

**A Critical Typology of Financial Services
For the Poor**

Stuart Rutherford

Section 1

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Section One: Popular mechanisms

Introduction

This section describes financial services¹ found in use among the poor² which are owned and managed either by their users or by unlicensed providers. User-owned and managed services are dealt with first. Descriptions are placed in boxes, numbered for easy reference. Commentary is left in unboxed text. Footnotes point to the bibliographic information contained in the appendix.

Note what it is that links many of these services together - their virtue of enabling poor people to exploit their capacity to save.

Informal user-owned devices 1: neighbours, ROSCAs and savings clubs

Box 1: Neighbourhood reciprocity, not time-bound

Small loans in cash or in kind between neighbouring or related households are found everywhere³. Often they do not bear interest, and 'repayments' as such are less usual than the obligation to reciprocate the favour at some (usually unspecified) time. Such obligations are not always expected to be discharged in the same terms as the original 'loan' - they may be discharged in cash or kind or as some kind of service, especially where the two parties are of unequal economic or social status.

The last feature mentioned in the box has led many observers to see many such transactions as exploitative⁴, and to believe that credit relationships are often motivated by ends other than purely financial ones. We return to that theme after boxes 22 and 23.

Box 2: Neighbourhood reciprocity, not time-bound, involving more than two parties

In many parts of the world reciprocal lending has been extended to involve several or even all the members of a community. Among Moslems in Kerala State in southern India *kuri kalyanam*⁵ are invitations to a feast to which the guest is expected to bring a cash gift. When the host in his turn is invited to a feast by one of the guests he is expected to return double the amount, or less if he is perceived as poor. In Vietnam one kind of *hui*⁶ (a generic name for various financial devices) involves a similar pooling of resources for one person on one occasion to be reciprocated later by others, at different times.

¹ Since my focus is on financial services little attention is given to transactions made in kind.

² No attempt is made here to define 'the poor'. Note that many of the services are used by middle-income groups as well as by the poor.

³ For a sympathetic account of informal lending between households in West Africa see Zeller

⁴ For the social implications of reciprocal lending see Jodhka

⁵ For *kuri kalyanam*, personal observation in Cochin, Kerala: see Rutherford 1996a

⁶ For *huis*, see Hao et al

Box 3: Neighbourhood reciprocity, not time-bound, involving more than two parties, for a specific use

In northern Indian states the '*neota*' system is reported⁷ to work within Hindu castes much as the *kuri kalyanam* does among the Moslems of Kerala, except that it is normally restricted to financing weddings. In a variant called *bisi-ikkisi*, the cash-flow is improved in that a wealthy man advances cash to the *neota* host and is repaid with the fruits of the *neota*.

When reciprocal schemes like the *neota* are made time-bound we arrive at a form of the rotating savings and credit association, or ROSCA, perhaps the most widespread user-owned savings intermediation device in the world⁸. In its simplest form, the ROSCA neatly exemplifies the basic intermediation principle of collecting many small savings from many people and turning them into a lump sum for one person, and repeating this over time.

Box 4: Seasonal ROSCAs: time-bound reciprocity among a group

In Vietnam a group of farmers agree to set aside a fixed amount from their crop each season⁹. Each season the total amount set aside by all the farmers is given to one of them, chosen by degree of need and often used for a set purpose such as repairing or building a house. This *hui* or ROSCA cycle continues until everyone has received the total set-aside once, at which point everyone will have contributed the same amount in small instalments and taken it all back again in a lump sum or 'prize'. The number of occasions on which contributions are made and 'prizes' taken must equal the number of members of the *hui*, so a seasonal *hui* of thirty farmers will take fifteen years to complete if there are two seasons each year. In Japan, where such ROSCAs are called *kou*, the earliest known reference to them dates from 1275 and describes a multi-year seasonal ROSCA¹⁰. ROSCAs with cycles as long as a twenty years (twenty members and an annual prize) have been found in India¹¹.

ROSCAs have proved endlessly adaptable. There are three basic ways of deciding the order in which the members get the prize - by agreement (as in box 4), by lottery (box 5) and by auction (box 7). Box 5 illustrates a lottery ROSCA and illustrates two variants of the basic ROSCA pattern - accumulating daily savings between fortnightly 'prizes' and increasing the saving after being 'prized'.

⁷ by Jodhka

⁸ For ROSCAs in general, see F J A Bouman, and a collection of essays edited by Ardener. ROSCAs have fascinated many researchers so there is a huge literature dealing with ROSCAs in particular countries.

⁹ For Vietnamese *hui*, personal observation, and see Hao

¹⁰ For Japanese *kou*, see Izumida

¹¹ For long-cycle Indian ROSCAs, see Von Pischke

Box 5: Rickshaw ROSCAs¹² in Bangladesh¹³

Very poor men driven by poverty from their home villages to the Bangladeshi capital Dhaka often earn a living there by driving hired rickshaws. In the last ten years they have begun to run ROSCAs. A group of hirer-drivers gets together and each saves a set amount from his daily takings. When the accumulated fund reaches the price of a rickshaw (often after fifteen days) a rickshaw is bought and distributed by lottery to one of the members. In between 'prizes' the cash is held by a trustworthy outsider, usually a local shop where the members buy their tea or cigarettes. In a further adaptation, those who have already received their rickshaw double their daily contribution. This progressively reduces the time-gap between prizes. It is seen as a fair way of rewarding those members who win the lottery late in the cycle, because of course their gross contribution is smaller than earlier winners. It is seen as reasonable because the extra payment made by the winners is roughly equal to what they save by no longer having to hire a rickshaw.

The case of the Dhaka ROSCAs shows how lively and adaptable user-owned financial services can be¹⁴. They have come from nothing to a high level of trustworthiness and complexity in about ten years, run by illiterate men with no outside help. This self-regulatory strength has made some commentators believe that popular schemes like ROSCAs will always be more numerous and more useful than NGO-promoted schemes¹⁵. ROSCAs have also been found to be surprisingly resilient in the face of high inflation¹⁶.

In the Dhaka example (box 5) the post-prize extra payment is seen as fair. Another way to make the ROSCA 'fairer' is by discounts.

Box 6: A lottery ROSCA with discounted prizes¹⁷

A ROSCA in Ramanandnagar in Sangli District of Maharashtra State, India, had 12 members, a daily deposit per member of 100 rupees, and a cycle of eight days. The prize was therefore 9,600 rupees, and the winner was selected by lottery. But winners took only 9,300 rupees, the other 300 rupees being distributed to all those who had not yet received a prize. This means that the member 'unlucky' enough to be the last to win the prize collected during the life of the ROSCA a total of 630 rupees as his share of discounts. As he had invested a total of 9,600 rupees over 96 days in equal instalments, he had *on average* 4,800 rupees invested for those 96 days. A return of 630 rupees on 4,800 invested for 96 days is 13.12%, equal to an annual percentage rate (APR) of just under 50%! He was lucky to be so unlucky. In India at that time he could have got about 11% a year if he had saved in a bank.

