

THE POOR AND THEIR MONEY

Stuart Rutherford 2000

Chapter Five: Promoters and providers: new ways to manage money

There is now a large and growing number of organisations interested in selling banking services to poor people, or helping poor people to set up their own services.

The first two chapters showed that the poor need financial services, especially of the basic sort that helps them swap their savings for lump sums of cash. Some poor people already enjoy access to such services, and the third and fourth chapters showed us how they do it - mainly by running their own savings clubs of one sort or another, or by using informal managers and providers. Such systems have a long history, but they are still very much in use and many appear to be growing in number, spreading from place to place, and evolving vigorously.

Savings clubs and informal managers and providers dominate the market in financial services for the poor. Formal banks or other formal institutions have, until recently, largely ignored the poor. However, the poor have never been left entirely to their own devices. There has always been public concern at the antics of cruel moneylenders (think of Shylock in Shakespeare's play *The Merchant of Venice*). There has also been a long history of official worrying about poor debtors. Britain's colonial administrators regularly fretted about them and in many colonies introduced legislation against 'usury' (exploitative money-lending). There was a partial shift from a 'moral' to a 'development' motivation after the second World War, when many governments and donors devised rural credit schemes designed not only to protect the poor from moneylenders, but to assist them to adopt new farming techniques. Much of this effort had disappointing results.

But from the 1970s onwards newer forms of 'pro-poor banking' have been devised. By the mid-1990s there were enough of them, and they were receiving enough attention from aid agencies and governments, to hold an expensive international get-together in Washington, D.C.¹ to publicise their work, attract yet more support, share ideas, and set targets. Together, they constitute what we may call the 'semi-formal' sector. Some are beginning to call themselves 'microfinance institutions' (MFIs): others remain NGOs or government agencies.

This chapter is about their work. It begins by placing them on a continuum with *promoters* at one end and *providers* at the other. 'Promoters' are those who help the poor set up their own poor-owned or poor-managed systems, while 'providers' are those who sell financial services to the poor. The chapter is divided into two parts each focusing on one of these two ends of the continuum. In the middle of the chapter comes a discussion of a type - the 'Village Bank' - that falls mid-way along the continuum.

THE PROMOTERS

Why not help poor people who don't yet run ROSCAs or savings clubs by telling them about the idea, and helping them set up a club?

When we looked at user-owned-and-managed clubs in the third chapter we discovered a thriving set of self-help devices distributed unevenly across geographical areas and among social groups. Wouldn't it be a good idea to carry the idea of such clubs to poor districts, or to groups of poor people who are not yet familiar with them? Indeed, could we not go a stage further, and get actively involved in showing the poor how to set up and run such clubs?

Certainly, some governments and many non-government organisations active in development (the so-called NGOs) are now busy promoting savings clubs among the poor. From a slow start in the late 1970s their work has built up so that by now we can measure the number of members in such clubs by the hundreds of thousands. In this part of the chapter we shall look at two large-scale efforts to do this, one in India, where NGOs are fond of setting up what they call 'Self Help Groups' (SHGs), and another, started in Latin America, where voluntary organisations promote 'Village Banks'. By spreading the idea of savings groups in this way NGOs are bringing the benefits of basic personal financial intermediation to many poor people, and sowing the seeds of its penetration into many more households.

¹ The 'MicroCredit Summit' in February 1996

The Indian 'Self Help Groups'

In many respects the savings groups that Indian NGOs promote are similar to the ASCA type that we looked at in the second chapter. Typically, they have a membership of between a dozen and thirty. Their members are drawn from the same neighbourhood and meet regularly, sometimes weekly or fortnightly, most commonly monthly. At each meeting each member contributes a savings deposit: sometimes this is a fixed sum which is the same for each member and for each meeting, sometimes it varies. Usually (but not always) members cannot withdraw their savings. As the fund builds up it is lent back to members, who repay according to a fixed periodical instalment plan or, less often, in a lump sum at the end of a term. In most SHGs interest is charged on the loans. Sometimes this income is ploughed back into the common fund, sometimes it is paid to members as interest on their savings, or as a 'dividend' (a share of the profits).

In other respects these NGO-promoted groups are rather different from the truly indigenous ASCA. For one thing, many are composed only of women, whereas ordinary (unassisted) savings clubs, as we have seen, are often of mixed composition. Secondly, leadership of the group tends to revolve annually, with the Chair stepping down and a replacement being elected to take her place, whereas unassisted groups often have an informal manager who is unlikely to be changed during the lifetime of the group. Thirdly, the average level of interest charged on loans is lower than in unassisted groups. Fourthly, SHGs tend to have a number of objectives, of which turning savings into lump sums may not be the most important. Women's empowerment, poverty reduction, leadership development, 'awareness raising' (about issues deemed to be important for the poor), business growth, or even family planning or the development of group-based businesses may be seen as the main work of the group. This contrasts strongly with unassisted groups (ASCAs and ROSCAs) who normally come together unambiguously to find a way of creating lump sums out of small deposits. Fifthly, the promoters may lend money to their SHGs or help and encourage them to take loans from banks, whereas unassisted groups generally rely on their own money, using banks - if at all - as a place to store excess funds. Finally, these SHGs struggle to become permanent, whereas unassisted groups, as we have seen, find many sound reasons to close their groups and start new ones.

