

Linking Social Capital and Microsavings: Lesson from Thrifty Saving Behavior of Afar Pastoralists of Ethiopia

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Abstract

Pastoral communities are the most marginalized segments of the world's population. Their access to financial services is very limited. Properly designed financial service can play significant role in the development, risk management and mitigation strategies of the pastoral communities. Against this background, the current study examines the relationship between microsavings and social capital vis-à-vis the contribution of Pastoral Saving and Credit Cooperatives (PASACCOs). The study highlights the prominent role of social capital in securing loan for pastoralists by serving as collateral. It also shows a strong positive relationship between social capital and microsaving practices ($P > 0.05$). Hence, any developmental intervention on the financial inclusion of Afar pastoral communities should pay attention to the indispensable role of social capital.

Keywords: Microsaving; Compulsory saving; Voluntary saving; Social capital.



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1. Introduction

Business activities maintain the welfare of the poor especially in the poverty-stricken segments of a population. For instance, microsavings services facilitate the developmental process and offer an opportunity to the poor to invest more in the future. Yet, we also know that poor people have been often excluded from accessing financial services. An estimated 2.7 billion people lack access to formal financial services worldwide (Consultative, 2009). Therefore, paying a particular attention to financial inclusion is apparently a well-timed issue. Needless to say, poor access to financial services typically define the pastoral areas despite access to financial services is a human right concern for all including the resilient pastoral societies (Hulme *et al.*, 2009).

Further, in these days, the historic resilience of pastoral societies has been threatened by the process of globalization (McKune and A., 2013). Consequently, most pastoralists have been in a constant trouble to diversify their source of income. This becomes overwhelmingly worrisome to Ethiopian pastoralists whose financial capital is very limited as financial institutions are almost unavailable in pastoral areas (Flintan, 2007).

Realizing the situations, the Ethiopian government has initiated different project interventions in recent decades. One of these development interventions is the implementation of Pastoral Community Development Project (PCDP) in Afar pastoral communities. So far, the project yielded a number of PASACCOs aimed at improving the pastoral livelihood system through an enhanced access to financial services. Beside facilitating saving practices, PASACCOs ease the process of securing loan by avoiding the requirement of livestock or other borrower's mortgages as collateral (World Bank Group, 2016). Hence, members of PASACCOs access credit services with the principle of what we call 'group based model' in which a loan seeker is requested to be a close friend of three or more voluntary members of the same PASACCO unit who can act as guarantors on behalf of the borrower. Hence, the borrower's social capital is playing a prominent role in determining whether a person is eligible to secure loan. This is a great step forward in pastoral areas to solve problems associated with financial inclusion and needs urgent investigation.

Despite the fact that financial inclusion is a common problem and the link between microsavings and social capital needs urgent study, only scanty information is available and our knowledge of the problem is very limited. This study, therefore, tries to investigate the link between microsavings and social capital among Afars of Ethiopia.

2. General Profile of the Study Site

The study is conducted in Afar region of Northeastern Ethiopia. Afar region, also known as Afar National Regional State (ANRS) is one of the nine autonomous regional states in Ethiopia. It is the hottest and driest place in our planet. Afar people have lived in this area by adapting to the harsh climatic condition and changing environmental situation for a long time. The people of Afar are identified by different names such as "Adal", "Dankali", "Oda'ali" and "Teltal" by the Amhara, Yemenis, Somalis and Tigres, respectively. However, they invariably rejected all these names and called themselves 'Afar' (Yasin, 2008).

Geographically, Afar people occupy the Great East African Rift Valley located in the Northeastern part of Ethiopia. It is administratively structured into five zones, 28 towns, 32 *Weredas* (Districts) and 401 *Kebeles* (Villages). It shares two international boundaries with Djibouti and Eritrea, and within the country's boundary, the

region is bordered with Tigray in the North-west, Oromiya in the South, Amhara in the south west and Somali region in the south east. Currently, Samara is its new regional capital which was established in 1996 and located in Zone one in the main corridor to Djibouti at a distance of about 600 kms from the country's capital city, Addis Ababa.

