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# SAVINGS: THE FORGOTTEN HALF OF FINANCIAL INTERVENTIONS?

AN ONLINE SPEAKER'S CORNER HOSTED BY MADHURANTIKA MOULICK OF MICROSAVE. THE FORUM WAS HOSTED ON [WWW.MICROLINKS.ORG](http://WWW.MICROLINKS.ORG)



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# CONTENTS

<b>DAY ONE: FROM THE USER'S PERSPECTIVE .....</b>	<b>4</b>
Day 1: Welcome to the 25th Speaker's Corner on Savings: The Forgotten Half of Financial Interventions.....	4
Welcome to the First Day of the Savings Speaker's Corner,.....	16
Do Poor People Need Educating to Save? .....	25
Welcome to the first day ... ..	27
Financial Literacy.....	36
Welcome to the First Day .....	39
Social Capital.....	40
Savings in SHG Networks.....	42
Savings Online Contributions .....	48
Savings Online Discussion Forum.....	49
Cash or Cows? .....	50
Cash or Cow, and Does Savings need to be learned .....	60
Day 1- Some questions.....	61
Savings and Behavior Change.....	64
Lessons from informal savings mechanism .....	69
Savings limits as an instrument of exclusion.....	71
Safety and value of savings – how to ensure.....	73
<b>Summary Day 1 .....</b>	<b>73</b>
<b>DAY TWO: FROM THE SUPPLIER'S PERSPECTIVE .....</b>	<b>77</b>
Welcome to Day 2 of the Savings Speaker's Corner .....	77

Mobile solutions for serving remote and sparsely populated areas .....	78
Savings can be good for Health! .....	78
Regulatory Stance .....	79
Regulatory constraints.....	87
Should postbanks go into lending?.....	90
Day 2: Supply side responses- have they been inadequate.....	100
Supply side responses- have they been inadequate? .....	102
Partnering Arrangements.....	114
Safety and value of savings - how to ensure.....	115
Suppliers perspective - Returns.....	118
Financial inclusion - banking facilitators and correspondents .....	122
Cell Phone technology.....	124
financial inclusion - banking facilitators and correspondents .....	128
Legal Structures and their Challenges in Delivering Savings Services .....	132
Savings limits as an instrument of exclusion.....	137
External support to ensure deposit mobilization .....	142
Day 2: Deposits vs lines of credit for on-lending by MFIs .....	143
<b>DAY THREE: DELIVERING SAVINGS SERVICES IN DIFFICULT AREAS.....</b>	<b>147</b>
Savings in Difficult Areas – What’s Different? .....	147
CENTRAL AMERICAN LESSONS FROM PROMIFIN - Post on behalf of Harry Ndambala .....	152
Questions about savings services in Tanzania.....	154
Day 3: Overview .....	161
Informal financial institutions .....	163
Upgrading informal to semi-formal financial institutions.....	167

Upgrading informal to FORMAL financial institutions ..... 168

Linking formal and informal finance, savings and credits..... 169

The role of public banks in microfinance: the case of the BRI microbanking units ..... 172

Savings and the Lottery ..... 174

Day 3..... 175

Savings and Children ..... 177

Trust in Remote Areas..... 181

Financial infrastructure for remote areas ..... 182

M-banking for remote areas..... 185

Saving in a Million Villages..... 191

Paying to Save..... 193

Seasonal Savings Product?..... 193

Where is the Evidence?..... 194

Unfinished business in insurance..... 196

**CLOSING MESSAGES ..... 196**

Host and Facilitator List..... 199

# DAY ONE: FROM THE USER'S PERSPECTIVE

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## DAY 1: WELCOME TO THE 25TH SPEAKER'S CORNER ON SAVINGS: THE FORGOTTEN HALF OF FINANCIAL INTERVENTIONS

**Post by: Madhurantika Moulick**

Welcome E- participants to the 25th Speaker's Corner, on "Savings: The Forgotten half of Financial Interventions. Many thanks for registering for a discussion on savings, which as the name suggests, has not been in the forefront of initiatives of a growing microfinance sector.

Over the next three days, this forum will host discussions on savings – the key objective being to understand the reason for a continuing mismatch between demand and supply for savings services.

**During day 1, our discussion will be from the user's perspective.** What is it that the low income people look for, when they demand from a client oriented savings product? Do we have lessons to learn from the different coping mechanisms that are used by low income people to manage their financial affairs?

**Day 2 will discuss issues from the supplier's perspective.** Discussions around savings are usually limited to legal issues which influence it, or deposits as source of funds rather than the need to meet the basic financial needs of financial institutions' clients. What factors inhibit service providers from offering financial services? How will new delivery systems such as e-banking, or the growing acceptance of fee-based systems, affect this?

The discussion on **day 3** will continue with a special focus on delivering savings services in difficult (for example remote or post conflict) areas – Do these areas need a special focus? Will similar products work, or do we need to think differently?

Many thanks to the panel of guest facilitators who will be bringing in their vast knowledge to the forum. I will be moderating the discussion from India and the guest facilitators from different corners of the world to help run the discussion at hours convenient to all.

Looking forward to three days of interesting discussions, sharing and learning

Madhurantika.

**Post by: Sanjay Bhargava**

Madhurantika, thanks for hosting this conference.

I am the Chairman of Eko, [www.eko.co.in](http://www.eko.co.in) a company which is just nine months old and trying to provide "universal financial access" starting with India.

Savings is what we have started with and thus I am keenly interested in learning and contributing.

I am tied up for most of the day till around 3pm but will contribute after that.

Look forward to an interesting discussion over the next three days.

Cheers,  
Sanjay

**Post by: Lalita Rao**

Dear Madhu,

Thanks for starting off the discussion on Savings.

I am S. Lalita Rao, a freelance consultant, and a CSP for Loan Portfolio Audit Toolkit [MicroSave].

I have jotted down my thoughts on the “Savings” product in MFIs:

Demand for Savings Needs of Low Income People: Most of the economically backward people do have the capacity to save, albeit small amounts. Since they do not have access to formal financial institutions, and their savings may not be very regular [as they are linked to their irregular income sources, and also vary according to the needs of the family, upcoming festivals, visiting relatives, etc.], they are glad to find an agency or institution which offers them a place to store their savings, as well as access loans..... a sort of single window for their limited financial needs of savings and loans.

Most of the women clients I have met say that “we keep aside the repayment amount and are regular in servicing our loans, but we have varying cash flows, and would like voluntary savings to be introduced”.

Since most of the clients are women, they are doubly happy to be able to save in a secure environment, as the money they store at home is invariably ‘looted’ by the male members of the family, for alcohol , cigarettes or entertaining their friends. When it is not very easy to withdraw the savings, unlike when it is stored in a pickle jar, even the women keep accumulating the savings instead of withdrawing for frivolous needs. Then, these accumulated savings become a goldmine when there is a need or an emergency in the family.

Needless to add, if the MFIs offer interest on the savings, it is an added incentive to save. Also, most MFIs have a sum fixed for weekly savings [fixed by the Sangha, or the group], instead of which, the members would appreciate total flexibility in savings. Their surplus may be zero in some weeks [non-earning due to ill health, or due to lack of work, rainy season, etc.], and quite high in some other weeks.

Thus, flexibility, security, return on investment, and ease of withdrawal is what most MFI clients would look for.

With warm regards,

Lalita

**Post by: Brett Matthews**

Your point is well taken, Lalita!

Many microcredit institutions know that real reason women are more reliable in repaying their loans is because of their skill at saving at home. Sustainable microcredit markets and institutions are arguably built on the skill of women in the art of thrift. Yet so many MCIs, even with significant external subsidies still flowing in to finance their credit portfolios, and indifferent to this need.

If microfinance is partly a social endeavor, rather than just grabbing the 'low hanging fruit' (microenterprise credit) from poor people, we need to do much better in future.

Brett Matthews

Mathwood Consulting Company.

**Post by: Stefan Handoyo**

Not quite correct Matthews. The reason why women are better on savings is not because they are more skillful at saving their money than men, but because women are more concerned about the future of others, the future of their family members. This is the quality that we need to dwell more if we want to explore huge opportunity of savings in microfinance.

The problem of why MCIs focus more on credit than savings is because they themselves often time are not convinced that savings is one of the potential sources of their loan portfolio funding. They enjoy so much on relying only on donor funding to the extent that they think these sources of funding from donors are eternal.

Microfinance is no longer only about a social mission or endeavor, but it is about doing a sustainable business without loosing its social dimension. After all, any good business has to have a good social responsibility mission.

Best regards,  
Stefan Handoyo

**Post by: Raj Kumar**

Dear All:

My first post on this very interesting discussion. For want of a suitable thread (there are far too many..) let me start with one of the issues being discussed.

Of Savings, SHGs, clusters, federations and NGOs - There can be no two ways about the need for poor people to save. I remember the poor women in Rajasthan sitting up till late in the night to finish their SHG meeting and proudly informing the visitors how much they had saved. Similarly, in feudal, drought hit Bundelkhand I know how migrating women SHG members used to send money back to the group in the village. There are far too many testimonials to show how strong the need is. While I agree that a large number of SHGs (specially the ones churned out of the Government factories..) were promoted to avail of the free money available (earlier under schemes like the IRDP and later under the SGSY..), I have no doubt in mind that through systematic inputs SHGs do score pretty high in terms of savings product attributes (identified by most of us as safety, liquidity, convenience..) specially in a scenario where there is no credible institutional structure to address this need. Having said that I need to admit that the SHGs do face institutional limitations. When the savings per member increases beyond a limit, the groups do exhibit signs of faith levels going down, general weariness, which is manifested in increased group conflicts often necessitating the intervention of the promoting agency.

Regarding the superstructures like the clusters and federations, I feel they are far more complex institutions and require not only superior management but also strong leadership - rarely available. Further, the cost of managing these institutions (specially if we include the transaction cost of members) is often very high. Many of the federations are able to function with liberal managerial support made available at discount by the NGOs . Needless to mention that in general the members perceive the NGOs as ultimate saviors in case anything goes wrong. Therefore, more often, it is not the inherent strength of the member based community organisations, but a heavy reliance of the members on the promoting NGO that helps these institutions survive. Another very important issue is lower member stakes (directly proportional to their taking interest in the affairs of the institutions) low patronage (only savings and some loan products coming not necessarily cheap..) by the members. In conclusion, I feel savings products in the community owned organisation is good proposition if there are sufficient factors leading to institutional robustness. I identify three critical success factors:

I. These organisations (community owned) will need to be providing a host of interlinked services (microfinance plus livelihoods) which have a substantial impact on the individual household's economy - and not just one or two odd

financial services. Also do it on a scale which brings greater institutional credibility in the minds of members. Most difficult of all three but I think that's the way to go about it.

2. Invest in leadership development and promote local manpower to handle management (good NGOs already invest a lot here) - this needs grant funds initially.

3. Increase member stakes (and keep increasing and I mean financial) over a period of time - good for both business and institution.

Sorry for a longish mail.

Best regards,  
Raj Kumar  
MicroSave India

**Post by: Smita Premchander**

Dear Friends,

I am Smita Premchander, and represent Sampark, an NGO in Bangalore. Our field work is concentrated in 40 villages in north Karnataka in the drought prone district of Koppal. We have organised 2400 women into 169 groups, which have come together in 11 cluster associations that work as cooperatives. Sampark works as a facilitator, and trainer, and our intention is to build women owned and managed financial organisations.

The question for Day 1, is framed from the point of view of a 'supplier' and 'client'. In Sampark's model, women are the clients and 'suppliers' of the service too. This is why they have had a very flexible product. They have two types of savings:

1. Mandatory savings, Rs 5 or 10 or 20 each week. This is pooled and loans taken from it by members, and repaid into the group from time to time.

2. Common fund: This money, usually about 2 to 3 Rs. per week, is pooled separately for common expenses, like travel of a leader for organising bank loan, etc. They can also dip into it for some emergency in case the larger pool is insufficient. All group expenses are paid out of here.

Sampark has found women's own control over their money a very empowering process, not just of product or service development, but of financial capital building, and of building women's leadership and management skills.

Kind regards,  
Smita

**Post by: Brett Matthews**

Dear Smita & Other Friends:

What you are saying about Sampark is it that your experience microfinance is 'gendered'. My experience in Cambodia, Mozambique, Mongolia, Bangladesh and elsewhere suggests something similar. That is, while credit tends to empower men, who are quite comfortable using it (and using their wives to get access to it), savings are possibly THE key to financial empowerment for women.

**Post by: Namrata Sharama**

Dear all,

All financial habits and practices, in my opinion are indeed gendered. Women have a tendency to save more and spend less but spend on things which have direct productivity to the family. Mostly women all over, mainly the rural areas I

have traveled to have saved money in and around their houses for emergencies like child birth, sickness and food security. Their saving habit is not limited only to money but also food grains, seeds and labour. But many a times, the savings are small amounts. In the same way the credit that women take in case of emergencies from around their surroundings tend to be small; used for the purpose asked for and repaid immediately. Although, the microfinance industry caters mainly to women clientele directly, it must be understood that the women are actually a source to Household economy. Depending on their habits regarding the financial patterns there is a question I would like to ask on how the industry looks at developing products and services which are fitting their needs and patterns? Especially the need for women to save in a safe place.

Best regards

Namrata Sharma

MicroSave India

**Post by: Manoj Sharma**

Dear Smita,

In the Self Help Group model where women are the suppliers as also the clients, do you come across situations where in groups, as the corpus of pooled money with the group grows, the capacity to manage it becomes a limiting factor and consequently trust levels also reduce?

We have seen this in some SHGs and this makes us believe that while indigenous mechanisms are extremely important, the formal / semi-formal sector financial institutions should also respond to the need for savings services.

Best regards

Manoj Sharma

MicroSave, India

**Post by: Anil Paul**

Dear all

I think what pointed out by Manoj is right. To add on to that, many time SHG members find it difficult to borrow keeping the savings intact. They are always tempted to withdraw the savings rather than borrowing afresh to meet their needs. Since strict SHG rules prevent the savings withdrawal, compels the member to withdraw from the group (and at times rejoin as new member) affecting the group dynamics and solidarity.

Best Regards,

Anil Paul

MicroSave India

**Post by: Smita Premchander**

Dear Anil,

Often, strict rules are made by NGOs that do the group formation, and many have themselves not had the capacity to make rules with the group members' interest in mind.

Sampark groups' members borrowed from the group up to the level of their savings and more, if available. When there is an overall funds constraint, they can get the additional amount from the cluster associations. When these have lack of funds, they can borrow from Sampark. They also have direct bank linkages from groups to SHGs. This has not been an

easy process, but it has been possible. Thus own savings form the first pool for borrowing, then banks, they are the least cost external option. Then cluster association funds, and finally Sampark funds. In rising order of costs and benefits to women themselves. In six years of operations, they have learnt this very well.

I do not think its a problem inherent to women's management, instead it a way that external agencies have discounted, because its more intensive ground work and engagement with women. Top down work is easier.

Best, Smita

**Post by: Abhishek Choudhury**

Dear Manoj,

I have seen that in some organisations, to tackle the same problem, once the savings grow to a sizeable amount, it is distributed back to the members, so that it keeps them motivated to save. While this is done for other reasons also, and may not be the completely right way to address the problem, this is one thing that is being done in many places.

Regards,

Abhishek Choudhury,

Independent Consultant

**Post by: Shruti Gonsalves**

Dear participants of the virtual discussion on Savings,

I do agree with Manoj. In our experience, many such SHG's grow to form federations and then these federations are either brought under the umbrella of Parent NGO or Cooperative structure ( wherever MACS laws are applicable).

In the Governing Board, one or two lady members or leaders of these SHGs are given a place and in some cases the Board is entirely consisting of these women members but the operations and the finances are being managed by the 'professionals' hired by the parent NGO. As their portfolio grows, the ability of these federations to manage it being limited, they increasingly depend on the management for decisions while they continue being in the Governing Board.

It's not that, they are not aware of these limiting factors. But that makes it all the more imperative to have Financial institutions and Banks respond to their needs esp. for savings

Regards,

Shruti Gonsalves

FWWB,India

**Post by: Lalitha Iyer**

Hi,

Thank you for organising this conference and the invitation to participate.

I would like to share briefly what we learnt about the situation tracking the expenditure patterns of poor households in a metropolitan slum.

What are the needs? Are those needs diverse or homogeneous? The needs are sharply differentiated even within a range of income like Indian rupees 5000 - 15000 per month.

Some distinct segments-

1. vulnerable meaning they are nearly always struggling to balance income and expense, pay heavy rent, spend mainly on food and education of children. their top need is housing security education needs, skill development needs and life insurance and accident insurance. though they are not 'hungry' they are definitely poorly nourished and with rising food prices will be very hard hit to meet food security needs because their other expenditure like rent fees is 'fixed'. they would be happy with 'saving down' models which do not create too much of a debt burden

2. marginal- almost like the last with the exception that housing is in some way 'owned' and there are two or three sources of family income. children are slightly older and nearing the job market. they are most likely to have loans they are servicing and a credit record -also some potential for saving up towards something.

3. secure- they have security of income and multiple sources plus assets like house and vehicle. they look for safe savings avenues and are usually the victim of 'informal chits'

Can affordable products be designed that can meet client needs? community based options become the most 'affordable' routes to deliver services repeatedly to such savers- thus issues could be how do we understand the risks of the informal chit organisers and support them with risk management services. (instead of seeing them as sharks)

Even as I write I see a spate of mails! This is active indeed. So I hasten to post.

Lalitha Iyer

**Post by: Abhishek Choudhury**

I would like to add another important attribute to Ananth's list.....cost/convenience of savings.....whether the deposit is collected at the doorstep of the client, how convenient and short is the documentation, how helpful is the staff in facilitating the deposits and withdrawals etc. This becomes an important attribute for savings service.....

Also, the minimum amount of deposit is sometimes an important factor, as clients would like to have a low minimum saving amount so that they can save even small surpluses and are not driven off by high minimum deposit amounts. They may not be (as mostly they are not) able to accumulate that much over a period of time.

Regards,

Abhishek Choudhury,

Independent Consultant

**Post by: Smita Premchander**

Dear Manoj, Brett, Akhilesh,

Yes, there is a risk that women may not manage savings well. They mismanage in the following ways:

1. They give loans to non members, who have no incentive to repay other than social relationships. Sometimes they lose this money. It took Sampark over 5 years to stop this practice. Each group wanted to go through it themselves, they did not want to learn from experiences of others! We saw it as an essential learning process. We spread the message, got them to talk to one another, but let them lose and learn.

2. They fight among themselves. This also happens in earlier years, when the leader is often the most literate, or the socially more powerful person. Over time, as other leaders grow and all begin to gain voice, leadership goes through changes till they have greater accountability. Again, a process of empowerment happens.

These risks can be minimised by training, facilitation, exchanges. This is where Sampark as an organisation has played a role.

And about division of savings periodically, as Akhilesh mentioned. Sampark groups have passed through that. They do it for several reasons. Women divide money as a means of solving problems: like when some members are not repaying, they ask everyone to pool in and divide, then restart. When one or two leaders have taken advantage, they ask them to bring back the money, divide, remove these two from the group, then reform the group.... And of course the regular reason, in lean seasons, when low on work and cash, it helps to divide this money and use it, then restart savings for the next year.

As Brett said, collection and management of savings is THE key for women's empowerment. I strongly favour their retention of their own savings, and external support agencies investing in improving women's own management capacities. I believe its a better investment than investing in NGOs or MFIs which will do the same...

NGO/ MFIs are risky too. They also mismanage, and they also run away with the money. It is just less known, I have been in many villages in India and Bdesb where small NGOs have collected 5,000 to 6,000 per household, about 5 to 6 lakhs or more for a few months, then folded their office and disappeared. If donor agencies still invest in NGOs, then investing in women's own organisations is much less risky. It takes only two years for these processes to settle down in each group, then groups manage reasonably well.

Regards, Smita

**Post by: Brett Matthews**

Dear Smita:

How does Sampark address the problem raised earlier by Manoj -- the large the SHG cluster/federation grows and the more money is pooled in it, the greater the risk of theft/loss or diversion? These women, unlike those in some countries, are usually not literate. Cooperatives usually succeed due to alert users who are literate. Without literate, how can transparency and accountability be maintained?

Brett Matthews  
Mathwood Consulting Company

**Post by: Angela Wambugu**

Dear Colleagues,

I think the issue of women and savings may differ from country to country. For instance, in Kenya, the RoSCAs are a major savings mechanism and are especially popular with women. Women have managed to save very well using these though the savings are mainly short-term mainly dependant on the number of people in the group. The money is collected from each member and the lump sum given to members in turns. The funds are mainly used to buy household items such as kitchen utensils. This I feel is a better option than using consumer loans which have gained much popularity in Kenya.

Regarding the most common reasons for saving, I have found that in Kenya, people mainly save to meet needs such as starting and / or growing businesses, to meet emergency needs such as sickness, loss of business/job and death, and for children's education. However, despite the acknowledgement of the need to save for emergencies / risk management, low income people rarely do this, perhaps due to lack of disposable income as well as the reliant on social coping mechanisms.

Regarding savings attributes...security, liquidity, affordability, and convenience are key.

Kind Regards,

Angela M. Wambugu  
MicroSave, Kenya

**Post by: George Muruka**

Dear All,

While Smita's view on how women mismanage their savings sounds convincing, I think referring to the practice as mismanagement is a view from the best practice/formal service prism. The two reasons given are observed even in formal institutions. Financial institutions give bad loans and write off large sums. Discordance in management especially with regards to service delivery and leadership is common place in the financial sector in most countries.

I feel women collecting own savings, dividing it up at some point is an ingenious way of conducting audits and restructuring the groups. What a better way to manage a financial enterprises in a remote rural setting with limited linkage services? Learning from mistakes like offering unsecured loans to non members who may not pay back is a natural empowerment process - no wonder Sampark groups waited to experience it before limiting the practice.

One of the challenges I have observed in Kenya (and generally East Africa) is the NGOs which tend to tower over the confederated groups hence limiting the groups' evolution. In more economically mature contexts (regions) in Kenya, many NGO/MFI client groups break off to form SHGs, SACCOS or Investment companies to mediate financial services to members and at times non members especially through the SACCOS using Front office services. Where the NGOs continue to tower over the groups, there are the risks of progressive reduction of savings as the low income people tend to feel "the NGO is using our money for its own ends" e.g. on lending large individual loans to more wealthy people in the communities.

To support the savings culture among the low income people/communities, there is need for facilitative institutions to work alongside these informal mechanisms (groups) by improving management capacity and linking them to more secure banking services.

George

MicroSave, Kenya

**Post by: Smita Premchander**

Dear George,

Thank you for pointing out the meaning of the language used! I accept that this term 'mismanagement' is not right. Your comment reminds me to explain the logic that women have in following these practices:

1. Giving loans to non members is done often when there is no demand for money from the women themselves. Instead of keeping the money idle, they can earn interest on it. Perfectly legitimate reason. Second, in the earlier phases of group formation, many groups pegged their interest rates at 5% per month, because local moneylenders lent at that rate, or more. So women thought this rate of interest is what they should earn from their groups. As the poorest groups could not pay these interest rates, they opted to loan the money out, not realising that they put the principal at risk. So women had good reasons to loan to non members. Sampark staff saw it as 'mismanagement' because we were trying to wean them away from options we considered risky. It was a difference in perception.

2. Group leaders appropriating or misusing money. This is also a genuine process, and as you point out, happens in the best of NGOs as well.

Your reaction highlights strongly how, even among those who consider themselves women-oriented, we prioritise our own perspectives over theirs, and our language reflects that.

Thanks again for bringing the language issue on the table.

Smita

**Post by: Trivikrama Devi**

Dear all,

It is a well known fact that every individual, how so poor s/he may be, has potential to save. SHGs became effective instruments in realizing that potential. SHGs have inculcated the saving habit among the poor and their saving amounts and their corpuses are growing at very high rate year after year, however, In Andhra Pradesh I have seen many SHGs (4 or 5 years old) start distributing their savings and the same is show as internal loan in some cases and in other after distributing the savings, they start of fresh again. The reason for distribution of savings being higher the savings amount, the members are not able to manage their savings..

Devi

Trivikrama Devi. G

MicroSave India.

**Post by: Anjaneyulu Ballem**

Dear friends

I am Anjaneyulu; I have about 15 years of experience in working with SHGs.

In continuation with Devi's concern over savings in SHGs I do request the forum to discuss the following the ways to encourage the savings among SHGs:

As you are aware that the SHGs mean the savings first and the members generate internal resources through savings and use the same for internal lending. The SHGs take the external credit to meet the unmet credit demand of the members again by using their savings as leverage.

But my recent field visits to some of the SHGs says that because of the easy access to external financial assistance (through the bank linkage, credit from Federations and other financial institutions), some of the SHGs started completely depend up on external financial assistance and almost stopped own savings (but the member pass books say that the members are depositing their saving regularly)

My question here is even though the members have capacity and interest in savings, because of the easily available external credit (cheaper than the Market rate of interest), over a period of time the members of the SHGs discontinuing their savings.

It means one way the easily available external credit which do not carefully look at the internal resource generation of the groups as basis for providing credit is becoming one of the major reasons for deteriorating the demand for savings. We all need to think about how to address this issue before it becomes contagious.

Best Regards,

B. Anjaneyulu

MicroSave India

**Post by: Kwaku Berchie**

Dear Anjaneyulu,

I think you have made a very good observation here. The commercial banks are now coming down to the level of the MFIs. Human beings tend to choose the easiest option in our lives. The commercial banks have money. Lots and lots of them. Barclays is currently promoting their "Bringing world class banking service to your doorsteps" in Ghana. What this means is that they are opening branches on every corner and street. They have targeted co-operatives, SHGs, and smaller MFIs. They even wanted to buy out the biggest Savings and Loans Company in Ghana. Their strategy is not about savings. They come up with loan offers. This will definitely change the mindset of many poor people who would want to save. The question is, Why would I have to keep my little money somewhere for a period before I can get any benefit when I can get the same benefit without parting with my money?

**Post by: Anil Paul**

Dear All

What Anjaneyulu said is very relevant. Many times savings is not considered either by SHG or by financial institution (disbursing external loan) as an independent product. Many treat savings as a condition for sanctioning loan. This reduces the importance of savings to the role of deposit collected at the time of loan disbursement. Once SHG receives an external loan neither

SHG, nor financial institution consider savings as important. Non payment of savings is not considered as delinquent situation. Such situation has to be changed. Savings should be designed as a separate product not linked to loan.

Best Regards,

Anil Paul,

MicroSave India

**Post by: Prakash LB**

In continuation of the observations of Devi and Anjan, I too have observed this phenomenon in most SHGs. I have posted a separate comment too.

The issue seems to be that, credit is being positioned as reverse savings - borrow now and then repay - with the interest being seen as a charge for the discipline to save (even if no income generation is happens). This seems to be more like the fast food approach which people seem to lap it up, as compared to savings - which is akin to traditional food !

**Post by: Suriseti Srinivas**

Hello!

During a collaborative workshop on Financial Inclusion: Savings...(with MicroSave, NABARD and ING-Vysya Bank, on 2-3 May 2008 at Hyderabad),

There was a discussion also on the opportunity cost of saving being very high suggesting that the outcome of savings needs to be positive, especially in the context of formal savings mechanisms.

There is some need for livelihood generation and income augmentation programs for a positive outcome of savings, along with (if not before) savings and credit.

Regards, srinivas

**Post by: Akram Daoudi**

Dear All,

I'm Financial Product Manager in the organization AL AMANA located in Morocco.

Thanks to MicroSave for the invitation to this conference which is in my point of view very interesting.

By the way, I'm working on a saving project and I need to know some specifications of the savings products and especially on cost side.

So, if someone in his organization has began before a similar project, I want to know how cost developing a saving product and what's the elements to keep in mind to build a business plan?

Best Regards

Akram DAOUDI

Association AL AMANA MOROCCO

**Post by: Kashi Metya**

Dear all

I do not have doubt poor get lot of help from micro credit institutions. All these institutions are private catering very small area. in a country like India it would take years to reach all the poor people who need service. I want to know if there is alternate channel which could enhance this process of inclusion faster specially through collaboration with banking sector.

with regards

Kashi Nath Metya

INDIA

**Post by: Sanjay Bhargava**

Dear All,

The volume and quality of emails is very encouraging. At Eko we have tried to look at savings from a low income customer's eye.

1. I think we have to distinguish between investments and savings. Low income people need both. I am going to stick to savings which are liquid and available on demand.
2. For these type of savings one reason that I did not see covered is to reduce consumption. If the money is not in the pocket we will spend less. All other reasons have been covered already.
3. From their eyes the alternative to saving in formal institutions is to keep money at home ,with their employer. Both these methods suffer from security problems and no interest is earned but these are widely adopted.
4. Self Help groups are very active in India in a rural setting but have not worked well in an urban setting. I think there have been several comments on SHG and I am no expert. It has its flaws but my impression is that in India it has scaled and done more good than harm. I also think it is not applicable everywhere and depends a lot on how the group functions. It also has a high administrative component. Am I wrong ?
5. Customers are not prepared to pay a lot for just savings so building a profitable product is hard . They are willing to pay for other financial services like lending, insurance, remittances, pensions, investments etc.
6. In India at least low income consumers have been burnt so they look on all providers of savings with suspicion and winning their trust is very hard.

7. In India especially in urban areas because of the success of prepaid mobile phones customers where customs store money ( make a deposit) and talk ( withdraw money) over time customers are willing to look at innovation.
8. Customers are intimidated by the requirements of formal institutions and in some cases do not have documents. They want a solution which is easy and readily accessible.

The topic for tomorrow is to look at savings from a providers perspective where I will give more inputs.

I would very much welcome comment.

Rgds

Sanjay

**Post by: Motaz El Tabaa**

Dear Sanjay

You raised a very good point of savings and investment, I think this will depend on the type of the cash that is available to the client, In case of seasonality, the client will need to save until next season In case of excessive cash, the saving will grow up to the limit that will be sufficient to meet emergencies and then start to invest, which could be chicken then goats, caw ...this type of investment is risky and not easily convertible to cash , specially if the needed cash is much less than the cow value, so it will be a loss to liquidate a cow for the need of some cash

So the point if to provide some investment opportunities to them to have flexible investment

Thank you

Motaz El Tabaa

**Post by: Dirk Smet**

Dear All,

I would like to come back to the questions raised in earlier e-mails, about the product requirements for a savings account. Research carried out by the World Savings Banks Institute (WSBI) has clearly shown that there are some 1.4 billion accessible accounts across the developing and transition world. Accessible accounts are defined as accounts at institutions that specifically target the mass market and penetrate beyond those customers typically served by commercial banks. Savings banks account for approximately three quarters of these accessible accounts.

This shows that the demand for accessible savings accounts can be satisfied, even if there is still progress to make. The National Savings Institute of India, one of the members of WSBI reaches 24% of all households in India and 10% of all adults. Progress is however still to be made in the outreach to the poorest households. Our Mexican member Bansefi demonstrates that the poor can be reached by savings and transaction banking products, and not just microcredit. Crucial in this aspect is a branch network that is truly nationwide and reaches into rural areas where poverty is often concentrated.

People need simple, inexpensive accounts, without a minimum fee for opening or maintaining it and that accepts also very tiny deposits. The financial institution that offers the savings account should have a very low threshold: low-income people should feel welcome and have access to a range of products and services adapted to their needs. It is also important to give adult clients access to combined savings and payments accounts.

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**WELCOME TO THE FIRST DAY OF THE SAVINGS SPEAKER'S CORNER,**

**Post by: Madhurantika Moulick**

Though the reference to savings mobilisation as the “forgotten half of rural finance “ has surely not been forgotten by the sector since it was coined in 1984 by Robert Vogel, but the issue of savings probably has. So much so that I am told

Robert Vogel recently in the Gates Foundation convening on savings mobilisation said he should have called it the "forgotten 80 per cent"!

Time and again, research, pilot tests, success stories have proven that everybody needs to save; that people with low income do save; and more importantly, that they save significant amounts. However, at the same time, the amounts saved are much lower than actual capacity (and desire) to save and also that significant amounts are lost either to fraudulent operators or by theft etc.

Researches globally have shown that when the microfinance clients demand a savings service, what they expect are often very basic....what is key is that the product should meet the purpose for which they are saving.

So let us explore.....

What are the most common reasons for which the microfinance clients save?

What are the basic savings needs of the low income people? Can we identify some product attributes that they typically look for when they are selecting their service provider for savings?

Your contributions to these questions and related issues are welcome. Please also ask questions or bring new ideas on savings to the forum.

Madhurantika.

**Post by: Akhilesh Singh**

Thanks Madhurantika for hosting this conference,

Hope this would be good learning for all of us participating in the conference, let's come to you questions. In my experience with low income people, most of the times they use their savings to manage the emergencies in their life cycle. It may be their health related issue, fulfilling their social obligation in case of death of the family members or to manage the problems arises out of social and legal hazards. In case they fails to manage it from their savings whatever they have, they fall back upon borrowing from their friends, relatives and lastly on high cost debt from money lenders. Since the saving is the first place which explored by them in case of emergencies therefore accessibility becomes the second most important parameter after security. Security is on their first priority because of their low literacy level and limited information sources, which makes them vulnerable to choose the right place to save. As a result many of the time they are either cheated by the local financial institution or by their agents.

Akhilesh

**Post by: Abhishek Choudhury**

Dear All,

This conference is indeed an opportunity for us to gain new insights and learning.

As Akhilesh rightly pointed out, poor people save for emergencies in their life like health problems, death etc. While they do save for these, I think that poor people save more for the planned life cycle events of their lives, like higher education of children, marriage, starting a new business. These are often events that they can foresee and are self motivated to save for the same. Another common reason to save is the recurring events of life, like school fees, rebuilding and repair of houses after natural calamities, tide over low income seasons etc. While the need for saving for emergencies is felt, it is done only after saving for these foreseen events have been secured. This is not to say that

people feel that it is less important, just that with the limited resources that these people have, prioritisation is done this way.

In terms of attributes, I again agree to Akhilesh that savings and liquidity are the most important attributes, though not necessarily in that order always. How often do we see that people save in shady or unreliable institutions, knowing that their money is at risk, just because it offers them a place to save and liquidity. Infact, it can also be noticed that people save in a different institution of a similar kind even after they have been cheated in another organisation of a similar kind. Many times, the availability of a lump sum amount in times of need overpowers the security attribute.