Promoter preferences

What causes these differences? They can be attributed to the fact that the aims of most promoters (and, crucially, their backers - the donors) are not the same as those of most poor people who set up a savings club. They are much more complex. Unassisted groups just want to turn small sums into large ones in as quick and convenient a way as possible. Promoter-NGOs have a much grander vision. They are development organisations, and have come to SHGs from a social development background, rather than from a financial service perspective. So in reality it is not that they have said 'savings clubs like ASCAs and ROSCAs are a good idea - let's spread the idea around to other poor people'. They have said something more like 'we want to develop and empower the poor in many different ways: these savings clubs may be a good way of getting the poor together to work on that'. SHGs are sometimes described as 'entry points' to social and political development.

This perspective explains the six differences between NGO-promoted SHGs and unassisted groups that we listed above. Most SHGs are composed of women because in the world of development in the last twenty years it has come to be accepted that women have been neglected by 'development', and modern donors and NGOs are making a determined attempt to reverse this. The annually revolving leadership of SHGs can be attributed to the development world's interest in 'leadership development' - the belief that the poor may make gains if they can train leaders who can press their case with officials and others who have influence over their lives. The lower interest rates reflect a widespread belief that interest is inherently suspect, and high rates of interest exploitative. This view is inherited from the old colonial preoccupation with usury. The development industry is having a hard time coming to grips with the power and usefulness of the judicious use of interest. Many would rather not think about the problem, and in the meantime are anxious to keep rates as low as possible. Several staff members of promoting NGOs have said to me, 'if the SHG members are going to pay high rates of interest, they might just as well stick with the moneylenders and not form a group at all'. It is for them especially that I have tried to show in Chapter Three, the importance and usefulness of a variable pricing mechanism in savings clubs.

Some but not all promoters are in favour of SHGs accessing external funds. But many who do lend to 'their' groups, or help the groups get access to bank funds, do so from a mix of motives. In some cases promoters have simply underestimated the power of regular savings to build up capital. This

may be compounded by an equally naïve underestimation of the poor's capacity to save. A story illustrates this. Several times I visited SHGs in lower-middle income areas of Indian towns and expressed surprise at the tiny amounts the members were saving. The accompanying officer from the NGO would say 'they are very poor - they can't afford to save more than 20 rupees a month'. But after some further investigation it emerged that almost all the members were also involved in informal ROSCAs or managed-chits, each putting in average sums of 200 rupees or more per month.

Some NGOs are keen for their members to become involved in setting up new businesses, or expanding new ones, and they see access to external finance as an indispensable part of that process. If they have selected the group membership carefully, so that it really is a group of budding entrepreneurs, this may be a sensible course of action, though experience shows that it needs much careful nurturing. Other NGOs, taking a broader view, see linking SHGs to banks as part of an effort to bring the poor into the mainstream of financial life of India. The ambition is laudable, but whether it is best done through SHG-bank links is yet to be seen.

Long-term thinking

Perhaps the most striking difference between SHGs and unassisted groups is in their attitude to their life-span. Looking into this will help explain why it is that promoters favour a kind of ASCA as their model, and rarely help set up ROSCAs - ROSCAs being inherently time-bound. Because unassisted ASCAs are there just to swap a series of small pay-ins for a few big pay-outs, their members are quite happy to close them down when they no longer perform that role as effectively as available alternatives (which include closing the club down and starting new one). As time goes by, there are many reasons why closing down becomes a sensible course of action, as we saw in the second chapter. But SHGs (or their promoters) tend to have multiple goals, some of which require the SHG to stay around in the long term - permanently, if possible.

It is not just these goals that cause this preference for the permanent. It is also the way that promoter help to SHGs is structured and paid for. An NGO and its donor have to make a considerable investment in setting up an SHG, an investment that is not rewarded, as an ordinary business is, with income. The fruits of SHG investment are measured in 'impact' - the degree to which women have become truly empowered, the degree to which their family incomes have risen and the extent to which their voice has become more influential in the home and in the community... and so on. Measuring all this is itself a costly and time-consuming task, adding to the need to keep the SHGs running long enough to ensure that these ends are both met and measured. SHG-promoters are also under some pressure to demonstrate that their preferred form of financial services for the poor is as 'sustainable' as other modern alternatives, such as the 'providers' that we are going to examine in the second part of this chapter. Indeed, 'sustainability' has become such a watchword of modern NGOs and their funders that it may be blinding them to the virtues of the transitory. If there is one thing that 'promoter NGOs' fret about more than anything else, it is that their savings groups will 'collapse' before certain goals are achieved, or once the NGO leaves them alone. Consultants are paid small fortunes to try to guess whether or not this will happen, and to think up ways of ensuring that it does not happen.

SHG Federations

I don't know of any examples of SHGs surviving in the long term after their promoting NGO has left them to their own devices. There may be some but I doubt if their numbers are significant. Aware of this, promoters have begun to learn what Credit Unions have learnt over the years - that in order for groups to overcome the factors that lead them to be short-lived, they need to be linked into some kind of higher body. The main functions of such a body are to provide:

- a secure home for surplus savings at a rate of interest normally better than obtainable at the bank (often by lending the money to another group in need of extra funds and willing to pay a good rate)
- additional loanable funds when needed (often by lending surpluses deposited with it by other clubs, but also by arranging loans from banks and other bodies)
- supervision so that disputes are controlled
- regulation to see that the rules are kept
- advice and training so that the clubs are professionally run to high standards
- a legal identity so that the clubs can enter into legally binding financial contracts with others
- the role of a spokesperson and advocate of savings groups
- protection of savings through insurance

In India, bodies that carry out these functions have become known as 'federations' of SHGs. A recent Review (by the NGO FWWB) of six of the leading federations shows how they are getting on. Their objectives are broadly similar to the list given above. Most are formally registered with the government - unlike their constituent groups. They are young (the oldest is only six years old) and as yet they are small, having membership totals of between 1,000 and 3,000. Despite this they are quite complex in structure, since most have not two but three layers of organisation - the primary group, a 'cluster' of local groups and then the federation itself. They are becoming professional, with most having full time paid staff. However, four of the six are still dependent on subsidies, mainly from donors via the NGOs that help set them up. Increasingly they recognise this as a weakness, and are trying to improve their financial management know-how, not only to improve their own capacity to recover their costs but to strengthen themselves in their dealings with formal financial institutions. None of them are really the creations of their members - nearly all were, like the SHGs themselves, 'promoted' by NGOs, and only one of the six has broken free of its NGO chaperone and is operating independently. Like many of the SHGs themselves, several of these federations have multiple aims, and engage in development work other than financial services. Whether this is wise is a question hotly debated by the federations themselves.