Demographically, according to the [Central Statistical Agency \(2007\)](#) report, Afar region has a population of 1,390,273 people, consisting of 615,156 women and 775,117 men. While most of the people are ethnically Afar (90.03%), followers of Islam (95%) and speakers of "afar-af" language, the rest about 10% of the population constituted of Amhara, Argoba, Tigre, Wolayta, Oromo, Hadya and other nations and nationalities of Ethiopia.

Economically, an overwhelming majority of the Afar people practice "transhumant pastoralism" as a livelihood system (United Nations Development Program [United Nation Development Program \(UNDP\) \(2001\)](#) because transhumant way of life is believed to be best suited to arid areas. Afar pastorals largely move with their herds towards the Awash River which flows through much of the Afar region (Hassan, 2008). Approximately, Afar pastoralists move within a radius of 50 kms ([United Nation Development Program \(UNDP\), 2001](#)). However, during severe droughts and harsh climatic conditions they move their herds up to 150 kms. Generally, 90% of Afar production system is dominated by livestock production. Livestock are the primary source of income, food and power among the people of Afar. The latest report by Afar regional state Bureau of Finance and Economic development ([Bureau of Finance and Economic Development, 2017](#)) indicated that the region has an estimated number of over 10 million heads of 2,110,888 cattle, 6,713,546 sheep and goat, 832,016 camel and 187,284 pack animals.

Afar pastorals have a patrilineal decent system where every individual belongs to a particular clan ([Tesfay and Kelemework, 2004](#)). Each clan owns particular pieces of land with a watering point at the center ([Helland. and Johan., 2015](#)). According to the estimation of [United Nation Development Program \(UNDP\) \(2001\)](#), there are more than 100 sub clans among Afar pastoral communities. The clan is the lowest level of social organization, even though it is further divided into sub-clan or *dahla*. Each clan has a clan leader (*Kedo Aba*), lineage leaders (*Dala Aba* or sometimes called *Dabala Aba*), youth leaders (*Fei'ma Aba*) and elders' councils ([WIBD Consult, 2005](#)). Marriage is polygamous and polygyny is practiced in accordance with Islamic *Sharia* law. The most common marriage pattern is cross-cousin marriage (locally known as *Absuma*) and the newly married couples live around in the vicinity of the groom (Patrilocal) ([Tesfay and Kelemework, 2004](#)) within a dome-shaped hut known as "Afar-ari".

Politically, Afars traditionally administered themselves by a system of leadership known as *Sultanet* which persists this day. Currently, while writing this paper (2018), Hanfre Ali Mirah, the son of the late Sultan Ali Mirah is in charge of the administration. Historically, throughout much of the 20th century, the Afar people found themselves in violent conflict with the central government of Ethiopia as a result of the introduction of large scale commercial projects that did not benefit the Afar people ([Nicol and Mosope, 2014](#)).

The flora distribution of Afar region is dominated by patches of scattered dry forests, *Acacia* woodlands, bush land, wooded savannah and scrub land. Recently, the Afar land has been affected by the invasion of an exotic plant species, *Prosopis juliflora*, locally named as *Woyane* ([Rettberg, 2010](#)). Initially, the alien 'Wayane' plant was purposefully introduced by the Ethiopian government in the late 1980s to combat desertification ([Helland. and Johan., 2015](#)). Nevertheless, later on, at the beginning of the 1990s the expansion of the plant grew totally out of control with enormous negative impacts ([Rettberg, 2010](#)). The expansion of the exotic plant reduced quality range land in the region which in turn disturbed the population and resource balance of the area. In response to the growing imbalance, nowadays, Afar pastoralism is characterized by greater reliance on goats and camels than keeping cattle ([Helland. and Johan., 2015](#)).

3. Material and Methods

This study adopted a combination of both qualitative and quantitative data collection methods. This is principally because social capital studies and mixed methods research often go together as the integration of both qualitative and quantitative data collection methods help to understand and analyze complex concepts such as social capital. As mixed methods research has its own procedures of inquiry, according to the view of Creswell (2009), there are three types of mixed research methods: sequential, concurrent and transformative. Here, concurrent mixed method was used to comprehensively analyze the research problem. Accordingly, the collection of qualitative and quantitative data were taken place at the same time and integration of the two items of data (qualitative and quantitative) were done systematically while examining the linkage between social capital and microsaving.