¹² For Dhaka rickshaw ROSCAs, see Rutherford 1996b. See also Maniruzzaman. Maniruzzaman's piece on rickshaw ROSCAs followed an off-hand remark of mine to him, 'see if you can find some ROSCAs in Dhaka, I'm sure there are some...'

¹³ For Bangladesh informal financial services in general, see Maloney. This careful survey found only two ROSCAs in Bangladesh (pages 104-105) just eight years ago.

¹⁴ For self-regulatory strength of ROSCAs, see Hospes

¹⁵ For the strength of user-owned devices see Bouman 1989, especially pages 52-69 and 113-127.

¹⁶ For ROSCAs and inflation see Adams 1989.

¹⁷ For this case see Bouman 1989, page 54.

ROSCAs have always been popular among women. They have been seen by some writers as important to women¹⁸ as one of the few practical ways in which women can gain more control over their lives. Similarly, they are popular among the poor¹⁹, for whom their characteristic of having almost zero default rates is very important²⁰.

Box 7: An auctioned ROSCA²¹

In Vietnam's northern coastal District of Uong Bi there is a shortage of capital for fishing gear among low-income fishermen. In Village Six in mid 1995 we found an example of the solution they have devised - a ROSCA (or *ho*)²². Twenty men meet monthly and each contributes the equivalent of US\$5 at the meeting, making a pool of \$100. The pool is then auctioned and the member willing to accept the biggest discount takes the pool as a prize. The discounted amount is divided equally among all those who have not up to that meeting won the auctioned prize. Up to two-fifths of the prize is forfeited this way in early rounds by men anxious to secure capital. (This means that a member will agree to accept just \$60 out of the \$100 and see the rest given back to the other members). As in other ROSCAs member win only once, but the total contribution of an individual member may be more or less than his 'prize', depending on whether he bids strongly to win a smaller early prize or is happy to wait and get a bigger later one. The auction is the most 'market oriented' way to decide the order in which members win, and therefore arguably the fairest and the economically most efficient, since the prize always goes to the member who values it most.

ROSCAs (*kou*) were determined by lottery as early as 1275 and by auction by the fourteenth century in Japan. ROSCAs have since been adapted to suit many ends, including the promotion of sales of consumer durables in Bolivia²³.

Many observers have been attracted to ROSCAs because their mechanisms are so elegant. But real life sometimes treats this elegance with disdain. Another case from Dhaka, where illiteracy and lack of trust dogs all kinds of societies:

¹⁸ For ROSCAs and women, see Mayoux

¹⁹ For ROSCAs and the poor, see Shirley Ardener's introductory chapter (page 5) in Ardener and Burman

²⁰ For a contrary view about the incidence of fraud in ROSCAs, see page 376 of Bouman 1989

²¹ For the *ho*, personal observation, and Rutherford 1995

²² For *huis* and *hos* in Vietnam, see Hao

²³ For 'promotional ROSCAs' in Bolivia see Adams 1989 and for something similar in Malaysia see Shanmugam

Box 8: ROSCAs and real life²⁴

Maqbul owns a small general store (he squats in a tiny timber shed on the side-walk) and he runs ROSCAs for people he knows in his slum neighbourhood. At first glance it looks a pattern-book ROSCA. There are forty members who save 10 taka a day (they deposit it with Maqbul at his shop) and have a draw every 10 days with a prize of 4,000 taka (\$100). But Maqbul agrees that there are problems with members who don't or can't pay, or who may be tempted to run off after receiving the prize. So what does he (and other ROSCAs nearby) do about it? First, prized members pay an extra 5 taka a day starting the day after their prize. This is *not* to hasten prize-taking (as in box 5 above) but to extract 'collateral' from prized members. The spoils from this are divided among all those who attend the last draw. Second, the lottery is 'somehow managed' so that any 'weak' members get their prizes late. Third, weak member may not get their prize in cash - the senior members may instead buy him (if it's a man) an asset like a rickshaw and keep the asset in Maqbul's name until the ROSCA ends. Fourth (and this will distress the purists) Maqbul insures against members leaving by registering more than forty members at the start of the ROSCA: in the case I looked at he had registered 55, six of whom had dropped out by the fourth month. The prize however remains 4,000 taka, leaving Maqbul with a considerable surplus. This he keeps. If membership ever drops *below* forty, he uses the surplus to make up the full 4,000 taka prize. If it doesn't, the surplus is divided at the close of the ROSCA.

ROSCAs sometimes have secondary financial devices 'attached' to them.

Box 9: A ROSCA with an attached 'secondary fund'²⁵

Bob is a middle grade government employee in up-country Nigeria. His ROSCA (called an *ibi*) has twenty members and they meet weekly. But they don't put all their contributions into the prize. Rather, a proportion is put into a second fund, from which members can borrow at an interest rate of 10% per month, or outsiders at 15%. At the end of the twenty week cycle the main ROSCA is renewed, and after every three cycles (sixty weeks) the second fund plus the interest income earned on it is distributed to the members²⁶.

The secondary fund attached to Bob's ROSCA brings us to non-rotating savings clubs - that is, savings clubs where funds can accumulate over time²⁷. The simplest of these may be festival clubs, such as Christmas Clubs run by pubs in the UK.

²⁴ For Maqbul's ROSCA, personal investigation and Rutherford 1996b

²⁵ For Bob's ROSCA, see Davies

²⁶ For another example of a ROSCA with a 'secondary fund', see Adams 1989

²⁷ For the differences between *rotating* savings clubs (ROSCAs) and *accumulating* savings clubs (sometimes called ASCAs or ASCRAs), see Bouman 1995. See also Bouman 1989 pages 52-69 (where we find another term, RESCA, for 'Regular Savings and Credit Association'). Bouman believes that in the District in India he was studying there was an evolution from ROSCAs to annual savings clubs, because the latter proved more flexible. I am observing signs of a similar shift in Dhaka's slums, although ROSCAs in Dhaka are more reliable than savings clubs which tend to be dominated by one person who is exposed to the temptation to cheat the others.

Box 10: A fixed-period non-lending accumulating savings club²⁸

In towns and villages in Mexico neighbours place frequent but irregular savings with trusted shopkeepers. Just before Christmas, the cash is returned to the saver. No interest is paid, but the saver has a lump sum at her disposal, and the shopkeeper has had the use of the money over the year, and can now look forward to a good sales season.