The Report provides a sobering picture of progress to date. It shows that promoters are still at work on the task of creating the structures that will allow their dream - sustainable networks of permanent user-owned and user-managed ASCAs composed of poor women - to come true.

Village Banks

In India, the Self-Help Group movement arose gradually from the work and experience of many promoting NGOs. Another attempt at getting user-owned, group-based financial services going - the Village Banking movement - had very different origins. An original model was designed by a group of professionals in the field, the best known of whom is John Hatch². The organisation they formed, FINCA - the Foundation for International Community Assistance - published the model in 1989 in a 'Village Banking Manual'. As we shall see, the model incorporates several aspects of unassisted user-owned clubs like the ROSCAs and ASCAs described in Chapter Two, and is clearly based on a sound understanding of the dynamics of what I have called 'basic personal financial intermediation'. The model proved attractive to many NGOs and their donor supporters, who were seeking a system of community development through popular participation. Through these NGOs, Village Banking spread, first through Latin America and then farther afield, especially in Africa. By the end of 1994 there were around 3,500 Village Banks serving more than 90,000 members (nearly all women) in more than 30 countries. They had savings balances exceeding three million dollars and loans outstanding of more than twice that figure.

We can place Village Banking somewhere in the middle of the promotion/provision continuum. Indian SHGs always start with savings, and some never access external funds. Even when they do access external funds the money might not come directly from the promoter, since the promoter's role may be to help the group get a bank loan. Village Banks, on the other hand, always start with the provision of an injection of cash from the NGO: this cash 'kicks off' the cycle of saving and borrowing that characterises the system. Nevertheless the promoters intend that their involvement with the Banks as financiers will be temporary, and their overall vision is the promotion of independent, self-financed and self-managed village-level institutions. It is because of this intention that I have chosen to discuss Village Banks in this, the 'promoters' half of the chapter.

The original Village Banking model as set out in the Manual is attractively neat and logical: it has the internal coherence and cyclical 'completeness' that make the ROSCA so appealing. Here's how it works. A group of (say) thirty village women agree with their promoting NGO to start a Bank. The NGO starts the ball rolling by lending the Bank (say) \$1,500, which is immediately shared out among the members so that each gets a loan of \$50. The members agree to repay these loans to their Bank on a strict weekly instalment basis over sixteen weeks. With each weekly repayment they also make a fixed interest payment.

At the end of the sixteen weeks the Bank repays the whole amount with interest to the NGO. Village Bankers call this flow of cash from the NGO through the Bank to the members and then back through the Bank to the NGO, the 'external' account, since it is to do with the external funds that the Bank is handling. By repaying on time, the Bank is automatically eligible for a second loan, on similar terms and with a similar 16 week cycle.

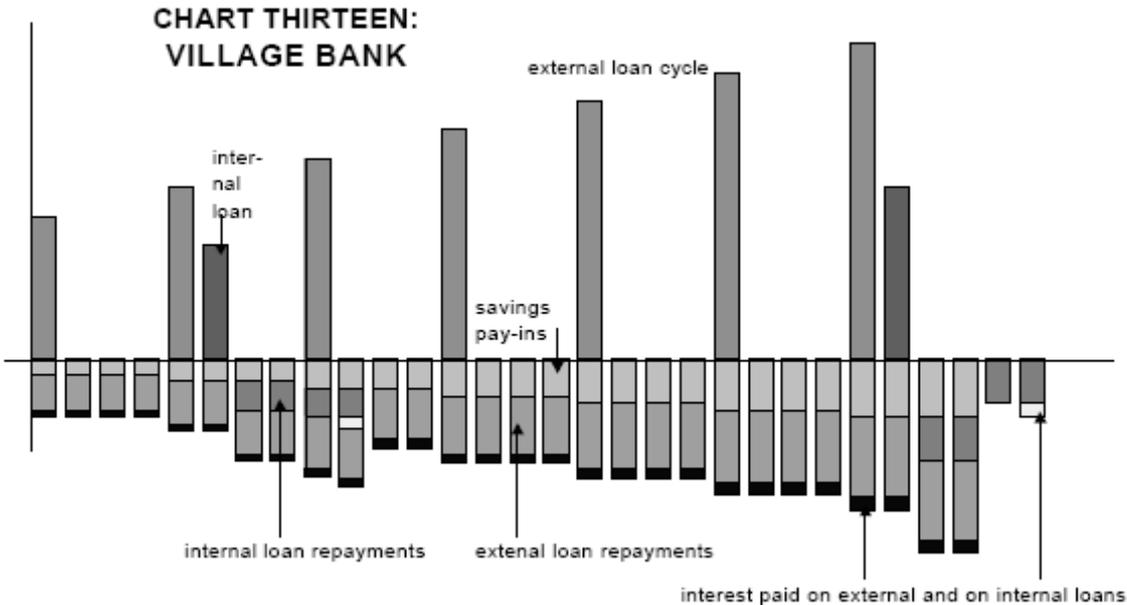
² Other design pioneers working with Hatch in Bolivia in the 1980s were Robert Schofield and Achilles Lanao

However, from week one the Bank is also running an 'internal' account, which handles cash originating from its own members. One element of this is weekly savings, which each member makes in addition to her loan repayments. It is expected that over the sixteen weeks each member will save a sum equal to 20% of her loan: in our case, this would be \$10 per member, for a total savings for the Bank of \$300 saved during the first loan cycle.

