The objectives of Barclay Microbanking are listed below:

- To design a programme that improves financial services in Africa for the majority of people who do not have bank accounts; and
- To start linking Barclays to the people by using existing traditional business practices which will ensure the sustainability of the programme

Barclays initiated the process by contacting the Ghana National Association of Susu Collectors who provided 100 Susu collectors (50 from Accra and 50 from Ghana's second largest city, Kumasi) to be involved in a pilot programme.

When asked to make inputs as to how their business could be improved, the Susu collectors provided a number of recommendations. With these in mind, Barclays developed the Susu collectors initiative which is part of the Microbanking programme and consists of three parts, namely "ABC" as described below:

Awareness Creation (A)

The first component of the programme is "awareness creation." This provides the platform for Barclays to organize knowledge sharing meetings with the end-users (often market women) and educates them about financial management and insurance, as well as the Barclays Susu Collectors Initiative. Some of the issues discussed with the end-users at these meetings included record-keeping and the effective use of their savings. Through these meetings, the end-users learn that the Susu collectors associated with Barclays are able to provide additional



services for them. They are also exposed to the wider opportunities that exist in banking with Barclays as opposed to narrowing themselves to the Susu paradigm alone. In exchange, Barclays learns about local markets and needs which enable it to redesign products and services that may better fit potential low-income customers, as well as further improving the Susu initiative.

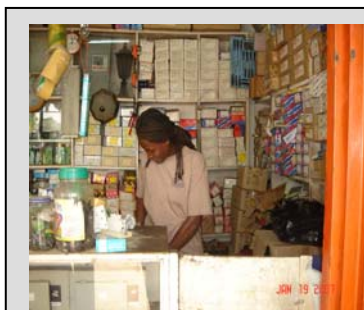
Banking Services (B)

The second component is the provision of banking services to the Susu collectors by creating an investment account called the “*Dwetiri*”⁴ account. This account offers investment capital for on-lending and also savings deposit accounts. Barclays lends money to the collectors at an interest rate of 2.1 percent per month, which they on-lend to the market women at the same rate. The Susu collectors also experienced a need to be able to deposit money in the bank after the traditional closing time of 3 p.m. Barclays has addressed this through the provision of two extra hours of banking services to the collectors. They are exclusively allowed to deposit funds at the bank until 5 p.m.

Capacity Building (C)

The third component emphasizes capacity building for the Susu collectors, microfinance organizations and the clients of microfinance organizations, and Susu collectors. As of October 2006, 173 collectors had been trained in Accra, Kumasi and the Brong Ahafo regions of Ghana. Courses offered at the training programme included Delinquency Management, Financial Management and Credit/Risk Management. These courses were selected with input from the Susu collectors and their Association. Barclays is also working closely with the Ghana Microfinance Institutions Network (GHAMFIN), the umbrella organization for the Susu Collectors Association, to offer a special capacity building programme for participating microfinance institutions. In addition, Barclays provides clients of microfinance organizations and Susu collectors with a financial awareness programme to promote confidence in basic financial skills and in the effective management of their money.

Box 2: A Susu Collector’s Client



Naa Okailey, a small trader, sells provisions and operates an electrical shop with her husband. She has been a Susu contributor for the past twelve years and currently saves ₵150,000.00 (US\$16.50) daily. She received a loan of ₵5,000,000 (US\$550) from the Barclays Susu Initiative at an interest rate of 2.5 percent to expand her business. She repaid the loan and the interest through a daily savings of ₵40,000.00 (US\$4.50) over a six-month period. She is happy to have benefited from the loan but would prefer a larger amount.

⁴ ‘*Dwetiri*’ is the Akan (Twi) word for capital or seed money.



So far, Barclays has invested €2.4 billion (US\$300,000) into developing this project in Ghana. This includes providing Susu collectors with deposit accounts and loans to on-lend, as well as the training and education that is provided for Susu collectors, traders and microfinance institutions. If this model is successful, Barclays hopes to replicate it in other African countries.