Regards,

Abhishek Choudhury,

Independent Consultant

**Post by: Anant Natu**

Akhilesh has mentioned the two critical aspects of any savings instrument-Security and Accessibility. I'd like to add two more to it- Liquidity and Returns. Liquidity of the savings instrument is an important aspect and one that is highly valued by clients as what really matters to her in an event of emergency is whether there is sufficient cash in hand. Returns, I feel, is an attribute that is last and the least valued in the set of four attributes of Security, Accessibility, Liquidity and Return. Stuart Rutherford had illustrated in his book, Poor and their Money, how the poor, went so far as to even pay a negative interest rate to access the savings services (i.e. pay a service charge to avail the savings services).

From suppliers perspective, there are trade-offs involved in building all these four attributes into the savings product. Thus a very secure product, may not be readily accessible or a product giving good returns to the client may score low on liquidity aspect, and so on and so forth. Thus, I feel, that any savings instrument needs to strike an optimum balance between these four critical attributes. The final mix would of course depend on the requirements of the client.

Anant Jayant Natu

MicroSave

**Post by: David Cracknell**

Anant makes an interesting point on the fact that people are willing to pay a negative return on savings, this is true in Ghana (and West Africa generally) through a scheme known as Susu where collectors collect the same amount daily and then keep one days collection as their fee. The key is accessibility and convenience. However, when I asked a small circle of respondents whether people would opt for an institutionalized savings service if it were offered close to them over the Susu method, the impression given was "yes" because of greater trust with institutions.

Now there are attempts to increase the trust worthiness of the Susu method through institutionalizing it - Barclays have launched this service, and the Susu collectors themselves have come together in an association.

Best,

David Cracknell

MicroSave, Kenya

**Post by: C.Ross Coulet**

First of all, kudos to MicroSave, MicroLinks and any others who organized this important forum of discussion, information and, hopefully, cordial, professional debate.

Some of the issues that can be explored over the balance of time of the Speaker's Corner/Forum:

1. The definition of savings: Savings is not just the mobilization of deposits from those normally targeted by microfinance institutions (MFIs). Micro credit such as through credit-only MFIs is a form of intermediating savings mobilized in other forms and from other sources, both international and domestic. Micro credit is often bashed as only supply-driven. Micro credit, however, intermediates resources from such other "savings" sources as donor agencies, commercial banks, socially-oriented investors, large private voluntary organizations and NGOs, governments, as well as the general public and those targeted by MFIs. The issue for the Forum then is whether we expand the definition of savings to larger, third-party sources?
2. The form of savings: Savings comes in many forms, not just monetary. Monetary savings in the formal financial system of many subsistence, developing economies is a small percentage of other, more "traditional" savings forms. In such economies, savings often comes in such forms as being on four legs such as animals (cattle, sheep, goats, etc.), jewelry, gold, houses (in Benin, this was big with female clients to invest profits into building houses), sacks of grain as well as through traditional savings and credit associations (susus, SACCOs, tontines, stokvels, etc), and cash hidden in mattresses in villages. The issue and question for the Forum to help answer is how to increase the proportion of the monetization and deposit of such savings into the formal financial sector, including MFIs. Animals die. Gold and cash in mattresses can be either stolen or destroyed in fires. These savings should then be prudently, safely intermediated into productive activities such as enterprises.
3. The security of savings: Many individual savers in many countries, including developed ones such as the U.S., have lost their savings in institutions because of the mismanagement, fraud and rapaciousness of the institutions into which the savings were deposited. How do we more effectively increase the fiduciary responsibility and confidence of savings intermediaries such as MFIs such that the general public would convert its in-kind savings such as animals into cash and deposit into savings accounts? How do we get the cash out of mattresses and into the mainstream, formal financial system and economy?
4. Savings mobilization and MFIs: The mobilization of savings, their effective management and custodianship, and prudent investment are skills lacking in many a financial intermediary such as credit-only MFIs. The questions/issues here are: (a) how do such MFIs adapt and integrate savings mobilization into their operations; (b) whether some MFIs should remain credit-only; and (c) how the regulatory environment should change/adapt/accommodate MFIs that want to do savings mobilization?
5. Traditional forms of savings mobilization: How do we take and adapt the lessons and experience of such traditional forms of savings mobilization such as through Susus in Ghana, the MMDs in Niger, the tontines in other francophone countries, and stokvels in Southern Africa into the formal financial system?

C. Ross Croulet

Microfinance Advisor

USAID Provincial Economic Growth Program

Mansour, Baghdad, Iraq

**Post by: Hermann Messan**

Dear All,

The need for savings is crucial to low income people because this is probably the only way for them to face all the kind of crises they are more vulnerable to. The nature of some risk events such as diseases that result in an immediate need

of cash is the key factor that leads to poor people to value the liquidity and accessibility attributes of savings products or services.

Also savings is only the best (if not the only) way for them to face predictable life events such as schooling of children, wedding, baptisms. Because of this, poor people would also appreciate savings facilities that allow them to save tiny amounts of money on a regular basis so as to build lump sums that would serve for these events. But all the same the poor understand that they would always be facing some pressures to spend the money they are putting aside that why some will value some illiquid savings options whereby they can only access their money after an agreed period.

In West Africa, communities have been long used to the susu collector mechanism as an informal way of savings. These are a very successful means of savings with poor people because it is flexible (transaction at doorstep), secure (compared to other informal mechanisms such as ROSCAs where the group dynamic can be broken) and also because formal options of savings are either unavailable or too expensive to afford. In such a situation, poor people are even ready to pay between 3% up to 10% in order to save in a safe and flexible manner. Formal institutions have been trying to copy the susu mechanisms while improving on it by offering opportunity for emergency withdrawal (i.e. before term of the initially agreed period).

To summarize some of the critical values for poor clients as far as savings is concerned would be liquidity or illiquidity, predictability and regularity, safety, flexibility. The choice and prioritization of the savings options would depend on the market, the circumstances and the specific being faced at any point of time.

Best regards,

Hermann Fumilayo Messan | Marketing Specialist - Africa Hub | Innovations and Integrated Solutions

ACCION International

**Post by: Kwaku Berchie**

Dear friends,

I totally agree with David on the Susu Savings concept in Ghana. As a player in this field, I have realized that people tend to feel comfortable saving with an established institution because a lot of the Susu operators tend to run the ponzi scheme. Many people have lost their money through these bad nuts.

I must state here that the Susu savings concept has been in Ghana for centuries and only yesterday, 7th July 2008, the key players (excluding the banks and the savings and loans companies) were calling for governments intervention through regulations. As much as regulation is a good thing, I believe it will hinder the progress of the genuine operators.

Kwaku

**Post by: Irina Aliaga**

Dear David and Microsave colleagues:

- 1) When you mention Susu method you are referring to the Rotating Savings and Credit Associations (ROSCAs) as an informal credit and savings group method?.
- 2) Could you tell us more about the institutionalization of Susu method and its result in savings terms?

Irina Aliaga Romero

FUNDACIÓN PROFIN

La Paz, Bolivia

**Post by: David Cracknell**

Dear Irina,

My apologies, due to time zones, I was offline when this request came in. The idea is extremely simple.

No Susu is not a RoSCA - a Susu collector has many clients. Under this method a deposit collector collects deposits every day, normally the same amount, from a client. The deposit collector collects one days savings as his/her fee during the month, and returns the whole amount saved by the client at the end of the month. Collections are often made at the clients place of business so are very convenient for the client. The client has the regularity of savings, the discipline of savings, and the conversion of small sums into a useful amount.

The danger that was noted in some discussions I held in Ghana on related matters, that the deposit collector runs away with the money, or dies. Trust, as in any form of deposit collection is a major issue.

Regularity of saving is an important principle, as Graham suggests. My favorite example of this is Stuart Rutherford's Rickshaw lottery. When asked how much a Rickshaw Waller can save in a month he replies Tk.10, when asked how much he can save in a week he replies Tk.10, when asked how much he can save in a day he replies Tk.10. Why because that is the amount of spare cash he has at any one time.

The importance of this approach is demonstrated by the Rickshaw Lottery. Thirty Rickshaw Wallers pay Tk10 per day for a month, at the end of the month the Tk.9,000 collected can purchase a new Rickshaw, there is a lottery and the winner receives his Rickshaw. The winner now contributes Tk.20 per day, as he is saving on rent he paid on his old Rickshaw, so there is a little more in the pot at the end of the next month. With each lottery more and more people are paying Tk.20 per day. Those at the end of the queue obtain a Rickshaw at lower price than other members.

David Cracknell

MicroSave, Kenya

**Post by: Anup Singh**

Dear Anant,

Security of money is one of the prime reasons why people tend to save with a reputed institution. Today morning there was news on the local edition of Times of India that states that funds worth Rs 700 crores (\$ 170 Mn) has been embezzled by a company called Terra Cap Investments. Affected were 3000+ clients of rural and semi-urban clients from 9 districts of Uttar Pradesh. However these clients do not belong to the socio-economic band we are talking about in this forum but I was wondering that when the people at a notch higher than the target clients are not safe, how come we can assure security of there hard earned money???

Anup Singh

MicroSave

Lucknow

**Post by: Abhijit Sharma**

Savings is crucial for almost all poor households and most of them resort to credit in the absence of savings product. Graham has rightly pointed out medical and education as some of them. We have found that credit to medical purposes constitute a large segment of credit taken and if the 'right savings product' (with all the attribute mix) was available, they would have rather used that than the credit that they are presently using. Market studies therefore should be used

extensively to understand the financial behavior of the poor before designing the product for them.

--Abhijit Sharma, IIBM

**Post by: Brett Matthews**

Vogel's remark that savings are the forgotten 80% may have been casual but it is so true. To be able to reliably set aside money for the future, without fearing that you will lose it to flood, drought, disease, theft, or numerous other perils is nothing less than to be able to reliably plan for the future. Microcredit does not give people the confidence to be able to reliably plan for the future, because they can still lose everything when adversity strikes. Without safe, flexible savings instruments, credit has far less leverage in the fight against poverty.

Brett Matthews, Mathwood Consulting Company

**Post by: Graham Wright**

Dear All,

Just to reinforce Brett's point: It is clear that for all the talk of "virtuous circles of credit" microcredit is, and remains, debt. Many very poor people do not have the capacity to manage such debt, or fear to take it on; and even the not-so-poor often get into dangerous debt traps when they try to use microcredit to try to finance things such as school fees and medical expenses that would be much better financed from reliable savings services. Arguably, as microcredit markets mature and more service providers emerge, so the risk of over-indebtedness increases.

By offering credit only, we are asking the poor to run the marathon necessary to escape poverty, on only one leg . which is why the AIMS studies revealed that on average around the world around 40% of microcredit is diverted to "non-productive" activities (though quite why educating children or curing a sick bread-winner is "non productive" was always a mystery to me).

In the words of one respondent in MicroSave's work to understand the needs for savings services, "Credit may help us build up our businesses, but savings is what protects us . we need both."

Best regards

Graham A.N. Wright

MicroSave, India.

**Post by: Dhananjaya B.N.**

Thanks Graham A N Wright.

Its true Credit helps in asset building for poor while savings acts as protection. In any given situation chances of poor selecting business is less expected unless they have some enterprise skills. But many poor will always look for protecting the future for which Savings acts as key.

But why many organisation picks up the second option of the poor and goes for offering credit to the poor?

Dhananjaya B N, The Livelihood School

**Post by: Anne Mpendo**

Our experience with saving in Uganda is quite unique. Most people, poor and wealthy, do not make use of formal financial institutions to make savings. Instead they would rather buy assets to store their wealth, they would rather buy a cow, goats, a piece of land etc. These savings can be liquidated as and when the need arises, which needs may be, to send a child to school, to build a house, or to hire laborers to till the land, etc.

In this was then the savings needs for low income people are, having assets that can be easily liquidated. I am also of the opinion that in certain societies, having those assets (cows, goats, land) will garner a lot more respect from the community, than having loads of cash stashed away.

One other contribution I'd like to make is that both low income and higher income people need to be financially literate. Being financially literate will enable the client choose the best product to meet their needs. This will enable them ask the service provider questions that will prompt him/her to develop suitable products. Additionally, the service provider must be seen to be associated in the closest manner possible with the client. SACCO's in Uganda have thrived on the trust of fellow members making contributions and members managing the funds.

What are your thoughts and experiences?

Anne Mpendo

Director Research and Market Development

Capital markets Authority, Uganda

**Post by: Hermann Messan**

Hi Anne,

My experience with informal savings mechanism is that most poor prefer them because of the illiquidity factor. Women would like to keep their resources away from their husband (chicken, goat). Also men would like to keep some security that they can or cannot easily cash in when they are force to help their parents due to community support. Another factor that is important for them is the security of informal means of savings when it comes to the risk of loss for example land cannot be easily stolen compared to money under the mattress.

I have also seen many poor people valuing informal savings mechanisms due to high inflation rate or because of the rising cost of goods (Zimbabwe for example). In Rwanda and in most rural areas, farmers would keep some crops till the selling price is high enough so that once they sell it they can get enough money. Some farmers would keep their cassava in the farm for up to two years and will quickly harvest it and sell it in case they have an emergency.

Informal savings can also be a security for old age. In Benin, for example land and building is critical for any worker because it provides security and you can rent your building when you retire. It can also be a matter of social prestige. The income generating activity in which poor are involved can also prompt them to keep money in cash (under the mattress). I meet with many traders in Mali who would hide their money under the seat of their cars while traveling long distance to buy goods. This is often a result of unavailability of safer (or relatively cheaper) formal way of wiring the money/savings or accessing it from different locations.

Hermann Fumilayo Messan

ACCION International

**Post by: Suvarna Rani Gandham**

Dear Graham,

I quite liked the way you ridiculed why investment on education or cure of a disease should be termed non- productive. In this market economy now prevailing 'productive' means only quick money.

Mrs. Suvarna Rani Gandham IAS ( Resigned)

India Head- Oikocredit,

MD Maanaveeya Holdings & Investments (P) Ltd,

President: Passion for Global Peace,

Sugandha Saahitya Sourabhaalu

**Post by: Ali Al-Azaki**

Hi everyone,

Investment in Education and Health is productive since all activities depend on both.

**Post by: Stefan Handoyo**

Dear Micro-savings promoters:

Savings is basically the equivalent of our future spending. Since we are talking about something for future purposes, then it is very important for us know: 1) what our future needs are, and 2) how we spend our money today.

Before we talk about the nitty-gritty of savings products, I think it is important for us to understand that saving is all about changing the habit of people in spending their money today and to better plan their future expenditures. So, I underline it is about changing the habit and attitude of people towards their own spending behavior.

So, this entails that there is a need for a good and continuous education for people on why and what for they need to save. If it is said that savings is the forgotten 80% of the microfinance sector, this means to me rather that there is 80% of unexplored market. In any business education, if we want to explore a new market, then we need to create the new market itself. And how do we create the new market? Simply by educating the market itself and create a demand for the product.

On Micro-savings, low income people are not different from high-income people when it comes to reasons why they have to save or access a particular savings product. First, they will ask themselves questions on: Do I really need it? Do I have the capacity to save? Is my income just enough for my current spending? What do I need my savings for in the future? These are the types of questions that any microfinancier need to be carefully looking for the right answers for their low-income target market.

At first, there must a systematic training or education program that will convince people that savings is really good for them and for others in their families, long before we talk about the product specifications such as convenient, liquidity, security, fees, returns, etc. In a nutshell, we should help our future market for savings to plan their current and future spending carefully based on their priority household needs. In my experience, the easiest way to start this is by introducing savings to younger generations through both formal and informal schools. When children are prudent in their spending and they know that they need to save for their future expenditure needs, then little-by-little the society will also change, the habit of spending unnecessarily is changed. Because remember, in some developing countries it is a fact that poor people tend to spend more than what they earn without any plan, though their propensity to save is actually good.

This is one way of creating the future market of savings for microfinance institutions through a structured, systematic and continuous education for the poor. It is a long but worthwhile process.

Best regards,

Stefan Handoyo

**Post by: Anil Paul**

Dear all,

Savings for poor means procrastination of some expenses. If this statement is true, demand for savings develops out of compulsion or conscious choice. In this circumstance financial literacy training may help to inculcate the habit of savings among the poor.

Best Regards,

Anil Paul

MicroSave India.

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## **DO POOR PEOPLE NEED EDUCATING TO SAVE?**

**Post by: Graham Wright**

Dear All,

I read Stefan's posting below with much interest and not a little bewilderment .

For all the current fashion of "financial education", I have yet to see a situation where people need education on the basic need for saving . There is evidence from across the globe on how they desperately seek out (often highly insecure, loss-prone) mechanisms to do so. They understand only too well how savings can help them manage the endless barrage of shocks that besiege their households . as well as the need to save for social events, education etc. And as evidence from BRI, Grameen II, Equity Bank, BURO, and others that have designed and rolled out market-led savings services, clearly shows, once the product is right, and the institution is trusted, people will flock in overwhelming numbers to save there.

Where I fully agree with Stefan however, is the need for financial education around some of the more complex savings products - for example contractual savings or recurring savings products. These often need to be "sold" to customers (although in environments where they are well known/understood amongst poor communities, such as Bangladesh, even this is not necessary). This can also help us with one of the dilemmas of financial education - combining it with product marketing can make it a part of the business rather than a discrete, under valued and limited corporate responsibility exercise.

Best regards,

Graham A.N. Wright

Programme Director

MicroSave

**Post by: Harish Chotani**

Dear All,

On the subject of money wisdom, entrepreneurs who are availing MF services from MFI are quite wise. The learning goes like this:

1. When entrepreneurs get the opportunity to infuse money in their business, they use their savings first. Approximately 25-30% of savers are able to withdraw their money use this opportunity. My experience in Africa also shows that in my portfolio about 25% of women clients will ask for money first.
2. Entrepreneurs also pay back quicker when they are able to have access to their savings.

3. Unfortunately, majority of the savings products are frozen one that actually deprive the savers access to their funds.
4. Savers do need education on the spending on social matter (non financial yielding matters).
5. In Afghanistan, BRAC could mobilise savings (mandatory only) upto 27% of their total lending portfolio. VSSU, SEWA bank is also providing various savings products including term savings.
6. Current Savings account require a service window which is most time a challenge for MFIs besides some regulatory & license constraints.
7. Let savings in the current MF practice be not like a letter and the letter box (one way process).

Harish Chotani

**Post by: Anup Singh**

Dear Graham,

In my views, savings comprises of two parts; first where the clients are to be motivated and encouraged to save and second where the institution offers such services. In most of the cases the second part is missing.

In my experience with institutions currently operating as NGO-MFIs, the reasons savings are offered (not why it is being demanded by the clients) is that it helps them mobilise funds at minimal costs and thus the product design is not as per the demands of the clients. In recent times, microfinance scenario in India has changed quite a lot and the MFIs tend to switch over from SHG model (savings oriented) to more -profitable and upscalable JLG model (credit oriented). Under these circumstances, MFIs tend to stop offering the savings services without understanding the implications of doing so. For one of my MFI partners, I was doing a study (post-savings services) and it revealed that 83% of the drop-outs in that month was because they stopped accepting deposits. Here a very important question for us to think is “How to be concerned about upscaling and sustainability without having to stop the savings services for MFIs changing there model of delivery?”

Anup Singh

**Post by: John Jepsen**

In the volatile Haitian environment, many see savings as a mechanism to avoid or mitigate future shocks – economic and political as well as typical lifecycle events – deaths, sickness, marriage, etc. (we are also seeing insurance options enter the market and dialogue expanding rapidly). Asset generation or securitization is also as important for certain populations. Within the ‘asset generation’ rubric, it seems as if there is a growing trend for donor programs encouraging savings options to targeted, vulnerable populations – most likely with few existing assets or without a microentrepreneurial livelihood. In this model, savings accumulation is viewed as an intermediary step between small grants or guaranteed employment for highly vulnerable populations and future access to microcredit – once skills and/or entrepreneurial activity is proven. I would imagine this type of saver has much less sophistication, general business acumen, and much smaller and vulnerable monetary assets than an existing entrepreneur with a relatively active livelihood. Perhaps the comment is obvious, but the approaches and ancillary services to each type of potential saver significantly differ. Do others see such models emerging? Do people find that the savings as an intermediary step is only successful if tied to a donor program with close technical assistance and training to the new saver/microentrepreneur?

This will be particularly interesting in tomorrow’s discussions on the supply side of the equation and how marketing (including pricing) approaches and the security of savings portfolios differ for each potential saver type.

John Jepsen

Deputy Chief of Party

DAI/Haiti MSME

USAID Project

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## **WELCOME TO THE FIRST DAY...**

### **Post by: Paul Kiyangi**

I first of all want to thank all the organisers of this conference and say it is spot on. In Uganda savings is a culture that is not really new mostly dwell more on the borrowing culture in fact customers open accounts in anticipating of getting loans. This is attributed to so many factors among which are that Ugandans experienced a lot of bank failures and people really lost a lot of their savings since the central bank could only cover firstly the insured amount of 3 million. Secondly, the exorbitant bank charges where the monthly ledger fees can wipe out the whole balance hence have your account closed. Thirdly, low interest rates on savings also is not a motivator for many poor financial advice where savings are not adequately turned into wealth therefore all this is tricky however we are seeing a positive trend with a positive shift in public confidence in a now strict regulatory environment by the central bank otherwise people do want to save for a tomorrow that's the Uganda case but generally on the microfinance level savings would be meaningful if they are directly correlated with accessibility to borrow. That's my opinion.

Paul Kiyangi

CMF Uganda

### **Post by: David Cracknell**

Dear Colleagues,

Reasons for savings vary considerably. Common needs for cash, include cash-flow smoothing (for immediate needs) and seasonality in agricultural areas especially. Other needs include investing in businesses, increasing stock levels, is a significant form of savings for people running trading businesses, even those at a relatively small scale. Longer term needs often revolve around the lifecycle - birth of children, education, weddings etc., and risk management, health, funerals and death. A major reason for saving in many countries is to fund remittances to support elderly relatives, for example sons or daughters sending money from Nairobi to rural areas using Safaricom/Vodafone's M-Pesa, which is the fastest growing financial service in Kenya.

Products targeted at meeting specific underlying needs are often successful. One of the keys, as shown by the expansion of Equity Bank and M-Pesa is designing appropriate delivery mechanisms that are low cost, trustworthy and accessible. The demand for using savings services is very much there.

Best Regards,

David Cracknell

Africa Programme Director

MicroSave

Kenya

### **Post by: Suvarna Rani Gandham**

Why people save globally and why Indians in particular like to save? The reasons may be quite different. Why rich people save and why do poor people save? The answers are different. What do they save also differs.

I wish to confine only to the poor people's need to save. Indian poor basically till now have no assured social security, no medical insurance and other measures to absorb the shocks. Most of the times however they do not seem to be saving for these at all. When ill health strikes them down often they are unprepared. I hardly saw the poor saving for health contingencies or even for old age preparation. I also have not yet come across the poor saving in a systematic way for seeding a capital for their micro business or working capital needs.

And in Indian conditions the poor people save basically for marriage of daughters particularly. Only in recent times they are saving for the education of children particularly for boys. But once the ladies join the Microfinance program they realise that they can save to enhance their capital for business progress and so they do it.

Another thing popular in Andhra Pradesh particularly is monthly putting poor people's money in Chit funds. In fact most of the poor will be participating in this kind of practice which is not exactly saving. In the absence of good protection mechanisms it not rare that they are cheated also. But chit fund is quite prevalent in rural South India.

Mrs. Suvarna Rani Gandham IAS ( Resigned)

India Head- Oikocredit,

MD Maanaveeya Holdings & Investments (P) Ltd,

President: Passion for Global Peace,

**Post by: Murtaza Chowdhury**

Special thanks goes to Madhurantika for hosting this conference.

Savings, as we all know, is an integral part of Microfinance. From my experience at BRAC, we have noticed that our beneficiaries tend to save with us taking advantage of the interest they earn rather than safekeeping it. Years of affiliation with BRAC has also sensitized them about the importance of old age security money and for children's future. Gaining the trust and confidence of the poor people is the number one challenge in mobilizing savings. Many fraud organizations have also cheated many rural people of their hard earned money. In a stiff competitive Microfinance market (considering BRAC, ASA, and Grameen Bank), interest rate on savings deposits plays a significant role for the rural people in choosing the service provider.

Murtaza Reza Chowdhury

Program Manager - Savings

Microfinance Program

BRAC

**Post by: Abhishek Choudhury**

Dear Suvarna,

It is true that poor people prioritise their savings to first meet the recurring needs like working capital for existing businesses, repair of houses after natural calamities, children's school fees etc. Then they save for the planned life cycle events like daughter's marriage etc. This leaves them with little to save for emergencies like health, accident or for starting a new business or for old age. However, it is not that they would not like to save for the same. They would save for these long term needs if they found a suitable product where they can save. Mostly, there are not enough reliable institutions offering these services and people cannot trust everyone with long term savings for 10-15 years. Also, the product features like minimum deposit size, frequency of savings, documentation etc. may not be suitable to them. If

these aspects are taken care of, we might see poor people opting for long term savings. In fact, in North East India, I have noticed that, Life Insurance offered by LIC of India, the public sector insurance agency of India, is hugely popular as a savings product, where people are able to save in small amounts, deposits are collected at the doorstep by the agents, there is high security and people are assured of a lump sum at the end of 15 years. This is highly popular as a long term saving product.

**Post by: Brett Matthews**

Dear Ms. Gandham:

Your insights on Indian practices are very interesting. But wouldn't you agree that saving is not just a matter of saving in cash. Poor people actually are not so different from the rich when it comes their savings goals. To secure their retirement they acquire land. To secure safety from adversity they invest in their social networks, especially extended family. To build homes they accumulate building materials. To pay for schooling they acquire livestock.

In the absence of a safe place to put their cash, they save 'in-kind' in a variety of ways. And because their assets are few and their safety nets thin the focus is on risk management.

We often think that saving means saving 'in cash' or in an account, but really poor people are trying to do the same things the rest of us are, but in a non-monetized context they have to be far more resourceful.

Brett Matthews

Mathwood Consulting Company.

**Post by: Abhijit Sharma**

Hi ! Welcome everyone to the savings conference. Thanks to Madhu for hosting it !!

Savings is an important tool to mitigate risk and every households uses it. Unfortunately, somewhere along the line of providing financial services this got missed and the perception grew that poor only needed credit. Many studies prove that poor save and save for various purposes. And sadly a lot of times poor resort to credit which could be taken care of by a savings product. As rightly pointed out by Graham medical is a typical case. I studies carried out by us, we found that credit for medical purposes were quite high and in the absence of savings product, poor resort to credit for this purpose. Savings is therefore very important and it is only by understanding the various needs associated with the poor that we can design appropriate products for them. Market studies therefore assumes crucial importance in this context.

-Abhijit Sharma, IIBM

**Post by: Narasimhan Srinivasan**

Dear all,

It has been an overwhelming flood. It seems that all of us had "saved" up our thoughts for this discussion. There is a rich outpouring of views and it might take a while to read through all the messages and gain insights.

I want to raise some issues on the savings behaviour.

I. While many save for emergencies, lifecycle events, predictable periodic expenses, livelihood activities and so on, do we have information on how many save for their retirement in the informal and unorganised sector? Is it seen as a critical need and how much of our attention is focused on this?

2. If viable health insurance is available, whether there is a change in savings behaviour of especially those who save for emergencies? Is there any study or research into this? As a continuation of the same thought, whether availability of risk mitigation products would tend to switch surpluses of poor from savings to risk premium?

3. Is there any evidence linking financial behaviour of people - inflation to borrowings and stable economic conditions to savings, specially among poor?

4. While savings is desirable and a dire need of the poor, would it be seen as acceptable behaviour to borrow to acquire assets that could be paid for over a long term. In such a case repayment of the loan could be seen as a variant of savings, where the person has acquired the capital value of savings in advance! This is true in case of investments in land and house.

5. What do the poor do to counter the erosion of the value of savings? The surplus savings when periodically converted into assets with a capital appreciation possibility could ensure protection against inflation. Is there any evidence from the field? How successful are such attempts?

Best regards

N.Srinivasan

**Post by: Sachin Kumar**

Dear All,

I think it's very much clear from the discussion that micro-credit is not a universal need of the poor, but the savings definitely is. And this can be easily validated with our experiences of the poor savings either in form of cash (with local money-lenders, and paying for this service also) or in kind (buying livestock, silver etc.). Even they understand very well that savings in kind is always a problem in terms of security, liquidity and others. However in absence of reliable and accessible financial institutions, they still prefer savings in kind for immediate and future needs/emergency. Hence, in short, the most common reasons for which the microfinance clients want to save is:

\* To meet predictable expenses e.g. school fees of their children, meeting social and religious obligations e.g. marriage, pilgrimage etc.

\* To meet contingency expenses e.g. hospital expenses, death in the family, untoward natural calamities perhaps also

\* To meet livelihood related expenses e.g. meeting working capital and fixed capital needs of one's business, to arrange for traveling expenses while going for the job search from one's home town to the other place

As already showcased by Grameen Bank and other federations in India, the poor seek to have product attributes bit or utterly different from the savings products designed for the rich or well-off class. The product attributes for the microfinance clients could be:

\* Safety

\* Liquidity

\* Flexibility

\* Accessibility

\* Returns

But there are other factors which influence the decision of the poor whether to save their hard earned money with the financial institutions or not. Or in a way the poor always weigh upon whether to save with the local person or in kind, or with the nearby post office or regional rural banks.

Can someone highlight specifically on the product attributes so that it become useful for those having savings services for the poor (mainly for cooperative, regional rural banks, or postal offices)?

Regards,

Sachin

**Post by: Angela Wambugu**

Dear Sachin,

I agree with the attributes. Here are my thoughts...

**Safety** - The poor are vulnerable since their incomes are low. They would not want to loose their hard earned but limited resources. Any loss would impact heavily negatively on them.

**Liquidity** - Due to limited resources, the poor need liquidity to be able to easily meet immediate resources needs as they arise such as emergencies.

**Flexibility** - Closely related to liquidity and accessibility, this may include being able to access the any amount any time i.e. no restrictions on withdrawals, and ability to deposit any amounts as low as possible. Again it is due to the limited resources on their hands.

**Accessibility** - A lot of the poor operate one-man/women micro-enterprises. They would prefer services that are close to their businesses so they do not have to close shop for long hours to travel to the FIs.

**Returns** - The hope is that their limited resources would grow and help them get out of poverty.

But another key issue that influences the choice savings services to go for is perception driven by how different institutions position themselves. For instance, in Kenya, banks have for a long time positioned themselves as for the high end, which has alienated them from the low income people, despite them being strongest on the attribute of security. On the other hand, a lot of people lost their money recently through fraudulent pyramid schemes which promised high returns. The initial investors in these schemes got huge returns which created a strong perception on returns but later they crumbled. Basically, people buy services on the basis of perception. Therefore in addition to having the right attributes, work needs to be done on creating the necessary perceptions to draw people to buy the services. This of course has to also be matched with delivery on the attributes. A good example is Equity Bank in Kenya, which positioned itself as the bank for the low income and has endeared itself to this target market and also delivers on the attributes that matter to them e.g. affordability, safety, liquidity, etc

Regards,

Angela

**Post by: Motaz El Tabaa**

Dear Angela,

I totally agree with what you described as the drivers of saving. On the other hand and to match the need we have to think about:

- Emergencies

- Short term needs
- Cash management
- Investment
- and, finally, financial security

I think this are the main reasons behind the savings. And the problem is how to design flexible product to meet these needs, taking into consideration the small amounts available for the poor to do this. Yes, the poor have the same needs of the rich people and they seek for a product to match with their needs, but most of the microfinance institutions dealt with the savings as collateral for their loans or as a product to deliver to someone who have no other choice. I think we have to think more how to solve this issue and provide the poor with what they really need. Most of the solutions , I think is to establish in addition to the simple saving product, a sort of investment funds, with small stakes to be provided for the poor.

Thanks,

Motaz El Tabaa

**Post by: George Muruka**

Dear Motaz,

You are very right. MicroSave work and experience in west Africa supports your suggestion. Working with a financial NGO in Ghana recently, I discussed ways of encouraging group members to save. The most viable idea in a brainstorming session was developing a "Group Investment fund" for the MFI client groups where members would be making regular savings and can withdraw from to meet various needs, upon deliberation, and approval by the group member (facilitated by the MFI Field Officers).

What ever savings products - clients have to know they own it, it is accessible and more importantly is has some returns. Back to East Africa - Returns is a big issue. Few people want to lock up savings in banks and MFIs. It is motivating to see your chicken, goat, cow or cash grow. In Kenya particularly, people are hungry for investment options. Middle to low income earners rush in droves to pyramid schemes and stock market. So banks have had to push their savings products.

Most MFIs get a rude shock when introducing Individual lending. They realise that most of their loyal older clients do not have assets to secure larger loans. Reasons: the income is ploughed back - "circulated in the business stock", not saved, let alone purchasing extra assets. So how do we motivate such clients to save? They need to see savings as an investment option beyond the basic attributes of savings services - safety and liquidity. Will my money be safe with you? Yes or No. Will I get it when I need it? Yes or No. I call these basic attributes since they are primary concerns that have to be in place before anybody considers saving with a mechanism. Motaz, investment fund, can motivate savings! The task shifts to savings service provider to deliver on the promise of returns.

George

MicroSave

Kenya

**Post by: Motaz El Tabaa**

Dear George,

Thank you for your comment, I totally agree with you, but an important obstacle will be raised here, most of microfinance institutions are considering savings as a financing element for their lending activity, and directing their clients to investment will reduce the flow of savings, so will represent a drain on their cash flow, so mostly they will not favor this trend and continue what they are doing, ignoring the client needs.

Thanks,

Motaz El Tabaa

**Post by: Shruti Gonsalves**

Dear All,

I guess all of us agree that both Savings and Credit are required/ needed by the poor clients. The point to be discussed is that how do we provide savings to these clients on sustainable basis where the legal framework in India does not allow MFIs to provide this services? To some extent it is being provided by the Cooperatives having MF programs/ or Cooperative banks like Chetana Mahila Sahakari Bank, Mhaswad or SEWA bank Ahmedabad.

As mentioned in David's mail, if Banks like Barclays are implementing the 'Susu' method for providing Savings to the poor clients it is a welcome initiative. What about the Banking Correspondence model? Even though RBI - central bank of India promotes this model, not many commercial banks in India are keen to implement it.

Appreciate if we can have some discussion on this issue.

Regards,

Shruti

**Post by: Tara Nair**

After many decades of collective experience, we all definitely know the virtues of savings. We also seem to have a fairly good understanding as to why the poor and low income households need to save and why they can't. The latest study report of MicroSave has reiterated these effectively.