Such clubs are common world-wide, and are often run for children as well as for adults. Other variants on this theme include 'pilgrimage' funds (money saved in this way to finance pilgrimages to holy shrines) and even 'picnic clubs'²⁹. The example in box 10 demonstrates one of the features which they share with ROSCAs - they are time-bound. The end of the period is marked by a return of funds. This feature acts like an 'action-audit', enabling members to check that their money has been properly accounted, and to leave the scheme if they are not completely satisfied. Only clubs which pass this test survive, so there is an evolutionary bias in favour of fairly-run clubs. Many such clubs feature fixed (or banded) deposit sizes. This further promotes regularity and fairness. It is an important feature of savings clubs which allow their funds to be borrowed.

Box 11: An annual savings-and-loan club³⁰

Many savings clubs in Cochin in Kerala State (India) share the same format and rules. Savers deposit weekly, and always save the same amount, though different members choose different levels, or 'bands' - starting at 10 rupees and increasing in 5 rupee steps. The period is fixed at one year - 52 separate weekly deposits. For each 10 rupees per week deposited (a total deposit of 520 rupees) 600 rupees is returned in an end-of-the-year closing. The profit of 80 rupees represents a *nominal* interest earning of just over 15%¹ but an *annual* rate (or APR - annual percentage rate) of just over 30% pa². The profits are paid for out of loans which members may take at a rate of 4% per month (48% pa). Loans must be repaid by the end of the year so loans taken late on in the cycle are of short duration. Loans are normally repaid in a lump sum (or 'balloon' payment) but borrowers may repay in smaller instalments if they chose. The clubs are run by social groups associated with places of worship, or youth or neighbourhood clubs. Excess interest earnings are used to cover any defaults, to pay for expenses, and sometimes to provide a small reward to the organisers.

¹ 520 divided by 80 multiplied by 100.

² The saving held in a member's account over the whole year starts at 0 and ends at 520. The *average* holding for the year is therefore 260, on which 80 rupees is paid. The *annual* rate is therefore 260 divided by 80 multiplied by 100, or double the nominal rate.

²⁸ For Mexican Christmas clubs, personal observation

²⁹ For pilgrimage funds and picnic funds in India, personal observation and Rutherford 1996a. Bouman and Moll also found pilgrimage clubs among Muslims in Indonesia: see Adams 1992

³⁰ For Cochin savings clubs, personal observation and Rutherford 1996a

Gertrud R Schrieder and Carlos Cuevas found in a survey in Cameroon that 80% of households were involved in informal savings clubs. The combined amount of savings they calculated to be as high as 1.2 times the value of all types of savings deposits in commercial and development banks in the country³¹.

As well as illustrating the importance of clear fixed rates and regular 'action-audits' the example in the last box also shows that popularly-run clubs may feature higher interest rates than formal banks or NGO-run schemes.

Clear simple rules and procedures are especially important for larger groups that have no face-to-face contact (see also Credit Unions in section two below). Where members share the same workplace informal annual savings clubs can get quite big.

Box 12: A large workplace-based annual savings club³²

Dhaka's garments industry is young, and most of the large factories are less than ten years old. But many of their workers run their own savings clubs, often with no interference from management. Two hundred and fifty men and women who work on the same floor of Shamoli Garments Ltd formed their club in mid-1993. They are paid monthly, and from their wage each saves a fixed sum of 100 taka (\$2.50 - they are paid about \$50 a month). The cash is collected by a cashier and banked, but members may take loans from the fund at 5% per month interest. At the year's end they call in all loans, and return the savings to the savers along with an equal share of the income earned on loans and at the bank. But members may choose to leave their savings in the system for another year. Within this group of 250 people there are several smaller groups who run private ROSCAs. Sani is a young boy-child worker who invests in both the savings club and his own ROSCA which he shares with fourteen others: in their ROSCA they put in \$5 a month, with a monthly prize of \$75.

Such clubs can be found in most garments factories, and some I have seen have 500 members or more. Most have had some early difficulties but claim that they are now working well. Most members are illiterate. It is a small step from these big savings and loan clubs to a formal workplace-based Credit Union.

Annual savings clubs with fairly large memberships do not have to be based on day-to-day contact in a workplace, however. The *bishis* of Western India illustrate this.

Box 13: A large annual savings club not based on the workplace³³

A *bishi* (annual savings club) in a small town in Maharashtra State is reported to have had 120 members, made up of farmers, factory workers and small businessmen. Deposits were weekly, and ranged from as little as 20 rupees up to 600 per member. Loans went out for only two months and interest, at 2% a month, had to be paid in advance. Fierce fines were imposed on late payers of both savings and loan repayments. Despite the heterogeneous membership the *bishi* worked well and survived year after year because it was seen as more flexible and more useful than any other local banking service, formal or informal.

³¹ See their article in Adams 1992

³² For the Dhaka clubs and ROSCAs, personal investigation: see Rutherford 1996b

³³ For this case see Bouman 1989, page 63

User-owned devices 2: popular insurance, building societies, and co-operative business finance

Unlike ROSCAs, savings clubs or ASCAs can arrange that pay-outs are *conditional* on certain circumstances or event occurring. The Christmas Club (box 10) is timed to mature when a predictable event (Christmas) occurs. But other clubs deal with unpredictable events. Thus we arrive at a sub-set of devices which are popular forms of insurance. Three examples are given here: the marriage funds, burial funds, and shop-protection.

Box 14: Marriage funds³⁴

In southern India it is common for social groups like churches to arrange marriage funds which allow members to save up over a long time for the marriage of their daughters. Normally parents start saving a fixed sum each week (the lowest contribution band is now usually 5 rupees) from the time the girl is born. When she marries, she gets a pay-out of double the total contributions. For a girl who has an account from birth and marries at age 16 this will represent a return of about 12.5% a year. These funds normally do not allow loans, and they store the cash in the bank: one group I looked at had over 1.2 million rupees (about US\$33,000) in the bank. The scheme is especially common among Christians (of whom there are many in southern India). It is said that in some cities as many as nine out of ten Christian girls will be enrolled in such a scheme.

Even more popular in southern India are burial funds, or funeral cost funds.

Box 15: Funeral cost funds³⁵

In return for a subscription of two rupees per week into a Funeral Cost Fund (or *Merana Fund*) a household in Cochin can claim immediate funeral costs following the death of any of its members, at the rate of 1,000 rupees for each death (or 500 rupees for children). Funds run for a year at a time and any unused subscriptions are returned to members at the year end (though higher-than-average incidence of death in the early weeks of the scheme may oblige members to make extra subscriptions). We heard of sums of up to 30 rupees being returned, giving, for a six-adult household, an annual cost of 74 rupees (52 weeks at 2 rupees less 30 rupees rebate) for a 6,000 rupees insured sum, or 12.30 rupees per thousand per year. Although this figure may be more expensive than life insurance offered by the state-owned insurance corporations, subscribers to FCFs can rely on immediate access (often within an hour of the death) free of paperwork.