The NGO recognises and rewards this saving. It does this by increasing the size of the second loan by the amount saved. So the second loan will be \$1,500 plus an extra \$300 (also from NGO resources) for a total of \$1,800, and each member will get a second loan of \$60. Again she repays and again she saves 20% of the value of her loan, so sixteen weeks later she has saved another \$12 and her third loan will therefore be worth \$72. The cycles continue, so that after seven cycles each member will have reached a loan size of \$150. After seven cycles the NGO ends its involvement as a Bank financier, and the Bank continues on its own, using its accumulated 'internal' account to service its members' loan needs.

This is deemed possible because the 'internal' account has not been simply accumulating savings. It has been revolving these savings in much the same way as ASCAs do - giving loans to members and agreeing repayment terms and interest rates. Moreover, since the Bank holds the repayments that members make on their 'external' account loans, and only hands them over to the NGO at the end of each cycle, the Bank also has that cash to use in its internal lending programme.

This diagram shows the regular progress of the seven external loans and their repayments, as well as the individually-tailored 'internal' loans that this particular member has taken. (For simplicity the diagram is presented in monthly rather than weekly intervals).



A notable feature of Village Banks that is clearly visible in the diagram is that the value of the loans rises steadily. This means that weekly repayments from members to their Bank (the amounts shown under the horizontal line in the diagram) also rise steadily in value through the external loan cycles. This illustrates an important assumption of the model - that loans will be invested in small businesses that quickly and continuously create the capacity to save larger and larger sums out of business profits. These are assumed to be mainly trading businesses. The model is, therefore, not really a financial services model aiming at helping the poor turn a series of small sums into large sums. Rather it is a small business promotion model, aiming at helping the poor overcome poverty through assisted investment in business ventures. This is an important distinction that we can add to our list of differences between unassisted groups and promoted groups. We shall look at this difference again when we look at the new 'providers', in the second part of this chapter.

Some of the providers also believe that the loans they sell should be invested in businesses, as opposed to satisfying any one of the large number of needs for lump sums of cash that we reviewed in the first chapter. In its work as a *promoter*, the NGO that sets up a Village Bank is interested in promoting social and economic development goals - above all the participatory ownership and management of institutions by the poor and the development of poor-owned businesses. This combination of 'people power' and of business expansion has been the vision that more than any other has driven the development world - donors, NGOs and some governments - in the 1990s. It is widely believed in such circles that this combination is the most promising, perhaps the only, route to effective poverty alleviation.

However, in its work as a *provider*, the NGO is interested in getting back the money it gives out as loans to the Banks. For this it depends primarily on 'peer pressure'. The second (and subsequent) loan is not disbursed until the first loan is repaid in full. So the Bank - a sort of collective of thirty women - has to be able not only to handle the collection and storage and use of the repayments it receives from members, but to enforce repayment. It can do this by warning bad payers that if they don't repay on time then the next external loan will be delayed, causing inconvenience to all the other members. If the 'shame' of this isn't enough to persuade the recalcitrant member to pay up, the group can decide to expel her, or, sometimes, collect the money due by confiscating some of her goods.

This represents an articulated, specific threat based on the common-sense bargain that underlies all unassisted clubs such as ROSCAs or ASCAs. In those unassisted user-owned devices, it is obvious to all who take part that the thing just won't work unless everyone chips in as well as takes out. The risk of non-payment is well understood but is rarely articulated. But when, as in a Village Bank, 'external' funds are involved the bargain is less clear because three parties are now involved - the individual member, the club, and the NGO - and the relationship between them is not so obvious. Unsurprisingly, three-way use of peer pressure has proved to be a problematic issue. Ironically, it is not possible to make a direct comparison between the success rates in the use of peer pressure of unassisted and of promoted groups. This is because the most common way that unassisted clubs tackle the problem is to close the club before the problem becomes severe, or to shun leaders or managers or members of clubs that have 'gone bad'. As we saw in our discussion of SHG attitudes to longevity, this simple but effective use of a 'survival of the fittest' policy is rarely available to SHGs and Village Banks. This is because their promoters, who have made considerable investments (not least of pride) in their promotees, and are reluctant to see them end.

Developments in Village Banking

Our description of the Village Bank was of the original model, as hatched in the 1980s. Since then, as the model has been tried by new promoters in new situations, many variations have come about, often in response to some of the issues we have been discussing in this chapter. This 'evolution' is healthy, and mimics the evolution that goes on all the time in the informal, unassisted sector, as we saw in the previous two chapters. The variations will not be reviewed here, but two trends can be noted because they help us push forward our story, and lead us into the section on providers.

In the original model the control and management of the Bank was unambiguously in the hands of its members, with the NGO acting as a guide, trainer and short-term financier. In many current version of the scheme this clarity has disappeared. Finding that their Banks don't perform on their own as well as was hoped, many NGOs now take a much more active role in controlling the Banks. They have become, effectively, 'managers' - managing the Banks on behalf of their members. Indeed, I toyed with including a category of 'managers' in this chapter, since wherever I go find NGOs managing savings groups of one sort or other. However, most of these NGOs do not actively espouse the 'manager' role³: some prefer to believe that their groups will finally be able to manage their own affairs, given a little more encouragement, while others drift into the role of providers.