Taking off from there, I would like the forum to devote some time to discuss the ways of harnessing the potential possibilities. We know that the SHG movement has kindled hopes of evolving a thrift based financial services model, relevant to local resource need/ use. Has this belief been eroding gradually? If so, what factors are responsible for it?

I tend to believe that the situation is fairly complicated now. We introduced multitudes of poor/ low income households to the dynamic game of borrowing and repaying. We now tell them to think about future security and invest in insurance and pension plans. But we spent precious little time in imparting financial literacy and discipline (for want of a better term) to the poor who may or may not be clients of a microfinance programme. We almost told them that saving is a virtue as far as you get loans against it. So they deposit some stipulated amounts in the microfinance kitty (often adjust loan installments against them) and continue to hoard small monies in highly insecure places and routinely lose them to floods, fires, insensitive husbands.

How do we look at savings? How do we like our clients to look at savings? What is the effective capacity of the poor to save, even while their propensity seems to be high? It is common observation that much of the saving is done by reducing food consumption below acceptable levels. This is especially so in the case of women.

Shouldn't we look at these more closely and seriously?

Tara Nair, FWWB

**Post by: Hugh Allen**

Dear Tara,

You raise an interesting point about the wariness with which people are ready to save in community-based and MFI instruments. I am often struck by this, especially in comparison to the much larger amounts they are commonly prepared to invest in ROSCAs. I think that a very large part of this reluctance comes from access. Many community-based and MF systems lock up savings against an often ill-defined and punitive method of withdrawal. This is nominally to ensure the liquidity of a loan fund, but I think that withdrawal restrictions severely inhibit the willingness of the poor to save for the long-term, in large amounts, because savings are principally useful when they are both safe and accessible. I have noted in ASCA programmes in Africa that savings rates jump enormously when savers can lay their hands on their money, on demand. This seems normal and natural and I would change my bank if they prevented me having access to my own assets. But it is somewhat less common in microfinance.

Regards,

Hugh

**Post by: Peter van Dijk**

Dear all,

I am quite surprised with many contributions.

Although performance have changed in some (often due to massive influx of foreign donor money), formal and informal financial sectors in most countries I worked in (in nearly all corners of Africa, in Central and Eastern Europe and in some Asian countries) and with confirmation (studies and already contributions of some of you) from many more, were and mostly still are savings-led.

But the strange thing is in reading for instance CGAP Clear reviews of countries' MF sectors, after the report stated that postal banks, government savings schemes, savings banks, municipality banks, coop banks (or building and other mutual, member based societies), S&C coops (or credit unions), ROSCA's, ASCA's, burial societies, stokvels, (E)Susus, tontines, and so forth have many more clients and much more funds than all NGOs, SHF, micro-credit companies put together, the document continues by limiting MF to loans, borrowers, and the need for funds and change. I find this amazing.

How many participants here know that world savings day (during decades supported by UNO activities world-wide) takes place since 1924 on 31 October every year and is very popular in many countries still?

What does this mean? Have many MF supporters no real interest in learning from experiences from the past or from different areas? I bet that if most people on this forum would dig into the past and realities of the countries they work in they might be surprised by the performance and lively interest in and knowledge about savings activities and culture. I recommend they do so before recommending new savings promo and training activities.

Kind regards,

Peter

**Post by: Surisetti Srinivas**

Dear All

I am Surisetti Srinivas, work for The Livelihood School, BASIX, Hyderabad.

I fully agree with Peter on the relevance to appreciate the past experience and innovations and it reminds me the responsibility of sharing the learning from the Savings Behavior Study by The Livelihood School. This research has given us a few new insights on the savings behavior and the savings services, on one hand and substantiated the learning and conceptualization based on, the earlier research on the other.

The financial diaries and the case study on savings behavior of the poor in select areas have indicated that in the urban context the savings down behavior, in the form of building a house or similar assets, and in the rural context it is more savings up, in forms of some commodities and goods, including grains, livestock, and utensils or in financial forms to meet the requirement of large sums and insurance policies are used as long term investments. The poor have been aware of the popular endowment schemes of the insurance companies; part of this section has been paying the insurance premiums over a period of time, with a purpose to meet large expenses such as marriage, functions, and health and education expenses.

The purposes of savings are diverse. It has been observed that different people save for different purposes. Besides education, business, housing and health, some of them required fast and large sums of returns such as investment on a business enterprise, creating an asset and meeting emergencies. Another factor useful for people to save has been increasing their opportunities for credit at a later point of time.

Savings through savings and credit groups also capacitates women to borrow bigger sums, through bank linkage or other linkages of those groups. The poor has greater tendency to save through informal mechanisms and means of savings as they provide a conduit for building social capital, beyond other facilitating factors such as convenience, access, liquidity and so on ..however regularity influenced by compulsion/discipline as raised by Graham has been significant. Savers preferred safety, flexibility in terms of amount and frequency, convenience and the extended features such as loan against savings and insurance coverage to an extent. Another aspect of service preferred has been the simple procedures.

Commodity forms of savings, with door to door mobilization and depending on the seasonality has contributed significantly in the tribal areas to address issues of poverty and food security, but also found to be successful in provided a useful opportunity of savings for these communities.

The savings service providers have also ensured that the products are customized in terms of the size, frequency and bundled with other services such as entertainment, insurance and the common factor has been door step/service within their villages. Trust, both of the institution and of the agent who actually deals with the savers; and the processes that are followed (such as giving a printed certificate or a card) play a critical role in savings mobilization.

Peter: Thanks for reminding 31 October World Savings Day.

Regards, srinivas

**Post by: Suvojit Chattopadhyay**

Has there been any study on how the NREGS affected the savings behaviour in the country? The act admittedly has not worked as well as we would all like, but in places where it did, it must have put some surplus amounts in the hands of poor households. In some places, the wages were also paid through bank accounts (like in Kerala) - what implications does this have for rural savings?

Suvojit Chattopadhyay

## FINANCIAL LITERACY

### Post by: Anne Mpendo

Our experience with saving in Uganda is quite unique. Most people, poor and wealthy, do not make use of formal financial institutions to make savings, Instead they would rather buy assets to store their wealth, they would rather buy a cow, goats, a piece of land etc...These savings can be liquidated as and when the need arises, which needs may be, to send a child to school, to build a house, or to hire laborers to till the land etc. In this was then the savings needs for low income people are, having assets that can be easily liquidated. I am also of the opinion that in certain societies, having those assets (cows, goats, land) will garner a lot more respect from the community, than having loads of cash stashed away.

One other contribution I'd like to make is that both low income and higher income people need to be financially literate. Being financially literate will enable the client choose the best product to meet their needs. This will enable them ask the service provider questions that will prompt him/her to develop suitable products. Additionally, the service provider must be seen to be associated in the closest manner possible with the client. SACCO's in Uganda have thrived on the trust of fellow members making contributions and members managing the funds

What are your thoughts and experiences?

Anne Mpendo

Director Research and Market Development

Capital markets Authority, Uganda

### Post by: NP Mohapatra

It may be mentioned that Financial Literacy is one of the key areas of National Rural Financial Inclusion Plan as envisaged in the Committee on Financial Inclusion (Rangarajan Committee). The committee report says that in order to educate vulnerable group, it is essential that the Financial Literacy Programmes are being encouraged.

What is Financial Literacy?

Today's complex financial services market offers consumers a vast array of products and providers to meet their financial needs. This degree of choice requires that consumers be equipped with the knowledge and skills to evaluate the options and identify those that best suit their needs and circumstances. This is especially true for populations that have traditionally been underserved by our financial system. Financial education is also essential to help consumers understand how to prevent becoming involved in transactions that are financially destructive.

Several broad categories of financial literacy activities can help potential bank customers participate in the financial system and help banks strengthen their communities :

Basic financial services and asset building programs provide a working knowledge of financial products, financial planning, and an overview of the banking system.

Credit management and repair programs enable individuals to correct and learn from previous financial markets.

Homeownership counseling prepares individuals for what is often the largest single investment in a lifetime.

Education aimed at recognising and avoiding abusive lending practices can protect individuals at risk of obtaining inappropriate loan products.

Small business and microenterprise technical assistance provides entrepreneurs with practical business knowledge.

What are the benefits of financial literacy programs?

Assists residents of lower-income neighbourhoods build wealth and participate in the financial system.

Enhances a bank's visibility in the communities it serves and contributes to a larger customer base.

Increases access to depository institutions by educating consumers about available products and services.

Enables consumer to make better informed choices in the financial market place.

Participation in these programs may receive consideration under various Community programmes.

Such programs must have a community development purpose, which is defined to include community service targeted to low and moderate income individuals.

Examples of bank support for financial literacy include :

Loans to organisations to be used for financial literacy programs targeted to low and moderate income individuals.

Investments in, or contribution to, a program, activity, or organisation that provides financial services education programs targeted to low and moderate income individuals.

Providing bank staff to serve as educators in financial literacy programs targeted to low and moderate income individuals.

What are some examples of financial literacy activities?

Basic financial services and asset building programs

School Age Programs

School saving programs and savings clubs in elementary schools.

Educational programs that progress in complexity as students get older.

Field trips to banks, guest speakers, investment clubs, stock market simulation games.

School based bank branches.

Adult Programs

Presentations to local community and religious organisations.

On-the-job financial literacy seminars conducted in conjunction with employers.

Educational outreach tailored to consumers with limited English proficiency provided in partnership with community based organisations.

Counseling, training, and offering of Individual Development Accounts (IDA).

Providing assistance at Volunteer Income Tax Assistance (VITA) sites offered by the Internal Revenue Service (IRS) which can help qualifying low-income individuals apply .

Credit management and repair program

Assistance to organisations that offer consumer credit education programs.

Providing staff and materials for credit training classes.

Homeownership counseling

Providing financial assistance to support programs or providing staff to lead classes.

Jointly offering targeted counseling classes with realtors, private mortgage insurers, and employers.

Recognising and Avoiding Abusive Lending Practices

Supporting educational campaigns aimed at warning borrowers about these practices.

Providing financial support to organisations that help individuals target and avoid some financial products that might pose threats to them.

Small Business and Micro enterprise

Technical Assistance

Providing seminars on topics such as developing a business plan.

Providing financial and teaching assistance to business development centers and small business incubators.

In US, The Financial Literacy and Education Commission, representing 20 federal agencies, published “Taking Ownership of the Future : The National Strategy for Financial Literacy.” This national strategy assesses the current state of financial education efforts and outlines a plan to improve financial literacy across the country.( source-Financial literacy workshop,Washington,12 June 2008)

In India, RBI has developed some materials for Financial literacy. ICICI bank and SBI are continuously coming up with ads in papers. NABARD has taken initiatives to launch the pilot project in 5 districts of Maharashtra in collaboration with LIC. The broad areas that can be covered under financial literacy programme may be as under;

Principles of Financial Planning

Income & Expenses Tracking

Financial Markets

Overview of Financial Products

Real Estate, Bank Deposits

Company Fixed Deposit

Gold as investment

Public Provident Fund

Postal Savings Schemes

Life Insurance Products

Unit Linked Plans

Annuities

Mutual Funds

Stock Markets

Asset Allocation

Life Cycle Stages of Investing

Tax Planning

Retirement Planning

Building your Children's future

Building & Organizing your Financial Plan

Financial literacy is a prime intervention for all financial products including saving in future. All are requested to contribute further in this area.

NP Mohapatra

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## **WELCOME TO THE FIRST DAY**

**Somy John**

Dear All,

As Graham rightly pointed out, buying assets out of loans will form major part of savings. Though, housing loans have longer terms, the participatory method of structuring the loan product will definitely help the poor to bring into real habit of savings. The concept of SAVE & BUILD is a real example of how savings can lead to asset creation. As many of the members of the forum suggested there should be some firm objectives which may lead to the introduction of savings products, otherwise it may not sustain. The livable and lovable home is a dream of every individual and the impact it provides after having a home is enormous. There are MFIs which promoted housing along with savings product and completed the repayment tenure successfully. Once the habit of saving inculcated out of the strong motivation/objective, the same habit leads the person to repay the loan as well as to save more for the creation of other assets.

Thanks and regards,

Somy John

**Abhijit Sharma**

Dear All,

I would like to add another issue to those posted by N.Srinivasan. Does the existence or absence of social capital affect the savings behavior? For instance, the risk perception of households embedded in communities where social capital is large would be much less than those where the social capital is much less or absent. This should affect savings behaviour. Any views, studies or experiences on this?

Abhijit Sharma

**Graham Wright**

Dear All,

A few tentative responses to the excellent questions raised by Abhijit and Srinivasan below:

Q. Does the existence or absence of social capital affect the savings behavior?

A. Definitely - it affects the functioning of most trust-based informal savings systems (RoSCAs, ASCAs, Savings clubs etc.) and thus the number of people involved in each group. I have always found the size of these informal groups an excellent proxy for the level of social capital in a community. Thus in cohesive mountain village community, you will often find RoSCAs/ASCAs of 40 plus members, but by the time you get to urban centres with fragmented communities, the typical size of a RoSCA/ASCA is 6-10 people.

Q. Are products focused on savings for old age seen as a critical need and how much of our attention is focused on this?

A. With the growth of nuclear families, poor households are increasingly concerned about this. As the evidence that their children will not necessarily look after them, their parents, are beginning to look at "pension" products. Given that cash-based savings are likely lose their value to inflation, building low cost housing to generate rental income is often a favourite "pension scheme" for older people in urban areas . as is land for leasing out in rural areas. These are valued because they generate regular (if limited) streams of income for relatively low amounts of physical work.

Q. Can we think about buying assets on loan as a form of savings?

A. Yes, absolutely!! Above and beyond housing loans (which, Grameen Bank and others will tell you, are far more risky because of their longer term), there are several financial institutions in India offering gold loans as a form of programmed savings. This capitalises on something that has perhaps been inadequately discussed in this virtual conference, namely the importance of discipline/regularity in savings - it is this that makes RoSCAs/ASCAs and contractual/recurring deposit products so popular across the globe.

Best regards,

Graham A.N. Wright

MicroSave, India

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## **SOCIAL CAPITAL**

**Post by: Brett Matthews**

Dear colleagues:

On the matter of social capital I'd just like to add that I've always wondered the extent to which social capital can impact the purchase of risk-management related financial products -- especially insurance and to a lesser extent savings.

If poor people are actively 'investing' in their social networks so as to ensure that in the case of an emergency other villagers or extended family from the city will help them out, how interested will they really be the additional insurance investment?

In financial literacy training we sometimes attempt to tell poor people that insurance is good, but don't ask if for them it is trade-off (they can afford formal insurance or informal but not both). Perhaps more important, we don't ask ourselves if our solution is actually as cost-effective for them as their own! We need to come up with some way of measuring the true cost poor people pay for 'social' insurance.

Brett Matthews

Mathwood Consulting Company

**Post by: Lisa Parrott**

Dear Brett and others,

I have been looking at the issues around social capital a bit. One definition that is used is the following: social capital includes the institutions, the relationships, the attitudes and values that govern interactions among people and contribute to economic and social development (Grootaert & van Bastelaer, 2002). Essentially, social capital can create assets, which is also the goal of savings - asset building, usually for future use.

I don't know of any studies looking at the trade-off of social capital and cash savings or insurance, but I know that when times are hard, many people draw on their informal networks and relationships that can provide them access to cash (or other needed resources). I think people do invest in social networks as a form of protection and "insurance" for the future. However, the returns might be less obvious and the risk high. What if you go to draw on that social asset and the person cannot give you what you need? Perhaps when cash and/or insurance schemes are not available the best way to "protect" yourself is in social networks: a community safety net of sorts. Do you have any documents or research on social capital and savings that could be shared? Obviously social capital is a huge part of informal savings and loan groups.

Thanks for stimulating thinking on this,

Lisa Parrott, Africa Advisor, Livelihoods, Save the Children USA

**Post by: Brett Matthews**

Dear Lisa:

You are probably aware of the same literature I am -- Putnam on the basics of social capital, and van Bastelaer taking it to microfinance to some extent. But I'm aware of no efforts to estimate even the scale of magnitude of the relative costs/benefits in monetary terms. There has been some work in sociology on this -- I keep meaning to give a good read to Mark Granovetter, 'The Strength of Weak Ties' (American Journal Sociology, 1973) which seems to touch on this. I don't know if it can help, but for what it's worth, I've posted it here.

**Post by: Smita Premchander**

Dear Brett,

I do agree that illiteracy is a constraint. Sampark faced this problem, 98% of our group members are illiterate! We had the following strategies:

1. We trained ALL members, many illiterate women too, if we had concentrated only on literate members, they would have taken more advantage than others. This happened in the first two years, we STOPPED building clusters, just trained SHG women till the transparency of financial transactions was established.
2. Now there are women leaders who watch and engage with all transactions, even though they are illiterate, yet they know every transaction, and they monitor the cluster associations very well.
3. Over time, we encouraged women to bring in book writers and cluster staff, and pay them. These young people were initially keen on being Sampark staff, even women members found that easier. But we insisted, and today these staff, who are literate, and do the accounts management, are answerable to the strong leaders, who are illiterate. Financial control and management does not depend on literacy...
4. There is, of course, the issue of time and costs. it takes at least two years investment in each set of leaders. And now, after two to three years, women have decide to rotate leadership, so sampark has to make a fresh investment in the new leaders. This time, all women are also convinced about acquiring basic literacy.... earlier they were not. So now we are in fact looking for a quick literacy training kit.

Having established processes that made financial transactions transparent and accountable to the women, we are now going to turn to literacy training. The demand has also been voiced only now. Earlier, women were willing to spend time learning group and financial operations, which gave them direct benefit, but not any more time than this. Today, they are willing to invest time in literacy skills. Their time is costly for them, they choose where to invest it, and we have, in a sense, allowed ourselves to be led by those priorities.

Regards,

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## **SAVINGS IN SHG NETWORKS**

**Post by: Brett Matthews**

One problem is that real savings accumulation only begins when it is possible to offer fully voluntary savings products that involve widely variable and irregular deposit and withdrawal pattern. How much progress have your clusters made in this area?

**Post by: Narasimhan Srinivasan**

Brett,

You are right. But the supply response (the theme for tomorrow) is not well organised. Offering flexible products is challenging - the SHGs must have cash management, funds management capabilities - both technical and physical capacity. Account keeping, maintaining cash balance and virtually running a daily banking operation is beyond many groups. But, one could think of starting such pilots in some locations, especially where the mature groups act as banking facilitators and correspondents to banks.

Regards,

Srinivasan

**Abhijit Sharma**

I agree with you totally. Although, SHGs has been promoted as a savings led micro finance; in actual practice, most of these 'savings' do not qualify because they are not liquid- an essential attribute for the poor. They essentially remain a means to attract more capital for credit purposes and the poor also perceive it as that. Hence, besides the issue of manageability, savings remain small because of the 'perception' of the institution!!.

Abhijit,

IIBM.

**Post by: Smita Premchander**

Dear Brett,

Group based savings are only one of the options women have. We have found that this just serves as the learning ground. They begin to save in more ways than one once they learn to do so.

The first savings are in the group. The second level is the cluster associations, where they make a separate contribution. The third level is additional savings in groups, which they do NOT bring into group accounts. They distribute it like chit funds. The fourth savings is as individuals. These may be in the post office, or insurance products (which they take as a savings mechanism).

So far, cluster associations are not the place for voluntary savings, perhaps at later stages of development they will be. And perhaps, at a later date, too, they will not be, Because of the nature of group savings being different from individual savings.

Best, Smita

**Post by: Hugh Allen**

Dear Smita,

What seems to be a common thread, industry wide, in the time that it takes to create an autonomous group, are the literacy and training requirements to keep written records. The time-bound ASCA systems of Africa need only one year and share out the capital and earnings at the end of the year. This makes it possible to use simpler, witness-based systems of financial record-keeping that sharply reduce the training and follow-up time (and costs). Since the long-term survival rates of these groups exceed 90%,

maybe this is an issue worth exploring.

Regards,

Hugh

**Post by: David Cracknell**

Srinivasan makes a very good point which is about the flexibility that SHGs can offer in terms of savings services. Perhaps more can be achieved through the Managed ASCA model - essentially an SHG which is supported through an officer who receives a payment from the group. The managed ASCA model is being used around the Mount Kenya Region.

The advantage that SHGs/ROSCAs and ASCAs have over many channels is proximity. However, in Kenya and I suspect elsewhere, many people use a variety of mechanisms in order to save. Proximity may be important for immediate cash, less so for less liquid savings. This complexity comes out in some of Stuart Rutherford's work on Grameen II and elsewhere. So even poorer people may have a Postbank account, be involved in an SHG, save by providing loans to friends and family which they call back when needed... etc.

For more complex savings and payments services, delivery channels are a major area of current focus worldwide through the branchless banking concept. I believe much will happen on this in the next few years that could transform savings services for poorer people.

David Cracknell

MicroSave

Kenya

**Post by: Bettrand Eshun**

Dear all,

It has been an educative discussion. I am thinking the low savings among the economically active poor, is more of policy constraints. Most players who deal with the populace in the sector are legally restricted in mobilizing savings from the public.

The intimidating nature of the formal institutions also drive away these prospective savers. The basic requirements needed for one to open an account has always been beyond the reach of these clients.

The unattractive interest on savings product has always been a deterrent, mostly the interest accrued is far below the inflation rate, so why don't I rather invest in risk free ventures.

I am thinking if these issues are given a critical look, savings will be a good source of funds to on lend.

Thanks,

Bettrand

**Post by: Namrata Sharma**

Dear all,

Great discussion going on! I am not sure if I have missed it out but I feel that in this great discussion on Savings, not much has not come out on the cooperatives, cooperative banks and credit unions. Although, the word cooperatives in many developing countries have a bad reputation mainly because it has been politicised, I think there are excellent examples of cooperatives and cooperative Banks who have served the poor and marginalised communities well. Sewa Bank in India is a good example together with various Savings and Credit Cooperative Societies (SACCOS) in Nepal. Being a savings led model, it has possibilities of offering various products to the members catering to their needs. Also the point is that these organisations are owned and controlled by the members so the ownership and management lies with the community. However the biggest problem in this is the need to build the capacity of the members to manage their accounts and finance. Just like the need to strengthen the needs for SHGs, ASCAs and ROSCAs to have the capacity of managing their accounts in cooperatives as the scale increases more sophisticated systems and human resources are needed.

Best regards,

Namrata Sharma

MicroSave India

**Post by: Peter van Dijk**

Dear all,

Please allow me first to join others before me to thank the organisers of this debate and today's moderators and facilitators. Having gone through the 40 earlier emails it is impossible not to try and contribute to some different issues.

1. I find that there has been no mention of the final objective of what is called "savings", namely giving a poor person a CHOICE to manage his/her life and that of the household/family better, and to limit ourselves to what Micro-Finance (MF) can do, namely provide such choices concerning monetary services (an MFI is not in the business of managing in-kind savings nor can it provide assistance to the poor to better manage such). Such choice pre-supposes a high level of individual understanding, freedom and financial services (legally) on offer.

2. The choice is thus the reflection of what a MF services provider can offer to a SPECIFIC poor person; I mean in a specific local setting, thus also including all the local characteristics in geography, climate, infrastructure, culture, education, legal framework (including NGO, SHG, company, investment, banking, MF regulation), legal protection (including gender issues, household violence, theft, consumer protection), occurrence of theft and other abuses, etceteras. Building on what I said in the first point, the products and services an MFI offers to a (potential) market of individuals, households, enterprises, public authorities, depends thus on a myriad of factors many of which have been mentioned. An MFI and its customer are thus integrated in a LOCAL PROCESS (in which many characteristics are similar the world over, including women being responsible for the household expenditure "box" and trying to keep it

away from abusive husbands who sometimes manage badly also due to the mental stress of being responsible for a family and handling relations with the surrounding society).

3. If we discuss Micro-Finance as a sustainable tool for poverty alleviation, and "savings" as money set aside by the poor according to their own choice, their own freedom, their own understanding of their needs, priorities and wishes, then many issues mentioned on this forum this morning would in my view already logically fall in place. It appears risky to me, however, to define savings as "future spending". There are so many different spending possibilities, priorities, that change over time. Of course an MFI should know all these possibilities and habits in its market. But calling savings "future spending" seems to have little value and creates the theory for the "debt trap", calling everything credit as some still do and ignore local processes especially that of the financial sector, the value of money and product development.

4. If this forum agrees that "savings" in Micro-Finance means all money set aside by poor people, then that money needs to be kept safe and keep value. That refers to the capacities of an MFI and to the environment it operates in, the financial sector, the social sector, government on different levels, legal issues, and the role of charitable funds, especially foreign. Although this day should focus on clients, the term "savings" entirely and immediately depends on whether the client trusts the (M)FI with the money s/he depends on for living from day-to-day.

5. Foreign depositors, foreign savers, don't know far away financial sectors well, especially underdeveloped ones (atomised, with no/little coordination, no transparency, limited verifiable info), have limited insights on risks, costs, players, policies, laws etceteras and maybe even less interest in sustainable buildup of inclusive financial sectors where poor people are encouraged to manage their money better and have more of it (set aside = savings). That is why foreign S-s often (not always, not in principle) undermine/frustrate local I-s and the sustained strengthening of the local S=I process (financial intermediation supporting broad and sustained economic growth, asset building and job creation).

That is why I would like to conclude that savings has many characteristics that require different things on different levels, basically describing the complex development of a local autonomous financial sector where local DEPOSITS (of which longer-term more stable deposits will be gradually transformed by MFIs and financial authorities into different SAVINGS products) determine the volume, forms, areas and maturities of investments, loans. A local financial sector in which the deposits and choice of customers also provide freedom and possibilities that such deposits change ownership in the form of transfers and payments.

I hope my message is clear and adds to the debate.

Kind regards,

Peter

**Post by: Prakash LB**

Dear Raj,

In response to the issues raised on cost of promoting and managing the SHGs and the Federations, I would like to bring to the forum's notice about the CGAP Study - Sustainability of Self-Help Groups in India: Two Analyses - Part I and available at

<http://www.cgap.org/p/site/c/template.rc/1.9.2706>

The study, which I led, clearly raises issues in promoting and nurturing SHGs, and how high cost of promotion (including costing of subsidies and grants) could still result in high quality groups, and how these groups seem to generate internal surpluses roughly over a 3-year period to cover these costs - if needed.

Some of the more interesting findings that emerge from the nine programs studied (as part of the two studies referred to in the paper referred to above - Part I and Part II) are listed below. It is reasonable to suppose that they may have some broader relevance as well.

- Sustainability. Many well-executed SHG programs are achieving financial sustainability, even when all promotion and support costs are included, though this cannot be generalized for the entire SHG movement.
- Support services. Well-run SHPIs seem to be able to provide an adequate package of external support services to establish SHGs and then keep them functional, and the SHGs seem to be willing and able to pay the cost of that support.
- Loan collection. In well-run SHG programs, there is usually very little default on repayment of external loans to the SHGs from banks or promoters. In addition, SHGs in some of the programs studied are quite successful in eventual collection of their internal loans even though those loans had been subject to unusually high levels of late payment.
- Cost levels. Generally, the SHG programs studied here compare favorably with other microfinance models in terms of administrative costs. However, this does not factor in the time members have to spend at meetings and the risks group members are subject to.
- Savings. Though all SHGs require periodic fixed amounts of savings from members, the model is credit driven. Clients of the nine programs studied in this paper joined an SHG mainly to get loans, not to save. For some programs, there is little voluntary saving beyond the minimums required to qualify for loans.
- Reaching the poor. Most of the programs in the studies reach very poor and marginalized clients.
- Elite capture. The researchers found little evidence of elite capture, which has been a problem with some other forms of community- based and member-managed finance.

There is definitely a need for investing in the building the leadership and management capacities of the community. In almost all cases, where the SHG program consciously viewed itself as a community empowerment program, it had invested in building the capacities of the SHG leaders and members, and often with positive results.

The experience of Cooperative Development Foundation (CDF) in promoting thrift and credit cooperatives (over 270 women's thrift cooperatives, and over 170 men's thrift cooperatives) - built only on savings and having no external borrowings for on lending to members (with an average age of almost 10 years or more) demonstrates that institutions can be indeed built on savings. The key factors for the success of these cooperatives seem to be requiring repeated transactions in small quantities, an organisation owned by such persons (requiring the savings services), accountable to them, and managed by them at costs payable by their business. The cost of promoting such thrift cooperatives by CDF rarely exceeded 3% of the total member savings in any year and still has created viable, sustainable and replicable institutions which are (only) savings-led and not credit-led.

Best Regards,

LB Prakash

**Post by: Sukhwinder Arora**

Dear Prakash, Raj and Smita

You refer to many benefits of promoting community based groups. Being user led and managed, lot of costs are internalised and so actual costs for the primary groups are quite low. There was also active discussion earlier on increased participation, social capital and status for women. Some of the Village Savings and Loan Associations I have

visited in Uganda and Bangladesh reach even poorer members and by using transparent, standardised and visual processes, need even lower levels of record keeping.

But it is also true that most user groups of this type come up based on external promotion, rarely multiply on their own and need some external oversight for a few years. By economic analysis, to the extent these user groups create platforms for social good such as dissemination of public goods and services; including and enhancing social capital for poor households, nurseries for future grassroots democracy and a watchdog role for local institutions etc, these justify some public subsidies.

The challenge is smart subsidies that do not overturn the basic members objectives/ incentives for group formation. If every \$10 savings are getting \$20 of subsidy as in some of the government programmes, everyone will want to join but how many of these groups will last and what will be the probability of political capture?

Sukhwinder Arora

**Post by: Hugh Allen**

Dear Sukhwinder,

It is becoming clearer that effective strategies exist for the auto-replication of Village Savings and Loan Associations. In Zanzibar the DFS study of 1996 published by MicroSave showed a 37% compounded annual replication rate of high quality groups over 4 years, which continues to this date with over 212 groups growing out of the original 43 in 2004. In Mali, Oxfam has achieved a very similar 33% compounded annual spontaneous replication rate. These successes, being now quite widely applied, are based upon fee-for-service community-based agents whose placement is facilitated by an external agency that then moves on and leaves them on their own. Naturally, the per-unit cost to implementing agencies can be imputed to drop to very low levels for the long-term. It may well cost more in a year to create such groups than they are able to save in the same period of time, but the savings mobilization, investment and profit yields continue indefinitely, significantly improving the benefit-cost picture.

Hugh Allen

**Post by: Prof. Dr. Hans Dieter Seibel**

Dear LB Prakash:

In your posting you state that „SHG programs studied here compare favorably with other microfinance models in terms of administrative costs. However, this does not factor in the time members have to spend at meetings and the risks group members are subject to.

We studied transaction costs of SHG members in 78 SHGs in Karnataka State which form part of NABARD's SHG banking program. Here is the gist of our findings, taken from the abstract:

As the program continues to grow rapidly, the question becomes all the more pertinent whether the success of financial intermediation by SHGs is due to overall lower TC or a shifting of TC from banks to SHGs and their members. In Karnataka State, 78 SHGs with 1160 members were selected for a pilot study. TC of SHGs, including real and opportunity costs, were found to be low, comprising 1.22% of loans outstanding. Opportunity costs of members were 2.3% and real costs 0.04%. It is tentatively concluded that SHGs are an efficient intermediary for bank loans to vast numbers of the rural poor. The study provides a methodology that can be used in more representative national and local samples.

(Hans Dieter Seibel & Stefan Karduck, Transaction costs of self-help groups: A study of NABARD's SHG banking programme in India. In: Dhandapani Alagiri, ed., Financial Growth in India and China. Hyderabad, IFCAI Univ. Press: 196-

220.)

Also available as [Working Paper 2004-1](#).

Hans Dieter Seibel

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## **SAVINGS ONLINE CONTRIBUTIONS**

**Post by: Christopher Rono**

Dear all,

I am impressed by the contributions of Brett, Akhilesh, Anant, Vogel, Smita & friends, and Lalita on the main compelling factors to save by the active poor. I want to make my contributions based on the Kenyan case.

It is a fact that people save for a need but the place they put their money in most cases is not dictated by more security and liquidity than in institution that identify with them. It is easier for low income earner to go and save at a place where he easily accesses his loans as long as he is satisfied he will get the money when he requires. In Kenya it is not easy for a low income earner to save in a bank which is perceived to belong to the rich even if it is secure, liquid, convenient and with good return because they feel intimidated by the ambience and the presence of perceived high class cadre customer. This is the reason one Micro finance who targeted and identified with the lower customer ( active poor) in Kenya was able to grow astronomically in a short time.

In my view before looking at the economic reasons driving savings in a community, it is important for any Micro finance to first of all know the obtaining culture in their target market before now employing target economic incentives.

Kind regards,

Christopher

**Post by: Brett Matthews**

Christopher, your point that when it comes to their precious savings poor people would rather use an institution they trust, even over a different institution that actually offers safer and more flexible products for them, is very well taken.

As CGAP has noted (10th Principle of MF) "The key bottleneck is the shortage of strong institutions and managers." Very often institutions including NGOs, cooperative networks, SHG networks etc. have a client base who are losing a lot of money trying to save at home every year. But for philosophical reasons they often refuse to make the strategic and institutional decisions needed to really transform themselves into institutions capable of protecting savings.

Do you know organizations like this? Can we show them how important this is?

Brett Matthews

Mathwood Consulting Company.

**Post by: NP Mohapatra**

Dear All

I thank Micro Link and Madhu for giving me an opportunity to participate in this forum. NABARD has taken various initiatives for Total Financial Inclusion .I provide a link to NABARD for your kind information.

[http://nabard.org/financial\\_inclusion.asp](http://nabard.org/financial_inclusion.asp)

Regards

NP Mohapatra

**Post by: Lalita Rao**

Very true; the poor do not have access to banks, or any formal financial institution [not only does the ambience put them off, the FFI also does not encourage small savers].

So the poor are left with no choice but to resort to Chit funds [ROSCA], or keep at home, or some such remedy.

Under these circumstances, if an MFI or NGO gives them an opportunity to save, they welcome it, as it offers them a place to save [and hopefully, withdraw at will], security of savings, and doorstep service.

However, the MFI or NGO has to ensure SECURITY of savings of the poor [maintaining small but numerous transactions is a huge challenge for them, which we will discuss tomorrow], with or without interest.