Popular actuarial experience seems to show that a membership of not less than 300 subscribers is needed to keep a scheme running without having to ask for frequent extra subscriptions, and we heard of schemes that have been running in this way for up to thirty years. At this size, not all members will know each other, and schemes may cover more than one neighbourhood. Some poorer members know little about who runs their particular scheme. Perhaps for this reason, we found considerable formality in the running of the

³⁴ For marriage funds, personal observation: see Rutherford 1996a

³⁵ For funeral cost funds, personal observation: see Rutherford 1996a. Burial funds are also mentioned in Bouman 1989. They are not unique to India.

schemes. There are printed pass-books for each member in which the rules are set out. There are set times for paying subscriptions, and set rules for Fund functionaries. For example, in a scheme we investigated in detail in Ward 18, the Secretary holds one sum of 1,000 rupees in cash at home, and the Treasurer two such sums, in order to guarantee instant pay-outs to bereaved families. The balance is banked.

Schemes we investigated are run on a voluntary basis by groups with some identity in the area, such as religious congregations. But schemes do not appear to limit membership to their own 'kind', and in any one neighbourhood there may be several schemes running at any one time, allowing those who can afford it to enrol in more than one scheme. FCFs appear to be extremely widespread. We heard about them from every respondent in every area of the city and poorer households appeared as likely to join as middle-income ones. Estimates of what percentage of poorer households join such schemes ranged up to 90%, and it was rare to find households that do not belong.

Marriage and death are unpredictable in the sense that although they are familiar and expected events their timing is unknown. In Dhaka's slums small shopkeepers face a greater degree of unpredictability, but have found a way of guarding against it.

Box 16: An insurance scheme for small shopkeepers³⁶

The slums of Dhaka are subject to damage and destruction by floods, by fire (most construction is of inflammable material and open fires for cooking are the rule) and by the bulldozers of the City Corporation. In 'BNP Bazaar', a market street in one such slum, several hundred small tradesmen and shopkeepers set up an insurance fund about eight years ago. Everyone puts in 2 taka a day (about 5 cents US) and it is banked by an eleven-man committee. Three times they have drawn funds and used them to repair damaged shops and workshops - once by fire and twice by bulldozers.

Britain's 'Building Societies' (Thriffs) started life as small clubs which collected members' savings to buy land and build homes. The idea lives on.

Box 17: Building societies³⁷

Maqbul Ahmed is a manual worker at the Public Works Department in a lower-middle class area of Dhaka. He and 164 of his fellow workers belong to their own 'building society' which was started over 16 years ago. Each saves 200 taka (\$5) a month out of his wages. As the cash accumulates it is lent out to members who buy land and building materials. Interest rates are high and interest on the outstanding balance has to be paid each month, to encourage modest loans and rapid repayment. But loan sizes are generous and such workers would have few or no alternative sources for loans of this sort.

ROSCAs and savings clubs of all sorts have played a big role in business finance. It is reported by Yoichi Izumida that ROSCAs in Japan were able to grow to enormous size and compete with modern formal banks for business finance. Occasionally, the pooling of savings acts as the basis for *collectively-owned* businesses, as well as providing finance for individual club members. Box 18 provides an example.

³⁶ Dhaka 'insurance': personal investigation: see Rutherford 1996b

³⁷ Dhaka 'building society': personal investigation: see Rutherford 1996b

Box 18: A collectively-owned business based on pooled savings³⁸

In Dhaka the junior workers at a large hospital for the disabled started a savings club some years ago. One of their number saw an opportunity to start a business making crutches and other devices for hospital patients. In March 1995 he persuaded all 101 members to put aside 100 taka (\$2.50) each out of their pooled savings for this purpose. The capital (10,100 taka, or about \$250) has flourished: stock, cash and premises are now believed to be worth 56,000 taka (including 21,000 taka in a fixed deposit at a bank), three men are employed full-time making the devices, and sales are brisk. No profits have been distributed, however, and a current plan is to buy a second-hand microbus and run a transport service for patients. It is not yet clear how profits will be assessed and distributed, and this may prove a major hurdle for this fledgling co-operative business.

Finally, a do-it-yourself financial *system* rather than scheme:

Box 19: The Local Exchange Trading System³⁹

A Local Exchange Trading System (LETS) has been proposed (and experimented with on the small scale) as a private currency that might allow a community to exchange goods and services more efficiently than if they were to rely only on their national currency. A group of people come together and make a nine-point agreement to set up an accounting system in a notional currency that parallels the national currency - it might be called 'Letspounds', where one Letspound would be worth the same as a pound sterling. Members then trade goods or services with each other and their Letspound accounts are adjusted accordingly. In theory it might ease employment and the exchange of goods and services between people who lack sufficient access to 'real' money. But I do not know of any substantial experiment with a LETS in a poor country.

So much for user-owned schemes. The next major group of schemes are those owned by informal or unlicensed operators offering services for profit.

³⁸ Dhaka crutch-makers: personal investigation: see Rutherford 1996b

³⁹ For LETs see Landsman Community Services

Private informal services for profit 1: deposit takers

We start with those offering savings services. It is not always appreciated that the need to save is often great enough to induce people to pay others to hold their savings for them⁴⁰. Living without a safe place to save cash is tough. Cash can't be stored at home because there are too many temptations to break into the piggy bank. With no reliable services on hand, poor people resort to three main ways of dealing with savings. They deposit cash with relatives or employers, or they turn the cash into livestock or gold. These both have disadvantages: the relative may not be reliable, the goat may die, and in either case the savings are not very liquid. The third way is simply to spend the money, expenditure which may be trivial and which certainly has less productive potential than saving. The next two boxes describe deposit-taking services.

Box 20: An urban deposit taker in India⁴¹

In Vijayawada on the east coast of India poor slum dwellers who have some regular daily income face problems saving small amounts of cash on a daily basis. Some therefore go to a deposit takers who may be a local shopkeeper. Over time the system has become formalised. The deposit taker issues a 'card', often for a set period such as 100 days. The saver then makes her daily deposit and on the hundredth day takes her accumulated savings back less a small service charge. Effectively, she obtains a *negative* rate of interest on her savings. But this is the price she is willing to pay to build up a lump sum safely. The deposit taker earns the service charge and has the use of the cash for the 100 days. It is in the interest of both parties to make these schemes run reliably.

