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Susu: Capitalizing Development from the Bottom Up

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Susu, a common way of saving money in the majority of developing countries, has migrated to developed nations. Originating in the 18th century in Ghana and Nigeria, susu is an indigenous method of microfinance, benefiting poor and minority groups. Significantly, susu relies on social capital as collateral, enhancing solidarity and building community. When American public assistance programs deny benefits to immigrants, susu becomes an important source of savings. The differentiation of susu from other savings strategies in the United States is explored.

Key words: *Susu, microfinance, micro small enterprises, financial gain, rotating saving and credit associations*

Susu is a method for immigrants to establish credit in an economically adverse environment. Historically, indigenous savings strategies represent the continuation of economic self-help, which indentured Africans brought to the U.S. In his iconic text, *From Slavery to Freedom*, John Hope Franklin (1980) chronicled a resourcefulness borne of necessity, as Africans adjusted to slavery, relying on custom and solidarity to survive. Ante-bellum mutual aid societies emerged throughout the South to provide health and life insurance, death benefits, and orphanages. Franklin noted that such societies "served as important training grounds where Negroes could secure business experience, and they helped develop habits of self-help that seemed to be more imperative as the new [20th] century opened" (p. 289). That these organizations emerged was a testament to human perseverance in the face of unremitting brutality. As Edward Baptist (2014) chronicled,

> Slavery also killed people, in large numbers. From those who survived, it stole everything. Yet the massive and cruel engineering required to rip a million people from their homes, brutally drive them to new, disease-ridden places, and make them live in terror and hunger as they continually built and rebuilt a commodity-generating empire—this vanished in the story of a slavery that was supposedly focused primarily not on producing profit but on maintaining its status as a quasi-feudal elite, or producing modern ideas about race in order to maintain white unity and elite power. (p. xix)

Denying African slaves the opportunity to sustain themselves economically, in other words, was one component in the logic of King Cotton, which provided Southern plutocrats with the capital needed for American industrialization.

As slaves brought with them indigenous practices that sustained them before the Civil War, that pattern continued as recent immigrants have employed *susu* to prosper, a necessity in light of the (d)evolution of modern welfare states. Although the welfare state was initially justified to reduce risk, especially during periods of family financial uncertainty, in recent decades, economic inequality has risen to a level reminiscent of the Gilded Age, a century ago (Piketty, 2013). A democratic polity is imperiled as wealthy, well-connected interests manipulate public policy toward their ends, shortchanging the less affluent (Stiglitz, 2012). In advanced economies, the welfare state, through government social programs, has been a primary source of assistance to the welfare- and working-poor. "By its nature, capitalism produces too much economic insecurity. A hallmark objective of welfare state institutions is, therefore, to reduce economic insecurity" (Garfinkel, Rainwater, & Smeeding, 2010, p. 2) noted prominent welfare philosophers. Additionally,

> social welfare transfers from one to another part of the population make up the lion's share of the budgets of all rich nations and amount to 30 to 40 percent of the total value of goods and services produced in most of these nations. (Garfinkel, Rainwater, & Smeeding,

2010, p. 2)

According to the welfare state scenario, technical solutions through changes in government policies can restore economic opportunity to the less fortunate and ensure a measure of fairness (Atkinson, 2015). Yet, the welfare state, as an engine of equality, stalled after the 1970s when taxes reached their zenith; subsequent social obligations could only be met through deficit spending (Plender, 2015). Toward the end of the 20th century, public debt was handicapping the ability of national governments not only to meet social program commitments, but also to address recessionary periods. Public assistance benefits to the poor competed with social insurance benefits to the middle-class, often being side-tracked as a result of weak political influence. The capacity of government to address economic inequality was stretched to the breaking point by the Great Recession of 2008. While many governments instituted Keynesian stimulus spending to reboot their economies, this proved inadequate. At its height in the U.S., the federal stimulus boosted the economy only 1.6 percent (Krugman, 2013); subsequently, millions of Americans struggled to reconcile stagnant wages with household expenses, although the Great Recession had technically ended in 2009 (Stiglitz, 2015). Indeed, for the first time, the median income of the bottom 90 percent of households actually fell, despite economic recovery (Reich, 2015).

In addition to these factors, federal social policies became adversarial with respect to immigrant populations, especially those who were low-income. The welfare reform of 1996 denied aid through Temporary Assistance for Needy Families to immigrants for a period of five years. Subsequently, federal legislation has impeded immigrants from receiving benefits from many public assistance programs targeting the poor. "As a result, the participation of immigrants in public benefit programs decreased sharply after passage of the 1996 welfare reform law, causing severe hardship for many [poor immigrant] families who lacked the support available to other low-income families," concluded the National Immigrant Law Center (2010). Denied access to public assistance, poor immigrant households had little recourse but to be even more resourceful.