This drift has occurred with many Village Bank promoters. Their role as financier has proved to be long-term, in a few cases even permanent. It may be that the Village Banking movement as a whole is moving away from the 'promoter' role and towards the 'provider' role. On a recent trip to East Africa, for example, I found that most MFIs using the village bank technology have dropped the idea of fostering independent user-owned institutions and now want to turn themselves into permanent

³ I have read that there are some NGOs (or MFIs) that manage ROSCAs or ASCAs but do not finance them. They take a fee for their management services, like chit-managers in India (Chapter 3), and intend to stay in the business long-term. I don't know how much success they've had, so I haven't included them in this essay.

providers of financial services to the poor. I asked one branch manager to tell me about the progress of the 'internal account' – the fund built from savings and owned by members themselves, which is supposed to allow bank members to become self-sufficient. The manager made it quite clear that while at one time her purpose had been to help members build up this fund and operate autonomously, her ambitions were now quite different. She now wants to maintain her branch as a permanent supplier of financial services to the members, and as such she sees the loans disbursed from the internal account as competition for the branch's own loan business. She told me, "We would like to take over the loan business done by the internal fund."

There are good reasons for this, which we now turn to.

THE PROVIDERS

There is of course a dilemma at the heart of the 'promoter' way of doing things. Getting together in a group to run their own savings and credit system may be a wonderful idea for the poor, but it has its costs. Someone has to do the book-keeping. Someone has to play the policeman, making sure everyone follows the rules. Time has to be given to meetings, to writing up resolution books as well as to book-keeping. Even then, there is some risk that things will go wrong, and risk is another kind of cost. We saw all this in the third chapter.

There's an important lesson here. Poor people, in my observation on three continents, don't run savings clubs for the sake of it. They pay the costs of running a club because they value the services they get. But if they could get an equally good service from someone else for less cost, they would prefer it. It is true that ASCAs and ROSCAs show an astonishing propensity to survive even in environments where there are plenty of formal services, but that is because those formal services have yet to rival the flexibility and convenience of the home-made product.⁴

Promoters spend a lot of time setting up groups, training them, supervising them, fretting about them. This is despite - indeed this is often because of - the fact that the groups are supposed to do all their own management themselves. Is the time and effort put in by promoters worth it? The 'promoter' philosophy puzzles many group members, who rightly ask me 'if those nice people from the NGO are going to spend so much time on us why don't they do the management? After all, they are literate, we are not; they know how to manage finance, we do not: why on earth do they insist that we do all this work?'

NGOs might have a good answer - 'we are interested in community self-management, and leadership' - but group members might legitimately reply 'maybe, but we're interested in turning our savings into lump sums'. And when NGOs find themselves unable to shake off a share in managing the groups, and find themselves financing groups for the long term (as some Village Bank promoters are now doing) the question becomes unavoidable: 'wouldn't it be more cost effective for us to run financial services for the poor rather than struggle to get them to run them for themselves?'

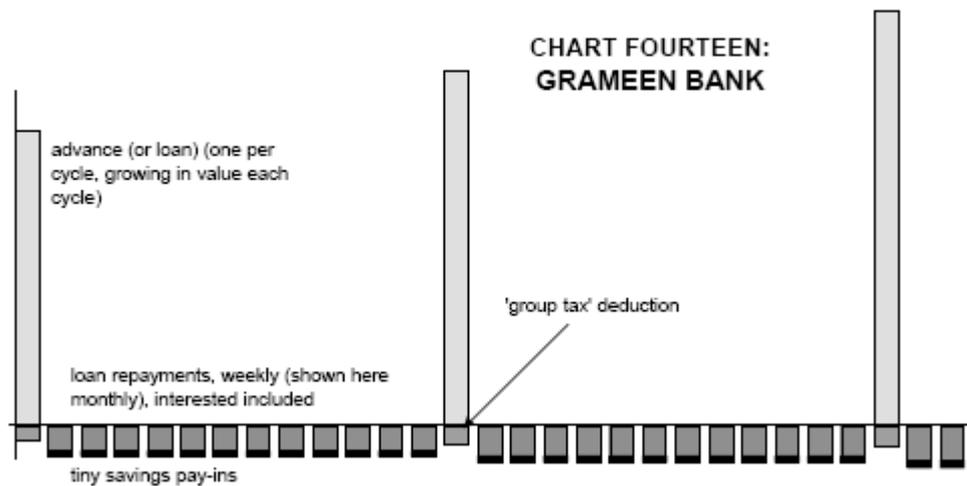
A better moneylender

We now reach the world's most famous banker to the poor - the Grameen Bank of Bangladesh. Although Grameen Bank sets up groups it is not a promoter. It doesn't try to get the group members to run their own services. Its groups are customer groups - a set of customers brought together at the same time in the same place each week to facilitate a loans service. Grameen Bank owns the funds, and enjoys the income earned from the interest paid on loans.⁵ Loans go to individuals directly from the bank, not from the group. Group members cross-guarantee each other's loans, but the group does not own the fund out of which the loans are made.

⁴ It is said that in modern Japan until very recently big businesses ran ROSCAs among themselves with contributions measured in millions of dollars, because it was easier and more convenient than dealing with Japan's inflexible and bureaucratic (and highly taxed) formal banks.

⁵ Grameen Bank is structured as a bank owned by share-holders. Every customer (group member) buys a share in the Bank and their representatives hold an overwhelming majority of seats on its Board. However in practice at the village level members are unaware of the implications of this and at HQ level control is exercised de facto by the bank's professional management.