More to the point, quantitative data on the practice of microsaving and social capital asset is extracted from the office of PCDP annual report (2017). Regression analysis was carried out to analyze this type of data. On the other hand, for triangulation purpose, qualitative data was also gathered from eight in-depth interview sessions held with key informants including government officials, project coordinators and clan leaders using semi-structured interview guides. Finally, as mentioned above the two types of data are integrated to supplement each other.

4. Results of the Study

4.1. The Practice of Microsaving: Compulsory and Voluntary

These days, Afar pastoralists have engaged in formal saving practices unlike their experiences of the past. They have organized themselves into different saving and credit schemes with the help of governmental and non-governmental organizations. For instance, PCDP in collaboration with cooperative offices have been able to initiate different saving and credit cooperatives. PCDP is one of Ethiopian multi-donor project that was started in 2003 with 408.9 million dollar budget obtained from donor agencies, federal government, regional governments and

contribution of each targeted community (Afar Regional Project Coordination Unit, 2015). Its objective is to “improve the livelihoods and reduce the vulnerability of pastoral and agro-pastoral communities through a transformation towards a market oriented agro-pastoralism” (Helland. and Johan., 2015). In terms of life span, the project is a fifteen years (2003-2018) long-term project comprising of three successive phased programs: Phase I (2003-2008), Phase II (2008-2013) and phase III (2013-2018). Currently, as of March 2018, during the writing up of this study, the third phase of the program is underway.

PCDP initiated saving and credit cooperatives help members to develop saving habits and enable them to access loans for starting new businesses. Regarding saving, informants reported that currently they could participate in two main types of microsavings: compulsory and voluntary. As the name suggests, compulsory microsaving imposes a certain precondition on all members to deposit a minimum amount of money per month. Therefore, by default, it compels every member to practice microsaving. On the contrary, voluntary microsaving is flexible and allows members to participate willfully based on their interest.

The collected data reveals that as interest has its own effect, the level of participation in compulsory and voluntary microsaving is different among various saving and credit cooperatives. In specific terms, among the total of 33 cooperatives, only 3 of them (9.09%) are currently active in voluntary microsaving. Meanwhile, all PASACCOs (100%) exercise compulsory saving. In sum, all of the PCDP initiated cooperatives deposited 1,096,640.86 birr in compulsory saving which is approximately 43 times higher than the amount of capital deposited in voluntary saving (i.e., 8,593.3 birr).

On average, each saving and credit cooperative deposited 34,792.44 birr, of which 34,012.75 birr is a compulsory saving and the remaining 779.70 birr is voluntary saving. This implies that voluntary saving in Afar pastoral community is very low as compared to compulsory saving. The finding is in harmony with the report of Haileseilasie *et al.* (2013) who reported poor saving culture among Ethiopian households despite some improvement in the saving rate.

The prevalence of low level of voluntary saving in particular is partly related to inexperienced ‘beginner savers’. Evidences from in-depth interviews suggest that ‘beginner savers’ are more likely to make small deposits at early stage of saving due to high degree of suspicion (low level of trust) among members. Consequently, it can be said that low level of bonding social capital which may serve as collateral in early stage of saving affects the saving behavior of Afar pastoralists.

Furthermore, participants emphasized that lack of financial capital and poor infrastructural development as causes of low level of microsaving. In this respect, one of the governmental officials in Awash Fentale district has the following to say:

Obviously, we often use the term saving in our pastoral communities despite practical saving has been hardly possible in most of the pastoral households. I think this is because our pastoralists have extreme obsession with their livestock that results in strong resistance to any form of capital at the expense of their livestock asset. For this reason, up to now, putting livestock for sale, especially for commercial purpose is far from the norms of our people.