Thus, despite evidence that immigrants do not represent a fiscal drain on welfare states (Somin, 2014), national governments tended to respond by denying public assistance benefits to immigrant families. Capital accumulation having become increasingly problematic due to adverse policies, low-income, immigrant households have had little choice but resort to indigenous savings strategies. Fortunately, these are readily available, since rotating savings groups are part of their cultural heritage. Unfortunately, asset limits codified through conventional social policy often punish those engaged in such strategies by effectively prohibiting savings.

Susu

In light of a worsening economy and declining public support, many immigrant households turned to *susu*, already an integral part of their communities. *Susu* is a form of Rotating Savings and Credit Associations (RoSCAs) through which people agree to save a predetermined amount over a specific period of time, at the end of which the total amount is dispersed to a member; the next cycle provides a benefit to another member of the group. For example, a *susu* would be formed by a group of ten, committing to contribute $100/month for a year; the beneficiary would receive $12,000, sufficient to buy a used car or make a down payment on a home.

Table 1. RoSCA/Su-Su System Based on 5 Participants with Monthly Payments of $100

Members	Contributions by Month (in dollars)					Total Paid	Difference in Amount Received Less Paid = Net gain (Loss)
	t1	t2	t3	t4	t5		
P1 (Organizer)	100	100	100	100	100	500	0
P2	100	100	100	100	100	500	0
P3	100	100	100	100	100	500	0
P4	100	100	100	100	100	500	0
P5	100	100	100	100	100	500	0

Adapted from Ardener (2014).

An indigenous form of savings, *susu* places a premium on group solidarity, evident in the selection of a leader whose responsibility is management of group savings. Notably, *susu* is an informal arrangement, disconnected from mainstream institutions, such as banks or welfare. As an indigenous form of savings, *susu* has become an important part of the economics of immigrant communities, especially as immigrants have negative experiences with banks or credit unions and are excluded from benefits from public assistance programs.

A typical *susu* consisting of five members contributing $100 monthly would pay out $500 every five months, a total of $2,500. This scenario is indicated in Table 1.

Susu is notable in several respects. First, participants in *susu* commit to a savings plan that requires self-discipline, specifically budgeting, which may prove difficult in light of the expense shocks experienced by indigent immigrants. Second, group solidarity both encourages members to stay current with contributions while dissuading the organizer, who holds savings, from stealing group savings. A Chinese RoSCA, *hui*, in New York City was reported to have reached $200,000 when the organizer fled; members subsequently hired gang members who murdered the thief (Fan, 2015). Third, because *susu* operates outside the formal economy, financial gain is not reported as income, so taxes are evaded; however, by the same token, a credit history becomes difficult to establish for participants.

Variations in *Susu*

Susu, common in many Caribbean, South American and African countries, seems to have originated in Africa. Unlike pyramid schemes where those at the top of the system profit from those at the bottom, *susu* ensures that everyone contributes equally and in turn receives an equal payment. In Guyana, the "box" is one of the oldest informal pooled financing mechanisms that caters to the needs of marginalized business entrepreneurs. Practiced mostly by Afro-Guyanese women, this form of saving is usually organized by groups of individuals each of whom contributes (throws) a pre-determined amount of money to a pool on a weekly, fortnightly or monthly basis, for a predetermined period. During this period, each member of the group receives the total sum of the pool (also called a draw) at the end of the time interval chosen by the group, until each person would have received their draw. The process is then repeated.

Although *susus* are similar globally, variations have evolved. In Jamaica, the pool is run for 15 weeks and each week one of the fifteen members gets paid. Then an extra week is added, week 16, for consideration of the individual who organized the *susu*. Sometimes members may fall short of their contribution for a week or two, and the individual who organized the *susu* is responsible for filling in that missing amount so that no one is ever short of their full share of payment. In Jamaica, potential members must work or they cannot be involved in the *susu*. This is done for two reasons. First, it ensures the group that the member has the means to cover his/her contribution. Second, most people are tied to their jobs. If someone wants to take their share and leave, they can easily move, but it would be a little more difficult for them to change their place of employment. In the event that someone wants to take their share and run, the leader or members of the pool would know exactly where to locate them in order to retrieve those funds.

In Kenya, *susu* is called "merry-go-round" or in native language, *chama*. Members of the same family, co-workers, friends, and church members agree to contribute a fixed amount, often beginning at 100 shillings (US $1.30), pool the money, and give a designated member the proceeds at the end of the cycle. The pooling of money is done on a weekly or monthly basis depending on members' agreement and their financial situation. Since the majority of the chamas do not have set rules, they are operated wholly on trust; however, the least trustworthy member stands to receive the money last. *Chama* has become so large that the Kenya Association of Investment Groups has written a handbook to promote best practices and lobby for network expansion (Kara, Kanyl, & Weru, 2014).