Key Collaborators

BARCLAYS BANK OF GHANA LIMITED



Barclays Bank does not seek to replace the Susu collector or take away their business. Barclays Microbanking seeks to simultaneously improve the Susu collector's business by providing training to them and their clients, giving them additional legitimacy through their relationship with the bank and allowing them to offer loans to their clients. At the same time, if traders and traditional Susu clients grow their businesses to the point where they would prefer to have access to their own bank account, Barclays will be well positioned to meet their needs.

Barclays Bank does not seek to replace the Susu collector or take away their business. Barclays Microbanking seeks to simultaneously improve the Susu collector's business by providing training to them and their clients, giving them additional legitimacy through their relationship with the bank and allowing them to offer loans to their clients. At the same time, if traders and traditional Susu clients grow their businesses to the point where they would prefer to have

Barclays hopes to use this initiative in Africa to learn how different cultures handle the issue of microcredit and to enable them to develop a structure that will work with any indigenous system and give access to capital for market traders and small indigenous private sector operators.

GHANA SUSU COLLECTORS ASSOCIATION

The Ghana Susu Collectors Association (GSCA), formed in 1985 in the greater Accra region of Ghana with an initial membership of 150, works to mobilize funds and introduce clients to the habit of saving. As at the end of 2006, the national membership of GSCA stood at 700 with regional offices throughout the country. The Association selected 100 Susu collectors to participate in a pilot for the Barclays project. The Association also undertook the initial screening of loan applicants by Susu collector clients before passing them on to the Barclays pilot project.

GHANA MICROFINANCE INSTITUTIONS NETWORK (GHAMFIN)

GHAMFIN is a network of institutions and individuals that operate within Ghana's Microfinance Industry. It was legally registered in 1988 with a membership of about 70 regulated and non-regulated microfinance institutions. Its main tasks include coordinating and supporting the activities of microfinance institutions (MFIs) with a focus on promoting the development of an efficient and sustainable MFI industry in Ghana. It is the umbrella body



for the Ghana Susu Collectors Association. GHAMFIN played a facilitating role in the Barclays Microbanking project, helping broker the relationship between Barclays and the Susu collectors. GHAMFIN was also involved in managing the initial six-week training of the Susu collectors. Topics covered at the training included delinquency, banking procedures, record keeping and sound financial practices.

Major Challenges of the Barclays Initiative

In November 2006, the Barclays Susu initiative celebrated its one-year anniversary. Some of the major challenges encountered included the following:

Perceptions about Barclays

The perception about Barclays is that it is a bank that provides services for the middle and upper classes of society. Therefore, in order to gain trust, Barclays had to work to change the perceptions of the Susu Collectors as well as the end users.

Integrating Current Barclays Systems with the Susu System

There were some internal operational challenges integrating Barclays' current systems to the Susu system. As a result, not all the 30 Barclays Bank branches have readily offered the special services, as agreed with the GSCA. Some Susu collectors still complain about being given smaller denominations of the local currency (Cedi), even when they withdraw large sums of money for on-lending to their clients.⁵

Extending the Initiative Beyond the Susu Association

Lack of a regulatory framework for collectors outside the Susu Association makes accessing collectors beyond the GSCA difficult and risky.

Low Levels of Literacy

Some of the collectors, as well as the clients, have relatively low levels of education. This poses problems particularly when it comes to undertaking documentation, even if the volume of documentation for the clients is reduced under the Susu scheme.

Business Impact of the Programme

Barclays sees this initiative as having two key dimensions, namely the social and business dimensions:

⁵ It has to be said, however, that all the 22 main branches of Barclays Bank Ghana are participating.



SOCIAL

The social aspect involves giving back to the community. The current formal banking system does not support the activities of a large proportion of Ghanaians for various reasons. An appropriate way to reach these populations is to work within existing informal institutions in which people already feel comfortable. The Susu initiative provides such a tool, which can be used to reach market women and other small-scale traders.