Grameen Bank is a provider. It provides a 'saving down' service – that is advances against savings - to a mass market. From the user's point of view what Grameen Bank does is most similar to the urban moneylender we reviewed in Chapter Two. This diagram makes this clear.



Like the moneylender, Grameen offers a lump sum which is recovered in a series of small payments - in Grameen's case fifty weekly payments over one year. Like the moneylender, Grameen takes interest, but instead of deducting it at the time the loan is given, Grameen takes it in small easy-to-find instalments along with the repayments. As with the moneylender, most clients immediately embark on a fresh cycle as soon as one cycle is complete.

Grameen differs from the moneylender in some small respects and some important ones. Unlike the moneylender (at least the sort of urban moneylender we looked at in Chapter One) Grameen does accept some savings deposits - in small regular fixed weekly instalments that cannot be withdrawn until the client has been in the system for ten years. It also deducts 5% of the value of each loan for a 'group tax' - money that is put into a fund owned by the clients but held by the bank that can be used to bail out clients who get into trouble with their loans. This money too can eventually be claimed by the clients after ten years.

The big differences lie in Grameen's use of group-guarantees, the price of the Grameen Bank loan, the bank's reliability, and its scale. Like the Village Banks, Grameen insists that the clients which it gathers together in the weekly-meeting groups - normally about 40 people - cross guarantee each other's loans. Moneylenders rarely use guarantees of any sort, let alone big group guarantees, preferring to rely for good repayment on their personal knowledge of the client, on the mechanism of small-but-frequent instalments, and the client's dependence on them for future loans. Grameen's rate of interest charges on advances is much less than the average moneylender's. Grameen charges a 'flat rate' of interest - a fixed sum each week. This is 10% of the face value of the loan, but since the loan is paid off in weekly instalments the average value of the loan in the client's pocket is half the face value, so the interest rate on an APR basis (see Chapter Two) is twice the nominal rate: an APR of 20% or about 1.66% per month. The main problem poor people face with moneylenders, however, is not the price but the availability - the poor find it hard to persuade someone to give them an advance. This is where Grameen really scores, because once a client is a 'member' of a weekly-meeting group she is guaranteed access to a series of advances, as long as she repays on time and her fellow-members do the same. To secure this rare right, Grameen clients struggle, sometimes at considerable cost, to maintain their repayments and retain their right to borrow. Finally, Grameen Bank differs from the moneylender in being a professional organisation with a massive outreach - around two million clients (most of them village women) in the mid 1990s.

Finally, Grameen, again like the Village Bank promoters but unlike most moneylenders, tends to raise the value of the loan after each cycle. Dr Yunus, Grameen's brilliant founder and General Manager, believes that loans should be invested in starting or expanding businesses, and thus set off an upward

spiral of investment and income, allowing the client to service ever-bigger loans. He is more interested in 'micro-enterprise finance' (loans to start and run small businesses) than in 'microfinance' per se (financial services for the poor) as the current jargon has it. Some clients do indeed start or expand businesses, but as we saw in Chapter One the needs for lump sums that face the poor are numerous so that it cannot be that all or even most of the lump sums are put to business uses. Because of this, where Grameen has been active in a village for many years and loan values have risen to \$200 dollars or more, many clients drop out altogether and others may experience repayment problems. To spell out the lesson: if you are swapping savings for a lump sum (given as an loan), the biggest lump sum you can handle must approximately equal your savings capacity for the term of the loan - unless the loan really is contributing directly and immediately to a rise in your capacity to save.

Promotion versus provision

Let us return to the question we posed at the end of the previous section. Is it worthwhile being a promoter? Well, if we measure the output of promotional work in terms of how much 'leadership' is created and how much participatory self-management is facilitated, then I have no idea - these things must be hard to measure and I don't know of any successful attempt to do so. But if we measure output in terms of the number of poor people receiving useful financial services, the verdict is clear: provision beats promotion hands down. The best place to see this is South Asia.

The Indian semi-formal sector has favoured the promotional stance. Over the years, large numbers of SHGs have been created. There are no wholly reliable counts, but we do know that NABARD, a government-owned institution that lends to such groups (through banks or NGOs) may be helping around 100,000 group members. DFID (British aid) believes there may be around 75,000 NGO-sponsored SHGs altogether, with up to a million members, and a similar number set up by agencies of various sorts to take advantage of special loan schemes offered for such groups by central and state governments. Next door in Bangladesh, a country with a similar poverty profile but one tenth the population, semi-formal financial services for the poor are dominated by providers. One alone, Grameen Bank, probably has as many clients as the whole of the Indian SHG movement, and besides Grameen there are other giants - BRAC⁶ and the Association for Social Advancement (ASA) with about 1.5 million clients each, for example. Besides such figures, the world-wide outreach of Village Banks, about 90,000 clients at the end of 1994, looks small.

There is no mystery about why the providers have been able to scale-up so much faster. Since they control all the management of the financial service process, they can reap the benefits of scale if they make their management efficient. They don't have to wait around while a group of illiterate village women slowly learn how to distinguish income from liabilities. The signals that providers receive about their efficiency are much louder and clearer than those promoters get, because providers can offer a consistent service and watch what happens to it, while promoters find that each group tends to behave a little differently to the others. Promoters can aim to cover their costs and generate a surplus, and thus work in a quasi-commercial or even fully-commercial market, something that doesn't apply to promotional work which is generally subsidised.