Household Finance for Immigrants

Despite its indigenous origins, *susu* represents a form of savings, which is related to anti-poverty efforts in the U.S. As Michael Sherraden (1991) observed, most public assistance is consumption oriented, benefits being at such low levels that they are quickly exhausted. Compounding the consumption orientation to public assistance, means-tested eligibility requirements for programs, such as Temporary Assistance for Needy Families, Supplemental Security Income, and Medicaid, actually prohibit low-income households from saving minimal amounts, often $2,000. As noted above, many immigrants are disallowed public assistance for a period of at least five years.

Sherraden's concept of Individual Development Accounts (IDAs)—dedicated, matched savings for buying a first-time home, finishing vocational school or college, or starting a business—departs from the consumption focus of public assistance by encouraging the poor to save. Subsequently, in 1998 the Assets for Independence Act was passed, authorizing $125 million over five years to subsidize IDAs. Efforts to expand asset-building savings strategies through a universal child saving account have been unsuccessful, leaving public aid focusing on consumption as opposed to savings.

In contrast to the public sector, private financial activities have been largely ignored as regards low-income households, the presumption being that these are beyond the purview of government. The exception has been Alternative Financial Services (AFS), including check-cashers, payday and auto title lenders, pawnshops, rent-to-own furniture and appliances, and buy-here-pay-here used car sales (Stoesz, 2013). Advocacy organizations, such as the Center for Responsible Lending and the National Consumer Law Center, have cited abuses of AFS vendors, especially regarding high fees and interest, petitioning the Consumer Financial Protection Bureau for stiffer regulation (Stoesz, 2014). AFS has expanded during recent decades as low-income consumers, desperate to pay routine bills as well as emergency bills, have been unable reconcile expenses with income. In effect, AFS subsidizes consumption at the expense of savings.

In light of the options available to the immigrant poor, *susu* represents a functional solution to family finance. When public assistance is not available, and AFS is accessible but costly, savings options are limited to IDAs, which are not universally available; hence, *susu* becomes a viable savings strategy. These options are classified in Table 2.

In this respect, *susu* represents an important addition to the array of financial services and welfare programs available to low-income households. By emphasizing savings, *susu* serves as a substitute for consumption-oriented services and programs. As a private voluntary initiative, *susu* avoids the high fees and interest of Alternative Financial Services.

Table 2. Financial Options

		Auspice: Private	Auspice: Public
Finances	Consumption	Alternative Financial Services	Temporary Assistance for Needy Families
	Savings	Susu	Individual Development Accounts

Integration with Mainstream Finance

Despite the merits of *susu*, its relationship with mainstream financial institutions has been problematic. Here, the banking experiences of the poor in developing countries are instructive, where savings groups, in various forms, have become common (Sutton & Jenkins, 2007). By and large, commercial banks in developing countries still fail the low-income majority, although some of the banks have been working to change the picture (Rhyne, 2009). The poor are often precluded from opening traditional bank accounts due to high transaction fees, required minimum deposits, and the physical distance between the client and the bank; in spite of this, the poor still find ways to save, often through traditional networks and institutions (Sutton & Jenkins, 2007). Commercial borrowing can be expensive; the borrower will have to pay back the loan itself, plus pay additional interest on the amount received. Thus, borrowing can also be risky, difficult, and stressful (Rim & Rouse, 2002).

Moreover, access to available bank financial products has been limited. In the Philippines, there is only one savings account for every three adults; in Kenya the ratio is one for every fourteen (perhaps explaining why *susu* savings clubs are so popular in Kenya) (Rhyne, 2009). For many people, being able to save money for a rainy day poses difficulty when they are faced with their everyday needs. But being involved in a group makes it easier for themselves, along with others, to pool their resources and be able to support each other, while at the same time avoiding high interest rates and credit repayment fees. In this respect, the Grameen Bank has become iconic as a peasant-friendly commercial financial institution that serves the poor, especially rural women. Since inception, the Grameen Bank has loaned US $18.9 billion with a repayment rate above 98 percent; 8.9 million borrowers have taken out loans (Grameen Bank, 2016).