Box 21: A peripatetic deposit taker in Nigeria⁴²

Gemini News reports that one consequence of Nigeria's current political difficulties is a drop in public confidence in formal banks. This has allowed an old tradition to flourish again - *alajos*, or peripatetic deposit takers. Idowu Alakpere uses a bicycle to go door-to-door round his outer suburb of Lagos where he has 500 customers who save about 10 or 15 naira each with him (about 50 to 75 cents US) on each daily visit. Customers withdraw whenever they like, and Idowu charges them one day's savings per month, which he deducts from the withdrawal. Since deposits are made evenly over the month, the negative interest rate for one-month deposits is 1/15, or 6.6% a month, an APR of 80%. Some *alajos*, including Idowu, store the cash in a reliable bank, others use it to make loans. The Gemini reporter found many local people telling her that they trusted these *alajos* more than banks. When it was pointed out that some *alajos* are dishonest, they retorted that so are many banks.

In The Gambia it was found in a survey⁴³ that 46% of all women and 20% of men gave money to other individuals (mostly relatives) for safe-keeping. In Ghana⁴⁴,

⁴⁰ For a classic early essay on the importance of savings see also Vogel

⁴¹ Vijayawada deposit takers: personal observation: see Rutherford 1996c

⁴² Nigerian *alajos*: see Okonkwo

⁴³ For The Gambia, see Shipton

individual 'Money Collectors' (deposit takers) that visit markets daily may have up to 1,000 accounts and collect up to US\$8,000 a month.

Private informal services for profit 2: lenders

As we shall soon see, a deposit-taker charging 6.6% a month is offering a service similar to that of small-time moneylenders who specialise in loans to the poor. We thus arrive at our discussion of private moneylenders, an emotive subject. We will begin with the so-called 'Tamilians', the moneylenders who serve the urban poor in the slums of Cochin in southern India.

Box 22: The private moneylenders of Cochin⁴⁵

So-called 'Tamilians' provide a moneylending service to poor slum dwellers on a daily basis. They have set terms which are well known all over Cochin. For each 100 rupees lent, 3 rupees are deducted at source as a fee. Thereafter, 12.50 rupees per week must be repaid for ten weeks. This works out at an APR of 300% (28 rupees paid on an average size loan of 48.50 rupees [97/2] for 10/52 of a year). Most non-poor observers regard these rates as outrageously exploitative. However, poor users of the service tend to take a favourable view of it. The 'Tamilians' do not needlessly harass their clients over repayment but take an 'understanding' view which includes a willingness to accept loan losses. These moneylenders know their clients well and will not lend them more than they think they can repay out of their normal income over the next ten weeks.

The 'Tamilians' of course do not lend people money for business or other large-scale investments. Rather, they lend small amounts that are used by households to dig themselves out of cash-flow problems, pay for urgent medical treatment or bills they haven't provided for (such as school expenses) or, in bad times, to cover food. The loans are repaid out of normal household income. Such loans are thus really an advance on savings: the service intermediates household savings, just as the deposit takers of Vijayawada do. In the case of the Cochin moneylenders, however, the household gets its lump sum up front (at the beginning of a ten-week period of weekly saving), instead of waiting until the end (of a 100-day period of daily savings) as in Vijayawada. Interest rates are higher to reflect not only this earlier receipt of the lump sum but also the fact that the moneylender accepts the risk of loss.

Starting often with relatively small amounts of capital, professional moneylenders like the Cochin Tamilians then expand their businesses and their capital (and profits) through tapping into household savings. As such, they offer a banking service, since what they do is essentially the same as what a formal bank does - suck in savings and give out loans. But many moneylenders to the poor are neither professionals nor do they acquire their capital through lending. To see this, we shall leave the town and go to the countryside.

⁴⁴ For Ghana, see Interdisciplinaire Project Consult. See also a description of 'moneykeepers' in Niger by Douglas H Graham in Adams 1992

⁴⁵ For 'Tamilian' moneylenders, personal investigation. See Rutherford 1996a

Box 23: The Bangladeshi village *mahajan*⁴⁶

Mamun is a '*mahajan*' - a 'big man' in a village in southern Bangladesh. He has some land which he farms and he owns three well-stocked shops in the local bazaar. He has a place on the local council. He has numerous poorer relatives and many employees, some of whom work for him regularly while others labour on a daily basis. They all see him as their 'big brother' and expect help from him in times of trouble. Since they lack banking services, help for them includes loans. Mamun is not generally keen to lend - at the best of times it is a less profitable use of his capital than farming or the shops, and it is risky. However, he feels obliged to lend. Luckily for him this is an old problem and in the village there are accepted conventions by which such loans are made or refused, and costed. He lends only to a relatively small number of relatives and workers, and in a rather modest sums. To farmers (small landholders or landless share-croppers) who need to feed themselves while they wait for the main rice crop to mature, he will lend a few hundred taka (\$1 = 40 taka) and take back at harvest time a *mon* of rice (about 42kg), worth about 200 taka, for each 100 taka lent. To others who need small cash loans to get by, he will lend a few hundred taka at about 8% a month. These rates cover his losses and return a margin.

Mamun's rates of interest (8% a month or 96% a year on small cash loans and rather more on the cash loans repaid in kind) appear high enough for many observers to see them as exploitative. Given that Mamun also controls the employment of his workers and that he has land while they are landless, it is easy to see that Mamun has an advantageous position. This has given rise to the theory of 'interlocked markets' as an explanation for the perpetuation of social inequalities and of poverty in the village. One writer (Bhaduri) has said 'Informal lenders exploit their borrowers by charging excessive interest rates, taking away borrowers' land, forcing borrowers to buy high priced goods, paying borrowers too little for their products and forcing borrowers to repay loans with underpriced labour'. Another (Wadhva) has said 'the poor villagers are permanently trapped in the net of the moneylender because of the vicious circle of poverty: their expenses exceed their income every year so they have to go to the moneylender to borrow...' The problem with this last kind of argument, often repeated by NGOs as justification for intervention in financial markets, is that it fails to explain where the 'poor villagers' get the means to repay the exploitative⁴⁷ moneylenders at high rates of interest if their expenditure exceeds their income every year.

Mamun is not a professional moneylender and in many countries rural 'moneylenders' turn out to be people like Mamun - traders, richer farmers, retired people with some spare cash, salaried government officers - for whom lending for profit is either a small part of their business or is done out of a sense of obligation. In southern Bangladesh full-time moneylenders the main part of whose income comes from the business are rare enough to be remarkable when I come across them. One exception is elderly and often poor old women, who lend very small sums for quite

⁴⁶ Bangladesh *mahajans*: personal observation over many years

⁴⁷ The best-known arguments that informal village credit is exploitative are found in Bhaduri. The quotation above is found in an FAO/OSU document. See also Wadhva. For a general view from an anthropologist see Hill. She sees credit relationships as a normal and necessary part of village life

high rates of interest (higher than Mamun's) and who are tolerated (and repaid) on the grounds that such women have very few other opportunities to use any capital they have to make themselves a living⁴⁸.