The above report entails that saving is uncommon among pastoralists since low level of commercialization of live stock assets result in limited financial capital. Here, one may eager to learn whether there is alternative mechanism which fills the gap created in association with extreme obsession of livestock (pastoralism). Participants maintained that even if alternative mechanisms have not been yet adopted the introduction of saving and credit cooperatives that give life to microsaving is a very good step in pastoral areas.

4.2. Social Capital Stock of the Study Community

Social capital is a multidimensional concept which often becomes somewhat precise and understandable when we think of its components such as trust, network, cooperation and group characteristics (Kay, 2005). Hence, for this study purpose, the concept of social capital is defined as membership status of an individual in a particular PASACCO which is measured by counting the number of membership (beneficiaries) of each PASACCO established under the supervision of PCDP Project.

Collected data suggested that PCDP Project accords greater value to the existing social capital among the PASACCO members. This is evidenced by a close look at of PCDP’s principle mentioned in its community guidance manual (2015). The manual declared that PCDP is a community based project where members of the community and practitioners work together. In so doing, the project has strictly followed five non-excuseable principles. These include inclusiveness, transparency, accountability, trust worthiness and cost-sharing. A close look at of these non-negotiable principles provides an insight into the emphasis given by PCDP to social capital. Without a doubt, at least three out of the five principles are very useful concepts in the field of social capital. Indeed, inclusiveness (*Qidianaane*), trustworthiness (*Amantitno*) and cost-sharing (*Ofyah Assgolla*) are believed to enhance the existing social capital stock.

Supporting the aforementioned points, PCDP manual (2015) affirmed that so long as trustworthiness prevails within a community, members of the community will act together for their common good. The same explanation can also be given to inclusiveness. The principle of inclusiveness ensures none of the community members is kept outside PCDP related activities/benefits. Hence, the project primarily intends to encourage all people to participate actively and work collectively for the success of PCDP. Similarly, cost-sharing principle has also a social capital component, as members of the community struggle together and cover their contribution to the execution of sub projects. Such contribution initiates the pastoralists to assume the projects as their own. Overall, as one participant clearly stated, “social capital and PCDP Projects are two sides of the same coin.”

In the study community, the close relationship between social capital and PCDP Proje can be manifested by the role of PASACCOs. As shown in Table 1, there are 33 PASACCOs with a total number of 1993 members. The size of membership in each PASACCO ranges from 33 to 124. On average, it has 60.39 members with a standard deviation of 18.93. Membership is not restricted based on sex, religion or ethnicity. For instance, in terms of sex, among the total of 1993 PASACCO members, 859 (43.1%) are males, and the rest 1134 (58.9%) are females suggesting that higher level of women participation in PASACCOs.

At this point, it seems fair to assert that women's social capital is greater than men counterparts taking membership status as a measure of social capital. The assertion is in agreement with Moser's view point (1993) which re-defined social capital as women's capital - yet from a different vintage point. More specifically, Moser's argument (1993) viewed social capital as a consequence of gender based division of labor (barriers) that restricted women to domestic role and ensured strong networks in her family. On the other hand, the current study highlighted more women's social capital is a consequence of their better participation in public spheres such as financial activities.