With warm regards,

Lalita

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**SAVINGS ONLINE DISCUSSION FORUM****Post by: Prabhat Labh**

Dear Members

I have been going through the postings with interest and thanks to all the contributors for the learning and information. Some of my thoughts on savings are as follows. Would appreciate reflection from others:

1. I clearly see that there are three aspects of any service like savings. One is the attributes of the savings product desired by the users of service. The second is the management of back-end processes related to offering the service and third is the infrastructure that connects your back end to the front end or point of transaction. There is absolute unanimity amongst practitioners about the importance savings. Where I find disagreements is how these services ought to be offered and who should offer these services.
2. I am a firm believer in the self management abilities of people, and hence, on the face of it, would tend to agree with SHGs/ SHG federations as places to manage client savings. However, having said that, lets also appreciate that there limitations that such self management comes with.
3. When we say savings, clients need a range of different savings products and SHG/ SHG federations are not and cannot offer all these savings products. Savings in SHG and SHG federation should be seen as the most basic form of providing a place to offer flexible and easily accessible savings avenue to the client. But lets agree that this cannot offer all the attribute needed from the different kinds of savings products that clients need. One of the strongest arguments in favour of savings in SHGs is that it offers good liquidity, in the sense that whenever the members need it, it could be withdrawn. But frankly speaking, is that the case truly? In most places, penalties are imposed on the members wanting to withdraw their savings. Savings in SHG may not be that liquid, since the Bank where it is parked could have used it as a cash-collateral to offer the loan to the SHG, a not so good but often repeated tactics by the Banks. Or, the SHG may have used the savings funds to extend internal loan to another member and since the SHGs hardly have set norms for maintaining any SLR, they may not have cash with them in case a member needs to withdraw her savings immediately.
4. Asset-liability management is another important aspect to consider. As pointed out by some participants, a client may use different savings product for her daily needs/ recurrent needs/ life cycle needs/ and emergency needs with differing time horizons. Prudent financial management would require that the assets financed out of such savings liabilities have a time span and liquidity restriction matching with that of the liabilities that are used to finance it. But, if you use a simplistic mechanism for saving, you cannot meet these objectives. Lets accept the fact that the financial world has

become complex and is becoming more so every day. Thus, in order to remain effective, we ought to understand these complexities and then design and offer products and services that take such complexities into account. A good example could be how you deal with a potentially inflationary situation if you are having savings? For a small institution like an SHG or SHG federation, they may find themselves completely incapable of dealing with the fact that inflation is eating away the value of their savings. However, a more sophisticated financial institution has the wherewithal to deal with such complexities and by and large protect the interests of the institution as well as the savers.

5. All the above arguments may seem like arguments against savings in SHG/ SHG federations. My argument is that let's not use SHG/ SHG federation to meet all the savings objectives of the clients, as SHG/ SHG federations could play a limited role effectively. So, build a broader suite of services and service providers (of which SHG/ SHG federation must be a part) to provide savings services that provide all the attributes that a client desires.

6. Out of all the attributes expected of savings, safety is the most important. That's why institutions offering savings services are often subjected to rigorous regulation. One of the biggest advantages of regulated institutions like Banks is that in many countries, they provide for some degree of depositor insurance/ protection. In many instances, one doesn't even need to go to the extent of seeking protection under depositor insurance. In many occasions in India for example when a regulated Bank has become insolvent, the central bank has paved way for a forced merger of such weak entities with stronger institutions (the not so old GTB-OBC merger is an example). The downside of rigorous regulation (like KYC/ AML compliance) however is that often it makes savings services inaccessible for many people. Let's understand that KYC/ AML requirements are not framed to protect ensure safety of savings so much, but primarily from aspects of checking money laundering/ tax evasion/ terror funding and national security kind of aspects and it ends up alienating the most marginalised in the process. Is there any way we could stop further marginalising the most marginalised while still providing them with the safety and capital protection guarantee available to clients of regulated institutions?

Just some random thoughts. Comments are welcome.

This e-mail is sent by

PRABHAT LABH

CARE India

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## **CASH OR COWS?**

**Post by: Lisa Parrott**

Dear Participants,

If you are like me, you are a bit overwhelmed by the number of postings so far regarding savings.

I've noted that there are several comments on the reason people save, including:

- Life cycle needs (school fees, weddings, funeral expenses, etc.)
- Emergencies (particularly household shocks like illness or natural disasters)
- Investment opportunities (for example starting/expanding businesses, or purchasing consumer goods and land)

Many of these are documented in MicroSave studies on savings.

There are also some great postings on what people look for in savings services, such as safety, liquidity, flexibility and accessibility. CGAP has summarized some of the research to highlight the order of preferences for low-balance savers as:

1. Security
2. Low transaction costs
  - \* Proximity
  - \* Convenient opening times
  - \* Minimal paperwork
3. Appropriate design
  - \* Frequent deposits
  - \* Small, variable amounts
  - \* Quick access
4. Positive returns

My question is: "what about all the informal, in-kind savings that is going on?" Many people save in cows, chickens, land, machines and other non-cash equivalents. USAID published a study on savings habits in Uganda (2005) that indicated majority of people save by investing in property and livestock. Obviously there are benefits and trade-offs to these types of "savings." Should we as financial service intermediaries try to change social practices and motivate savers to invest more in cash savings? Why would a remote, rural household go to the trouble of turning their cows into cash and trekking to the financial institution 20 kms. away to make deposits?

Regards,

Lisa Parrott, Africa Advisor, Livelihoods, Save the Children USA

**Post by: Angela Wambugu**

Thanks Lisa for the summary and good question. Should financial intermediaries bother to change the social practices?

As intimated, there are both benefits and disadvantages in 'in-kind' savings. An example - one buys a calf for \$140, rears it for two years and sells the cow at \$240. Looks like there is a real benefit here but I'm not sure that the costs of rearing and inflation during the two year period are taken into consideration. Also, the calf/cow is vulnerable to effects such as diseases or natural disasters, hence high risk. But on the other hand it could be a case of high risk high return. However I see a challenge of liquidity to meet short term needs. I think there is an opportunity for FIs and I also think there is great need for financial literacy - on savings (value, benefits), investments (risk, return), etc.

Perhaps those who've studied the informal savings mechanisms more can shed some light.

Regards,

Angela

**Post by: Peter Mukwana**

All,

Angela analyses well some of the problems with the in-kind savings. She also sees the challenge of liquidity to meet short term needs. But looking closely at how poor people save, they have various options at their disposal and it is amazing how one can have some little cash in a box, a chicken that can be turned into cash in a day, a cow for longer term needs

and so forth. Poor households have become sophisticated financial managers in light of these options and the risks involved. For some reason some of them will have a fall back position in times of short term financial needs.

Peter Mukwana

**Post by: George Muruka**

Dear Lisa,

Your important questions: Should we as financial service intermediaries try to change social practices and motivate savers to invest more in cash savings? Why would a remote, rural household go to the trouble of turning their cows into cash and trekking to the financial institution 20 kms. away to make deposits?

As financial intermediaries we operate in the cash economy. Hence when we are talking of savings, its in terms of "mobilising my money and taking it to a financial institutions which best promise you aspects like safety, access returns etc." The other economies are competitors to financial intermediaries. So the question is, do we want to destroy the competitors? If yes, then we have to convert everyone into the cash economy. Simplistic, but a feel that is what is at stake here! Are we agents of establishing the cash economy on earth? Before it becomes cashless?

Now to encourage the rural household to largely go cash and save it with us, we need to facilitate such transactions. My earlier experience with remote rural in Northern Kenya (Marsabit) showed that lack of facilities sustains the cattle economy in the north. Cattle is reared in deeper rural villages then converted into cash with traders who collect and load onto trucks to Nairobi. Availability of secure financial intermediaries would gradually establish a cash value system and erode the social cultural values attached to in kind savings like prestige derived form herds of livestock. I think this trend could extend to other in kind savings like gold as I observed in Zanzibar.

George

Financial Services Consultant

MicroSave, Kenya

**Post by: Herman Messan**

Dear Lisa,

On top of my previous posting about informal savings, I would like to add the following: the question about whether we should encourage poor people to save in cash is more a question on the relative inefficiency/efficiency of the formal sector Vs the informal sector saving options.

I have seen many cooperatives failing in Uganda so one could wonder whether the poor who kept their money in kind instead of savings in cash were not wiser.

Also when the whole banking sector fails like it has been the case in late 80s in some West African countries with rural banks going bankrupted, the poor loose most of their savings.

The soundness of the financial sector can then greatly impact the legitimacy of financial service providers in convincing the poor to save using formal means. This means regulators play a great role here.

I would also argue that information availability about the true costs and relative risks associated to the existing financial services in particular savings would be of a great help in convincing and leading poor people to make the better choice. For example in Benin a thorough study of the pricing practices of the financial service providers serving the low income and MSME market was completed last year and is to be made public in the course of the year.

**Samson Odele**

Dear All,

Herman mentions the important role of the Central Banks in stabilizing the institutions, making them secure for the poor to save their hard earned savings. Without any doubt this has played a key role in stabilizing a number of institutions thereby making them safe for the poor.

However, despite such measures, the people do not have all the information required to make most decisions, at least in selecting safe ones. For example, in Uganda poor people continue to lose their savings to quack outfits that experience liquidity runs, or simply vanish despite the warnings from the Central Bank.

Some questions therefore remain.

- \* Do the people actually receive and have the information required to make safe decisions (choice of mechanisms etc)
- \* Is the information provided in the right form and accessible to them?

The last issue is the impact of politicization in deposit mobilization. Lots of these institutions have come into being through political encouragement and support. The poor risk being carried in the hype of the moment, only to lose their deposits later. In Uganda, we now have the famous "Prosperity For All programs a.k.a Bona Bagagawale that people find to be similar in character to defunct Poverty Alleviation Programme (PAP) implemented a few years ago."

Elaboration and examples of similar scenarios from elsewhere welcome.

Samson P Odele

MicroSave,

**Post by: Peter van Dijk**

Dear Samson,

Challenges on 1) education of people and 2) politisation always remain.

Ad 1. Popular awareness creation campaigns, financial management education and training cannot stop.

Important here is the choice of partners and government coordination. In my country of origin, the Netherlands, there are 2 examples I can mention that can be of use to many countries: 1) banks committed to outreach (rural, low-income) such as Postbank, Coop, Municipality banks with Education ministry to provide government subsidised (FinMin-y) and guaranteed (Central Bank) children savings books (with education brochures for children and parents) and 2) banks with the central credit registry and municipalities to restructure debts of overindebted households, where banks provide basic education on Household finance management. The more foreign donors are involved keen

on owning and managing these activities, the weaker local collaboration will be (they have important roles in funding and impartial activities such as advice, coordination, evaluation, planning).

2) Politisation of finance is another major risk of sustained MF/FSD and savings-led FSD (financial sector development). Such politisation in countries that have MF strategy built in into FSD, such obstacles will often come from highest executive (such as the President, PM, or their wives!!) initiatives. Thus these people need to be firmly integrated in MF/FSD strategies and policies, based on their full understanding and regular lobbying (directly or via ministers).

Social safety nets, social security assistance and Poverty alleviation programs should be clearly distinguished from MF/FSD. That is why I am an advocate for separating purely social (loss-making, non-regulated, not intended as financial institutions) MF activities from financial sector institutions. But it is important that such social organisations have a(n important) role in what I call pre-market development. That is why I say distinguished and not separated, they need to be part of MF fora. Such

activities need to understand and accept (continuously, thus also requiring continuous lobbying activities) that they are not part of the FSD, the financial market, and that if they would be part they would make integrating the poor in a sustainable manner impossible. It is simple, poor people and the financial sector cannot accept loss-making, social agents who cannot be held accountable (legally and financially).

Kind regards,

Peter

**Post by: Brett Matthews**

Dear Colleagues:

Let me return via this thread to Lisa's nicely phrased question "Why would a remote, rural household go to the trouble of turning their cows into cash and trekking to the

financial institution 20 kms. away to make deposits?" And what is our job -- to get them to swap cows for cash, or not?

Of course the colonial powers were convinced that was precisely their job (hence the 'hut taxes' in colonial Africa). But in-kind savings have very important functions in poorly monetized economy where many services are simply available for cash. There's an interesting book by Ronald Seavoy called Subsistence and Economic Development in which he turns the eye of a microeconomist on the problems of subsistence and with them the problems of in-kind saving, investment and risk management tools (which are very hard to separate).

We are unlikely to hurt poor people by offering them cash alternative because they will decide the extent to which they use them. They will not put significant portions of their savings (cash + in-kind) into any institution they are not convinced they can trust. Even then, they will stay diversified; they cannot afford to do anything else.

But saving in-kind is miserable in the sense that virtually every instrument accessible is highly volatile and many are highly illiquid. It's like trying to built financial assets through your day-to-day financial activities with no financial instrument available but small-cap stocks.

Even in remote and rural areas people will generally want to set aside some significant portion (say 15-25%) of their total savings in account form if they have the right access. And that would be a lot of money, both for them and for the nations they live in.

Brett Matthews

Mathwood Consulting Company

**Post by: Paul Kiyingi**

dear all hope you all saw my email as below;

I first of all want to thank all the organisers of this conference and say it is spot on. in Uganda savings is a culture that is not really new mostly dwell more on the borrowing culture in fact customers open accounts in anticipating of getting loans. this is attributed to so many factors among which are that Ugandans experienced a lot of bank failures and people

really lost a lot of their savings since the central bank could only cover firstly the insured amount of 3Million secondly the exorbitant bank charges where the monthly ledger fees can wipe out the whole balance hence have your account closed. thirdly low interest rates on savings also is not a motivator fourthly poor financial advice where savings are not adequately turned into wealth therefore all this is tricky however we are seeing a positive trend with a positive shift in public confidence in a now strict regulatory environment by the central bank otherwise people do want to save for a tomorrow that's the Uganda case but generally on the microfinance level savings would be meaningful if they are directly correlated with accessibility to borrow that's my opinion however Hemann is very true indeed that a sound financial sector will brood a savings culture like say if an economy is developed and has a sound capital markets then savings through joint ventures, unit trusts, national insurance funds etc with high returns will be a good testimony

for quite investors Paul Kiyingi

CMF Uganda

**Post by: Sanjay Bhargava**

Some of the interesting points to think about for me are:

1. From a low income consumers point of view a certain amount of cash savings seem to be necessary just as for a high income consumer. Thus cows, land, gold etc are investment choices and not savings choices.
2. An informal money lender can pay high rates of return on deposits and charge high rates to lenders so for a low income consumer if they perceive the informal money lender as safe then it seems a no brainer to save with that money lender rather than with a formal institution.
3. It would seem that to participate in the formal system for savings the low income consumer has to see benefits such as getting access to micro life insurance, building up a reputation score to get access to bigger and bigger individual loans, simple money transfers etc. etc.

Post by: Tony Pryor

This deluge of discussion has been truly a learning experience of the first order, assuming of course that one can keep it all in mind!

Sanjay's comments make me consider the meaning of "savings" and "investment" in terms of the farming system, and not just in terms of the financial services sector. And one point in particular intrigues me - how resources (of all kinds, including land, crop type, labor and remittances) are used by a household to increase wealth and/or in many situations to handle or spread risk.

Certainly for a lot of poor farmers in the Sudan and I assume other parts of the Sahel, the goal often is to spread the risk that any one aspect of their very precarious livelihood structure might fall apart - locusts wipe out the millet, an ill-timed rain hurts a cash crop, or world or regional markets affects other options. In parts of the Sudan, for instance, watermelons played a key "savings" element, since there was considerable fungibility in terms of use - they could be sold in a market, could be sold for seed, or at worst eaten or fed to livestock. In some respects, the question of "crop" versus "cash" depends on the "liquidity" so to speak of the crop, as well as its fungibility. And of course in many parts of the world, variations of beer play a key role, being an exceedingly liquid resource!

Would cash do as well? Possibly. But in terms of the household, and household savings and decisions, in a number of countries the answer as to whether cash itself (versus a fungible crop) would play a key role depends in part on who HOLDS and who MAKES DECISIONS on how that cash is spent, versus who holds and makes decisions on crops.

For instance, in a number of countries, trees grown as a cash crop might generate income controlled by the man, fuelwood bushes or vegetable crops by the woman. Who then controls the resultant revenue can affect savings rates and choices. The classic example for me was in Malawi, when the parastatal tobacco sector was opened up to small farmer control. A powerful idea, but most of the growers were women, and so when revenue all of a sudden accrued to the small farmer directly, men started to take a strong interest in tobacco growing. Leading to women's cooperatives, among other things...

In places like Rwanda and Madagascar, eucalyptus woodlots play a key private as well as communal role, as sources of fuelwood and charcoal, essentially a saving bank which could be held onto until the revenue was really needed, or when "interest rates" were particularly favorable. (This of course leads to yet another issue - the extent to which "private" savings takes into account social or ecological capital choices, and sustainability. Social capital has been raised several times in these threads, but I have not yet seen a discussion of ecological capital, and ecological savings (although frankly it very well could be there in great detail and I haven't read it yet!!).

How a farmer then views that wood really can vary on the situation she/he finds themselves in. For instance, when one sees mango trees in Malawi or acacia senegal in Sudan being turned into fuelwood, you KNOW that ecological, farming and other signals are forcing households to make very short term decisions - pushing what was a long term investment, into an annual "savings bank" and then into very short term outflows (with long term investment impact that is potentially disastrous, but where little choice exists).

There is considerable discussion here about instrument types and about people as consumers and clients. But, Sanjay's point made me think, maybe it's as useful to also think of those people first and foremost as household based economies in their own right, making choices on how best to use land and human resources, in what form to hold "wealth", and to what extent risk spreading versus wealth optimizing is central. And what this really means I think is to look more seriously at the agricultural/farming/forest systems that even the poorest person is often part of.

Tony Pryor

Knowledge Management Advisor

Microlinks Team

**Post by: Peter van Dijk**

Dear colleagues,

I cannot but ask caution of participants on taking in-kind matters into the definition and discussion on savings, investments, (micro-)finance.

The more non-monetary elements one takes on board, the more obligations from more non-financial bodies you will take on board too. That has led to cases where central banks were obliged to take on impossible tasks of regulating and supervising hundreds of NGOs and social programs and to MFIs having to sell solar panels, water pumps, train handicapped people and what not. That has led to agronomists and irrigation experts writing MF strategies and laws and adapting banking laws for central banks. All these people and activities have in mind poverty alleviation but do not help poor people better manage their money and to better make choices on to whom they should entrust their money and why (including the role of their governments and different authorities).

The inappropriate use of financial terms for non-financial matters will add to a cacophony of debates and anecdotes with no clear red line for the benefit of the poor at all.

Peter

**Post by: Dirk Smet**

Dear Participants,

I can only agree with Peter. My impression of many of the contributions of today is that the formal financial sector is often overlooked. I am aware that in many countries a lot of efforts still have to be made in the financial sector, but surely an intelligent use of the existing infrastructure in terms of distribution network and capacities, product design and maintenance, audit and supervision can avoid re-inventing the wheel.

Dirk

**Post by: Peter Mukwana**

Dear all,

I want to agree with Lisa here especially on the vibrant informal mechanisms poor people use e.g. cows and land. What is it that will make people change their current practices? Do we know that the so called illiterates do a cost-benefit analysis before choosing which option to use? I have just been in Malawi and it is amazing to see how people use RoSCAs and Katapila (basically informal money lending businesses) simply because they are close and offer good return (in case of Katapila which pays up to 100% return in a year).

The reasons for saving are obvious as most participants have mentioned. The issue here is for the providers to offer services that are in line with the needs/preferences of the poor. Financial education should probably clearly show the benefit of saving say in a bank as compared to just buying a cow. Remember some of these informal mechanisms have been found to be reliable in preserving value than saving in a bank which is going to charge ledger fees that will eventually reduce the amount. I know there are limitations with these informal mechanisms but there is no better alternative.

Peter Mukwana

Senior Specialist - Research and Training

MicroSave Consulting Ltd

Kampala, Uganda

**Post by: Anant Natu**

Dear Colleagues,

It may seem that the in-kind assets are not liquid. This may be true in a monetised economy but in a semi-cash economy this may not always hold true. There are the informal arrangements which make apparently illiquid assets like cows sufficiently liquid. Whilst conducting its Savings study in NorthEast, MicroSave found that during an emergency households can lease/rent-out the productive assets (cow in this case) for a certain period. During this period, the party to which the asset is leased out gets to keep the wealth generated out of the asset. Flourishing of such an arrangement, though, is contingent on the social capital of the community. This arrangement ensures that there is no distress sell of assets (which would have yielded sub-optimal price for the asset) and period of lease of asset matches the need for cash.

Thus, socio-economic arrangements, like the one mentioned above, can overcome, what in purely monetised economy, look insurmountable issue of liquidity.

Anant Jayant Natu

MicroSave

**Post by: Piyush Prasoon**

Dear Colleagues,

When we are talking about Savings it is the part of the income which is kept for future use. Again when we talk of in-kind savings which actually is a part of savings going as an

'Investment' with attached risk and higher returns. Traditionally in India Gold and Silver has been an item used for in-kind savings with lesser risk associated to it but had a great future use/value and has been/is practiced by many communities.

If we assume that all human being make rational decision given the choices and constraints everybody saves or tries to save if they have a surplus income. This savings are in various form with varying degree of liquidity.

The pertinent question that arises is how to include these 'unforgotten 80%' to the mainstream economy so that they can reap the benefits of overall economic gains?

Thanks

Piyush Kumar Prasoon

MicroSave, India

**Post by: Kashi Metya**

Dear All,

I fully agree what Lisa has just pointed out. Why would a remote, rural household go to the trouble of turning their cows into cash and trekking to the financial institution 20 kms. away to make deposits?

This simple operation has some cost which we all know, but can't we think of some formal links created for servicing people in rural remote areas.

Kashi Metya

INDIA

**Post by: Hugh Allen**

Dear Kashi,

Regarding savings in cash and in kind, I don't think it's one or the other: it's both. But some of the work being done by Barclays in Ghana and the Self-help Development Foundation's work in Zimbabwe (until recently) may provide some of the answer. The key to linking rural savers to formal financial institutions might lie in the agglomeration of many savings transactions into a single deposit by a single individual. SHDF was able to reach over 250,000 people with this approach. With all the current fascination/hype over cell-phone technology this sort of approach may have been under-reported.

Hugh

**Post by: Anna Somos Krishnan**

Dear Hugh and Kashi,

I have two comments regarding cow vs. cash and Barclays.

Cow vs. Cash:

While it seems logical under some circumstance that rural low-income households should INVEST in cows rather than storing the cash, but the question is would they have invested in a cow if there was a facility/financial services provider to store their access cash? Moreover what if the cow dies? (Or even worse if the poor owner due to fearing the loss of the "asset" spends his/her last savings on the cows' vaccination rather than his/her own health.) Would it be the same as loosing your cash?

I would be very careful when I advise our clients to spend their cash on a cow (which I don't consider at all as saving, but expenditure, i.e. investment).

In my opinion the question 'cash or cow' is valid though if we want to understand the accumulated WEALTH of the low income population around the world. It can definitely be described in the "cow-currency" similarly to the famous "Big Mac index" exercise. I hope that there are much more economics savvy people in the audience who could apply the cow analogy to the Starbucks or the Big Mac index.

Barclays:

I have seen Barclays attempts in India and was always puzzled if they so easily manage to "hook up" the low income clients and connect them straight to banks then what will be the role of the MFI? The Barclays' of the world would reach complete and quick financial inclusion... Undoubtedly this is idealistic situation and looks too nice to be true (given regulatory framework, local language challenges, outreach and technology, electricity and mobile connectivity, etc).

Finally, I would like to share an experience. Recently, representatives of a large expert donor group visited my organization to observe mobile banking pilot. A group of illiterate or semi-literate women needed to demonstrate their saving and transaction processing capability through the mobile phone.

The proof of success was that a message appeared on the screen of the cell phone "your transaction has been processed, your account balance is:." The development experts were satisfied but immediately took the phone and gave it to another woman and asked her if she knew the meaning of the written text on the screen. The woman was a bit puzzled and said: no because it is

in English, and because the words are difficult to explain, but I am also wondering where my money goes through the phone.?

Should we teach technology first and highlight the opportunity to have a mobile phone or should explain the meaning of savings first along with the opportunity it brings to these households?

Anna

SKS Microfinance

**Post by: Dr. Geetha Nagarajan**

Hi All:

Morning to all. Congratulations to the organizers in recognizing this important, but often, considered as less important financial service by many donors. While we were sleeping in North America, Asians seem to have flooded the message boards!!

Attributes of good savings products, based on many studies with savers, is found to satisfy three criteria called AAA criteria:

Accessibility - reasonable transactions costs and easy access when one needs to withdraw

Accrual - Some interest rate so that the savings can accrue some returns.

Anonymity - provides security from both thieves and smooching relatives.

Applying these criteria, one would notice that the so called "mandatory savings" that claim to teach people how to save lose their label as a savings product.

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Geetha Nagarajan, Ph.D

Research Director, Financial Services

IRIS center, University of Maryland

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## **CASH OR COW, AND DOES SAVINGS NEED TO BE LEARNED**

**Post by: Dale Lampe**

This has been a great forum and an exhausting one (I knocked out 130 e-mails in one sitting).

Informal savings have numerous rationales whether they be investing in livestock or social capital. An issue that seems not to have been raised (I may have missed it however) is that where this savings is for an "adverse event" the effectiveness is often reduced due to the covariance of risk in the communities. If I need something due to drought, and am selling cattle, most likely all my neighbors are also selling their cattle to cope with the drought, so I receive very little on the sale (supply and demand). Same with social networks. In my village my neighbors and relatives may be suffering the same calamity and cannot help, even though they would like to. So there is always a need for some formal savings that moves risk from local, to regional, to national and even international markets and hopefully protects the value of the savings.

I have never been truly convinced of the need to "teach" savings or that people need to "learn" to save. Even small children the world over do it. I think where savings are a requirement to access credit, the members will be those who want to access credit and those who don't might find an alternative and those who want credit will only save the minimum required. So the actual savings in a community is probably higher than what the MFI sees. I know our clients who had forced savings always had much more in their burial societies and Stockvels than the group accounts.

Is there any real agreement one way or the other about "teaching" people to save, or is my request for one a search for the holy grail?

Thanks,

Dale

**Post by: Alfred Hamadziripi**

I believe we need to be more elaborate on this reference to teaching people to save. At the face of it there might be no value but I believe by unpacking the detail there is value in doing so. The teaching, would for me, be focused on how the poor can derive greater value from current and future savings behavior by exploring other available options or practices. There are certain savings options and practices (such as traditional asusu, maround etc found in most parts of Africa) found in poor communities which with training can provide members with more benefits than currently being obtained. Where the traditional system has taken as much as 5 years to bring tangible benefits new training has allowed the same benefits to be derived in less than a year. The teaching in this case will be to expose members to possibilities and how

they can participate and manage these. Equally not all formal savings products offer attractive returns and the poor equally deserve to know where they can get the best value for their money.

Alfred Hamadziripi

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## DAY I - SOME QUESTIONS

**Post by: Narasimhan Srinivasan**

Dear all

I had posted some questions and views earlier. Since a new thread was not opened the questions did not enter the debate (except when Graham handled two of them). Hence I have opened a new thread here. For those who have already read the earlier post, my apologies.

1. If viable health insurance is available, whether there is a change in savings behaviour of especially those who save for emergencies? Is there any study or research into this? As a continuation of the same thought, whether availability of risk mitigation products would tend to switch surpluses of poor from savings to risk premium?
2. Is there any evidence linking financial behaviour of people - inflation to borrowings and stable economic conditions to savings, specially among poor?
3. What do the poor do to counter the erosion of the value of savings? The surplus savings when periodically converted into assets with a capital appreciation possibility could ensure protection against inflation. Is there any evidence from the field? How successful are such attempts?

Best regards

N.Srinivasan

**Post by: Prakash LB**

Dear Srinivasan,

1. While I am not sure about the change in savings behaviour of people if there is a viable health insurance available, while doing a Social Rating of an MFI based in Andhra Pradesh, India (in February - March 2006), I came across the health insurance scheme offered by Healing Fields Foundation. It is more customer friendly - while also making the customer pay 10% of the medical costs, but covers a range of health issues including pregnancy and child delivery which most other schemes do not seem to cover. While the patronage in the first year was low, as people started seeing evidences of the insurance being useful, the demand for subscribing to the scheme increased by almost 3 times in the next year.

While trying to develop a Social Rating tool, I also had an opportunity to interact with the women members of SHGs and SHG Federations and discuss what aspects do they consider important in health. Two issues have come across prominently - treatment of ailments related to uterus and the need for restraining deliberate cesarean operations. If someone can work on these two - which Healing Fields seems to do, probably most of the rural population, including poor would opt for such service.

2. The Invest India Savings & Income survey for 2007 threw up some interesting facts. The survey, done by IIMS Dataworks, covered a million households. We briefly present some findings.

Invest India Savings & Income Survey

Age group: 18 - 59 years

IIMS Dataworks

June 2007

- Education seems to have made a difference where insurance was concerned. 30% of people without any formal education remain unaware of life insurance but only 7% of graduates were unaware of life insurance.
- Bank accounts and deposits seemed popular across people of varying educational backgrounds.
- Over 1.76 million Indians in the paid workforce will make fresh investments in mutual funds within the next year, 1 million of whom would be new mutual fund investors.
- Only 105-million odd individual earners in the country (32.8% of the total paid workforce) own at least one life insurance policy.
- 20.56 million people who intend to go in for their first or additional life policy in a year. An additional 40 million are undecided on an extra/first life insurance policy.
- Among high income individuals (annual income over Rs 5-lakh), over three-fourths (77.4 %) of all investible surplus goes into bank and post office deposits. For middle and lower income groups, this figure goes as high as 87% with just 1-2% for mutual funds and stocks.

The last finding listed above indicates that in most cases, there is no planned response for inflation - people save, without much thought of inflation.

However, my experience - personal and professional, tells me that Indians' obsession with own gold seems to result in at least some of the savings (in the form of gold) balance the inflation. My work with the rural (and poor) women also indicates that gold is one of the first assets that most of them buy.

A survey jointly conducted by Max New York Life and National Council of Applied Economic Research (NCAER) - 'How India Earns, Spends and Saves' - throws some light on what Indians are doing with their money (see <http://groups.google.com/group/smartmoneyinc/files> for the MNYL-NCAER HowIndiaEarns,Spends&Saves.pdf). Some of the highlights of the survey are:

- 81% of Indians save; the average household savings are Rs. 16,139.
- The top income-quintile saves 44% of income
- Graduate households save 30% of income; non-graduate families an average of 18%
- Salaried earners save around 7% of income; labourer households save about 4%
- Less than 25 per cent of households have life insurance. 78 per cent of the households are aware of life insurance, only 24 per cent households own a life insurance policy
- Indian households keep 65 per cent of their savings in liquid assets like bank or post office deposits and cash at home, invest 23 per cent in physical investments like real estate and gold and only 12 per cent in financial instruments. Life insurance is among the most popular financial instruments.
- 36% of savings are kept as cash at home, 50% in banks, 5% in post office accounts and 3% in cooperative societies.

- Households whose chief earners are labourers have the highest tendency to keep their cash at home (58.3%) followed by those who have a self-employment in agriculture (56%).
- Households whose chief earners are below 25 years have the highest tendency (45%) to save their money in the form of cash at home. As the chief earner grows older, however, things change considerably. When it comes to bank deposits, while 41% of the below-25 year households hold their savings in a bank account, this rises to 59.7% in the 56-65 age group (29% in cash), and remains almost the same subsequently.
- 63 per cent of households save for social ceremonies (weddings, births, social events and ceremonies) with 64 per cent of rural households saving specifically for this reason versus 60 per cent of urban households.
- 96 per cent of the households cannot survive beyond a year on their current savings.

Most of the poor (chief earners are labourers) and the young seem to hold savings in the form of cash, which indicates that these two large chunks of Indian population rarely do any to counter the erosion of savings due to inflation.

Best Regards,

LB Prakash

Coordinator - South

\*MicroSave\* ETHIOPIA

## SAVINGS CAN BE GOOD FOR HEALTH

**Post by: Dr. Geetha Nagarajan**

It appears that savings can help the poor in many ways besides just meeting liquidity and investment needs!! Recent statistics from the Indian Sub continent and South East Asia shows that nearly 32% of the poor smoke!! Wonder if the discipline to save helped here!!

A recent study by Xavier Gine and Dean Karlan designed and tested a voluntary commitment product to help smokers quit smoking in the Philippines. Individuals who sign a Committed Action to Reduce and End Smoking (CARES) contract deposit money into a savings account and agree to let the bank forfeit their entire balance to charity if they fail a urine test for nicotine and cotinine six months later. Bank marketers offered the product by approaching smokers in public places. Marketers administered a short survey, provided a standard pamphlet with information on smoking's harmful effects and how to quit, and then made one of three randomly assigned offers: (i) CARES; (ii) aversive "cues": graphic, pocket-sized pictures of the deleterious health effects of smoking, modeled on Canada's cigarette packaging mandate; (iii) no intervention (control group). 11 percent of individuals offered CARES accepted. Six months after marketing, the bank marketing team returned and administered urine tests to participants from all three groups. Subjects offered CARES were 3.1 percentage points more likely to pass the test than the control group (a 38.8 percent increase); this intent-to-treat effect rises to 4.3 percentage points for those who reported in the baseline survey that they wanted to quit smoking at some point in their lives. Treatment-on-the-treated estimates suggest that those who signed a CARES commitment were 29 and 33 percentage points more likely to pass the test than the control group.

You can read the paper "[Put Your Money Where Your Butt Is: A Commitment Savings Account for Smoking Cessation](#)", Xavier Giné, World Bank, [xgine@worldbank.org](mailto:xgine@worldbank.org), Dean Karlan, Innovations for Poverty Action, [dkarlan@poverty-action.org](mailto:dkarlan@poverty-action.org), and Jonathan Zinman, Innovations for Poverty Action, [jzinman@poverty-action.org](mailto:jzinman@poverty-action.org). March 2008.

**Post by: Getaneh Gobezie**

Dear COLLEAGUES,

Interesting discussion.

I have gone through almost all of the previous postings. As discussed previously, I would like to point out very quick points which I believe are important for furthering the discussion:

\*Why poor people save: the need to save for the poor is indeed very high for spending requirements related to: emergencies, life cycle needs, and economic opportunities.

\*Why poor people need formal (against informal) saving devices (to build on Geetha's points) mix of: safety, returns, access to funds ('you can't sell half a cow') and anonymity (one need to keep it secret, or invisible -- sometimes even from husbands).

\*Perhaps the need to save for emergencies is vital. Emergencies that arise from nature (drought, etc), from market, war, and emergencies within the household -- the husband -- improving the fall-back position for the woman...