ASA, a super-charged Grameen

This market-like environment in which the provision of financial service to the poor operates in Bangladesh has had a visible impact on the development of institutions. In the mid 1970s Grameen was the originator of the standard Bangladesh product - the advance against a year's worth of weekly savings. Later comers have had the opportunity to learn from Grameen and do better. ASA, for example, came to microfinance in 1991, after a motley history as an NGO including, at one early point, a revolutionary stance in which armed ASA groups were to be trained to take political control of the country. When they replicated the Grameen product, they simplified its delivery by cutting out the five-person 'sub-groups' into which Grameen divides its 40-person client groups, and the delivery of advances became both quicker and more standardised. Meanwhile they adopted a much simpler organisational structure, cutting out the Area Offices and the Zonal Offices that stand between the Head Office and the branch in Grameen, and which create their own paperwork and require extra staffing. Above all, ASA judiciously combines the maximum level of delegation, (so that lowly branch managers make the decision to disburse a loan without needing a signature from a higher officer), with the minimum level of discretion (the procedures are so cut and dried that it is hard for branch managers to make mistakes and equally hard to tempt them into rent-seeking).

⁶ BRAC was the acronym for the Bangladesh Rural Advancement Committee but is now a registered name. It is a very large NGO in Bangladesh which also operates as a microfinance institution.

Ever better providers

The providers may beat the promoters when it comes to the numbers of poor people they reach, but they haven't won all the arguments. Promoters correctly point out that the standard Bangladesh Grameen-style product is rather inflexible: users get just one advance a year and are allowed only one way to repay it. This is not very user-friendly - it doesn't allow for other ways to make the 'basic personal financial intermediation' swap, such as saving up and withdrawing, and it doesn't help people who need small loans, several times a year, to meet their consumption needs. Nor is it convenient for long-term or insurance needs, such as providing for marriage or burial expenses. Finally, the insistence on using loans only for business purposes is unrealistic, they claim. These are all good points.

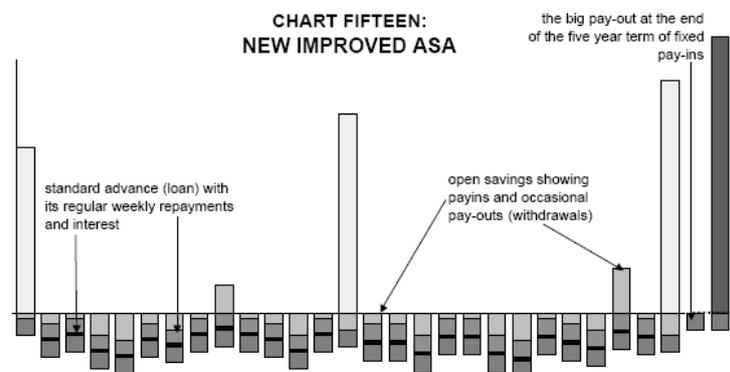
Very recently - from about 1995 on - Bangladesh's big providers have begun to respond to these criticisms. We shall use the case of ASA to illustrate this. ASA has made a series of four modifications to its products.

First, ASA moved from 'compulsory' to 'voluntary' savings. As we have seen, in the standard Bangladesh model, clients are required to save rather modest amounts each week but enjoy very little access to the cash. In ASA's case up to 1997, they couldn't take their savings out until they left the scheme for good. Such blocked savings are known as 'compulsory' savings and were regarded by most ASA clients as simply a further cost of, or tax on, the advances they took. When ASA took the bold step of telling clients that they could have unrestricted access to their savings, clients withdrew massive amounts, as much as anything to see whether this promise was going to be honoured. It was, and this increased client confidence in ASA so that savings began to flow back into ASA in ever larger sums.

Convinced by this that the poor can save in larger amounts than was previously thought (see Chapter One) ASA's bosses next opened up a savings bank service to everyone in the village, not just those who were already members of an ASA group. These 'non-group savers' have no right to take an advance: they are offered only a simple open-access savings account. This too proved popular, with many friends and relatives of group members taking this rare chance of a secure home for their savings.

In May 1998 ASA went a step further. It introduced a 'contractual' savings product. We have seen contractual savings at work in the marriage funds described in Chapter Three. In ASA's case, clients contract to save a fixed sum each month for five years. If they succeed in doing so, they get back the whole of their savings plus profits at the end of the five-year term. Such schemes had long been offered by formal banks and were popular among middle- and upper-income people in Bangladesh, but ASA has become the first large provider to offer it to the poor.⁷ Within four months over 200,000 accounts had been opened.

The combination of a standardised advance with an open access savings account and a contractual savings scheme is a very attractive one to the poor. It answers many of the criticisms made of the 'provider' model. It looks like this:



⁷ But it wasn't the pioneer. That honour probably belongs to SDS (the Social Development Society), a little-known NGO working in central Bangladesh. I found them offering this product to poor villagers as long ago as 1993.