Table-1. Description of PASACCO and Saving Practice

PASACCO Name	PASACCO Members			Microsaving Deposit		
	Male	Female	Total	Compulsory	Voluntary	Total
Ambino	5	64	69	54560	0	54560
Sabura	6	60	66	68626	0	68626
Dudub	4	70	74	66450	0	66450
Boloyita	4	55	59	44040	0	44040
Kebena	0	50	50	44640	0	44640
Waketino	1	72	73	33870	0	33870
Aramise	37	5	42	21950	0	21950
Oribetu	1	43	44	21700	0	21700
Ayseno	27	20	47	5300	0	5300
Isdharis	71	18	89	75760	0	75760
Hawoleno	44	24	68	48160	6600	54760
Sadiseno	79	45	124	67830	0	67830
Mahedifu	68	23	91	56080	0	56080
Ambideno	49	9	58	45000	0	45000
Gersomio	42	22	64	15360	0	15360
Enkafeli	38	11	49	16500	0	16500
Taamiten	54	26	80	18000	0	18000
Bedeforo	39	46	85	18000	0	18000
Eglamao	12	47	59	26055	0	26055
Asboliko	26	30	56	25660	0	25660
Serget	30	20	50	22900	0	22900
Awoekla	27	29	56	28660	0	28660
Efsa	31	21	52	31740	0	31740
Diyaribe	41	13	54	19440	0	19440
Alalidas	46	32	78	24960	0	24960
Sitingey	13	43	56	19600	0	19600
Dalahada	22	29	51	11520	0	11520
Aysiseno	3	51	54	55634	16600	72234
Akeno	19	27	46	32963	0	32963
Ambideno	11	22	33	35418	0	35418
Esududa	7	29	36	39332	0	39332
Behiseno	2	42	44	10042	2530	12572
Enbida	0	36	36	16670	0	16670
Total	859	1134	1993	1122420	25730	1148150

4.3. The Relationship Between Social Capital and the Practice of Microsaving

Social capital plays a greater role in the study community by serving as collateral. Informants disclosed that they take loan from PASACCOs if and only if some members of the PASACCO are willing to be a guarantor for any misbehaving or failure of paying the money back. [Ridgewell and Fiona \(2007\)](#) reported similar finding in their study focused on saving and credit interventions of Afar pastoralists. The application of correlational test reveals a statistically significant positive relationship between the level of social capital and microsaving practices ($p < 0.05$).

Community members participate in one of the two saving practices or in both types. The study shows a statistically significant and positive relationship between social capital and compulsory saving ($p < 0.05$). Meanwhile, the relationship between social capital and voluntary saving is insignificant and negative. Perhaps the sign of the relationship (negative) implies that as the size of PASSACCO increases, members become more suspicious of the late joiners that put the sustainability of the PASSACCO at risk due to low level of friendship bonds (weak social

capital). When group size increases, voluntary saving tends to decline because members may feel uneasy if strange new comers join their PASSACCO. In this regard, one of the discussant said, “when new comers particularly those whom I do not know in detail, joins the PASACCO, I often think twice just stopping any further voluntary saving”.

Table-2. The Relationship between Social capital and Different Types of Microsaving

		Compulsory Saving	Voluntary Saving	PASSACCO Members
Compulsory Saving	Pearson Correlation	1	.209	.518**
	Sig. (2-tailed)		.244	.002
	N	33	33	33
Voluntary Saving	Pearson Correlation	.209	1	-.052
	Sig. (2-tailed)	.244		.774
	N	33	33	33
PASSACCO Members	Pearson Correlation	.518**	-.052	1
	Sig. (2-tailed)	.002	.774	
	N	33	33	33

** . Correlation is significant at the 0.01 level (2-tailed)

5. Conclusion

The forgoing discussions suggested that pastoral societies needed financial inclusion now more than ever given their way of life is increasingly challenged by globalization. Further, poor infrastructural development and limited financial institutions adversely impede financial activities of Afar pastorals. At this cross road, the provision of microsaving services to Afar pastorals is a good step forward. In this regard, the implementation of PCDP initiated PASACCOs working on microsaving could be taken as a model. Ironically, despite decade of PCDP's continues effort, the practice of microsaving, particularly voluntary saving is still found at infant stage. Indeed, this trend is worrisome to pastoralists as it may imply high level of household consumption spending while less preparation for coping disasters and emergencies in the harshest parts of the world-Afar depression. Especially for the lower income households, the consequence of weak practice of microsaving would have a detrimental effect unless contextually relevant measures are taken in pastoral areas.

The establishment of PASACCOs facilitates the process of saving together. Perhaps this led to the emergence of group level microsaving practice among pastorals whose saving culture has been largely affected by unavailability of financial institutions. Consequently, now, pastoralists can easily borrow and save, thanks to PASACCO and its guiding principle of “group based model” where members’ social capital can serve as collateral. This implies that enhancing existing social capital would improve the rate of microsaving. This in turn, facilitates the financial development of the community.

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