\*need to 'teach' the poor about saving? yes and no. Given that risk and uncertainty for the poor are teachers in themselves, the poor in many countries very well knows how to prepare for such emergencies of various types -- hence no need to teach on saving... But as Geetha rightly pointed out, people may 'want' cigarettes, but they may not 'need' them.. scientifically true.. So we may feel the need to teach on avoiding expenditure on this...More later,

Getaneh Gobezie

Amhara Credit & Saving Institution

ETHIOPIA

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## SAVINGS AND BEHAVIOR CHANGE

**Post by: Nhu-An Tran**

Thank you all for such a stimulating discussion, and particularly to Madhu and the MicroSave team for facilitating this joint USAID-MicroSave event. I have not read through all the postings so apologies if I raise an issue that has already been mentioned.

Geetha's posting on the cigarette smoking and savings study raises the issues of consumer behavior and behavior change and its relevance to promoting savings products.

It would have been interesting if the Xavier Gine/Dean Karlan study had tested the following hypothesis: are consumers more likely to respond/change behavior due to negative incentives (i.e. , your deposits gets taken away if you don't stop smoking) than positive incentives (i.e. you will triple your deposits if you stop smoking). I think the results from such a study would give us some interesting insight into ways that MFIs and financial providers could tailor their product marketing. Most of the MFI marketing campaigns for savings that I have seen tend to build around positive incentives -- winning prizes, community recognition, etc. What are your respective experience and perspective on how effective these marketing approaches have been?

I also wonder how the availability of insurance and remittance flows also affect the savings behavior of clients. For remittances, studies by Manuel Orozco and others have shown that remittance recipients with bank accounts are more likely to save a portion of their remittance inflow than those who do not. But as far as I know, no such study has been done to look at the link between access to insurance and savings behavior. I think N. Srinivasan raised this in one of his postings and I would be interested to hear your opinion on this issue.

I look forward to another two days of rich conversation with all of you.

Best,

Nhu-An Tran

Microenterprise Development Advisor

USAID

## **LESSONS FROM INFORMAL SAVINGS MECHANISMS**

**Post by: Madhurantika Moulick**

Many thanks to all for such a vibrant discussion.

If I broadly summarise the issues highlighted, we are looking at three things – what are the reasons for which people save, the attributes that they look for and the institutions they choose (or often are compelled to choose!). In the absence of what is usually demanded by the clients, informal mechanisms fill in the gap. Lisa's post on Cash or Cows is also suggests the dependence on alternative mechanisms.

So if we can take this discussion ahead to summarise on how do microfinance clients choose their service provider based on the attributes that a savings product should have (security, liquidity, accessibility, returns) to the purpose of savings (emergencies, consumption smoothening, income generation)? What are some of the lessons that the formal financial institutions can learn from the informal sector?

Madhurantika.

**Post by: Brett Matthews**

Very interesting question, Madhu!

Another key issue is that while informal practices are often risky, people usually take their promises seriously. NGOs and MFIs have a bad habit of forgetting that a promise is a promise. They tell people to come back later because they don't have any money now, they tackle fraud in a way that leaves the poor out of pocket, and so on. Much more discipline in terms of client service is absolutely essential.

Kwaku's comments are very interesting too. Paperwork is a problem but it goes even deeper. In India I have noticed that even the Regional Rural Banks, which are mandated to serve the poor, leave illiterate struggling to figure out how to fill in slips, what lines to get in and so on. A solution as simple as picture-based posters and clear signage could improve things considerably. In the informal sector, at least illiterate people know what they have to do and what they're being offered.

Brett Matthews

Mathwood Consulting Company

**Post by: Kwaku Berchie**

To me one great lesson that the formal sector can learn from the informal is flexibility. Most often than not, the formal sector tends to restrict savings customers on when and how often they can access their own money. Since poor people save for emergencies, consumption, smoothing, income generation etc they should be allowed to access their monies anytime they want.

Also, the formal sector should be willing to go to the people. With the Susu Savings scheme in Ghana, operators visit the customers for all savings transactions. This is convenience for the customers who do not have to spend time, energy, and money to queue at the institution to deposit money.

Another issue that the formal sector could learn from the informal is "paper work". Too much paper work makes most customers uncomfortable.

**Post by: Bertrand Eshun**

Dear all,

Its has been an educative discussion. Am thinking the low savings among the economically active poor, is more of policy constraints. Most players who deal with the populace in the sector are legally restricted in mobilizing savings from the public.

The intimidating nature of the formal institutions also drive away these prospective savers. The basic requirements needed for one to open an account has always been beyond the reach of these clients.

The unattractive interest on savings product has always been a deterrent, mostly the interest accrued is far below the inflation rate, so why don't I rather invest in risk free ventures.

Am thinking if these issues are given a critical look, savings will be a good source of funds to on lend.

Thanks

Bertrand

**Post by: Angela Wambugu**

I agree with Kwaku, flexibility and convenience are key.

I would also add that it is important that FFIs first understand the savings behaviour, needs and preferences of their target (low income) market. Understand the usage of various options and challenges / weaknesses in each. Consider the risk environment, social issues and environmental issues affecting the target market. i.e. must remember to contextualise!. For instance, whereas Susu works very well in Ghana, it may be a challenging option in countries where people have lost money through fraudulent financial service providers.

Basically, a lot of information is needed around the target market and the context in which they operate to enable FFIs develop suitable products that meet their needs.

Regards,

Angela

**Post by: Kwaku Berchie**

Angela you are right. I attended a MicroSave workshop in Uganda recently and the information Peter Mukwana, our Trainer, gave us was that Ugandans are not comfortable with people taking money from them for deposits. One MFI is trying the concept though.

**Post by: Esau Olubuyi**

Hi Angela

there is growing concern that microfinance institutions are very expensive especially for the rural folk how can we as practitioners find a solution to these given that some well established competitors like barclays and cooperative bank have introduced much more affordable savings products compared to MFIs?

Esau Omung'ala Olubuyi

Fahider Society, KENYA

**Post by: Angela Wambugu**

Hi Fahider,

I understand your concern and I agree it is indeed a challenge for MFIs to offer savings services where well established banks (which portray security) are actively seeking the same target market with affordable savings services. I however still feel the banks are currently offering regular savings products and MFIs can explore needs that are currently not being met. However, it is likely that the banks may catch up, with the growing interest in the low income market. That brings in the question of how viable and sustainable is it for MFIs to offer savings in such a market. Anyone out there with an answer?

Angela

**Post by: Sukhwinder Arora**

I think the lessons from the Informal to the Formal moves us neatly to the supply side of savings services, the topic for tomorrow.

As I summarised earlier, there are many attributes of savings services. Formal Sector can learn many lessons from the informal sector. However it requires significant work to identify what are necessary, and desirable attributes for the customers being served. Moreover, the per unit costs of offering small, flexible saving services is high.

Profit oriented formal sector will assess the business growth and profitability potential before expanding savings services. A multinational bank in Kenya closed many rural branches in mid 1990s and increased the minimum deposit limit for savings account, as it felt that the costs of servicing these accounts was high compared to earnings. It is re-assuring that noting rising business and profitability of Equity Bank and others, it is now re-opening branches in low income locations such as Kawangware, you would never associate with such a high street bank.

However the challenges faced by an average Microfinance institution in offering savings services are formidable –

- \* When the MFI moves from loans to savings, the onus of trust moves from borrower to the savings collector
  - \* Many MFIs lack approval from the regulators to offer savings services
  - \* Even if permitted, the central banks/ regulators often restrict lending rates and thus restrict the transaction costs that can be incurred to deliver door step flexible savings and/or returns on savings
  - \* Issues of good quality accounting, fraud prevention, cash management etc are considerable
  - \* Availability of wholesales funds at 3 to 5% (for example in Bangladesh) also create disincentives to mobilise savings
- Offering savings services requires much greater organisational capacity, and it is irresponsible to get into formal savings services without the necessary approvals and internal capacity. This should be a careful decision made by the MFI. Fortunately rising capacity and reducing costs of technology are constantly enhancing the space for innovation but technology can aid but not substitute for good internal systems.

**Post by: Sukhwinder Arora**

Knowing our clients – are there segments within the segment?

**Post by: Lisa Parrott**

Angela and many others have pointed out that knowing your clients - their needs and preferences - is critical to designing the right products. Madhu has asked us to also think about what we can learn from the informal sector savings mechanisms about how to design more formal (cash based) savings products.

When working with MicroSave I used a lot of qualitative tools to understand client preferences and we found that there were often many market segments within the "low income" population. So while most people want safety and accessibility, there are many dimensions to these parameters. Hermann Messan and others have pointed out that some people want liquidity, while others want illiquidity to protect against their money being available for impulse spending, needy relatives, etc. N.Srinivasan pointed out earlier that there might be populations interested in saving for old age and I've recently been doing some research on savings for children to build their assets for the future.

Can anybody share tools and affordable means for segmenting their target population into different groups with different preferences? Do we know what percentage of our clients want long-term, restricted access products versus those that want very liquid accounts? How do we find out this information in a way that is useful for product design? What segments exist within this large segment?

Regards,

Lisa Parrott, Africa Advisor, Livelihoods, Save the Children USA

**Post by: Angela Wambugu**

I do agree, there are segments within the segment. I think one simple way to segment for MFIs, is to have a profiling questionnaire administered at the point of accessing products/services. This can also be done for existing clients. The questionnaire would have the relevant segmentation parameters be it geographical, age, cultural, psychographic, financial service needs, benefits sought etc. The customers can then be clustered along selected parameters. This may require a good database management system. The clusters can then be followed up with more in depth qualitative discussions around needs and preferences.

Regards,

Angela

**Post by: Brett Matthews**

Dear All:

A comment on Lisa's post -- life-cycle tools are among the most useful. Patterns of evidence to date are not that different from what has been found in developed countries. Short-term saving up to marriage and in the early years of marriage; longer-term saving as marriage progresses (to improve housing, fund education and tuck away money for safety) and saving really kicking in hard once the children have some income of their own -- in search of retirement security.

But in addition to in-kind savings mechanisms, an important component of this saving is investments in social networks and as such as rather hard to measure. We need to get better at it!

There is also much diversity between city and village in types of savings instruments used (and the balance cash/in-kind/social networks). The goals differ less than we might think. In a study I conducted in Cambodia in 2005, the very poor were as likely to put retirement as an important savings goal as the middle class. But there are some tricks involved in asking the question clearly so they understand what you're talking about! Brett Matthews

Mathwood Consulting Co.

**Post by: Alfred Hamadziripi**

I agree with Kwaku's point on the flexibility in savings products. I would also add the need for savings products that offer attractive returns. We need to gradually recognize that poor people also want savings options that offer them attractive returns. This has been the major reason why in some contexts they have tended to prefer informal savings mechanisms than the formal.

Savings products that offer the poor opportunities to access other productive and social/consumption needs are in themselves an incentive to save. The challenge is for providers of savings products to look at more innovative linkages with other players in the private sector. My point is that a tailored savings product that guarantees my household planned access to agricultural inputs and building material among others is an incentive for increased savings.

Alfred Hamadziripi

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## **LESSONS FROM INFORMAL SAVINGS MECHANISM**

**Post by: Suvojit Chattopadhyay**

Are we assuming that we can start with financial services with any vulnerable population? There are still many pockets in this country which rely primarily on a barter economy. There are yet others where people need help before they can participate fruitfully in financial transactions. I think it is important that formal financial institutions and/or their partners invest carefully in building capabilities (ensuring access to basic services - not those they have to pay for, but those they are entitled to as a basic right) before we can hope to extend the net of financial services (savings or credit) far and wide.

**Post by: Cynthia Odonkor**

Formal financial institutions should try and make their services accessible to their clients. In Ghana for instance, we have an informal savings mobilization system called to susu where the susu collector visits clients at their work places and take deposit from them. This is done for a whole month after which the money collected less a day's contribution is given back to the client. This is the most common method used by market women to mobilize savings. There is however a problem regarding security as some unscrupulous Susu collectors tends to run away with the money. A lot of the rural banks are leaning from this method. Akuapem Rural Bank in the Eastern region of Ghana is one of such banks. The bank has employed commissioned agents to take deposits from its clients within its operational area and as at 2005 that Product code named "Akusika Susu Scheme" was contributing as much as 56% to the banks total deposit mobilized. The clients were patronizing because it was more secured, accessible and also served as a means of securing credit facility from the institution. I think formal financial institutions can learn a lot from the informal sector.

Thanks,

Cynthia

**Post by: Jeffrey Ashe**

Dear Cynthia:

I observed susu collectors in action in Accra Ghana a few weeks ago. Turns out that this system is expensive. The women need to pay a fee on their savings and then when they take out a loan from an MIFF they need to pay interest on it. Another option would be focus on group managed susus in the market but in the form of ASCAS rather than ROSCAS. That way the women would not pay a fee and interest on the loans they made to each other in the group would earn them 20% when they divided up the fund (or paid out dividends). This would be a much more attractive option for the market women financially although it would take a bit more work on their part.

Jeffrey Ashe

Director of Community Finance

Oxfam America

**Post by: Sachin Bansal**

Dear Friends,

People use very innovative ways to save. Yesterday I met a person in rural Uttar Pradesh in India.

He has opened his family savings bank account in his wife's name. When I inquired about the reason of opening the account in wife's name, his response was:

“Anybody can deposit in a savings account but to withdraw account holder has to be present. So we have decided to open our account in my wife's name so that there are very few withdrawals as I need to take my wife to bank every time I want to withdraw. That's a very big barrier for me to withdraw as my wife stays away in a village. So the amount in my account is building up gradually and will help our family in future”.

People devise their own ways to get disciplined!!

Best regards,

Sachin Bansal

Financial Systems Officer

MicroSave

**Post by: Prakash LB**

I am not sure if this observation falls into the category of demand side or supply side, and hence thought that this is a safe time to post it.

I know of some (if not many) NGOs/MFIs which work with SHGs and encourage the SHG members to distribute the savings periodically (once every three/five years) and start afresh with a clean slate. The general reason mentioned is that they do so to ensure that women do not have to handle large balances (and also not get into aspects such as misuse or misappropriation).

At times, I do get a suspicion that distribution of savings is encouraged primarily to ensure that there isn't adequate capital available with the group, so that there would be a continuous demand for the credit offered by the MFI. I might sound cynical but still thought of raising it.

Best Regards,

LB Prakash

Coordinator – South

\*MicroSave\*

**Post by: Henry Sempangi**

Dear all,

This is a late posting but hopefully will add to yesterdays discussion.

I note with a lot of concern the need for the formal sector to learn from the informal sector from the posts I have received so far. I have two lessons to share on this.

1. Product development specialists should not try to displace the informal mechanisms in the belief that the formal sector is always better for the poor, rather the formal sector should fit within the informal mechanisms, build on their strength and as much as possible avoid displacing them completely. Poor people have very good and strong reasons why they form and belong to these informal groupings.

2. Trust, Transparency and above all accountability is key in providing savings services to the poor, The low income earners save in informal mechanisms because they perceive them to be transparent, they participate in making decisions and above all every charge is fully accounted for. A saver will never understand why a numerous charges sometimes unexplained are levied on their accounts without any prior consultation.

Henry S.

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## SAVINGS LIMITS AS AN INSTRUMENT OF EXCLUSION

**Post by: Suvojit Chattopadhyay**

One of the biggest issues with the SHG movement seems to be that they are almost completely dependant on the SHPI that created them. I have often felt that the earnestness and competence of the SHPI almost completely dictates how good an SHG is found to be, 2-3 years after its creation.

My experience in Orissa was that there were villages with six to seven SHG groups, which had varying amounts fixed as their weekly savings –some groups saving as high a Rs. 70 a week down to others, who were saving Rs. 10 a week. In some cases, it was also evident that since SHGs were not formed purely from a capacity to save criterion, there were women who were in a group that saved Rs. 20/30 a month, while their own individual capacity to save was much higher (where a lower saving limit was encouraged so that the group could have 12-15 members). This is quite similar to not having an effective channel to save.

**Post by: Piyush Prasoon**

Dear All,

It is assumed that large chunk of population does not have access to financial services because of the inability of the formal system to reach to them and that's the reason there has been emphasis on the MFIs which have many success stories to say. Similarly for Savings also there is a requirement of formal system but again this system is not there for obvious reasons.

This entails for the regulators as well as the policy maker to decide how to make the formal sector (Banking) open/available for the unserved segments. In fact when we look at the capital market and the insurance market they have access to the savings in one form or the other. But again when we talk of the safety these are not safe at all as they are linked to the stock market which again in short term has poor return with high cost (which is volatile and example is the recent slump)

This is a real paradox that we are looking at wherein we talk of safety net while saving while exposing them to the capital market to save there hard earned money. The regulations in banking are not moving in tandem with regulations in insurance and capital market. So, even as the regulations in insurance and capital markets have become more liberal, facilitating the entry of poorer segments of population, the banking sector has continued to exclude them on the pretext ... The result of this uneven trajectories of

regulations in 3 sectors of interest has been that poor's money has now entered insurance and capital (which are riskier) and been blocked away from the banking sector (more safe)...

Piyush Kumar Prasoon

Financial Systems Officer

MicroSave India

**Post by: Narasimhan Srinivasan**

Good points, Piyush. The disconnect between subsectors of financial sector when it comes to regulations has to be corrected.

With the liberalisation of the capital markets and the entry of several private sector entities, why there are not many viable investment products aimed at the poor? Can there be "balanced mutual funds" designed more for the small savers offering good liquidity, better safety and capital appreciation? How much it costs to provide this impossible mix of results in a mutual fund? Are there any AMC's offering such a service. (may be UTI AMC?)

Regards,

N.Srinivasan

**Post by: Raj Kumar**

Srinivasan,

There are no mutual funds that target the poor as the market. Mutual funds are as much subject to the vagaries of capital markets as the equity. The offer documents of the mutual funds scheme make this abundantly clear. However, there are 'balanced funds' available which park in part of their portfolio in debt (almost risk free) and the rest in equities (possibility of higher returns). Again, there is no guarantee of a fixed higher return (even higher than a savings interest in the Bank!)...One can participate in the mutual funds market even with a small sum of Rs. 500 but entire risk has to be borne by the investor.

Given the fact that even the debt funds (more secure) have historically returned much better than the typical savings products (and equity based funds definitely much better) with the Banks, the question is should the poor not get the opportunity to be mainstreamed with the Capital markets. Theoretically the government could provide the AMC's launching such products (aimed at investment of poor man's money), with some tax benefits (would be better than doling out mindless subsidy).

When talks are still on how to tap the savings, we might discuss this apparently overimagined idea as well. I am sure when the microfinance institutions are allowed to mobilise savings and investments, they would surely like to bring out some such products.

Best regards,

Raj Kumar

Financial Systems Specialist

MicroSave India

**Post by: Bhaskar Lakshakar**

Dear All,

Certainly, not to let the inflation and other factors erode savings is extremely important because the purpose of savings

is to ensure that they have sufficient amount to deal with the unexpected or even planned expenses. However we need to contemplate how to compare the returns and interest. Especially micro enterprises that typically require working capital frequently say weekly or daily, people prefer to invest their savings in enterprises as it fetches returns that are higher than interest rate besides considered as safer. After this they do not have big idle amounts to deposit with banks therefore the excess amounts are either invested or consumed in order to uplift the living standard of household.

In all of the market researches in central Indian geographies I observed people were more interested in investing their savings rather than saving it with some Financial Institution. So the moot question is if the gap between returns and interest can be bridged. If yes, then how?

In other words how to make the savings more attractive.

Best,  
Bhaskar  
MicroSave

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## **SAFETY AND VALUE OF SAVINGS – HOW TO ENSURE**

**Post by: Baladeb Sen**

Dear Srinivasan,

From the fast flowing mails and their replies on the supply and demand side of savings, it seems that everyone is trying to make an all time best savings package for the poor. Possibly we are moving rather too far in guaranteeing the poor everything under the sun-safety, liquidity, ease of access, return and protection against all foreseeable and unforeseeable risks. We all know that this is not possible in real life and trade-offs are unavoidable. Unfortunately, decision to save, how much to save, for what length of time and the reasons for saving ultimately will be decided at the individual level by his financial conditions, disposable income, psychological factors like motivations and attitude to life, and such other parameters beyond the reach of the prevailing financial infrastructure.

The concerns expressed so far by the participants are well articulated and the imbalance in supply -demand for savings services would see a total metamorphosis if even a fraction of such introspection and analysis is taken up by our formidable Banking sector.

Regards,  
Baladeb Sen

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## **SUMMARY DAY I**

**Post by: Madhurantika Moulick**

Dear All,

The response to the forum makes me rethink is savings really forgotten half.....or are we all trying in different ways to deal with the various issues raised during the day. Many many thanks indeed.

For those who are waking up to overflowing inbox, here is a list of the key issues and suggestions that were presented today. I am sure it in no way captures the very many details and the excellent examples that have been shared, but hope it will help you catch up....though by the time I post it, I know the discussion would have gone ahead.

We would try to do this every few hours as Summary Day I-A, Day I-B and so on.

I have selected three of the key threads of the day

I. Savings limits as an instrument of exclusion

## 2. Lessons Learnt from Informal Savings Mechanisms

### 3. Product Attributes for Savings

#### 1. Product Attributes for Savings

In response to one of my questions on how clients prioritise on the product attributes for savings, and on what basis they select their service provider, the discussion was around the attributes of security, liquidity, accessibility and returns.

The discussion took an interesting turn when Lisa raised the issue of cash versus in-kind savings and if financial service intermediaries should try to change social practices and motivate savers to invest more in cash savings?

In-kind savings was perceived to be more risk prone than monetary savings. However many viewed it as an opportunity to spread financial literacy - on savings investments (risk, return). Indivisibility of in-kind savings was seen as a hurdle but examples of how strong social capital can address that issue was shared from the hills of North East India.

The client's decision to choose an in-kind or monetary form of savings is also a function of whether there is a facility for cash transaction at all. Many others viewed the debate as a question on the relative inefficiency/efficiency of the formal sector Vs the savings options that the informal sector provides. There have been instances where the formal financial sector had collapsed so the role of regulation becomes important too. Others still noted that in spite of regulators the problem of information asymmetry persists.

## 2. Lessons Learnt from Informal Savings Mechanisms

The discussion started with the purposes for which people save and the absence of what makes the informal sector continue to be so vibrant.

The informal mechanisms thrive because of the intimidating nature of the formal institutions, starting from basic requirements of account opening which have always been beyond the reach of poor clients. Kwaku mentioned that paperwork is a problem and Brett mentioned example from India where even the Regional Rural Banks, mandated to serve the poor, leave illiterate struggling to figure out how to fill in slips etc. In the informal sector, firstly such obligations are less and secondly, are usually helped by agents or staff.

Flexibility, convenience and accessibility are the key attractions of informal mechanisms, for example the SUSU mechanism in Ghana.

As informal mechanisms evolved from peoples needs they are usually better suited to people's needs.

Some of the constraints in savings product are related to the following:

Angela Wambugu mentioned that understanding the savings behaviour, needs and preferences of their target (low income) market is key in designing the savings product. Tailoring the savings mechanism as per the social and economic context is absolutely critical. She also suggested administering a profiling questionnaire at the point of accessing products/services. The customers can then be clustered along selected parameters. This may require a good database management system.

Concern was raised about the cost of formal services in comparison of informal mechanism. Especially for the rural and remote population there is a need to find a solution for much more affordable savings services.

So while most people want safety and accessibility, there are many dimensions to these parameters. Hermann Messan and others have pointed out that some people want liquidity, while others want illiquidity to protect against their money being available for impulse spending, needy relatives. N.Srinivasan pointed out earlier that there might be segments

interested in saving for old age. Brett Mathews also mentioned that in addition to in-kind savings mechanisms, an important component of this saving is investments in social networks.

### 3. Savings limits as an instrument of exclusion

N Srinivasan raised a concern about the high weekly or monthly installments that are set which results in exclusion of the many in the targeted population. In response to his question of “What should the self help promoting institutions do to encourage savings in this context?” Brett Matthews suggested improved product design based on the seasonality of cash flows for the clients which would offer them flexibility. Also he suggested on forming groups of equal social status so that the risk is minimised.

Hope this helps.

Madhurantika.

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## **A POOR SUMMARY OF A RICH DEBATE ON SAVING'S SERVICES**

**Post by: Sukhwinder Arora**

Congratulations to the organisers and the participants for a lively and educative debate.

Although, I had offered, it is impossible to summarise this vibrant, online debate. there will definitely be many other messages by the time I send this message.

Why Save: Various colleagues have picked up the issue that poor people can and do save to meet life cycle needs, deal with emergencies although there has been less discussion on poor people's investments in opportunities. It is surprising not to have a skeptic who asked about 'Aren't poor people TOO POOR to save', although there was some discussion on SHGs and their promoters setting monthly savings rate high and excluding some poorer households.

Another way to look at is what are the indicators that confirm this need to save:

- a) poor people go to great lengths (both physically and in terms of time spent) to save..many poor people are willing to spend 8 hours or more a month to save one or two days of earnings every month
- d) Poor people start saving even if they or others in the area have been cheated with their savings (Abhishek also mentioned this)

What other indicators can we point to the skeptics in the real world?

Attributes: Lisa and Sachin summarised the key attributes Safety, Liquidity (access to cash), Flexibility, Accessibility (i.e convenience) and returns. Geeta added the AAA framework and reminded us of the value of Anonymity. In all this discussion, transaction costs are implicit but crucial. Herman talked of need for liquidity for some of the savings and illiquidity for others. Lisa talked of safety and liquidity being more important than returns. Christopher referred to being comfortable with the organisation and the issue of culture. Brett talked of not being intimidated by paperwork and lines. Essentially it could be summed up as Risks, Costs and Returns a crucial issue is trade offs. No organisation can meet all these expectations. For example, a rapidly expanding MFI I visited recently stopped offering savings services as it found the transaction costs were high and most errors and frauds originated not from loans but flexible savings services. So is the organisation able to understand the key priorities for the customers it seeks to serve and does the central bank understand and create flexibility for innovation on these attributes e.g. if it is mandating returns without looking at transaction costs for the customer or overall value proposition.. hopefully the supply side discussions will pick this up tomorrow.

Choice and Portfolio: Peter referred to choice and David reminded us of even poor people having multiple accounts. Lisa initiated the discussions on savings in cash or kind. 'Not putting all yr eggs in one basket' has stood the test of time and poor people face even greater risks and so necessarily diversify. Tony illustrated with the water melon example.

An SHG or a credit co-operative will serve better if members also have other choices. Of course even in remote areas, people have choice not to save, save smaller than potential or diversify in goat, cow, land or other assets. Again successful SHGs, village savings associations or other savings collectors attract much bigger savings as savers feel more secure of the saving mechanism. Voting with their money is very common.

Choice also has the element of competition, again a theme for tomorrow.

Scale and time dimension: very little discussion so far on scale and time dimension. The attributes a saver looks for in savings \$10 vs. \$500

change significantly. Also portfolio approach will be easier when the savings flow and stocks increase. Similarly when basic hunger is met and planning frameworks extends from where do get the meals tomorrow to how do I protect from crop failure or improve my house, a mix of savings instruments for short and medium term become important.

Any specific insights colleagues want to share on this dimension?

Demand Side Challenges: There has been lot of discussions on need for financial education and capacity and information to make the right choice. It is true that many complex financial products are difficult to evaluate even for sophisticated consumers. But an average poor customer may not have high levels of income and wealth but is not lacking in insights. It is amazing that without complex calculations of IRR, on basic products most poor people make the right choices more often than expected. Of course promoters can help by simplifying messages and providers can quote comparable rates. The other issues of physical and cultural barriers have also been noted.

The Bonus: There are many bonuses to participate in a formal savings programme or any network. Many poor people not having access to credit can build up a financial history, especially in the absence of pay slips. Built up savings enhance entitlements. It is not that savings need to be withdrawn but the fact of accumulated savings provides assurance to the saver and to other providers interacting with savers. A savings network also eases regular insurance premium payments or access to money transfer services.. Some organisations have tested bulk purchase to meet common members needs at a large discount. Any others?

There are also the wrong kind of the political bribes to gas connections with SHG memberships but that might weaken and confuse savers over time rather than offer a saving institution for generation.

What are the other bonuses savers can expect over time?

Sukhwinder Arora

### **Post by: Graham Wright**

One last thought on Sukhwinder and Madhu's summaries ..

I do not see adequate discussion of the importance of discipline/regularity as a key component that poor people look for in a savings product. They like to be forced to save on a regular basis so that they can slowly but surely build up a lump sum. It is this discipline/regularity that makes informal sector RoSCAs/ASCAs and formal sector recurring/contractual deposit products so very popular ..

And because of the discipline and programmed nature of the savings, and a single programmed withdrawal at the end of the term, these make great, relatively low cost deposit mobilisation products for formal financial institutions struggling with the perceived high costs of savings mobilisation from the poor. And, of course, as David and others have already

pointed out, across the globe poor people will happily pay for a localised (recurring) deposit collector. So add to the usual list of security, access, liquidity/illiquidity and returns . discipline/regularity!!!

Best regards,

Graham A.N. Wright

Programme Director

MicroSave India

**Post by: Prakash LB**

Dear all,

I do agree with the need for discipline and regularity. I have seen this happening in the thrift and credit cooperatives promoted by CDF and elsewhere.

I would also like to add the aspect of confidentiality as one more to the list. Recently, while doing a market research for the sex-workers on developing a savings product, Confidentiality (others - particularly the husband/family not knowing the extent of savings) was one aspect which came across as the primary attribute of the savings service.

I feel that this applies to most of the rural women (in urban areas people rarely interact, so...not a major need I guess), particularly where they do not want the neighbours to know about how much their savings are (and how better-off they are!).

Best Regards,

LB Prakash

Coordinator – South

MicroSave

## DAY TWO: FROM THE SUPPLIER'S PERSPECTIVE

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### **WELCOME TO DAY 2 OF THE SAVINGS SPEAKER'S CORNER**

**Post by: Madhurantika Moulick**

Dear E-Participants,

Thanks for an overwhelming response on day 1. Considering that more registrations have taken place and mails are still coming in, I am assured you will maintain the momentum of the discussion.

**On day 2, we will discuss the Supplier's Perspective on Savings.** A number of ideas have been presented on day 1 on how effective savings services can be delivered to the microfinance clients. Today we discuss from the supplier's aspect how feasible or attractive those are.

A number of resource documents has been added to the website, which we hope will help you understand the issues discussed better.

To help people who log in later to catch up faster with the ongoing discussion, can I request you to, one, follow the discussion threads and reply respond to specific threads and two, to delete the trail of messages, if you are responding through email.

Thanks for making this forum a real Speaker's Corner!

Regards,

Madhurantika

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## **MOBILE SOLUTIONS FOR SERVING REMOTE AND SPARSELY POPULATED AREAS**

**Post By: Narasimhan Srinivasan**

Dear all,

This thread is to focus on special problems of remote and thinly populated areas.

### **SMALL VOLUMES ARE NOT INTERESTING EVEN WITH STATE INTERVENTION**

We all know that in many countries and geographies, institutional presence is inadequate for facilitating savings services access. The poor, on account of small volumes that they offer, do not become sufficiently attractive clients. While State and mission driven savings for the poor are on offer, these are poor services that do not effectively meet the real needs.

From the side of institutions high cost and low volumes are major causes for the relatively lower intensity in dealing with smaller savers. Aggregation of volumes of several small savers might offer a better route for cost cutting - as in the case of SHGs. Remoteness of locations and sparse populations also hinder setting up branches. Mobile solutions (of the wheeled kind) have been used with mixed results. There could be good experiences which some of you might like to share.

### **TECHNOLOGY SOLUTIONS - HOW FAR THEY HAVE HELPED**

The advances in technology that enable servicing of people far away from the bank or MFI have in the recent past raised the level of excitement in the savings sphere. Can technology effectively substitute the human interface and ensure reasonable risk proofing? Some of the mobile solutions (of the cell phone kind) providers and institutional users might like to share their experiences and particularly the cost implications for institutions.

Best regards,

N.Srinivasan

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## **SAVINGS CAN BE GOOD FOR HEALTH!**

**Post by: Dr. Geetha Nagarajan**

It appears that savings can help the poor in many ways besides just meeting liquidity and investment needs!! Recent statistics from the Indian Sub continent and South East Asia shows that nearly 32% of the poor smoke!! Wonder if the discipline to save helped here!!

A recent study by Xavier Gine and Dean Karlan designed and tested a voluntary commitment product to help smokers quit smoking in the Philippines. Individuals who sign a Committed Action to Reduce and End Smoking (CARES) contract deposit money into a savings account and agree to let the bank forfeit their entire balance to charity if they fail a urine

test for nicotine and cotinine six months later. Bank marketers offered the product by approaching smokers in public places. Marketers administered a short survey, provided a standard pamphlet with information on smoking's harmful effects and how to quit, and then made one of three randomly assigned offers: (i) CARES; (ii) aversive "cues": graphic, pocket-sized pictures of the deleterious health effects of smoking, modeled on Canada's cigarette packaging mandate; (iii) no intervention (control group). 11 percent of individuals offered CARES accepted. Six months after marketing, the bank marketing team returned and administered urine tests to participants from all three groups. Subjects offered CARES were 3.1 percentage points more likely to pass the test than the control group (a 38.8 percent increase); this intent-to-treat effect rises to 4.3 percentage points for those who reported in the baseline survey that they wanted to quit smoking at some point in their lives. Treatment-on-the-treated estimates suggest that those who signed a CARES commitment were 29 and 33 percentage points more likely to pass the test than the control group.

You can read the paper ["Put Your Money Where Your Butt Is: A Commitment Savings Account for Smoking Cessation"](#), Xavier Giné, World Bank, [xgine@worldbank.org](mailto:xgine@worldbank.org), Dean Karlan, Innovations for Poverty Action, [dkarlan@poverty-action.org](mailto:dkarlan@poverty-action.org), and Jonathan Zinman, Innovations for Poverty Action, [jzinman@poverty-action.org](mailto:jzinman@poverty-action.org). March 2008.

**Post by: Getaneh Gobezie**

Dear COLLEAGUES,

Interesting discussion.

I have gone through almost all of the previous postings. As discussed previously, I would like to point out very quick points which I believe are important for furthering the discussion:

\*Why poor people save: the need to save for the poor is indeed very high for spending requirements related to: emergencies, life cycle needs, and economic opportunities.

\*Why poor people need formal (against informal) saving devices (to build on Geetha's points) mix of: safety, returns, access to funds ('you can't sell half a cow') and anonymity (one need to keep it secrete, or invisible -- sometimes even from husbands).

\*Perhaps the need to save for emergencies is vital. Emergencies that arise from nature (drought, etc), from market, war, and emergencies with-in the household -- the husband -- improving the fall-back position for the woman...