Where the economy is picking up sharply, these 'amateur' moneylenders may find themselves in great demand. Often they react by setting rates that are common to all of them. Such solidarity helps them fend off accusations of exploitation. An example from post-reform Vietnam also offers a glimpse of how villagers in search of credit do the rounds of likely lenders.

Box 24: Semi-professional rural moneylenders in an expanding economy⁴⁹

I have been visiting Mr and Mrs Li once a year since 1992. They have a shop and a moneylending business (which she runs) in a village in mountainous northern Vietnam. As Vietnam's post-reform economy has picked up, so has their business. During my most recent visit she told me that there are now six people in the village lending cash for profit. They are mostly retired officials who enjoy pensions, or shopkeepers like themselves. They all charge 6% a month and lend only to households in their own or neighbouring villages whose circumstances they have detailed knowledge of. They restrict their loans to a maximum of about 3 million dong (about \$300), even to households seen as reliable and successful, in order to spread their risks. Such loan ceilings are practised by all the local lenders. Thus, she told me that a successful farmer wanting finance to dig and stock a fishpond costing around 10 or 12 million dong would take the first million from a local NGO that charges 2.5% a month but won't lend more than a million, the next 3 million (again the maximum allowed) from the government-owned agricultural bank which charges a nominal 2% but whose complex procedures result in other charges, and the rest from one or more moneylenders.

Pawnbrokers are found almost everywhere. Before looking at the typical pawnbroker in his goldsmith's shop, we look first at 'pawning' land: exchanging the use of land for cash. Using land as the basis of financial transactions is of course very common in the agrarian economies of the developing world, and there are hundreds of ways in which it can be done. On the following page is an example from Bangladesh which can be paralleled in many countries.

⁴⁸ U tun Wai of the IMF also notes that moneylenders are often poorer women: see Adams 1992

⁴⁹ For moneylenders in Vietnam, personal investigation. See Rutherford 1996d

Box 25: The *kat*: an open-ended land pawn⁵⁰

A farmer wanting some ready cash will give the use of his land to another in return for a sum of money. When he repays the cash in full he gets his land back. There is no fixed term of time, and no interest is paid (usually) but the *kat* is so common in some areas that rates (so many taka per unit of land) have become standardised locally. Some observers have seen (or have assumed) the *kat* as an exploitative device whereby poor farmers are deprived of the last of their land. In my observation, however, the *kat* is commonest in economically changing or dynamic areas where the small farmer can invest the money in a small business. Thus the *kat* can be seen as an enabling device - enabling land to be consolidated under the management of bigger farmers who farm it economically, and allowing the small landowner to realise the future use-value of his land and invest it in an off-farm activity. (He gets more cash than he would if he leased out the land for a year).

Other farming-based devices are also mutually beneficial rather than exploitative:

Box 26: Innovation in farm finance⁵¹

In some parts of Bangladesh there are many customers of NGO-run credit programmes (see box 42) looking for a good investment for their loans. This has sparked off innovation in the field of farm financing. In one example, a local farmer offers *shares* in the outcome of his main rice crop. He may have up to twenty shareholders, each investing a little money. He himself is a 'shareholder', his share being equal to the value of his inputs (land, labour, materials, management), as agreed at a meeting of shareholders. All shareholders take their share of the harvest. In this way the farmer and his neighbours all share the risk of the crop, but the risk that the crop will do badly is reduced because there are twenty pairs of eyes besides that of the farmer keeping a watch on the paddy fields. This is very valuable in a country with weak law-and-order provisions.

Much more controversial are systems like the *ijon* of Indonesia:

Box 27: The *ijon*: advance sale of crops⁵²

A practice common in many countries is known as *ijon* in Indonesia. Farmers often need cash to get them through the 'hungry' season when their main crop is in the ground and there is not much else to do except sit and wait. An obvious way round this problem is make an advance sale of the crop, usually to a grain buyer or his agent. In the *ijon* transactions of this sort, if seen as loans, show an interest rate of anything from 10 to 40% a month.

Another similar practice is the advance sale of labour to employers. Such advance sales, when they involve 'fundamental' aspects of life like the main rice crop or labour, appear intrinsically odious to some observers.

⁵⁰ For the *kat*, personal observation

⁵¹ For 'shareholder farming', personal observation in Manikganj, Bangladesh

⁵² For the *ijon*, see Bouman and Moll in Adams 1992

And so to conventional pawnbrokers. In some countries their activities are regulated, but where such regulations get in the way informal (unlicensed, unregulated) pawnbrokers usually appear. Pawnbroking is one of the simplest ways of getting hold of funds in a hurry. The use of the 'pawn' or pledged item makes things easy, especially when, as is common, the pawn is gold.

Box 28: Getting an advance from a pawnbroker in western India⁵³

Residents of the slums of Vijayawada use their local pawnbroker when they need money quickly. He is reliably available at his goldsmithing shop and his terms are set. He charges 3% a month for loans pledged against gold, 5% for silver and 9% for brass. The inclusion of brass means that even the very poor can get a small advance by pawning kitchen pots and pans. He lends up to about two thirds the value of the pawn. He gives a receipt, and the borrower can be sure of getting her pawn back when she repays the loan, so she can risk pawning objects of sentimental value. Unlike those who lend without collateral the broker does not need to know his clients well: the unambiguous collateral provided by the pawn means that the broker can lend to more or less anyone at any time, though he has to be careful to avoid taking stolen goods. Many of the pawnbrokers also manage ROSCAs (box 50 below)⁵⁴.

Though pawnbrokers prefer to lend⁵⁵ against gold, and - as in Vijayawada - often run gold retailing shops, some also lend against a wide variety of items, even clothes.

Also common in the Indian sub-continent is their participation in what we might call *managed ROSCAs*.

Box 29: Managed ROSCAs in the Indian sub-continent⁵⁶

'Chits' in India often mean a ROSCA that is run for profit by a manager. Some are on a large scale and have been formalised through laws and licensing regimes - we return to them in box 50. There are many smaller ones which are unregulated. They work in a variety of ways, but basic to them is the idea that a manager takes on the tasks of initiating the ROSCA, selecting the participants, and bearing all or most of the risk of failure. In return for this he (often she) takes a cut or enjoys certain privileges. The Dhaka shop-keeper in box 8 is on the verge of becoming such a manager. In an auctioned ROSCA he or she might have the right to enjoy the first prize at its full (unauctioned) value. She might also take a cut from the prize money, or charge a fee for running the ROSCA. Often the manager has a second interest in the ROSCA: in Bangladesh owners of workshops that make rickshaws manage ROSCAs for rickshaw drivers who are obliged to spend their prize on a rickshaw made by the manager. Both sides benefit.