Susu has been especially relevant to housewives who are often responsible for handling family finances (Sarpong & Adusei, 2014). Since many of the peer-to-peer lenders refuse to make loans to businesses, *susu* becomes an important source of investment for entrepreneurs. The problem for entrepreneurs is that an individual loan shows up as a debt on their credit report, which may lower their credit score. *Susu* avoids this problem through a scheme that is group savings, not borrowing. Yet, because *susu* is informal, it prevents participants from building a credit history, which is predicated on borrowing (Peavler, 2015), hence the importance of collaborating with a bank, such as Barclays, in order to build a credit history.

In Ghana, Barclays works with traditional *susu* collectors, who act as "walking saving accounts." By offering a range of services via the *susu* collectors, Barclays has raised awareness of formal savings mechanisms, given clients greater security, and enabled them to build their credit profiles (Sutton & Jenkins, 2007). A major component of finance for urban poor entrepreneurs in Ghana, particularly apprentices and artisans, has been the daily or weekly contribution of fixed amounts through *susu*. These savings are accessed after a period of time and used for purchasing tools and equipment necessary for setting-up artisans in their vocational practices (Alabi, Alabi, & Ahiawodzi, 2007). Evolving peer-to-peer lending, where the goal is to help out individuals with an affordable loan, the Susu Collectors Association has worked with Barclays to extend credit to low income households. Barclays anticipates replicating the model elsewhere in Africa. But Barclays Ghana noted that a truly financially inclusive society can only be achieved by supporting existing indigenous financial institutions that already provide financial services. Barclays has been among the few banks that have adopted the *susu* concept as a micro-finance product (Alabi et al., 2007).

Financial literacy is of utmost importance in order for any person or group to be financially successful; hence, mainstream institutions have promoted financial literacy. Clients and potential clients with little exposure to formal banking may not fully understand fee structures or interest charges. Trust in financial institutions has been low; as a result, commercial financial institutions undertake financial literacy programs to build confidence with consumers. Citigroup has provided general financial literacy education in the United States and abroad, focusing on topics such as responsible use of credit cards, using employee volunteers and paper- and web-based methods. For instance, Citibank China, as part of a 10-year $200 million effort, launched a comic book stressing the importance of sound financial judgment. Deutsche Bank provides financial literacy training targeted specifically at clients of the microfinance institutions in which the company invests. Similarly, Barclays trains the savings clients of its traditional *susu* collectors.

Significantly, Barclays is among the few banks that have adopted *susu* as a micro-finance product, compensating for the failures of *susu* companies that emerged during the 1980s (Areetey, 1998). Such programs strengthen local money management knowledge and skills, enabling communities to use financial services effectively to expand their economic opportunities. Remittances are another financial product that have been associated with *susu* (Sutton & Jenkins, 2007). In Guyana, monies were sent to families abroad who were able to make *susu* contributions. Technology has further evolved *susu* by introducing mobile banking. From a client base of 500, Financial Republic, a micro-finance company, now serves more than 3,000 active customers, with almost the same number having benefited from the company's range of products and services, as reported by Elvis Gyasi, Director of Financial Republic:

> We are in this business to augment government's efforts at bridging the gap between the banking population

> and the unbanked, as well as poverty alleviation as enshrined in the Millennium Development Goals, to provide financial services to the informal sector—that is, to empower our clients by encouraging a savings culture and providing micro-loans in a cost-effective and sustainable manner. (African Business Magazine, 2012, para. 10)

Conclusion

Indigenous methods of savings represent an important way for marginalized communities to accrue assets for personal and business purposes, a compelling development given the exclusion of immigrants from public welfare benefits. Depictions of such economic activity as "fringe economic behavior" (Kindle & Caplan, 2015) fail to reflect not only the constructive aspect of RoSCAs, but also the fact that immigrants have few other means for accruing capital. Typically, poor households fail to receive public assistance; currently, only one-third of low-income households receive aid (Fusaro, 2015), although the percent of poor immigrants is certainly lower. As a result, many poor families resort to AFS providers, who attach high fees and interest to credit (Stoesz, 2014).

As alternatives to traditional public assistance, innovators have experimented with savings strategies that use solidarity as collateral. Indeed, the Family Independence Initiative, developed by Maurice Lim Miller, awards groups of families according to self-reports of accomplishments relating to five areas: income, education, health and housing, leadership, and networking. Families can earn up to $600/quarter, sufficient to contribute to upward mobility (Stuhldreher & O'Brien, 2011). As support for savings strategies flags, private sector innovations that capitalize on solidarity become attractive alternatives to conventional public assistance. Combined with IDAs and the refundable tax credits, such as the Earned Income and Childcare Tax Credits, solidarity-based strategies not only promote upward mobility, but also evade the crippling asset limits of means-tested public assistance. As the welfare state is less capable of addressing the economic needs of lower-income Americans (Stoesz, 2016), alternative sources of capital accumulation become essential to alleviate poverty.

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