BUSINESS

The business dimension for Barclays is centred on creating value for money by helping the small traders focus and sharpen their financial management skills. In the long-run, the bank benefits by more traders better appreciating the habit of saving and, therefore, channeling their savings to the bank through the Susu collectors. Perhaps later on, the small business owners may open their own accounts. An added business benefit is that the Banks' image as elite and inaccessible can change.

Development Impact

In recent times, the provision of credit to poor entrepreneurs who do not qualify for traditional bank loans has been a tool for poverty reduction in many developing countries. The literature confirms that microfinancing provides an effective and equitable means of creating conditions for long-lasting development. Consequently, the Barclays programme with the Susu collectors has the potential to significantly help Ghana attain development goals including the MDGs. More specifically, the development outcomes of this initiative are as follows:

Increasing Access to Credit

The provision of credit to the Susu collectors for on-lending to the market women allows the petty traders to access funds to invest in their businesses. This can help diversify and increase their sources of income.

Changing Savings Behaviour

The initiative improves the efficiency of savings for these small traders. With the reduced risks of saving, individuals are encouraged to save more, either indirectly through the Susu schemes or directly after they have become more comfortable with the formal financial system.

Increasing Incomes

This initiative enables individuals earning very low incomes to access loans, as well as accumulate enough money to buy assets for their small businesses and pay for healthcare, home improvements and school fees for their children. This helps safeguard them against extreme vulnerability and can be an essential path out of poverty and hunger. For instance, a study on other microfinance programmes in Ghana has indicated that Freedom from



Hunger's⁶ clients had increased their incomes by \$36 compared to \$18 for non-clients. Also, clients significantly diversified their income sources. Eighty percent of clients had secondary sources of income versus fifty percent of non-clients.

Empowering Women

Microfinance programs have generally targeted women as clients, because they tend to be more financially responsible and reliable. Therefore, the design of the Barclays Susu initiative can have a strong, positive effect on women's lives, resulting in more women owning more assets, having more active roles in family decisions and increasing investment in family welfare.

Increasing Access to Formal Banking Services

As Barclays uses this microfinancing programme to reach beyond their traditional customer base, they are creating an avenue into a new market, which will increase the number of Ghanaians with access to formal banking services in the long-term.

Opportunities and Challenges for Scaling up

CHALLENGES

- In order to reach a larger customer base, additional intermediaries (like Susu collectors) are needed to scale up. However, this requires concerted efforts from a number of partners working together.
- There are people who have had bad experiences with Susu collectors. For such people, reaching out to them will be challenging, because a significant effort will be required to overcome doubts, as well as build trust.
- For the more remote parts of the country, the Susu collectors cannot do the daily depositing of clients' money with Barclays. In these cases, Barclays may have to implement mobile banking, which may increase the cost of providing services.

OPPORTUNITIES

- Barclays is using the Ghana Microbanking programme as a pilot for Africa and will want to demonstrate their successes and scale up the Ghana program before expansion. Following a successful Ghana pilot they will be looking for opportunities to start microfinance operations in other developing countries in which they operate. They will enter markets where there are opportunities to enhance the indigenous finance system and where they believe they fully understand the local economy. They believe it is important to understand what indigenous financial systems exist in other African countries and how sustainable linkages can be effectively developed.

⁶ A microfinance institution.



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- Rural people participate more than individuals from other areas in the Susu schemes. If the credibility and visibility of the Susu collectors is enhanced by the Barclays scheme, the customer base could be significantly expanded, particularly since the large banks cannot reach all of the remote areas of the country.

Conclusion



The Barclays initiative has the potential to contribute significantly towards the growth of small and medium-sized enterprises in Ghana. The use of an existing traditional financial intermediary is a key innovation. Potentially, this programme can reach a larger proportion of the Ghanaian population than the formal financial institutions. However, reaching all parts of the country may require other innovations such as mobile banking or collaboration with other formal financial institutions.



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The information presented in this case study has been reviewed and signed-off by the company to ensure its accuracy. The views expressed in the case study are the ones of the author and do not necessarily reflect those of the UN, UNDP or their Member States.

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