⁵³ On Vijayawada pawnbrokers, personal observation: see Rutherford 1995b

⁵⁴ On pawnbroking in India and Sri Lanka, see Bouman and R Bastiaanssen in Adams 1992. They take the view pawnbroking is on the increase because of its low risk, because in the Indian sub-continent almost everyone has a little gold, and because gold is steadily increasing in value there. They point out that formal banks have been pawnbroking since 1961 in Sri Lanka and that such banks regularly refinance pawnbrokers, in Sri Lanka and elsewhere.

⁵⁵ Bouman argues that they don't lend - they buy the goods with an offer to re-sell at an agreed price.

⁵⁶ For managed ROSCAs in the sub-continent: personal investigation. Also Rutherford 1995b. For 'chits' in India see also chapter 14 of Adams 1992

The example in the box of the Bangladeshi rickshaw makers who run ROSCAs for potential customers introduces the topic of trade-related credit in general. The simplest example is where shops sell goods on credit⁵⁷. In many poor villages customers have difficulty buying and shopkeepers have difficulty selling unless the second is prepared to advance credit to the former. In rural Bangladesh it is common for a shopkeeper to have given credit which exceeds the value of his stock, a reflection of both the tiny capitalisation of his business and the poverty of his customers. It is not only shopkeepers that are obliged to give credit. Women who husk paddy for a supplementary income often find they have to wait for payment when they sell the rice to their neighbours.

Another common phenomenon is described next...

Box 30: Itinerant hire-purchase peddlers⁵⁸

In the Philippines, peddlers, often known as 'Bombays', make regular calls round the villages, selling their pots and pans as well as umbrellas, electric fans, cosmetics and so on. They can advance goods on credit, collecting the price in instalments during subsequent weekly visits. It is reported that a similar system operated in rural Indonesia in the 1930s, run by people known as 'instalment chinamen'. Similar sales schemes are practised in the Indian sub-continent, and no doubt elsewhere.

...and next:

Box 31: Credit-financed trading outlets for shopkeepers⁵⁹

In many markets it is common to see poor people squatting on the ground with a small amount of - say - fertiliser spread out on a mat. The fertiliser doesn't necessarily belong to the man or woman (or, often, child). Lacking capital themselves to buy stock, such people take the fertiliser from a nearby shop. At the close of the market they return the money and any balance of the stock to the shopkeeper, and take their cut. The system allows them to trade (safely if not profitably) without capital, and gives the shopkeeper a cheap extra outlet.

Other market traders take daily credit:

Box 32: Daily trading credit⁶⁰

In many markets a system exists whereby moneylenders supply trading capital on a daily basis, advancing cash to known and trusted traders and taking it back at the day's end with a mark-up of a few *per cent* (though in southern India I have heard rates of up to 30% quoted).

⁵⁷ For the role of shopkeepers in informal finance in Somalia see DeLancey in Adams 1992

⁵⁸ For the 'Bombays' see Adams 1992. They refer to Fruin on the Indonesian example. For the Indian sub-continent, personal observation.

⁵⁹ For trading outlets, personal observation

⁶⁰ For daily market credit, personal observation

More complex trading systems require more elaborate devices. The next box describes a particular situation but contains the elements that typify such relationships.

Box 33: The dadon credit system for prawn cultivation in Bangladesh⁶¹

Freshwater prawns for export to the dining tables of Japan and Europe are raised in southern Bangladesh by small farmers who have turned their paddy fields into prawn ponds. Once harvested, prawns have to be packed in ice immediately (and therefore locally), then taken to the port-side where they are processed and deep-frozen and put on board ship. The prawns therefore pass from hand to hand, and almost everyone in the chain is chronically short of capital in this highly competitive business. The *dadon* system, adapted from the rice trade, is the answer. At the port, 'commission agents', usually men rich in their own right and able to access private or bank capital, buy the prawns on behalf of the cash-strapped processing and packing companies. To ensure their share of the market, and indeed to ensure that any prawns reach the port at all, these 'commission agents' (who operate from a small office and don't touch the fish themselves) provide credit early in the season to the 'depot' owners from whom they buy the prawns. The credit 'binds' the depot owner to his agent - he has to supply him with so many kilos of prawn in the course of the season. The depot owners in turn supply credit on similar terms to '*farias*' - the merchants who bring the prawns to town, and he has a similar relationship to the local traders who own the ice-boxes in the villages and buy from the farmers. At the end of the chain is the farmer himself, who accepts credit from a trader to finance his prawn-farm and in so doing commits himself to selling exclusively to this trader⁶².

⁶¹ For the 'dadon' system, personal investigation. See Rutherford 1994

⁶² For a description of another complex system like 'dadon', this time in Niger, see Douglas H Graham in Adams 1992

Formal user-owned devices

Informal user-owned schemes have developed into formal institutions. Most are based on the savings clubs that we have already reviewed and use the same basic mechanism - pooled savings that earn interest by being used for loans. This section looks at a few of them.

Many come under the supervision of national authorities set up to look after co-operatives of one sort or another. We shall start with a relatively lightly-supervised example.

Box 34: Urban Credit Societies in India: shares and guarantors⁶³

There is a provision for Urban Credit Societies (UCS) in the Indian Co-operative Societies Act. But in Maharashtra State at least supervision is very light indeed. Despite their name, UCS appear there in the countryside as well as in the towns, as groups of farmers and traders despair of formal banking (and formal co-operative) structures and set about creating their own. Urged on by a dynamic leader, groups of 200 or more men (mostly) start by buying shares. Shares are deposits which cannot be withdrawn (unless the member leaves the UCS) and thus provide the underlying capital for lending. Shareholders enjoy any trading profits that the UCS makes on its lending when the profit is divided annually between them in proportion to their shareholding ('dividends'). UCS increase their capital by accepting regular savings from members and from non-members. Finally, because of their status as a formal registered society, UCS may borrow (within tight limits) from District level co-operative banks. From these sources of funds (shares, savings and bank borrowings) UCS lend to their own loan-hungry members. They pay about the same rate as they would for a commercial loan from a bank, but enjoy much easier access. UCS protect their assets by requiring borrowers to name at least two fellow-members as guarantors. These guarantors agree to put their own deposits at risk in case of default by the borrower.

UCS have had a shaky history in India. Many have had repayment problems, and they are in general too heavily dependent on honest and dynamic leadership. They illustrate the difficulties of genuine 'user-ownership' among large numbers of people who may not know each other and rarely or never meet all together. However, the features of share ownership and dividends, of loans from superior financial intermediaries, and of 'guarantors' are common to a range of co-operative financial institutions, including Co-operative Banks and Credit Unions (or Thrift and Credit Co-operatives).