\*need to 'teach' the poor about saving? yes and no. Given that risk and uncertainty for the poor are teachers in themselves, the poor in many countries very well knows how to prepare for such emergencies of various types -- hence no need to teach on saving... But as Geetha rightly pointed out, people may 'want' cigarettes, but they may not 'need' them.. scientifically true.. So we may feel the need to teach on avoiding expenditure on this...

More later,

Getaneh Gobezie

Amhara Credit & Saving Institution

ETHIOPIA

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## REGULATORY STANCE

**Post by: Narasimhan Srinivasan**

Dear all,

Let us look at regulatory stance on savings and how it affects micro savings. Most regulators aim to protect depositors. But when it comes to very small savers saving in risky conditions and with informal institutions, no regulatory initiatives are noticed. *Is there a regulatory fatigue that balks at large number of small institutions and would rather not bring them under any supervision?* Or is it that the small savers are such an insignificant part of overall financial system that their problems would not impact the payments systems and therefore there is no need to spend regulator's time.

What could be the effective ways of bringing small institutions and small savers into effective regulation?

Are there some regulators out there? and institutions that have been impacted?

Regards

N.Srinivasan

**Post by: Anup Singh**

Dear All,

As far as regulation in India is concerned, it appears that the overwhelming concern is that savings should not be lost; that this leads to saving services not being available at all to poor people seems to be lost somewhere. This thinking seems to restrict the growth of small and versatile institutions capable of tailoring the products to local needs. Large banks in India, being pushed by the regulator to open no-frills savings account (zero balancer savings account), view this as a drain on resources.

That such an approach leads to fly-by-night operators having a field day is somehow lost. Chit fund companies (ROSCAs), plantation companies, real estate companies...all have taken savings from the poor ...never to return. But then these do not fall in the domain of the banking regulator...so an ostrich like attitude prevails.

Is there a possibility of redemption? The one step forward...two backwards approach of the Banking correspondent?

Best Regards,

Anup Singh

MicroSave, India

**Post by: Amaresh Kumar**

Dear All,

Is the story of seven blind men and the elephant applicable to the micro-savings? We are products of our experience and perception. This not to say that the views put here are not true and important. What is more important is that we make the best of the given situation and at the same time continue to appropriate noises for improvement in favour of the poor across the globe.

Amaresh Kumar

**Post by: Suriseti Srinivas**

I accept that the catalytic role played by various promoters/supporters has been significant.

However I am not very sure whether we are making the best of the given situation or we are considering whatever is happening is the best in the given situation.

Regards,

Srinivas

**Post by: Graham Wright**

Dear All,

Central Banks' motivations to regulate MFIs (or indeed any other financial institution) revolve round two primary aims:

1. to protect the integrity of the country's financial system (i.e. to guard against "systemic risk"), and
2. to protect depositors within a context of asymmetric distribution of information (i.e. to guard against depositors losing their savings in the event of the failure of financial institutions).

In most countries, (with the exceptions of Indonesia, Bangladesh and possibly Bolivia) MFIs simply have not reached the scale or achieved the breadth and depth of market penetration to pose any systemic risk. It is clear, and now generally accepted, that poor people want, need and do indeed save. There is also increasing evidence that poor people are facing an extremely risky environment when they save in the informal sector. Thus it is clear that when discussing the risk to poor people's savings, this has to be evaluated on a relative basis. Very often all the alternative savings systems available to poor people are risky. Thus poor people are left facing decisions on the relative risk (or relative security/safety) of the various semi- and informal savings systems open to them.

MicroSave's research in Uganda in 2000 revealed that 99% of clients saving in the informal sector reported that they have lost some of their savings and on average they had lost 22% of the amount they had saved in the last year. This is documented in MicroSave Briefing Note # 6 "The Relative Risk to the Savings of the Poor".

So it seems to me that Central Bankers have seen depositor protection in absolute terms for too long. When considering "safeguarding the deposits of the poor", it is essential to think in terms of relative risk rather than absolute risk. In the same way that rich people make investment and savings decisions on the basis of the relative risk and return on the variety of opportunities available to them, so poor people are constantly faced with the need to assess the relative risk of the limited options they have to

save.

Poor people cannot wait for the perfect system to protect their deposits. Indeed, the evidence from the formal commercial sector demonstrates that this panacea does not exist. In the short run, it is preferable to give poor people the choice rather than drive or strand them in the high risk saving environments with which they are currently faced. We must however, seek to inform that choice so that they can make their own decisions about the options available to them and the relative risk of each.

Best regards,

Graham A.N. Wright

MicroSave, India.

**Post by: Sanjay Bhargava**

Graham,

A good example of prudent and pragmatic regulation is "ELMI" which is electronic licensing of money issuers in the European union where to issue electronic money you have to cross a relatively low initial barrier but capital requirements rise as you grow.

For regulators the cost of supervision is key if there are many small providers. Thus things like very severe criminal penalties for not following regulations, electronic reporting etc. could allow a thousand flowers to bloom. If the interest

of regulators is to drive down interest rates then an MFI authorized to accept deposits may have to agree to some interest controls. Deposit insurance is another item talked about and that could be done by charging the MFI a premium.

I do not know if MFI associations have tried to put forward a proposal to regulators as to how they would like to be regulated if they are allowed to accept public deposits.

Rgds

Sanjay

**Post by: Abhijit Sharma**

Dear all,

I agree totally to this view propounded by Graham that 'absolute risk' needs to be substituted by 'relative risk'. In their zeal for protecting depositors they have managed to put mechanisms in place which is expensive and thus have managed to shut large number of people out of the system and into the 'unsafe' hands of the semi-formal and informal systems. I would like to add another point. For a country of the size of India with large diversity in its economic development process in different regions, isn't it time to think of having regulatory norms which are Zonal. This would help in the incorporating the local context and ease the restrictions on the supply side. After all, if the country would have been divided into smaller independent nations, each one of them would have had an independent central bank with independent regulatory norms in place. Else, we would continue to have a situation where only 8% of the households are accessing banking services as in state of Manipur despite the 60 years of banking in the country!!

Abhijit Sharma,

IIBM

**Post by: Narasimhan Srinivasan**

Dear all,

Quite a few ideas and concerns have surfaced. Peter and Graham have clearly outlined the regulator's dilemmas and the impact on small savers. While Sanjay has pointed out the ELMI which is effective in regulation, I would like to point towards the German audit federation model of supervision. Backed by deposit insurance, a supervision association funded by the sector but managed professionally might be helpful in dealing with the needs of the small organisations. The central bank needs to get involved at the creation of such an organisation and setting up the initial processes.

As Graham points which is the more acceptable problem- that of small savers losing savings in informal institutions or of the regulator carrying a high load of looking after a large number of institutions with attendant high costs?

Regards,

Srinivasan

**Post by: Peter van Dijk**

I think you need to add the "3rd primary aim" of central banks namely that when they decide to regulate (&supervise) to protect system and/or depositors, that they can ENSURE FULL APPLICATION of laws & regulations & principles of effective supervision. If they cannot ensure FULL application of laws & regulations, authority, credibility of CB will be undermined and thus regulation will have no effect (but the process has required huge costs).

Peter

**Post by: David Cracknell**

It is tempting to think that once we have a regulatory form for microfinance NGOs then we have regulated microfinance. Well for savings and certainly in Africa there are many institutions accepting deposits from the poor, so the regulatory picture is quite complex.

In parts of Africa there are several themes that I can see occurring at the moment.

- a. The introduction of regulatory forms for savings for NGO-MFIs in most markets
- b. Re-regulation of existing forms for savings - New Credit Unions legislation
- c. Migration of financial institutions serving the low income market across borders
- d. An increase in capital requirements particularly in West Africa
- e. A broadening of regulatory focus to include consumer protection
- f. The evolution of payment systems and hence the requirement for payment systems legislation.
- g. The gradual broadening of regulatory windows on Know Your Customer for poorer people.
- h. Initial thoughts on branchless banking.
- i. The adoption of risk based approaches under Basle II.

The pace of change makes it particularly challenging for regulators and legislators to take appropriate decisions and hence the need which is acknowledged for regulators and legislators to share experiences. There are often divisions between different departments within the Central Banks too, as it is not easy to come to common opinions on all of these issues.

David Cracknell

Africa Programme Director

MicroSave Kenya

**Post by: Peter van Dijk**

Dear all,

This is obviously a question of basic importance that applies to all public services. These services are called public because they are so important to all people that government (partly sometimes) provides them or funds them. Public services are also protection (army, police), education (primary, secondary school, university), water management, health, infrastructure (roads, electricity, telecommunication etc) and so forth.

The outreach of these services is directly dependant on choices the government makes, often based on political priorities but mostly dependant on its financial resources. Its financial resources depend in turn on tax income for a large part.

Already for rich countries, it is a challenge to reach all citizens in all regions with the same level of services. So remote areas and poor citizens are often underserved.

At the same time, in financial services provision as in other areas, regulation & supervision need not strangle, it should only be done when effectively it can ensure (full) compliance (on the ground), needs to focus on systemic risks and it needs to be sustainable.

Consequently, it becomes clear that small savers are the weakest victims of justified reasons for falling out off the supervisory system. Or do some participants think that government should allocate all funds it takes to reach all savers, to the detriment of other priorities such as health or education, building roads or what not?

I think this understanding of basics is necessary before looking for ways to, with limited resources, exploit ways to optimize use of existing resources.

**Post by: Sanjay Bhargava**

Peter,

I am opposed to the government subsidizing universal financial access. I think even the very poor will be able to pay something for UFA. It also maybe possible for rich users to pay a fee to enable services to reach poor users which is in effect a cross subsidy.

The government may provide low cost loans to those who build financial infrastructure just as it does for physical infrastructure but transactional subsidies are recurring and can become very large. On 300 million people if there is a 25\$ subsidy then the annual bill is \$7.5 billion or 30000 crores which is one fourth the fertilizer subsidy in India and one tenth the oil subsidy.

Rgds,

Sanjay

**Post by: Peter van Dijk**

Dear Sanjay,

I did not argue that government has no role in building inclusive financial sector; they have, and subsidies can play a positive role.

Government has had such role in ensuring that financial sectors in continental Europe and Australia are nearly totally inclusive.

But tools in IR subsidies were most often avoided (after earlier experiences). Support and subsidies focused on encouraging physical outreach, customer education, marketing, and savings guarantees and subsidies. No wonder you still see that European banks with largest outreach are or were postbanks, coop banks, municipality banks etc.

Profit maximising commercial banks that did not prove outreach commitment in their core business could not access such government support (this now changes, with

commercial banks suing government and banks with help from public sources for illegal state aid and unfair competition).

Peter

**Post by: Arunkumar Padmanabhan**

The argument that more entities should be permitted to collect savings from low income segments with relaxed regulation is compelling. As Graham has pointed out the poor lose too much money while saving in the informal sector that they would only likely be benefited by formal entities collecting savings with lower regulation.

On the other hand we have too many instances in India where formally regulated entities operating without significant regulation like capital adequacy etc., have collected large volumes of savings and gone bust because of poor business practices or in many cases, fraud. In Mumbai, where we work, we have seen that in almost all the significant slum areas people have lost savings amounts to cooperative credit societies, which are also semi formal entities. Hence, while people do lose significant savings money to informal sector, I suspect, at least in the Indian context, people would probably lose more money to formal/ semi formal entities collecting savings with low regulations because they would be able to advertise and mobilize larger amounts of money through publicity. The nbfc's in the 80s and 90s and the credit societies are examples of this phenomenon.

An immediate solution lies in relaxation of kyc norms by the rbi and by the rbi taking more proactive measures to promote the business correspondent model to mobilize savings services provided to the poor through banks, which are clearly the more robust entities.

In the long term we may need to find a balance between having a too stringent regulatory environment that stifles formal sector savings business and relaxing the regulations too much to allow fly by night operators to enter the market.

Best,

Arun

**Post By: Narasimhan Srinivasan**

Arun raises some very important issues. Semi formal regulation of semi formal institutions could lull everyone into complacency that would be entirely misplaced. But even fully regulated entities do go belly up from time to time. In fact high profile failures have been of institutions that have been very professionally run. Risk management, internal controls and governance were found to have been weak in such cases, but well after the collapse. The point is mere regulation would not protect the depositor. Effective deposit insurance will protect them. How to bring in deposit insurance cover for MF operations in savings is an issue that should be addressed. Or as an alternative, MFIs could undertake collection of savings, but place the same with mainline banks which have deposit insurance cover. The banking correspondent and facilitator model rolled out in India would facilitate a safe mode of handling savings of poor through MFIs and others.

Best regards,

N.Srinivasan

**Post by: Brett Matthews**

To return for a moment to Graham's introductory point, in a study in rural Cambodia in 2005 I explored the relative losses by type of savings instrument of for 602 villagers in 37 villages. After finding rather similar results (15% annual losses from saving at home -- including a very similar 15% average annual loss in community-based financial institutions set up by external NGOs) I asked them what might cause them to save more with their local community-based institution? They ranked "managers must show more respect for the rules" a long country mile ahead of any other response.

This indicates two things.

First, poor people live in a world of relative losses, and take calculated risks wherever they put their money. They did not invest a lot in these institutions (an average of \$6 each in total, or 2% of annual savings) because they could see the train wrecks ahead.

Second, with due respect to the good intentions of the NGOs and governments that promote these types of organizations, getting managers to respect the rules on a sustainable basis into the future is not about training and it's certainly not about over-leveraging the organization to 'strengthen it'! It requires attention to local transparency and accountability (in a world of very low literacy), and it requires the development of viable market-based meso-level supervisory and support organizations that understand this distinctive client-base.

Can anyone give an example in which these matters have been treated seriously by promoters of community-based financial institutions? I can think of none -- but I'd love to hear of even one!

Brett Matthews

MicroSave

**Post By: Dr. Geetha Nagarajan**

Geetha,

Could you please post the following? Thanks!

In response to Bhaksar's comment about proof of identity and residence for opening savings accounts:

Proof of identity and/or residence is certainly an issue for very poor people who lack official identity documents or proof of address. In order to comply with international Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) requirements, many countries have established stringent identity requirements for opening transactional accounts or remitting funds. Generally, these requirements include an official identity document and some proof of address, such as a utility bill. As Bhaksar correctly notes, in some countries, poor people living on land to which they do not possess clear title may lack both an official identity document and proof of residence. In theory, this could be a significant deterrent to encouraging savings mobilization among the very poor.

I say "in theory" for two reasons. First, some countries have striven to ensure that AML/CFT requirements will not prevent the poor from opening bank accounts. India is actually a good example. For small-value accounts with a maximum balance of less than INR 50,000 (approx. USD 1,159), a customer who lacks proper identification may be introduced by another customer who has gone through the traditional identification process. In addition, India permits banks to accept numerous forms of identification and proof of address, including letters from public officials and employers.

Second, studies generally indicate that few unbanked clients identify lack of proper documentation as a key reason for lack of access. When Finmark Trust asked unbanked clients in South Africa and Zambia why they did not have a bank account, only a small percentage of respondents (3.3% of South Africans and approx. 1% of Zambians) stated that a lack of identity documents was a key impediment. In both countries, the key reasons given were overwhelmingly the following: lack of money to put in a bank account; lack of a job; and lack of a regular income source.

That said, practitioners aiming at "banking" the unbanked poor should take note of flexible, risk-based approaches to identifying new bank clients (such as the approach taken in India), and they should be prepared to lobby the Central Bank or other regulator if AML/CFT requirements are perceived as real impediments to access to savings services in their particular country context.

I would be interested in others' viewpoints, particularly if there are examples of organizations that have found AML/CFT requirements to be significant impediments to access in practice.

Sincerely,

Jerry Grossman

IRIS Center at the University of Maryland

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## **REGULATORY CONSTRAINTS...**

**Post By: Gert van Maanen**

In addition to my contribution on the role of postbanks, and the wish to let more savings be taken by MFI's, the major obstacle is that regulators don't want savings to be turned into unsecured credits. The fact that well functioning MFIs - in spite of the lack of bankable securities - have a track record of > 98% repayments doesn't impress them. That implies that MFIs have to turn to other sources for their funding than savings ( except from their own clients).

Secondly: in that refusal the regulators are firmly supported by normal commercial banks, that don't want their savings to go to MFI's. ( It reminds me of the Dutch commercial banks protesting loudly when Postbank requested to be allowed to use their savings to give credit ) That has more to do with market share than with care that the poor should be protected. Because the track record of these well functioning MFIs shows that the money is much less at risk than anyone had assumed.

So we face a true catch 22 situation, where savings of the poor continue to flow to normal banks that don't turn them into credit for the same category, whereas those institutions that would give credit to these poor and have a positive track record are nevertheless not allowed to take savings from the general public.

Of course there are positive exceptions where MFIs are allowed to take savings, but the regulatory requirements should be adapted to their specific business instead of being copied from normal banks. At the Microfinance Centre for the New Independent States and Eastern Europe (MFC) we are working hard to convince the regulators from Warsaw to Vladivostok that such special regulatory regimes are required, not to make it easier to take savings and then to do things wrong, , but to make it possible to do things right. With proper protection for the savers. Our next meeting with them is in Oktober in Krakow where we expect some 150 regulators from that part of the world to join the discussion about how to be a prudent regulator and nevertheless allow good things to happen in a wise manner.

Gert van Maanen ( at present Chair MFC)

**Post By: Mary Miller**

Gert,

The major issue in taking deposits is the fiduciary responsibility of the holder of the savings - banks are regulated, after all, to protect depositors, not borrowers. In many jurisdictions MFIs legally cannot take deposits, because the central bank or other banking authority deems that they do not have the fiduciary capacity to do so - in other jurisdictions deposit mobilization is permitted. I see this as more than just the nature of the assets of the institution\*, and more a question of governance and capacity, which often are very weak.

What, in your experience, is the right balance - should MFI deposit-taking capacity be limited, or should it be comparable to commercial banks? Are there model regulations that we can look to for this balance? I will be particularly interested to hear the outcomes of your Krakow meetings - will proceedings be published?

Regards,

Mary M. Miller

DAI Bethesda, Maryland USA

\*although I agree that unsecured loans may be as safe as collateralized loans - a lot of this reflects more the inexperience of bank examiners, so it is easier to just look for lots of collateral (but all this is a whole other discussion!)

**Post by: Gert van Maanen**

Thanks Mary!

I agree with your first line. But I don't agree why MFI's would not qualify for that fiduciary responsibility. If they have a solid track record of not losing the funds they lend on to their clients, it seems irrelevant whether these funds are from donors or depositors/savers. It means that they have a proper control over their downstream lending business, with proper repayment records, even if their lending is unsecured. Under such circumstances they should be allowed to take savings from the general public. That does not mean that they will not be regulated, but that they will fall under another regulatory regime and reporting requirements than normal banks.

My concern is, that if we speak about an inclusive financial sector, MFI's have no option but to upscale and become a normal bank, under a regulatory regime that was not created for 100.000 minions, leaving aside unsecured loans. I am not against such an inclusive sector, provided it recognises that leasing differs from banking, just as unsecured micro differs from financing SME's and higher. In other words: diversity.... with appropriate requirements for each category.

The other- quite important - reason to aim for such diversity is, that otherwise good functioning MFI's will have to be funded by overseas funds, quite often in hard currency, which is not a sound business prospect. Or to become banks, that will serve the top of the micromarket, but not the bottom where the real needs are.

Gert

**Post by: Cynthia Odonkor**

I think the central banks can set up an Apex Body with some level of regulatory authority to supervise the operations of MFIs. With the Apex body in place, and its mandates clearly defined, MFIs could be allowed to take deposits from clients as the Apex body will ensure the protection of depositors money.

**Post by: David Cracknell**

Mary makes an important point about the relationship between savings and deposits, in that microfinance programmes can look to their clients to deposit funds before lending. True. However, we have seen in Africa that many deposit taking MFIs need to go quite far to attract the 'net depositor' the depositor who does not require a loan. There are many reasons for this, in part due to the positioning of the institution, capacity to market, orientation of credit staff etc.

In one case I tried something illuminating. I asked a credit officer of one microfinance programme to sell a deposit product to me. After explaining the product features, almost the first thing he said - was "Save with us - Get a Loan" - a standard line perhaps, but one that is likely to lead to perpetual liquidity shortages if successful, as net depositors are required. I then asked the loan officer - what questions potential clients had - the questions were very much focused on the stability of the institution as a deposit taking institution.

I then suggested to the officer and the branch manager, that maybe this was the question they should try to answer first was to convince customers of the suitability of the institution as a deposit taker. Silence suggested that this was not an easy thing to do.

David

Kwaku,

Looks like the MFIs in Ghana can take savings, and I assume intermediate the funds. How are they regulated?

I think you make an interesting point about using savings as bait to get credit. With the banks that I work with that are going down-market or

trying to, I encourage them to first look to their own deposit customers

- maintaining a deposit account for a period of time is an excellent reference on money management habits. As other parts of this discussion have pointed out, there is a role for both savings and credit for most people, both for long term investment and smoothing periodic cash flows. I would think that most lenders should look at offering (or responding positively if asked) credit to

**Post by: Hugh Allen**

Dear David,

I find this surprising. Opportunity Bank in Malawi has 19,000 borrowers and 92,000 depositors. They have achieved a similar result in Mozambique and are awash with liquidity. Perhaps this has something to do with their public profile, which, although offering pro-poor products has a very 'high-street' image and is fully licensed as a commercial bank.

Hugh

**Post by: Prakash LB**

Where savings are allowed, people do tend to save. In the case of India, where the MFIs are not allowed to offer savings services, they do find a different situation.

Where savings are offered as a service - two things seem to happen:

- a) The need for external borrowing from banks reduce as the MFIs age - and at one stage probably would not require external borrowings more than 20-30% of their loan portfolio.
- b) The institutions offering savings facility indeed have to start grappling with how to use the funds - as they have excess liquidity. CDF was struggling with this a few years ago, and still has some problems I guess, wherein the members of the thrift cooperative were not interested in taking loans beyond a certain amount, but were continuing to save. They had to make their loan terms more liberal to manage excess liquidity and also start looking out for opportunities to use the money available - and that's how the

Dairy Cooperative (with a 20,000 [?] litres per day capacity processing plant) started.

Best Regards,

LB Prakash

**Post by: Peter van Dijk**

The conclusion can be that loan officers are (depending on organisational structure, product, salary etc) not the right staff to promote and sell savings services.

**Bettrand Eshun**

Dear All,

The discussion is getting interesting and very educative. Though in Ghana many MFIs are not legally allowed to mobilize savings from the public, most of their credit products do have some savings component within. I know a client, will have to deposit 10% of amount requested alongside other appraisal factors. This 10% savings component is referred to as compulsory savings and anything above the compulsory savings component is termed as voluntary. Clients access to higher facility is normally based on propensity to save more. Most FNGOs deposit mobilized savings with banks, where

they secure these funds by becoming co signatories to the account, in this case there's no way a client can access the funds without the consent of the FNGO.

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## **SHOULD POSTBANKS GO INTO LENDING?**

**Post by: Prof. Dr. Hans Dieter Seibel**

Gert: "Regulators don't want savings to be turned into unsecured credits".

So, the credits have to be secured: by collateral, guarantors, mutual guarantees.

Perhaps you want to tell your regulators meeting in October in Krakow that the fate of the Soviet savings bank, which went bankrupt without a loan business, was not typical, and that there must be something to be learned from history I am sure you are familiar with:

Financial intermediation (turning savings into credit) was a financial innovation of the years 1480-1500. It has been spreading since, and has recently reached a number of postbanks in developed and developing country, including the Postal Savings Banks of China (35,000 branches) which took its first steps into the credit business in 2007.

The German Postbank, to take one other example, is a latecomer to financial intermediation. It seems to have learned quickly. From its website report

Jan-Mar 2008:

Total assets EUR 221.9bn, deposits 88.6bn, loans outstanding 89.9bn, equity 4.8bn, profit after taxes 116m.

I am sure our post and savings bankers from the International Savings Banks Institute have more to add. Savings banks have been into financial intermediation from the onset (informal, 1778; formal 1801). I don't see how post banks are necessarily different from savings banks and other banks.

Dieter

**Post by: Dirk Smet**

Dear Prof. Dr. Seibel,

Thanks for mentioning the role of savings banks and postal savings banks.

Many savings banks have indeed from the beginning been in an intermediation function between savers and borrowers, and the World Savings Banks Institute (as the International Savings Banks Institute is now called) actively works with postal savings banks to make regulators and other official institutions aware of their crucial role in the financial system of the country, and more particularly in their outreach to the poor. Only a few of the advantages they have are there often very large distribution network (in comparison to many commercial banks) and the low threshold of their products and services, and of their branches.

**Post by: Peter van Dijk**

Dirk,

Can u mention projects where the WSBI actively assisted Postal banks, especially in Africa and Asia, to reform and become profitable banks remaining committed to outreach, products and customers? I know that the European sister association ESBG assists members in developing commercial products and services.

Peter

**Post by: Graham Wright**

Dear All,

My last provocative thoughts for the day . Should post banks think about getting into credit at all?

The vast majority of MFIs that "transform" into regulated financial institutions eligible to mobilise deposits, singularly fail to do so effectively . or at any significant scale. Their staff and systems are trained and designed to manage credit, and they typically cannot make the transition to offering savings services (after all the relationship with the clients, and indeed the nature of the clients, necessarily must change). See MicroSave Briefing Note # 3 "Mobilising Savings" for a discussion of this. At the same time transformed MFIs are still typically viewed by potential clients as small-time microcredit organisations and thus not tremendously secure places to put precious savings - particularly with a growing number of serious commercial banks coming down market to offer savings services to the poor.

Similarly many Post Office Savings Banks have struggled to manage credit products, which present very new challenges to their staff . and their clients often assume that loans from government-backed postal banks are in fact a "groans" - a mixture of grants and loans. The one area where Post Office Savings Banks may have to offer loans in order to remain competitive is advances against salaries . failure or inability to do so will mean (as it has in Kenya for example) mass defection to commercial banks coming down market and offering these services (in Kenya's case Equity Bank). But even managing advances against salaries is fraught with challenges (see MicroSave Briefing Note # 45 Microfinance Institutions and Salary Based Consumer Lending) .

Best regards,

Graham A.N. Wright

Programme Director

MicroSave India

**Post by: Narasimhan Srinivasan**

Graham,

Post offices provide half of the financial services (savings) only half well. As pointed out by you they would serve the clients better by sticking to savings and do a better job of the same. The client discomfort with post office banking in India is at high levels. Time taken for transactions, the presence of agents network, lack of hassle free money transfer facilities between accounts in different locations create problems for the clients.

But the Post offices offer a variety of savings and investment instruments - from checking accounts to long term provident fund accounts (15 years). This product diversity is not matched by the banks. If we add the availability of life insurance, the product range appears formidable. Poor marketing and customer service inhibits the Post office from being a savings champion. But with all these limitations it has managed to get more than 60 million deposit accounts across India. But if the limitations were to be removed, I wonder what would the level of their operations?

I am curious to know whether SHGs open their savings accounts with local post offices? Any one would care to come in on that?

Best regards,

N.Srinivasan

**Post by: Mary Miller**

What may have potential here would be for the Post Banks to do on-lending to MFIs that cannot mobilize deposits themselves - would solve the problem of exchange rate risk.

I think it would be relatively easy to develop a lending capacity - after all, we have seen banks create micro lending departments, frequently by creating a subsidiary that is staffed by micro specialists, and not by bank staff at all - and a post bank could certainly do that. My guess is that this is not done because post bank deposits become a significant source of government finance for infrastructure projects. Funds are loaned to the state development bank or other development agency, and used for long term projects like road building and dam construction. Having a "captive" market source to borrow from means that the government does not have to issue additional debt.

Regards,

Mary M. Miller

DAI Bethesda, Maryland USA

**Post by: Gert van Maanen**

Yes, that is a very attractive step forward, but also a very valid comment why Postbanks in the South are not allowed to do it.

Of course, other banks could be asked to do it. But the problem arises that loans to MFI's are seen ( by many regulators and auditors) as unsecured. Even if part of the portfolio is pledged, because that portfolio itself is not secured. So, banks that do such lending must under the Basel rules have more equity and under the accounting rules make higher provisions. That makes such lending very unattractive for them.

This problem can only be solved when regulators look at microlending risks on the basis of past performance during a number of years. Then it would be clear that you don't need bankable securities to run a sustainable low risk operation. It would be sufficient for regulators to follow closely the repayment rates and to develop other yardsticks (than the value of the security ) to define in time when the operations start to be more risky and justify alarm. In fact, much is seriously required by theory, but if we look at the practice of many successful MFIs a joint insurance scheme would not required much premium to be paid. And would unlock doors towards a better environment to operate in.

Gert

**Post by: Eric Nelson**

Mary raises a good point, but I hope an historical one. The collapse of many postbanks, particularly in Africa, has been that they invested in government securities which turned out to be worthless promises when the crisis came. I believe they have learned that lesson.

I would think that lending is not a Postbank comparative advantage, but neither is identifying appropriate MFIs. I also think that the experience of the SIMPEDES program of BRI in Indonesia, where, given an appropriate transfer price (i.e. "interbank rate" but in this case internal to BRI), shows that there are many more potential savers than borrowers and the advantage to them of participating in the industrialization of their countries through financial intermediation greatly exceeds any advantage of "keeping the money in the community", most particularly in small communities where investment proposals with high economic return occur irregularly.

So my vote (as it has been for a couple of decades) is for Postbank focus on savings mobilization and transfers (insurance has been mentioned, and that sounds within the scope of the civil servants who run Post Offices but lies outside my competence), and for improvement of systems of financial intermediation.

- Eric

**Post by: Nhu-An Tran**

Another role for post banks would be to partner with MFIs to serve as points for facilitating disbursements and repayments. Since postbanks have extensive branch networks, MFIs could piggy back on this existing infrastructure for quicker and more cost-effective expansion into more rural and remote areas. One of the challenges is that postbanks usually do not have the most up to date or robust MIS to facilitate the back-end account reconciliation. Would this be a potential entry point for donors to support?

Nhu-An Tran

Microenterprise Development Advisor

USAID

**Post by: Harish Chotani**

Dear All,

It is indeed good that deliberations on savings are taking place in the fraternity of microfinance. As the three days deliberation is coming to final day, I have got a couple of observations which I would like to place it before all of you. I do understand that the way forward is not so easy especially in the given legal ambit, but exploring ways and means to with intent is necessary to revive the diminished half so that the sheer numbers of credit alone do not make us comfortable in the poverty reduction realm:

Thrift and savings was the primary activity before credit took deep roots. It shows that there is definitely a demand for the product and service. Desire to save whether cash or kind (seeds/grains/processed foods etc) has been intrinsic nature of human being. Therefore, creating an appropriate environment, through stimulation and otherwise is necessary to harness this for better lives which is in fact the vision of all in microfinance.

In my first day communication, I had alluded to the fact that there are at least 25-30% micro savers who take advantage of withdrawing their savings for business purpose, if such service is offered by the MFI.

In 1991, Central Bank of Botswana had given permission to the MFI I was heading to mobilize savings but not using the amount for on lending. However, they had also allowed purchase of Treasury bills/bonds or other safe investments to cover the cost of service delivery. Could this be a legitimate solution as a first step between the regulator and the service provider?

Savings are important economic and social safety nets. Savings is an assets creation service whilst credit is debt creating service which infact will, to some extent, avoid writing off the debt. So, I believe that Central Banks should consider giving approval to CBOs to mobilize deposits strictly from their clients only. CBOs then can develop one stop service window which will include savings, loans, insurance premium, insurance claims etc

Just as micro credit has taken significant leap forward, there is a need for concerted effort to ensure that MFIs to go beyond mandatory/forced savings.

We all know that there are legal challenges to over come for the MFIs to provide legitimate service. However, whilst the fraternity take up negotiation steps with the regulatory authorities (Reserve Bank/Central Bank), some thoughts can be provoked towards finding some solutions perhaps in a pilot mode at the on set and successful replications. It is true that straight jacket solutions will not work for all as the there is immense diversity in clientele base, geography, product type/size etc. :

Post office in India has got number schemes for the individual and joint accounts. The interest rates are competitive. Micro clients should be educated towards such schemes to avail for their benefits. In the parallel, MF network institutions could ensure that such services are afforded by post office staff with zeal. In the remote areas, there may not be a stationed post office branch but the service could still be made available as per the scheduled visit by the post office staff. Would it be appropriate to put a condition for the members of SHG/JLG/other to open savings account in the post office and save regularly? It would be good that all members open the savings account at one place Savings can be collected in the group meeting and both the Treasurer and Secretary would deposit it in the post office. The amount and patterns of savings can be scrutinized when assessing the loan application. MFI will be responsible to include this component in its facilitation process (group nurturing).

Post office also offers 'Money Order' service for remittances. Such service is widely used by low income people to send their money from different corners of the country. The service charge for this is 5% which is perhaps on the higher side when considering semi bulk fund. However, an appropriate ministry could be engaged for dialogue on using the money order service of post office with preferential rate and also coupling with the mobile phone technology. Where possible, computer technology could also be used. SHGs clients of MFI can put up their request to MFI for withdrawal of their savings through mobile phone stating the total amount of money and the account number. MFI would keep individual savings accounts in their data base under the group identity. Transactions can be completed in the data base with the MFI. MFI can then instruct the post office using mobile phone for the transfer of money (MFI would need to either have an account with the post office or viable alternative. Transaction cost can be debited from the savings account with the MFI (details on this can be worked out as the space here does not permit to capture all the steps). Micro credit is being delivered with definite costs and is a global debate; let the savings service be delivered with non subsidized rate. Transactions taking place in saving account of a client is one of good indicators to know the flow of money which will be useful in credit assessment.

A few of MFIs in Nepal have also used the services of local banks and Western Union (general remittances and not savings). However, a tripartite mechanisms can be developed to provide the service within the ambit of legal frame work

Harish Chotani

Stay Connected(MLO)

hchotani@hotmail.com

**Post by: David Cracknell**

You may be interested to know that this partnership is already happening... just a few hours ago Faulu Kenya signed an agreement, not with the Postbank itself, but with the Post Office to use the Post Office's Postapay facility through 350 outlets in Kenya, this will allow clients to receive their loans (up to KES. 100,000, for a fee of KES. 100 as far as I understand it). Group repayments are also being made through this facility.

Kenya Postbank - is also investing in its IT platform, and should be able to offer a similar service if it so wishes. One particular challenge is how to handle small

Best,

David Cracknell

MicroSave

Kenya

**Post by: Peter van Dijk**

David,

Why did Faulu chose Post Office instead of Postbank?