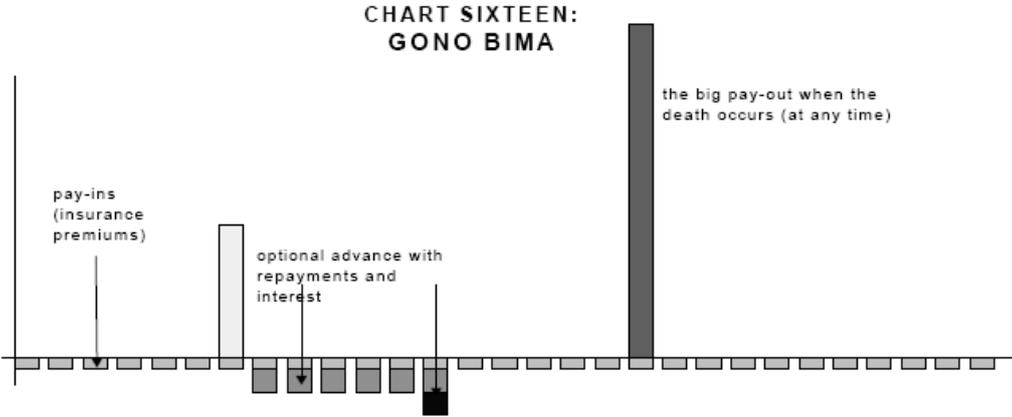
This looks good, but can still be criticised. But before we go on to do that we must mention ASA's fourth innovation. Like most other Bangladesh providers, ASA insisted early on that all loans be used for business purposes. But ASA came to see not only that the poor have many other needs for lump sums, but that an advance that has to be repaid within a year starting the next week is not a financial instrument fine-tuned for business investment, to say the least. The internal rate of return that needs to be made by a business capitalised in such a way is frighteningly high. Moreover, with loans still small relative to the costs of setting up a 'real' business, as opposed to carrying on with the supplementary livelihood activities that the poor ordinarily engage in, like raising chickens or goats or cleaning paddy, it was clear that bigger loans would be needed. This is what ASA has done, and it is into this venture that much of the capital raised by the contractual savings scheme is going. However, here ASA is less adventurous than some other providers who are experimenting with a range of new business loans for 'real' entrepreneurs. Grameen itself has started a 'hire-purchase' system for capital goods for business people, and BURO Tangail is experimenting with several different ways to reach and support small businesses. In other countries, notably in South America, research into the best way of supporting businesses is even further advanced.

Gono Bima: life insurance for the poor

ASA's judicious mixture of short and long-term savings products alongside its loans provides its customers with a range of convenient and useful services. However, it has yet to offer specialised insurance products. Although ASA clients can use the long term savings scheme to build up some protection against financial problems they are likely to face in the future, many may still feel the need for protection against particular contingencies. That is why many of them are also customers of Gono Bima, a life insurance scheme for the poor.

Gono Bima (which simply means People's Insurance in Bengali) presents us with a number of novelties. Gono Bima is a subsidiary of a large private insurance company, and is therefore a good example of a recent phenomenon - the entry of formal financial institutions into the business of microfinance. Gono Bima is also set to be one of the first microfinance schemes with insurance, rather than loans, as its core product. Here is how it works:

A very simplified and highly standardised life insurance scheme is marketed in the slums and villages from modest branch offices similar to those of ASA. To buy the insurance you need undergo no medical test nor fill up complicated forms. The tiny premium is paid weekly or monthly, and the benefits are standardised. You pay in each week for ten years and at the end of that term you get your money back with profits. In the meantime, should the person named in the insurance cover die, you get the full amount just as if you had been saving for ten years. Gono Bima does not bring the insurance premium income up to it Dhaka headquarters. Rather, it circulates it back to its clients in small loans modelled on Grameen's It this basic product. The clients, therefore, get life insurance plus access to further advances when they need them. Here's the diagram:



You can see the close family resemblance to the Marriage Funds of Kerala shown in the last chapter. Gono Bima represents an early example of a formal institution picking up and mass marketing a scheme that had previously reached the poor of South Asia in a small way through informal managers.

Back to SafeSave

What could be better for the poor than ASA's full set of services plus a life insurance policy from Gono Bima? To answer that we need to think about the very poor and go back to what was said about SafeSave at the end of the second chapter.

ASA's core product remains the standard advance. Two features of that product make it inhospitable for the very poor. The first is that the term is fixed: you can do it only once a year, and even the question of when you do it may not be under your control. This is because the timing of your first advance may have been determined by the date on which the ASA came and set up a group in your village, something that has nothing to do with your real needs.

But a more serious drawback is that the product requires fixed equal weekly repayments, and as we saw in the first chapter many very poor people lack either the means or the confidence to do this. For that reason many 'exclude themselves' from membership, reluctantly letting an otherwise excellent opportunity escape.

Products which aim to reach the very poorest need to find a way round this dilemma. So far in Bangladesh, the big providers have not done this, except in some special pilot schemes, such as BRAC's 'vulnerable group' scheme which uses a mix of food-aid, training and credit to help very poor women get some income from egg production. The discipline imposed by a regular fixed repayment requirement seems to have proved so effective that providers are understandably reluctant to give it up. It has been left to smaller players to experiment to see if an alternative discipline is available. SafeSave's alternative - the daily opportunity to pay as opposed to the weekly obligation to pay, has already been described at the end of Chapter Two. But SafeSave is only two years old and reaches only two thousand clients: despite a promising start it has yet to demonstrate that its alternative is as robust as the standard Grameen or ASA product.⁸

CONCLUSION

Rising concern with continuing world poverty and a growing realisation that poverty must be addressed by working directly with poor people, has led many development organisations to explore the possibilities of supplying banking services for the poor. But how should they go about this?

This chapter has briefly described two approaches: using a commercial stance but adopting products and delivery systems designed to attract the poor (the 'providers' approach) and helping the poor to set up financial service systems that they themselves own and control (the 'promoters' approach).

We have seen that both approaches, but particularly that of the promoter, mix other development objectives in with the financial services work. This may be all to the good, but it may not be for the best from a strictly financial services viewpoint. Promoters may distort the functioning of the groups they promote by insisting on objectives and procedures that, left to themselves, the poor may have chosen not to adopt. Providers may harbour development objectives that lead them to insist, for example, that each loan they give to the poor must be invested in businesses - an unreasonable and unrealistic condition.

A better understanding of how the poor wish to manage their money, and a shift in emphasis from a concern with general development objectives to a sharper focus on improving the financial services might mean that many more poor people could get improved help to manage their money. The final chapter contains further observations of this sort.

⁸ You can follow SafeSave's fortunes by visiting its website: <http://www.safesave.org>