Credit Unions began in the same way that UCS did: in Germany in the 1860s farmers unable to get credit came together to form a mutual aid society. Unlike the UCS, CUs have normally restricted their membership to people who share a 'common bond', often based on occupation, or membership of a religious or other organisation. They have worked best for middle-income people, who have both the ambition to get hold of loans and the social power and educational skills needed to set up and run a financial institution. Work-place based CUs have prospered in Asia - a massive CU in Sri Lanka has just about all the country's teachers as members. Some CUs have

⁶³ For UCS in Maharashtra, see Bouman 1989. For a case study in Vietnam of the 'Popular Credit Associations' (PCAs) see Smith

grown into giant organisations in terms of resources as well as of members: some of the bigger failures in the Japanese banking collapses of 1995-96 involved massive Credit Unions. In the United States they occupy a 'middle rung' between formal banks and 'thrifts' (savings and loan societies which like British Building Societies specialise in housing loans). In one estimate, there were 13,000 CUs in the USA in 1990, with 55 million 'members' and assets of around \$200 billion. They are less well-developed in Britain which has co-operative legislation which is not friendly to CUs: but some corporations (of which British Airways is probably the biggest and best known) have set up CUs for their staff which work well.

On the other hand, numerous attempts have been made to make CUs work well for the poor. The World Council of Credit Unions (WOCCU) and its Asian member the Asian Council of Credit Unions (ACCU) have been co-ordinating these efforts. A Canadian umbrella organisation, using a slightly different model (Quebec Caisse Populaire), is also active in promoting CUs for the rural and urban poor. SANASA, a Sri Lankan federation of CUs, has a good reputation for its work with poorer rural households⁶⁴.

Box 35: SANASA⁶⁵

It was the British who brought Credit Unions to Sri Lanka, around the turn of the century and for a time these 'Thrift and Credit Co-operatives' (TCCs) flourished. When Sri Lanka became independent in 1948 its government set up an alternative nation-wide state-controlled system of multi-purpose co-operatives which also acted as outlets for state subsidies of various kinds. The TCCs declined. Then in the late 1970s P A Kiriwadeniya, an energetic social worker, found what was left of the TCC in his own village and set about breathing new life into it. By the early 'eighties he had recreated a movement in which locally-owned village-level TCCs, with a wide membership including poorer households, were linked by a federation which helped individual TCCs to borrow from and save with each other, thus solving their liquidity problems. The best TCCs offered a very wide range of savings products and loan types to their members, while remaining village-based and with modest premises and staffing arrangements.

Mutually-owned savings clubs like UCS often aspire to become Co-operative Banks: indeed, many of the UCS described in box 34 went on to register as Co-operative Banks, and others would have liked to have done so. Such registration requires, in India as elsewhere, much larger starting capital and attracts closer supervision from the authorities. On the other hand some CUs have gone on to become much bigger entities than Co-op Banks while remaining nominally CUs (as in USA and Japan). The line between CUs and Co-op Banks is therefore not a sharp one, and varies from country to country. In the Indian sub-continent Co-op Banks are usually restricted by law from expanding away from their geographical home-ground.

⁶⁴ The idea of CUs for the poor goes back to the movement's founders. For a brief discussion see Banerjee

⁶⁵ For the sympathetic accounts of SANASA on which this box is based see Hulme, and also Montgomery

Box 36: An Indian Co-operative Bank⁶⁶

The Pallaurthy Mandalam Co-operative Service Bank in a mixed-class suburb of Cochin in Kerala State has five branches. In theory, any adult not already a member of another Co-op Bank can join by buying one share for 5 rupees (15 US cents). This will entitle him or her to a loan of up to 2,000 rupees (\$55). Successful repayment of that loan plus the purchase of more shares will entitle the member to loans up to a maximum of 500,000 rupees (\$15,000). To take a loan a guarantor who has the same level of shareholding as the borrower has to be nominated. In 1996 members pay 16% a year on their loans. At any one time about half of all members have outstanding loans. The Bank accepts savings from members and from the general public and pays 6.5% a year on open-withdrawal savings accounts and 14.5% on fixed term deposits of three years or more. (In India, these rates are limited by law). The share capital of the bank (all five branches together) totals 5m rupees (\$140,000) and in 1995 a dividend of 10% was declared, the maximum allowed under the regulations (shareholders received a pay-out of 10% of the value of their shares). Profits in excess of that have to be retained. The branch we visited is housed in a simply-furnished basic but secure two-storied building, which it owns. At present none of the five branches are accepting new members. 'Shortage of staff' was the reason given but that may in fact be a result of rather than a reason for accepting no new members. Co-op Bank shareholders, who are the legal owners of the bank, may easily be tempted to restrict membership so that the lucky few who are already 'in' can enjoy the services. It may be to the bank's advantage to expand, but not to the advantage of shareholders as individuals, who may value low-interest loans and regular dividends more than the expansion of their enterprise. Hence they may keep staff and other costs to a minimum. For such reasons Co-op Banks are not as friendly to the poor as a first glimpse might suggest.

The ratio of borrowers to total shareholders (50% in the example in the box) varies broadly in line with the economic maturity of the country of operation. In Indonesia, for example, the ratio in the Bank Rakyat Indonesia is about 30%, while for CUs in the United States it is 20%. In some very poor countries we find startlingly high figures: for the Grameen Bank in Bangladesh the figure approaches 100% but - as we shall see later (below box 42) - there may be special reasons for that. Normally, more people feel the need to save more of the time than feel the need to borrow, another important reason why savings services should not be overlooked.

Another example from India is the *nidhi*.

⁶⁶ For Co-op Banks in southern India, personal investigation. See Rutherford 1996a

Box 37: The Indian Nidhi⁶⁷

Nidhis are financial devices owned usually by a smallish number of friends and family members but for which there is a special legal provision under the Indian Companies Act. A Board of Directors (nominally elected at an annual meeting of shareholders) looks after the *nidhi*: it takes in a small amount of cash in return for membership shares, but gets most of its capital from fixed deposits put in by the members. The funds are intended for use as loans, taken by the members. One survey showed that borrowing members are usually middle class housewives, pensioners, businessmen and salaried workers. Loans are charged at a rate such that a return is made on the fixed deposits which is comfortably higher than that obtained in formal savings banks. Thus the special character of a *nidhi* is that it is a savings club, but not which people make regular savings into. Rather, they transfer savings *they already own* into the *nidhi*, to earn extra interest and to make loans available for themselves and their friends.

⁶⁷ For *nidhis* see Nayar in Adams 1992