Is it because Postbank does not operate from all postal outlets?

I see challenges in financial administration, responsibility, proof incase of conflict, and obviously the discord it might cause between Post, Postbank and MFIs.

Peter

PS. In some countries Post created own postbank or introduced more financial services on its own after separation from Postbank. This led to bankruptcy postbank and the new postbank developing same weaknesses (admin, fraud, fungibility money, corruption, etceteras).

**Post by: Dale Lampe**

Sorry for the late posting. We used exactly that methodology at the Postbank in SA. It requires relationship development, interest from the Postbank and special processing needs for certain lending methodologies. There can also be fraud concerns. All issues that can be worked out.

However, going "on-line" by the Postbank was a great improvement and where required, I would recommend that these efforts be supported. It is money well spent, if properly implemented.

Best regards,

Dale

**Post by: Vinod Parmeshwar**

Srinivasan,

The pilot project linking post offices with SHGs started off in Tamil Nadu around 2 years back and was pretty successful. If I remember correctly, it was slated to expand to Maharashtra and Meghalaya among other states in India.

Under this program, SHGs not only open savings accounts with post offices but are also eligible for loans @ 9% per annum. NABARD officials aid in group quality assessment and the Department of Posts gets a part of the interest earned as fees for providing the financial service.

Maybe someone in this discussion can give us an update on this initiative.

Best,

Vinod Parmeshwar

Oxfam America

**Post by: Mary Miller**

This sounds like a good linking of local groups to more commercial/national entities, leveraging the strengths of each (like the susu-Barclay's Bank connection that we have been talking about elsewhere). Yes, please, if someone knows more about how this has been playing out for the SHGs and the post bank, please let us know.

Regards,

Mary M. Miller

DAI Bethesda, Maryland USA

**Post by: Narasimhan Srinivasan**

Dear all,

The annual report of NABARD has the following to say about the Post office linkage programme.

"In order to supplement the efforts of banks in the SHG-Bank linkage programme, NABARD designed a pilot project for collaboration with Post Offices for financing SHGs in 2003 and sanctioned RFA of

Rs.34 lakh to the Department of Post and Telegraph. The project was aimed at examining the efficacy of utilising the vast postal network for disbursement of credit to the rural poor on an agency basis. However, the project could not be implemented, as Post Offices were not permitted to open Saving Accounts in the name of SHGs. The issue was resolved in November 2006.

2.64 Under the project, Post Offices extend loans to SHGs at an interest rate of 9 per cent p.a. repayable in 24 installments by SHGs. The department would retain the service fee of 3 per cent while the balance would be passed on to NABARD. The project is being implemented in five districts of Tamil Nadu " Pudukottai, Tiruvannamalai, Tiruvarur, Thanjavur and Sivaganga.

As on 31 March 2007, 530 SHGs have opened saving bank accounts, of which 46 have been credit linked by the participating post offices. NABARD has released RFA of Rs.11.04 lakh for providing credit to SHGs."

(Rs 1 lakh is about \$ 2500.)

More current information would be available in a couple of weeks from now when NABARD releases its annual report for 2008.

Regards

N.Srinivasan

**Post by: Narasimhan Srinivasan**

Dear Vinod,

The Pilot with Post office is working well in two districts of Tamil Nadu and it is being expanded to cover other districts. But this is a special initiative in the sense that Post office is not permitted to lend under its statute. The funds given by NABARD are held separately and transactions carried out from there. The savings of SHGs are held as savings and not used for lending.

The point I raised was whether SHGs on their own choose to bank with a post office for the savings facility alone? Are there any examples?

N.Srinivasan

**Post by: Gert van Maanen**

Dear Graham,

You are right that if people have grown up at one side of the fence, operating at the other side is difficult. However, in Kenya you refer to there are hundreds of SACCO's (Saving and Credit Cooperatives) that know how to do it. My assumption is, that success in one of the two is no guarantee for success on both sides, but neither should it be a guarantee for failure. Clients of stand alone operations will benefit if they would add the other activity, provided it is properly managed. But that applies also to their original business.

As concerns Postbanks I have more reservations, because in general their operations are very much routine and offer not a very good climate for proper handling of credit and counselling those who want to take it.

**Post by: Gert van Maanen**

Dear Dieter,

As concerns the first line of your response: what counts as acceptable security in the microfinance market, such as group guarantees, is not acceptable in normal banking circles. In their view guarantees by equally poor people don't help: 5 times zero is zero.

The remarkable achievement by the microfinance sector is that this dogma turned out not to be true. ( In fact, not because guarantees are executed, but because if one of the group does not pay in time, the next loan for all the group members is put on hold. So they have a vested interest to cover each other.)

Banks aim, however, at bankable security , being security you can execute without much ado against proceeds that would cover the outstanding capital + interest+ costs + a margin because you never know. . So they arrive at 150% . If we would respond : so banks are for people with money, not for people without, they take a minute and then agree.

In Oikocredit we found out, that sometimes collateral of a value of 10% is enough, such as a mortgage on two pieces of land owned by two board members, or a pledge on a vital part of their equipment. The fear to lose that would make the whole group trying to avoid default. A guarantee by an overseas donor would not always work, because in such case the negative effect of default would fall outside the group.

Secondly: you are right that the phenomenon of Postbanks giving credit is a rather recent one. There are now a number of strong examples in Europa, but still very few in Africa . The examples in the South are still minimal, one of the reasons being that governments don't want to let go of the money they attract, another reason that most Postbank employees were not known for an adequate business mentality.

Of course Postbanks have in principle the same prospects as other banks, but a different history that is part of their system. I am inclined to put more cards on a credit institution that starts a savings department than the other way around.

Agree?

Gert

**Post by: Jeffrey Ashe**

Dear Hans Dieter Seibel:

I am a fan of the postal savings system but thinking of China all that rural savings is pouring into the cities. What if local savings institutions captured that money in each village and used it to finance the needs of villagers with the profits returning to them Sort of a nano-credit union model.

Jeffrey Ashe

Director of Community Finance

Oxfam America

**Post by: Prof. Dr. Hans Dieter Seibel**

Dear Jeffrey Ashe:

Reversing the flow of funds, back into the rural economy, is exactly the idea of turning the Postal Savings Bank of China into a lender and financial intermediary. 35,000 branches, the majority in rural areas, will eventually provide credit, recycling part of the vast volume of locally mobilized savings. Of course these are the intentions; what will actually happen remains to be seen. But efforts are being made by the PSBC to learn from the experience of other large government-owned financial intermediaries in the region.

You are asking, "What if local savings institutions captured that money in each village and used it to finance the needs of villagers...!" That system exists already and is undergoing reform: the network of Rural Credit Cooperatives (RCCs), which covers all counties and has branches below the county level. It is expected that competition between the two systems will improve both savings and credit services in rural areas. Some institutional innovations along your lines of thinking (equity-based Micro Credit Companies, which are lenders only, and deposit-taking village banks as local financial intermediaries) are being piloted; but it's too early to report on them.

Hans Dieter Seibel

**Post by: Gert van Maanen**

Friends,

The disadvantage of many Postbanks is, that they offer only half of the service poor people need: they are willing to take the savings from tom, dick and harry, but don't turn these savings into credit to harry, dick and/or tom's cousins. On the contrary, most Postbanks don't even have (or were not even allowed to have) a credit department but put their money in government paper (and are for that reason cherished by governments). That was the case with the Dutch Postbank before they were privatised in 1989. They were not unique. Other Postbanks have credit departments but turn the savings of the poor into credit to the middle class or higher. Although savings are a vital service, from a developmental point of view this is not the most relevant thing to do with the savings of the poor.

In those countries where Postbanks operate this way, I would rather prefer MFI's to be allowed to take these savings and to plough them back into the same community.

Gert van Maanen (ex Board Postbank the Netherlands, ex Ex Dir Oikocredit)

**Post by: Eric Nelson**

Gert van Maanen mentions the disadvantage of Postbanks that they only offer half the services poor people need. That is not too bad, if you aren't seeking a "silver bullet" that solves all problems with one product. Postbanks actually can offer two-thirds of the services sought by the poor. Post Office branches can build in the regulatory oversight that deposit-taking institutions need, and are distributed throughout a country where the poor live. The services they can offer are (1) voluntary savings that can be withdrawn at will and (2) transfers. These services are much more sought by the poor than taking on additional debt, the other service Gert has in mind. The civil servant behind the counter is, however, probably not the appropriate agent to be evaluating credit risk and making loans.

It's not just post banks: Bank Dagang Bali did very well mobilizing savings and "investing" in the interbank market; it went belly-up when after years of successful growth, encouraged by us experts it went into the lending business.

- Eric Nelson

**Post by: Gert van Maanen**

Dear Eric,

I agree with you that Postbanks can offer a proper savings service and that most of their employees are not able to appraise credit. But that is precisely why I feel that they offer less than we should aim for.

In South Africa all black workers were told to take a bank account so that their salary could be transferred to that account. But before 1994 the banks that took these accounts never considered to give credit to anyone of that group, so they took their money and gave loans to others.. I realise that it sounds a bit pathetic, but I learned that under pro poor policies banks should have a wider agenda than just taking their savings.

Secondly, before people think about savings they must have earnings. Credit enables people to buy an asset they could increase their earnings with, long before they had saved enough to buy it from their savings. Of course, the type of credit I refer to is a stepping stone, not a millstone. The aim of microlending is to finance stepping stones.

Gert

**Post by: Peter van Dijk**

The most important assets of the Post are 4fold:-

- 1) Outreach via postal outlets (including mobile points and the relative safety of transport organised by post);
- 2) Government guarantee on savings;
- 3) Possibility of in-/direct subsidies on savings products, including low costs (as operating through partnership with post, no need for more own investments, fiscal advantages specific savings products for low-income households, direct subsidies on savings products after certain maturity for instance with child savings products, bonus when child becomes 16 or so);
- 4) Long-term tradition thus close relationship with the general public (especially with those who are somehow distrustful and/or embarrassed towards banks).

These attractive assets and the results, access to most stable and in theory -and often in practice, at least in urban areas- cheapest source of funds (public savings), often caused jealousy of commercial banks. Another result has always been that, because important part of activities were financial services especially in countries where there is little mail, frustration with the Postal Office, in nearly all countries heavily loss-making.

This delicate situation made postbanks easy victims from traps. One strategy was allow them to provide credit also made by postal agents, another was don't allow them to diversify income generating services, in particular credit. Catch 22!! Of course postbanks can be restructured, based on regulatory and ownership reform, in which ownership structure the post maintains a genuine interest (to not kill it off or create its own postbank).

**Post by: Lusungu Kaunda**

Forum colleagues,

I have followed the discussion on Postbanks very closely with interest. In southern Africa, Postbanks are facing stiff competition from MFIs and commercial banks because poor communities have realised that they also need credit facilities to experience holistic transformation in their lives. In addition, savings products offered by Postbanks are perceived to have outlived their lifespan in terms of convenience, processes and attraction. A decade ago, in Malawi for example, Post Office Bank (before privatization) was very popular and dominant. Their rural branches had very low savings and for them to pay out on withdrawals, it was a hefty issue. You could be sent bank several times until they had accumulated enough deposits or perhaps get assistance from other branches.

Postbanks can effectively work if their management is purely made up of financial services and IT specialists. Public servants can not run a sustainable business in a competitive industry such as financial services. Investment in infrastructure development (IT, buildings) is another solution that can help turn around fortune for Postbanks.

Regards,

Lusungu

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## **DAY 2: SUPPLY SIDE RESPONSES- HAVE THEY BEEN INADEQUATE**

**Post by: Narasimhan Srinivasan**

Dear all,

While savings is based on individual instinct and behaviour, these could be influenced by the external environment. Today's theme recognises the importance of external influence - in the form of institutional structures, products, mechanisms and incentives. From yesterday's discussions the many reasons that cause people to save and the factors that induce increased savings are fairly clear. What has been the supply response? Let me wave a few flags red and green to kick off the discussion.

### **SUPPLY SIDE RESPONSE HAS BEEN INADEQUATE**

Supply side response to small savers' needs have been less than adequate. Across the spectrum of savings services - product design, variety, point of collection, ease of withdrawal, safety, returns and protection of value- the response of institutions has been poor. As a result there is great incentive in underdeveloped economies to save informally and in-kind. I have posted separate messages with specific themes so that the threads could be continued Learning from yesterday's overwhelming response, may I suggest that some thread separation would be very useful for following the discussions.

Best regards,

N.Srinivasan

**Post by: Anjaneyulu Ballem**

Dear all,

In majority of the SHGs one can see not much difference in the size of the savings in spite of considerable growth in size of the loans over a period of time. The common answer for this from the groups and staff of the promoting institutions is member's wages are very low and hence they can not save more money.

But during our focus group discussions many of these members save at different sources in addition to the SHGs (e.g. local chits (RoSCAs, financial agencies). When we further probe the reasons for saving at other sources: the members expressed that they get more returns from the other sources compare to the SHGs, SHGs have only one saving product i.e. regular savings (mandatory) and the security of the savings also issue if they deposit more savings with the SHGs. In spite of these SHGs formed in to Federation at Village level and Sub-district level one can not see any difference in savings products compare to the loan products and other non-financial services. Due to this the members who have capacity to save not doing so as their SHGs/Federations not offering them appropriate secured saving products with reasonable returns. This situation is forcing both SHGs and Federations to depend up on external financial assistance for meeting the credit needs of their members.

Best Regards,

B. Anjaneyulu

MicroSave India

**Post by: Manoj Sharma**

Dear Anjan,

I agree with the observations you have made. If I may add, one of the reasons that we found out while doing focus group discussions with SHGs, on the reasons for limited monthly savings amount was the lack of capacity, real or perceived, to handle a larger corpus. The reasons cited were:

- a) We will not be able to save higher amounts all through the year (and groups may not allow differential savings across a time period)
- b) Within the group, differential savings are also not encouraged. So a member who is economically better off than the other and can make a higher contribution may not be encouraged to do.
- c) NGOs, which are facilitating the groups, are also not comfortable with large corpus being managed by the groups, as they are not sure on the safety aspects.

All these put together, dissuade clients to 1) save higher amounts, 2) save differential amounts 3) break-up savings and distribute profits regularly

Best regards,

Manoj

MicroSave India

Post by: surisetti srinivas

Hi Anjan,

As I understand the purposes/expected returns on savings are as diverse for members as their needs are. While there is a need to have diversity of savings products in the SHGs of women, there is also a need to streamline/strengthen their systems-books of accounts and so on to manage multiple products.

Regards,

Srinivas

**Post by: Hugh Allen**

Dear Srinivas,

SHGs, in general, take 2-3 years to become independent. The time taken to achieve this is needed mainly because the systems of record-keeping and financial administration take time to be understood and managed. In many, if not most cases, SHGs remain dependent on external TA to carry out these functions. In Africa, deliberate decisions have been made to eliminate the need for complex record-keeping systems through annual liquidation and distribution of group financial assets, so as to achieve autonomy and self-management within 12 to 15 months. Is it not possible that the benefits of a diverse set of financial products can be over-estimated when the complexities, costs and time-frames needed are taken into account?

Hugh Allen

**Post by: Manoj Sharma**

Dear Hugh,

Just to be provocative. If SHGs take 2-3 years to become independent, when does the 'decay' phase set-in?

Best regards,

Manoj

AW: SHGs becoming independent - when do they decay?

**Post by: Prof. Dr. Hans Dieter Seibel**

The one in my home village (Urmitz) was set up in January 1889, still becoming stronger every year.

I am sure some of our colleagues in India will provide some more recent examples.

Hans Dieter Seibel

**Post by: Namrata Sharma**

Hi Dr Siebel,

As you know similar is the case with several SCOs ( Saving and Credit Organisation) similar to Indian SHGs, in Nepal. They take several years to become strong, register as SACCOS, and then move on towards sustainability. The Small farmers development Program in Nepal (SFDP) which first seemed like a failure was later moved on to a sustainable model as Small Farmer's

cooperative Limited (SFCL). So the process goes on!

Best regards

Namrata Sharma

MicroSave India

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**SUPPLY SIDE RESPONSES- HAVE THEY BEEN INADEQUATE?**

**Post by: Hugh Allen**

Dear Manoj,

I can't speak for SHGs. But VSLAs (which take 12-15 months to become independent) have a 90%+ 10-year survival rate. More data needs to be generated on returns to capital and rates of growth in deposit mobilization.

Hugh

**Post by: Jeffrey Ashe**

Dear Manoj:

Some recent data from Nepal indicates that when all support was withdrawn from the savings and lending groups developed by Pact through its Women's Empowerment Program and the entire Terai region of Nepal went under Maoist control most of the well trained groups survived. When the number of groups trained by leaders from other groups is considered the number of groups actually remained the same or increased as the size of the group funds increased substantially. All this after six years of no support whatsoever.

Interesting,

Jeffrey Ashe

Director of Community Finance

Oxfam America

**Post by: Smita Premchander**

Dear Jeffrey,

It's interesting you point this out. I was in Nepal recently and found that village banks, started by an ILO programme in 2004 were still functioning, with occasional informal guidance from a small women's NGO. Reading also Hugh Allen's comments and examples, I feel that if we count sustainability in, small savings groups of women, well trained for a year, maximum two, would perhaps offer a good alternative to external organisations offering savings services....

Smita

**Post by: Andrea Dannenberg**

I have been watching the discussion of savings groups (SHGs, VSLAs, etc) over the past few days and am fearful that people seem to view these types of relatively informal mechanisms as the be all and end all of savings services for low income savers. These forms are clearly an initial start and a benefit to the participants, but what they really need (long term) is a comprehensive service provider offering the full spectrum of financial services: a variety of savings products (demand, term, etc.), tailored loan products, insurance, etc. There are always risks associated with unregulated, informal services. The end goal shouldn't be to provide low income savers with one simple savings product, but to bring them (eventually) into the formal, regulated financial system and provide them a full range of financial services to meet all their needs.

**Post by: Hugh Allen**

Dear Andrea,

VSLAs and SHGs are not the be all and end all, but they are useful at the present time, in places where banks and MFIs can't reach. I would rather comment that MFIs and the banking system are too often seen as the be all and end all. In Uganda the FINSCOPE study found that 2% of Ugandans were served by MFIs for savings, and 2% in SACCOs, while 17% were served by informal groups. When it came to credit, and if family and merchants were included, the figures dropped to 1% for MFIs, 1% for SACCOS, while some 33% were served by the informal alternatives. It has proven rather easier and cheaper to work downwards through informal systems than upwards through

SACCOs and MFIs.

Hugh

**Post by: Manoj Sharma**

Dear All,

I agree, that supply side response has indeed been inadequate and perhaps more so in challenging geographies. The gap is sought to be filled with, in some countries such as India, by a regulatory push. Hence we see solutions such as zero-balance accounts being opened through correspondent banking channels and within a short span, hundreds of thousands of accounts being opened. The inevitable problems and glitches are not being addressed through a well planned pilot test. Bankers then turn around and say that the 'segment' is unprofitable, little realising that a 'market-led' approach, wherein customer needs were addressed, would have contributed to greater outreach and volumes and eventually a sustainable offering.

So what are the options for addressing supply -side inadequacies? A market in which the informal sector is making money (and at times decamping with it) seems to be loss making for the organised sector banks - is it just the differential in cost structures or an approach which does not make any attempt to understand the market?

Best regards,

Manoj Sharma

MicroSave India.

**Post by: Sanjay Bhargava**

Manoj,

If the informal sector can offer high returns to savers because they have low overhead ,no regulatory oversight and can lend at very high rates then it is hard for the organized sector to compete.

This is similar to organized retail in India requiring huge investments and still struggling to compete with unorganized retail.

In my mind the answer for the organized sector is to be able to convince consumers of the benefits of dealing with them. Regulators can help here.

The informal sector can only be gradually eroded. It should be eroded because high interest rates are bad for the economy and there are no multiplier effects in the informal economy. There is of course the problem of security of deposits. Besides fly by night operators look at Sahara which had 21000 crores( \$5billion approx) of public deposits and is now under severe regulatory restrictions.

This is a tough challenge but not a new challenge. I think developed economies had similar problems when they were developing.

Rgds,

Sanjay

**Post by: Peter van Dijk**

Dear Sanjay,

There has been an interesting study (MFRC - ECI 2005) done on black township money lenders also including the (secondary) effects of regulation.

Having accompanied field workers (speaking local languages) discussing with such money lenders, I found that there seems to be a trade-off to be considered by such informal lenders; between illegal activities, imperfect information and opportunism which results in high risks-costs-IRs, and coming out of hiding admitting illegal activities but now wanting to be regulated and supervised (and pay for that as well). In most cases the money lenders opted to register, de-mystifying the popular statement that (all) money lenders are loan sharks and "knee-breakers" in the black township context of South Africa.

Peter

**Post by: Sanjay Bhargava**

Peter,

You have made many excellent points and maybe we should connect offline after this. I agree with you on registration of money lenders. In India the program will have to be carefully designed but it certainly can be done. If unlicensed money lending is made criminal if done above a certain annual amount or above a certain number of borrowers. Licensing has to be made easy and the pros and cons of getting licensed from a money lenders perspective should not be totally unreal.

Rgds,

Sanjay

**Post by: Peter van Dijk**

TX Sanjay.

**Post by: Dirk Smet**

Dear all,

I am a bit surprised by today's theme about the fact that savings are not promoted by financial service providers. The savings and retail banks that are member of the World Savings Banks Institute, the global voice of savings and retail banking, have always promoted savings, since it is one of the cornerstone of retail banking. Many of our member banks, such as the National Savings Institute in India, the Government Savings Bank in Thailand and others have as explicit mission to stimulate the habit of saving. The recent tidal wave of microcredit has possibly distracted the attention from the fact that no client, even in the lowest income segments, could do without savings. Challenges that service providers are facing are the need for a large distribution network that also covers rural and structurally weak urban areas, and the need to design and maintain a products and services range that combines attractive conditions in the field of liquidity, return, minimum requirement and transaction costs. Another challenge is to turn the collected savings into productive investments. Finally, our institutions have to compete with informal channels, that are often closer to the customer.

Dirk Smet

**Post by: Narasimhan Srinivasan**

Dear Dirk,

You are right in pointing out the role of mainstream institutions in savings mobilisation. In the Indian context, the banks and the post offices put together have not been able to meet the needs for financial services, especially savings. There are gaps in several areas and states.

The commercial banks which account for bulk of the business in India have opened 77 deposit accounts per 100 adults in India. (The actual number of people holding accounts would be much smaller as the deposits are multiple in and around urban areas.) But across states the ratio varies. In Punjab, Pondicherry and Kerala, more than 140 accounts per 100 adults are reported. In Rajasthan it is 57, bihar it is 41, orissa it is 52, Assam 51, Nagaland 26 and so on. The region wise analysis clearly shows that banks are encouraging savings in regions where volumes are small and access to people is difficult on account of harsh and tough terrain. People in such underserved areas have savings needs that should be fulfilled. As you have stated how can one use banking facilitators, technology and the mobilisation of people to improve volumes are the core issues for the supply side to address.

But if the formal sector could find even half solutions, small savers might come to banks rather than save informally with high risk. In that sense, there might not be much competition.

Best regards,

Srinivasan

**Post by: Krishna Thacker**

My thoughts regarding the capacity of service providers are that many institutions seem to be overlooking or ignoring this very simple principle that “If someone is capable enough to absorb and repay the loan of say \$100/200/500 in one year, She or he definitely has the capacity and to save at least \$50/100/300 in an year if not more.

It is proven that there is no one in the world that does not need to save while there might be quite a few who do not need loans.

In a report by Don Johnston, Jonathan Murdoch titled MicroCredit Vs MicroSavings, Evidence from Indonesia:

“About half of poor households that are creditworthy are averse to taking debt and do not seek credit; the incidence of debt aversion is relatively stable across income groups and poses a further challenge to the notion that micro credit alone is a leading solution to poverty.”

It is a very interesting study and is available on the World Bank website here.

Everyone needs to save and about whether they can or not, we have seen that a lot of the unbanked from all over the world have been paying all their dues or loans on time on a consistent basis and with rising amounts. So, if they can payback all their loans with such consistency, they must be able to save. But the graph of microcredit has been and is growing exponentially every year, all over and I don't have the data, but I am sure that growth of microsavings will be barely visible if seen on the same scale in the graph

Regarding the challenges - there are definitely other challenges over and above legal restrictions by government.

But, the approach of Indian government as far as savings services are concerned is almost like just because a child (saving service by MFIs or other institutions) faces the potential risk of dying (fraud) because of some deadly disease, the government just decides to abort the child (no saving mobilization permitted) rather than a mature approach of taking proper care of child – closely monitoring it and providing an enabling environment to grow.

Some of the main challenges are:

- High cost and lower profitability in extending savings services to low income households as compared with credit services:

Comparing the savings services with credit services provided by MFIs on two key parameters – Cost and Profitability, the cost of delivering savings services are usually of the same or similar nature as credit services as the amount per client in both cases is small/ But when we compare the profitability or spread available in providing savings services vis-à-vis providing credit services, it is often lower or it becomes slightly complex as compared to providing only credit services mainly because of the following reasons:

1.MFIs can offer credit at much higher rate of interest (making the operations sustainable and profitable) as compared to banks to recover high costs in delivering small loans ... while it is not really possible to implement the same model for savings as in institutions cannot take deposits at much below the banking rate (which is already low).

2.Another factor is comparative advantage, lets take a simplified example here, say MFI XYZ is providing savings services and is paying 8% p.a. to its clients on an average for, while the cost of operations for savings services is also 8% (add legal issues and risk/fraud involved). This brings the total cost of providing savings services to 16%. But the market cost of funds (debt) is around 13/14%. In such a scenario that MFI xyz would be better off raising debt from market to provide credit than using its own funds from savings.

3.And, looking at systems, size, sophistication and legal environment, most of the MFIs are usually positioned or only equipped enough to deliver simple credit services. And for deliver savings services along with credit, that particular institution will be required to substantially improve/upgrade its systems and capacities.

I would particularly like to invite and be grateful for views/ideas/suggestions from participants on particularly the 2nd and 3rd points (above) since we faced a similar situation in one of the microfinance programme that I was working on in the past in one of the districts in Gujarat/India.

4.Gaining their faith:

Though this might sound too simple and basic but their issues are also very basic and simple. One of the key differences between savings and credit services is that for credit services the risk is on the organisation/institution but for savings services the whole risk is on the un-banked clients and they just CANNOT afford to loose their money to some fly by night institutions or agents. But actually a lot of them have been loosing their money to those fraud companies especially in India and in our country there is a saying which roughly translates as “One who gets burnt from hot coffee will hesitate to drink even the colder one from the next time.”

Attachment - [Microcredit versus Microsaving Evidence from Indonesia.pdf](#)

**Post by: Baladeb Sen**

Dear All,

It is very true that the formal sector banks with their phenomenal growth in terms of business volumes, branches and number of accounts as also geographical spread, had done precisely very little to promote and mobilise small savings .On the other hand the Post offices with even a much larger network have been quite active and done an excellent job for the Government in reaching out to the millions in the remotest villages. At times I wonder how with all their prejudices and indifference with total inaction for the alleged reasons of high costs of small savings business, the banks in India are fortunate enough to have at least 25 to 30% of "Walk-In deposits"(In SBI this is even higher) in the aggregate retail deposits. For any banking business, such small savings are the most stable component, immune to cyclical business fluctuations and offers the maximum spread to a Bank. The average balance in such accounts in SBI's rural branches is between Rs500/- to Rs1000/-.

All said and done ,it is for the Banking sector to come out of the long hibernation and recognise the fact that the golden time of easy source of assured deposits has ended. Even for the business angle of it, small savings including the yet untapped deposits of the excluded business segment (the craze for the rapidly thinning creamy layer of business has to end today or tomorrow) hold out the prospects of a very rich potential of business. With their vast experience of doing financial business with all the market segments, it just requires some imaginative long term planning for devising and implementing suitable business strategies either directly or through the business facilitators and correspondents .They possess all the expertise of designing appropriate products allowing local variations determined by the culture of saving and consumption prevailing in the neighbourhood with tested delivery systems through appropriate technology and adequately trained and oriented human resources. Initially many eyebrows will be raised by the conservatives .But this is the segment for tomorrow's banking business-the banking for the poor.

In my long experience in commercial banking with SBI,I have seen how crores of small deposits in rural branches have just flown in to branches despite the very conscious efforts of the Bank staff to drive out such deposits. A branch

deposit was jokingly defined as "Drive-in deposits minus Driven -out deposits". They have not merely flown in but they have remained in the branch for decades.

My intention in saying all this is that in India people have a very high propensity to save and this applies to even the poor and the very poor. India's relative immunity to global economic and business fluctuations even in today's interconnected global economy, is to a large extent explained by this high saving propensity and actual savings despite all the supply side inadequacies. If Say's law of supply creating its own demand has still some value it is here in India in the area of demand and supply of financial services for the poor. An efficient and adequate supply side management powered by a thorough overhauling of the Banks' existing strategies for reaching out to the poor and their surplus income as deposits will go a long way in bridging the demand supply gap

Regards,

Baladeb Sen

Senior Consultant

Chennai

**Post by: Dirk Smet**

Dear all,

I am a bit surprised by today's theme about the fact that savings are not promoted by financial service providers. The savings and retail banks that are member of the World Savings Banks Institute, the global voice of savings and retail banking, have always promoted savings, since it is one of the cornerstone of retail banking. Many of our member banks, such as the National Savings Institute in India, the Government Savings Bank in Thailand and others have as explicit mission to stimulate the habit of saving. The recent tidal wave of microcredit has possibly distracted the attention from the fact that no client, even in the lowest income segments, could do without savings. Challenges that service providers are facing are the need for a large distribution network that also covers rural and structurally weak urban areas, and the need to design and maintain a products and services range that combines attractive conditions in the field of liquidity, return, minimum requirement and transaction costs. Another challenge is to turn the collected savings into productive investments. Finally, our institutions have to compete with informal channels, that are often closer to the customer.

Dirk Smet

**Post by: Graham Wright**

Dear All,

Apologies but I think it is time to stir/provoke a little again!!

Over the years MicroSave has worked very closely indeed with post office savings banks and for a variety of reasons, (strategic, operational and political), they are severely hampered in the thoroughly laudable work they do. As a result they are typically service provider of last choice, and beneath the apparently huge numbers accounts they have, the vast majority are either entirely dormant or largely dormant (by which I mean used once a year to withdraw money when the account holder is in his/her village). So behind the "billions served", there is significantly a less number actually finding the service appropriate enough to use - hardly a recipe for "financial inclusion".

To be fair, this is slowly changing - for example the Kenya Post Office Savings Bank is introducing an e-banking solution that could revolutionise and rejuvenate its operations, and the Post Offices in India are also looking at creative solutions. But, as with the SHG movement in India, no room for complacency!

Best regards,

Graham A.N. Wright

MicroSave India.

**Post by: David Cracknell**

Picking up from Graham and again stirring!

I have attended conferences over the last few years, talking of financial inclusion, and quoting large numbers across the whole of Africa. However, there is considerable dormancy. I think there has been a focus on numbers and not on what those numbers tell us.

To my mind what matters is quality and convenience of service at the right price. In a recent World Bank initiative on financial indicators across many markets it did not come through as a major driver of client choice, however, the survey was focused on the top 5 commercial banks in each market, so in general not those institutions focusing on a low income market. The fastest growing commercial bank in Kenya - is Equity Bank, which is focused on the upper poor and entrepreneurial classes. In 2000 it had 40,000 clients, and currently around 2.5 million. It has done this through consistently delivering value and convenience and service that does not speak down to poorer people.

The fastest growing financial service in Kenya is M-Pesa - mobile phone money. Very convenient, very much simplified, and it has more than 2 million signed up users.

Lisa made the point yesterday on segmentation, it is possible where there is a good information system to carry out some segmentation analysis using data that the financial institution already has and then carry out additional targeted research based on the results of the initial information survey. This approach is revealing, and can lead to retargeting an established financial institution.

Best Regards,

David

MicroSave

**Post by: Manoj Sharma**

Dear All,

I will share a very interesting case from a small town in India.

\* On of the entities operating as a Mutual Benefit Company under Indian Companies Act, 1956 (a little known format amongst microfinance circles in India) operates on Islamic principles and offers daily doorstep collection to clients but does not offer interest. It has more than Rs. 400 million (USD 10 million) in savings balance and loans outstanding of Rs. 200 million (USD 5 million). It has a branches network of more than 40 branches spread across five states in India

\* The person doing the daily collections from the residence / business of the client is called a Mohussil

\* The Mohussil's incentive is linked with the number of receipts issued and consequently the number of deposits collected in a day. Typically, the number of receipts varies from 80-150, depending upon rural / urban locations.

\* However, most of the clients in these areas are traders with high liquidity demands in their own trades. Consequently, the average outstanding balance from all the accounts serviced by a Mohussil may be as low as Rs.6 lakh per annum.

\* Considering the deposit collectors compensation which may average out to Rs.56,000 per annum, the cost of mobilising savings deposit which are essentially demand liabilities are extremely high (of the order of 10-12 percent just by way of collection costs)

\* Other problems with this unique service being provided to clients is that it is utilised by clients to pass on small change or torn / worn out paper currency and withdraw good currency notes in a couple of days.

The issue that gets highlighted is that in trying to ensure liquidity and service to the clients, considerable cost is incurred. The cost of deposits goes much beyond the salaries of the Mohussil as clients then come to the branch to withdraw savings and the cost of this network also gets loaded on the overall transaction cost. Also, the so called zero-cost money is actually quite costly!

Best regards,

Manoj Sharma

India.

### **Post by: Peter van Dijk**

The reform of postal banks is indeed very complex and difficult, with very few real success stories. But it does not mean it cannot or should not be done.

Apart from the Dutch ING-Postbank, who now apparently will be allowed to close all post offices in the Netherlands in 2009 (before it was a legal PostLaw obligation to keep them open with basic financial services), there are only few recent examples that still need to prove their worth, and that in wealthy nations with the best infrastructure, such as in France and Germany. In the USA a postbank was created after the Great Depression and it proved its use especially for low-income citizens, but not being able to compete with pressures from commercial banks, it closed already a few decades later. The Postbank saga in South Africa started decades ago with few advances, only now on product side with the popular Mzansi account (it shares with the 4 largest commercial banks).

"Postbank Consultants" in Africa have often limited advice to splitting up the financial services provision from the loss-making inefficient postal side, which in most cases led to deepening conflicts between the two and in some cases even to closing postbank.

In the 1990ies World Bank had a specific unit in the Private Sector Department (PSD) dedicated to postal reform with ideas on focusing on financial services (in collaboration with the Universal Postal Union, UPU Bern). After an international Postbank conference in Jo'burg in 1998 I have never read or heard from them again.

Peter

### **Post by: Kwaku Berchie**

I believe segmentation is a major issue here because of all the success stories participants have mentioned here, we see one trend. The banks are serving the upper poor and entrepreneurial classes (David's post). I believe it is a whole different issue when it comes to the lower poor and the non-entrepreneurial classes.

In Ghana, the dormancy in savings could be attributed to several factors:

1. Bad customer service
2. MFIs inability to tailor products to meet the needs of customers

3. Availability of other services (competition)

4. The fickle nature of the customers

5. The inability of the lower poor and the non-entrepreneurial classes to save consistently

The 5th point is where I want to dwell on. If the person cannot make ends meet, it will be difficult (not impossible) to put aside some money for savings. In cases where some money is put aside, the lower poor people would rather keep it at home or convert it into an in-kind or illiquid savings instead of walking all the way to the bank, waiting for a long time before their money is received.

**Post by: Prof. Dr. Hans Dieter Seibel**

Dear Kwaku Berchie:

Would “the lower poor people... rather keep it (the savings) at home or convert it into an in-kind or illiquid savings instead of walking all the way to the bank, waiting for a long time before their money is received”?

Indeed, they would not walk all the way to the bank. In Ghana, as in a great many places in West and Central Africa, they would rather hand over their money to a doorstep deposit collector (anago susu in Ghana, ajo in Nigeria from which the institution seems to have originated, yesyes in northern Togo....). In Ghana many of them are organized in a national and in regional associations, which even found the attention, and support, of the World Bank, IFAD and GTZ. Of course the alternative is the ubiquitous ROSCA (susu, tontine, chit, arisan, julojulo, kye, hui...) – frequently tightly controlled by peers and local customs, sometimes unsafe, but very convenient.

Doorstep collection is one of the informal technologies picked up by a number of FIs in various countries.

Hans Dieter Seibel

**Post by: Kwaku Berchie**

Dear Prof. Dr. Hans Dieter Seibel:

You are right about the Susu concept in Ghana and other West African countries. I was concerned with places where this practice is not accepted (eg. Uganda). In Uganda, what I observed was people joining long queues just for a bank transaction. I asked a MicroSave facilitator, Peter, as to why they are not practicing the Susu and the response I got was that, it is not well received.

I understand that Uganada Finance Trust is about to inculcate the Susu concept into their operations.

**Post By: BHASKAR Lakshakar**

Dear Sanjay,

This is a commonly known and widely accepted fact that microfinance is a business of small amounts and large volumes. Therefore it is not the amount which makes viable or unviable the savings for banks but the number of accounts in specific branch. A deposit of Rs.1000 (even if it is Rs.250) on an average, itself will never be able to achieve break even. Still it does not make the small amounts unviable for banks.

Moreover banks achieve break even because they on lend the amount certainly at higher rates. These amounts become unviable because of account handling cost incurred by banks. Also for banks extending the savings services to excluded segments eventually helps in acquiring loan clients in future.

Therefore savings stands as a viable option even in current scenario. However no one can deny the need to further curtail the operating costs of banks.

Best,

Bhaskar

MicroSave

**Post by: Abhijit Sharma**

Dear Dirk/Srinivasan,

As clearly stated by you, the supply side responses has been muted, especially for the difficult areas, as the cost goes up for providing savings services in these areas. Consequently, these areas need these services the most. The North East part of India is a case where the exclusion by the formal sector is widespread for the reasons already highlighted. Even the post offices are sparsely located and a recent savings study on NER (Microsave) has shown that Post offices are not preferred as compared to other institutions. Technology offers a lot of hope for areas like these. But can't we also look at alternative low costs solutions. These areas are populated by local institutions which have strong community links. These institutions are accountable to the community and hence stand a very low chance of 'running away with deposits'. Of course, they would be able to provide, probably, a basic savings product. However with stringent norms as propounded by the central bank, this possibility is ruled out. We therefore need not to take norms in absolute sense but in a relative scale by ensuring that they satisfy the objective conditions. This would ensure a fairly large number of local institutions ( every village has one such institutions) which can provide the basic financial services to the community at a very low costs.

Regards,

Abhijit Sharma,

IIBM

**Post by: Abhijit Sharma**

Dear Manoj,

You have very rightly pointed out to the contradictions of "water, water everywhere and yet not a drop to drink". Despite such windfall profits why is it that the formal sector is shying from this market. One of the reasons could be the experiences of the banks in India. During the 70s and early eighties, a large number banks had a product called piggy bank scheme targeting this market segment. Unfortunately, most of the banks have burnt their fingers badly and its after-effects are still reverberating in these institutions. Hence probably this reluctance in India by the formal sector to go into this market.

Abhijit,

IIBM

**Post by: Sanjay Bhargava**

Dear Abhijit/Manoj,

The economics of a savings account in India from a banks perspective. Lets say the balance is Rs 1000. After paying 3.5% the bank earns 7%. ( Banks have a transfer pool rate which could be around 10.5%. This is the rate they compensate demand deposits and charge loans). Thus bank earns Rs 70 per year. If cost of acquisition and activation is say Rs 200 and annual operating cost is say Rs 200 then the bank never breaks even.

Thus unless something is done to lower costs there is no solution. With government pushing , schemes may come and go but nothing will be sustainable.

In pygmy deposits the banks used agents to collect money but were unable to control dishonest and fake agents. So on top of all this if you add the cost of fraud then is it surprising that banks shy away from this business?

I am told that Rs 1000 is on the higher side and Rs 250 average balance is more realistic.

**Post by: Baladeb Sen**

Dear Bhargava,

I am a bit confused in your calculations of break-even for a deposit of Rs1000/- Have you explained it from the viewpoint of a particular branch where the deposit could be parked or you have indicated the whole bank position? I believe the parameters factored in will not give the correct picture on viability of small deposits and the parameters are also not uniform for all the banks.

In SBI, such small deposits are now marketed much more vigorously not only to reach out to the excluded segments but also to augment one of their most stable deposits.

Thanks,

Baladeb Sen

Chennai

(Ex-SBI)

**Post by: Sanjay Bhargava**

Bhaskar/Baladeb,

I agree there maybe many ways of looking at this and seeing what the lifetime value of a customer is and so on. Different banks may have sunk costs (cost of a branch/staff they cannot lay off etc. etc.) but creative accounting and artificial constraints can only get you up to a point. As Bhaskar has said driving down operating costs are key.

As banks lend they have to set aside more capital which decreases their return on capital . Bank economics are quite complex.

**Post by: Raj Kumar**

Dear Abhijit,

There is another reason why many poor people don't even approach Banks to open savings accounts. Most of the poor are defaulters in the books of Banks- thanks to various Government schemes like the SGSY (and IRDP earlier). While the brokers, the Bankers and middlemen ate a large part of the pie the poor beneficiaries only often received about 50% of the amount. There were SHGs promoted for the express purpose of participating in this massive loot. The money received by the poor (of which 50% was loan) was often misutilised (not as if a small sum would serve the purpose always!!) and was never returned back. Since the Banks have a lien over the savings in case of a default most of the poor are scared to loose their small money by putting it in the Bank.

However, I have seen the postal service doing a good job of mobilising savings mostly through their recurring savings product. This is because of the outreach of the postal services. Of late the postal department has been quite proactive in terms of making the services even more convenient by allowing transaction through the postman.

Best regards,

Raj Kumar

MicroSave

India

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## **PARTNERING ARRANGEMENTS**

**Mary Miller**

Dear All,

I expect to weigh in on several subjects, but I am particularly interested in identifying, through this extensive discussion, cases or tools that can be used elsewhere. First inquiry is below:

I would like to know more about is the tie-in of susu collectors and the bank (Barclay's?) in Ghana. This looks like it has potential to lower administrative costs, yet provide safety and security for deposits. Could we hear more about this, or can anyone tell us about comparable partnering arrangements? Are there studies with numbers - are both the collector and the bank making a profit on this service?

Regards,

Mary M. Miller

DAI

**Post by: Hugh Allen**

Dear Mary,

The person to contact is William Durban of Barclays in London. [william.derban@barclays.com](mailto:william.derban@barclays.com)

Hugh

**Post by: David Cracknell**

Dear Mary

I will forward your query to Barclays in Ghana offline and see how they respond. I am not aware of any public studies though I am following that up also. It may take a day or two to get a response.

Best

David Cracknell

MicroSave

Kenya

**Post by: Kwaku Berchie**

Dear Mary:

What I do know about Barclays in Ghana is that they have created loan portfolios for the credit unions, the co-operatives, the Susu collectors associations, and other semi-formal financial sector players for them to lend to the poor or groups. The remarkable thing about Barclays' stance is that most of the commercial banks consider (or used to consider) the operations of these selected players as speculative (to say the least).

The strategy seems to be working well because it seems Barclays is growing its microfinance portfolio rapidly.

**Post by: Bertrand Eshun**

This huge gap between the demand and the supply for financial services (savings) is a result of the perceptions of the informal sector and the lack of incentives to attract such customers by the formal financial institutions. On one hand the formal financial institutions consider the unbanked as high risk, due to lack of collateral and unsteady cash flows, high cost due to small loan sizes and the need for close monitoring classifying this segment as unprofitable. On the other hand, the unbanked do not access formal financial services (savings) because of one or combination of the following factors:

- Illiteracy,
- Access, mainly the siting of financial institutions,
- Attitudes and perceptions of staff of financial institutions,
- Informal nature of their business,
- High account opening requirements,
- Lack of collateral.

As I posted earlier on, if policy constraints can be relaxed alongside the above factors, saving products would be attractive on the part of institutions and target clients.

Thanks

Bertrand

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**SAFETY AND VALUE OF SAVINGS - HOW TO ENSURE**

**Post by: Narasimhan Srinivasan**

Dear all,

I know that you must be tired of receiving this flood of mails from me. Just bear with me for two more. While commendable efforts have been put in by many institutions in mobilising savings from poor, there might be inadequate attention to servicing the savers. Two issues that need attention are the safety of savings and the protection of value of amounts saved.

**SAFETY OF SAVINGS AND PROTECTION OF ITS REAL VALUE**

Safety of savings has been a perennial concern - in the regulators minds. How to bring down the regulatory anxiety - are there good models of deposit insurance/guarantee that MFIs could subscribe to? The discussions would be rich if we get some contributions on this.

Protecting value of savings is another institutional issue. How do we ensure that savers do not suffer from erosion in value on account of inflation. Are there examples of periodic financial investments with capital appreciation possibilities? Graham pointed out that gold is utilised as a means of compulsory saving and also for managing liquidity. It also acts as a hedge against value loss (at the current time!). Are there asset management companies geared to invest savings of poor?

Best regards,

N.Srinivasan

**Post by: Piyush Prasoon**

Dear All,

It is assumed that large chunk of population does not have access to financial services because of the inability of the formal system to reach to them and that's the reason there has been emphasis on the MFIs which have many success stories to say. Similarly for Savings also there is a requirement of formal system but again this system is not there for obvious reasons.

This entails for the regulators as well as the policy maker to decide how to make the formal sector (Banking) open/available for the unserved segments. Infact when we look at the capital market and the insurance market they have access to the savings in one form or the other. But again when we talk of the safety these are not safe at all as they are linked to the stock market which again in short term has poor return with high cost (which is volatile and example is the recent slump)

This is a real paradox that we are looking at wherein we talk of safety net while saving while exposing them to the capital market to save there hard earned money. The regulations in banking are not moving in tandem with regulations in insurance and capital market. So, even as the regulations in insurance and capital markets have become more liberal, facilitating the entry of poorer segments of population, the banking sector has continued to exclude them on the pretext ... The result of this uneven trajectories of

regulations in 3 sectors of interest has been that poor's money has now entered insurance and capital (which are riskier) and been blocked away from the banking sector (more safe)...

Piyush Kumar Prasoon

MicroSave, India

**Post by: Narasimhan Srinivasan**

Good points, Piyush. The disconnect between subsectors of financial sector when it comes to regulations has to be corrected.

With the liberalisation of the capital markets and the entry of several private sector entities, why there are not many viable investment products aimed at the poor? Can there be "balanced mutual funds" designed more for the small savers offering good liquidity, better safety and capital appreciation? How much it costs to provide this impossible mix of results in a mutual fund? Are there any AMCs offering such a service. (may be UTI AMC?)

Regards,

N.Srinivasan

**Post by: Raj Kumar**

Srinivasan,

There are no mutual funds that target the poor as the market. Mutual funds are as much subject to the vagaries of capital markets as the equity. The offer documents of the mutual funds scheme make this abundantly clear. However, there are 'balanced funds' available which park in part of their portfolio in debt (almost risk free) and the rest in equities (possibility of higher returns). Again, there is no guarantee of a fixed higher return (even higher than a savings interest in the Bank!)...One can participate in the mutual funds market even with a small sum of Rs. 500 but entire risk has to be borne by the investor.

Given the fact that even the debt funds (more secure) have historically returned much better than the typical savings products (and equity based funds definitely much better) with the Banks, the question is should the poor not get the opportunity to be mainstreamed with the Capital markets. Theoretically the government could provide the AMCs

launching such products (aimed at investment of poor man's money), with some tax benefits (would be better than doling out mindless subsidy).

When talks are still on how to tap the savings, we might discuss this apparently overimagined idea as well. I am sure when the microfinance institutions are allowed to mobilise savings and investments, they would surely like to bring out some such products.

Best regards,

Raj Kumar

MicroSave India

**Post by: Bhaskar Lakshakar**

Dear All,

Certainly, not to let the inflation and other factors erode savings is extremely important because the purpose of savings is to ensure that they have sufficient amount to deal with the unexpected or even planned expenses.

However we need to contemplate how to compare the returns and interest. Especially micro enterprises that typically require working capital frequently say weekly or daily, people prefer to invest their savings in enterprises as it fetches returns that are higher than interest rate besides considered as safer. After this they do not have big idle amounts to deposit with banks therefore the excess amounts are either invested or consumed in order to uplift the living standard of household.

In all of the market researches in central Indian geographies I observed people were more interested in investing their savings rather than saving it with some Financial Institution. So the moot question is if the gap between returns and interest can be bridged. If yes, then how?

In other words how to make the savings more attractive.

Best,

Bhaskar

MicroSave

**Post by: Baladeb Sen**

Dear Srinivasan,

From the fast flowing mails and their replies on the supply and demand side of savings, it seems that everyone is trying to make an all time best savings package for the poor. Possibly we are moving rather too far in guaranteeing the poor everything under the sun-safety, liquidity, ease of access, return and protection against all foreseeable and unforeseeable risks. We all know that this is not possible in real life and trade-offs are unavoidable. Unfortunately, decision to save, how much to save, for what length of time and the reasons for saving ultimately will be decided at the individual level by his financial conditions, disposable income, psychological factors like motivations and attitude to life, and such other parameters beyond the reach of the prevailing financial infrastructure.

The concerns expressed so far by the participants are well articulated and the imbalance in supply -demand for savings services would see a total metamorphosis if even a fraction of such introspection and analysis is taken up by our formidable Banking sector.

Regards,

## **SUPPLIERS PERSPECTIVE - RETURNS**

**Post by: Lalita Rao**

Many issues have been brought up on Day 2. I would like to submit another major Suppliers's Perspective on Savings :

Returns :

While the MFI may earn income on the savings mobilized through its members [by using the amount for on lending], actually it is not a profitable product for the MFI. The cost of collection and maintenance of myriad transactions eats into the income earned through on lending.

Also, not all the amount mobilized through savings can be lent, as the MFI has to keep at least 10% of these funds in reserve for withdrawal by the customers [for their life cycle needs or, most often, for repaying their loans].

As far as the members themselves are concerned, they do not get any or much interest on their savings, but as Graham has pointed out, placing their savings with Banks, or MFIs is less risky compared to the other alternatives that the poor have. So, not earning interest on savings is not a major issue as the payoff is comparative security for their savings.

With warm regards,

S. Lalita Rao

**Post by: David Cracknell**

S Lalita Rao makes an interesting point on returns. Several points are relevant here from the African context.

a) Returns are possible - why

a. Due to cross subsidy - 20% of depositors make up 80% of the balance, and you cannot always tell who is going to be among the 20% of depositors

b. Due to the ability to charge across a variety of services, once you have the customer - loans and payments as well as savings

c. Due to reinvesting deposits into loans where they earn a higher return.

d. Due to the ability to reduce channel costs at volume - through ATMs and POS and leverage IT and infrastructure costs.

e. Equity Bank in Kenya made Ksh.904 m pre tax... \$15 million in the first quarter of the year... Its profile is largely low income (though not lowest income clients).

b) The question of implicit cross subsidy is an important one. For a commercial bank to make money it needs to keep its cost income ratio in line. This implies that it will look at more profitable locations / customer first and then rollout to less profitable locations / customers as marginal costs decrease. In Africa we are seeing in many markets two aspects coming together. The reduced costs of delivery of savings services, combined with increased competition at the higher end of the market. This does not mean that banks are going to rush to the poorest clients, I don't think they will, but they will move progressively downmarket.

David

**Post by: Lalita Rao**

True, David, banks can afford to pay interest on the deposits they mobilise, from the poor or from others.

But most MFIs shy away from paying interest on the savings/ deposits they hold of their customers [called as security deposit, or by other terms, as they are not legally permitted to collect savings].

Payment of interest on the numerous transactions of the numerous customers is :

Tedious and time consuming : Many deposits, and many withdrawals ! So it is a gigantic task, and requires very high technical support which is very expensive.

With warm regards,

Lalita

**Post by: Narasimhan Srinivasan**

Dear all,

This certainly is the last mail for the next hour from me. One of the issues that we discussed yesterday is the multiplicity of objectives behind savings. In the case of SHGs we have discussed at length the inflexible products. Even in other mechanisms, how many different products that address a wide range of needs (for liquidity management of saver, periodic needs, investment needs, long term goals such as lifecycle expenses and housing/retirement) are available ? Barring banks and to some extent post offices, are the other institutions that serve small savers able to offer product variety? How flexible are these products? Some of the institutional practitioners might be able to provide examples of successful products. Some discussion on the problems faced in designing savings products would also be useful.

Best regard,

N.Srinivasan

**Post by: Angela Wambugu**

Dear all,

From my experience with savings, I have found that there is a continuum with the key variable parameters being flexibility particularly on withdrawals and returns offsetting each other. On one end of the continuum you have high flexibility and low returns where the benefit of accessing any amount at any time overrides the need for high returns. On the other end you have low flexibility and high returns where the promise of a return overrides the need for regular withdrawal. And in between you have different permutations and combinations of these. Many other variables such costs of transactions also come into play.

Now, the most important thing in designing savings products is understanding the clients' savings needs and preferences. Once this is clear, then you are able to design a product which will meet the needs and will most likely fall in this continuum. From my experience, two main savings products stand out (for the low income) - open access savings and contractual savings product. The open access savings or what many call ordinary or normal savings falls in the end of the continuum with highest flexibility and lowest return. This meets the day-to-day liquidity needs. Experience has also shown that people do not mind paying for such services as they value the benefit of easy access to the funds.

The contractual savings allows for build-up of lumpsums through small regular savings over a period of time. This can fall in different parts of the continuum depending on the need. The term period can be structured depending on the need for instance, if the need is to build up lumpsums to pay school fees, then the term period and regular savings may be structured to coincide with the school term which may be several months or a year. If on the other hand the need is to

save for old age/retirement, then this may be a longer term contractual savings product. In the contractual product, the discipline of saving regular small amounts has been found to be particularly attractive overriding the need for huge returns. Equity bank, a microfinance bank in Kenya has particularly been successful with the open access savings product while Buro Tangail in Bangladesh has had huge success in the contractual savings product.

**Post by: Hermann Messan**

Dear Angela,

I agree with you and I would even argue further that what matter as far as designing savings products is concerned is what is that the institution offer to the clients.

Depending on the market segment and its specificities, there are different attributes that would matter safety, illiquidity/liquidity, return, accessibility, etc. The most important for the client when he is purchasing a savings products is not the product features but really how the product can help him achieve his specific needs i.e. what is the value offer behind the product.

Accion has been putting forward this concept as it goes beyond the classical approach of looking at the products only in term of the functional but includes the emotional benefits that are linked to the savings products. In fact I have noticed that most institutions forgot the flip side of the benefits that customers get from savings products: the emotional benefits. For example many times, poor people would open a savings account for themselves or their relatives (e.g. children) just because there is an interesting promotion in place.

While designing savings products, financial service providers should be more comprehensive particularly regarding emotional and not only functional benefits.

Hermann Fumilayo Messan

ACCION International

**Post by: Cecilia Kariuki**

Dear Hermann,

I agree with your comment. There were a lot of issues raised yesterday about saving in kind. And other than the 'functional' benefits of savings there are also some 'emotional' attributes to it as Hermann puts it. For example I have done market research in some rural parts in Kenya where even though people have access to some sort of formal financial institution, they prefer to 'save' in kind through livestock. This is because that's what they consider to be wealth. Cash is not considered as wealth in some cultural settings.

In this case, and for financial institutions to be able to capture or mobilize savings from the informal sector and those saving in, kind, then they will be required to package their savings products in such a way that they capture the 'emotional' social cultural aspect on the ground. In this case, other than reaching out to people in form of accessibility, formal financial institutions will be required to appeal to some of the emotional aspects in some settings.

**Post by: Henry Sempangi**

Dear all,

The key lesson I see in all this is that we should not only learn from the informal sector with an objective of formalizing their operations, but rather we should live with the informal sector, strengthen on their weaknesses and harness their strengths as we seek to move the members of such informal settings to higher levels.

**Post by: Namrata Sharma**

Dear all,

One more aspect of offering financial services in the remote places is the cost associated. I wanted to point out here that salaries and facilities must be modest. Field staff must come from the same socio-economic level as the clients. Employing local staff can be a key to managing staff costs. One observation while working in remote hills in Nepal was that the Savings and Credit Cooperatives can cover their full costs from the beginning by relying on volunteer boards for management. As the cooperative starts to generate revenue, it pays for a part-time bookkeeper whose hours and pay increase as the capital and portfolio of the cooperative grows. One way to compensate volunteer management committees is to pay them a small stipend from the profits of the Cooperatives.

The cost of forming and nurturing savings groups depends on: the distance of villages, number of groups possible in a village (population of the village especially of the poor), the time of meeting, the means of transport, the periodicity of the meeting, the salary structure of the organization, the age of the groups, how much the promoting organization tries to build groups' capacity, and whether the group takes up social issues in addition to savings and credit. Weekly meetings encourage regular savings of surplus cash but cost more.

If the cooperative meets monthly, one staff usually handles 20 to 30 groups with a total membership of 300 to 900 persons. In a simple office, one staff can manage 1000 to 2000 accounts with 50 to 150 transactions per day. Monthly instead of bi-monthly or weekly meetings reduce the cost but this may have a negative impact on loan repayment. Spontaneous replication of groups/cooperatives is a real though localized phenomena that can greatly cut the costs of group formation.

Namrata Sharma

MicroSave India.

**Post by: Sachin Kumar**

Dear All,

We recently reviewed the banking correspondent model operating in pilot stage in Uttar Pradesh. We got a chance to interact with the ultimate savers i.e. the savings account holders. Having discussed with them, we realized the immense potential for such pilots being scaled up. But these are some glitches like the banking correspondent can not serve the client which crosses the 15 kms of radius from the bank branch location. Can someone clarify whether it is road distance or Arial distance? And how do get to know the Arial distance?

Under the pilot three products are offered: no frills account, fixed deposit and normal savings account. Having talked to few savings clients, we realized that they were eagerly waiting for such services. In absence of such services, they used to save through informal chit funds, ROSCAs etc. (which is not a long run medium for savings).

I would request members of this forum to share their experiences on this front. What are the issues and challenges they feel is ahead for such banking correspondent initiatives?

Regards,

Sachin Kumar

MicroSave, India.

**Post by: Sanjay Bhargava**

The BC model is evolving and there are many areas that are being debated. I

have listed a few.

1. Only a Non profit can be a BC.
2. BC cannot charge customer
3. It is not clear whether a BC can appoint agents
4. The 5km/15km limitation
5. For opening an account can a BC agent accept KYC documents

In some cases banks can take decisions but decisions have to be approved by banks boards. Most compliance departments in banks do not want to take any risks so the growth is slow. There a lot of pilots because banks can afford to lose money on pilots.

The problem is that no one has a mission to achieve financial inclusion. Thus lip service is enough.

With the Delhi metro you can physically see the progress but with financial inclusion it is harder.

If a lot of accounts are opened but never used you can count that and say you have achieved 100% inclusion.

I hope we do not resort to window dressing in financial exclusion as probably one of the root causes of insurgency and terrorism is the despair that financial exclusion can bring.

**Post by: Prakash LB**

The informal sector has its advantage in providing the service 24/7 unlike the formal sector - which has timings (where there are no ATMs to withdraw or deposit). And, even where there are ATMs, I am not sure how many are confident about depositing their money in ATMs, though.

Most of the micro finance institutions which offer "savings" services do require a week notice - so that the money can be returned in the next meeting. This is where SHGs and Cooperatives score better in offering savings services - which are more faster and reliable.

- LB

**Post by: David Cracknell**

Please forgive this slightly opportunistic posting, so I will make it quite short. Because of the need to develop capacity to develop and deliver products, MicroSave has created the Applied Microfinance Institute - which runs courses based around the MicroSave tools. Alongside these tools there are sessions which share practitioner and participant experiences on relevant and regional themes, some of which we have discussing such as m-banking, rural access to services etc.

Details of the courses can be downloaded from [www.appliedmicrofinanceinstitute.org](http://www.appliedmicrofinanceinstitute.org). The courses are two weeks long and allow participants to select from a range of modules. AMI India is due to commence very shortly in mid July and AMI West Africa is due to commence in late August.

David Cracknell

MicroSave

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## **FINANCIAL INCLUSION - BANKING FACILITATORS AND CORRESPONDENTS**

**Post by: Narasimhan Srinivasan**

Dear all,

Financial inclusion is the phrase and theme in vogue. There are several central bank and state led initiatives for bringing the financially excluded into the formal banking system.

The objectives are laudable - are there any opinions on the processes and the quality of effort and results? In quite a few places savings accounts are opened, but the continued services may not be available on account of distances from the bank branch. To what extent the use of banking facilitators and correspondents could fill in this gap between client and bank? Any sharing of experiences would be very helpful.

Regards,

N.Srinivasan

**Post by: Sanjay Bhargava**

Hi all,

Eko, [www.eko.in](http://www.eko.in) believes that a shared financial infrastructure (FIX) is required for service providers to offer cost effective solutions. Visa and Equifax are examples of shared infrastructure but with advances in technology FIX could do better than Visa/Equifax and be designed to serve both the very poor and the very rich. It could also have a physical network of business correspondents.

In the case of Visa a service provider who can legally issue Visa cards can plug into the Visa infrastructure and start issuing cards. Similarly a micro savings, loans, insurance, pension, investment provider should be able to plug in to FIX and their ability to provide low cost services should improve.

I would be interested in comments on

1. Is FIX a good idea. Is it required ?
2. Globally how many FIX are required ?
3. Will the current incumbents build FIX or will it be innovators ?
4. Will current incumbents try and block FIX and what can regulators do to support innovators and stop incumbents from blocking FIX ?
5. Should FIX serve only the poor, be country specific or have no constraints ?
6. Will capital be a constraint to build fix ? Can regulators encourage capital to flow ?

Rgds,

Sanjay

**Post by: Sanjay Bhargava**

Hi again,

I will pose one more question after this one and then stop. This one has to do with learning from other industries such as telecom and FMCG ( fast moving consumer goods). These I think have been remarkably successful in making their products widely available at affordable prices.

I am from the financial services space, 18 years with Citibank and then two with PayPal and I think we suffer from thinking that financial services are very complex.

Can we dumb these down so that say making a deposit is like recharging your prepaid phone and getting a loan is like buying toothpaste ?

Rgds,

Sanjay

**Post by: Garrett Wyse**

Perhaps consider making a deposit is just like buying airtime? And all the positive implications of this possibility are.....

Security: digitised immediately

Privacy: no-one has to know how much any individual has on account

Return: rates of return can be offered and likely at competitive rates to any existing formal/informal institution

Liquidity: deposit and withdraw at any aritime seller (would need a puch into remote areas, for example airtime seller to visit each village each day)

Accessibility: nearest airtime seller

All seems potentially simple (no doubt we will hear many reasons why this could not work, how about how it can?)

Now where was that regulator...

Garrett Wyse

Microventure Support, Inc.

Washington DC

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## **CELL PHONE TECHNOLOGY**

**Post by: Mary Miller**

Garrett,

I agree with you that the technology of cell phones seems to have unprecedented cost savings potential, but I am still quite concerned with the need for regulation - if you think of this from a balance sheet point of view, the liabilities are customer deposits - like paying for airtime in advance, but presumably transferable to anyone (spendable in more than phone calls) - but what are the assets? A lot of the concern of this discussion has been the safely of deposits, and where is the money going?

For a commercial bank, the bank regulators are looking closely at the quality of the assets, as this is what depositors' money has been invested in. In the case of the cell phone, I am concerned that, with no regulator, funds may be withdrawn surreptitiously - probably not by the cell phone operator itself, but through internal fraud or hackers. Since the deposits are not likely to all go away at once, detection would be avoided because only a relatively small amount of funds are needed to provide for daily changes in aggregate balances.

Having said this, I am most interested in hearing more about cell phone technology experience in handling deposits, and would be interested in knowing about any case studies that have been written. I do know of one cell phone bank operating in South Africa - Wizzit - which does operate under a banking license, and is accordingly regulated. Others, however, seem to be cell phone companies that have expanded into banking, and I hope that central banks are looking at this closely.

Regards, Mary

DAI Bethesda, Maryland USA

**Post by: Motaz El Tabaa**

Dear Mary,

I think the most successful case of cell phones usage is in Philippines. I think there are 18 million users of this system, which was approved by the central bank, the balances are maintained by the operator in shadow bank account, this case is well known and the advisor was Chemonics.

Thank you,

Motaz El Tabaa

ABA Egypt

**Post by: David Cracknell**

Dear Mary

While your concerns need to be responded to, and in fact, I have invited at least one mobile payments provider to comment, as I know that they have worked hard in the back office of their solution... I hope they can do so, it is also true that the telco led model has expanded much more rapidly than the bank led model, it would be interesting to have some thoughts on why this might be the case.

David

**Post by: Sanjay Bhargava**

Cell phones offer hope but are still not all pervasive. If an area has cell phone coverage and a retailer I think we will soon have solutions.

In areas where this is not true informal systems or the other approaches suggested maybe the best way to go.

There is the also the problems in areas with insurgency or slums where people may not want to go. A system which uses locals as business correspondents I think offers the best hope as it uses people on the ground who can react as appropriate. As long as the correspondents are trained, have incentives and simple infrastructure the dream of universal financial access will not just be a pipe dream.

**Post by: Garrett Wyse**

Mary, David,

Some ideas re regulation: would it be possible for government's to guarantee deposits from telco's with the funds being lodged in government accounts?

This may allow for 1) liquidity control with one monitoring body, 2) centralised security, 3) appropriate interest rates to be applied, 4) scaling up to national level, 5) increased government funds, 6) centralised deposit insurance, 7) fee paid by government to various telco's for deposit mobilisation (subsidised in hard to reach areas perhaps).

Air ways (bandwidth) that are then publicly owned specifically for these purposes, And another related opportunity, also allowing for public information, notices to be pushed down phone lines.

Some ideas, again aspirational, but technically possible with political will no doubt

The ability to scale up exponentially, the margins on operations, the potential speed of roll-out, the political leverage through tax revenues, the patronage and sponsorship of various events etc. all lead toward the model being expanded rapidly.

And this smattering of factors would seem to suggest the potential for something positive with potentially enormous impact,

Anyone from the telcos/regulators to shed some light on the possibilities/problems for us to consider??

Garrett

**Post by: David Cracknell**

Garret,

The regulatory regime in Kenya is being worked on, payments system legislation is expected at some point, this like much regulation will probably be a framework that then requires policy interpretation by the parties involved. So it may take time to see what this means in practice.

In theory at least deposits are protected, in as much as the deposit account that the non bank m-banking operates is held in a bank, M-Pesa does not hold any funds. However, I am not clear whether as this is a single account whether the single account limit would therefore apply, or in practice how someone would claim under the DPS. I'll add this to my list of things to find out about

Best,

David Cracknell

MicroSave Kenya

**Post by: Jenny Hoffmann**

How do you mean MPesa does not hold the deposit because it is held at a bank? That is a matter of geography. The issue is what happens if MPesa were to go under. If the account is held in the name of MPesa then the creditors would go after it as it would still be their asset. However I believe it is held in a trust account which may or may not be beyond the reach of any potential creditors should something go wrong.

**Post by: David Cracknell**

Point taken Jenny, but I was thinking through how and in what way the Deposit protection scheme, that already exists in Kenya might apply to the M-Pesa case. The deposits are lodged in a bank in a trust account, which restricts Safaricom in the use of these funds. I don't know what additional agreements or covenants, Safaricom and the partner bank may have come to with the Central Bank on this issue. There may be a greater risk that the partner bank collapses than M-Pesa/Safaricom, but this would result in the same issue of depositor protection.

On one level the point appears academic, as Safaricom is the biggest and most profitable company in East Africa and the partner bank is local but considered blue chip. However, protection schemes are designed to protect depositors from apparently unlikely events, and M-Pesa is reaching a significant scale - so principles matter.

This is something I will enquire more about.

David Cracknell

MicroSave Kenya

**Post by: Peter van Dijk**

Concerning savings services, is it not so that the grocery store owner or his/her staff is receiving the cash from the client and undertakes the M-Pesa transaction with the POS terminal (the electronic device)?

If that is so then I am much more worried about the cash and liquidity management done by the retailer and his/her responsibility and accountability vis-a-vis customer and v-a-v M-Pesa. This wd be t same for the mobile phone operator taking deposits or making cash payments on behalf of or to the customer. In the case in South Africa, is it not so that the "Wizz-kids" are not responsible for the opening of the accounts they do, but the banks who do not supervise the Wizz-kids (this was so I believe still in 2005 when I worked there)?? And this also seems t same case in similar activities in Brazil (you can also study CGAP Focus Notes on this issue).

Peter

**Post by: Sanjay Bhargava**

Jenny,

You are right. It would have to be held in a trust account or some such framework. In the case of PayPal technology is used to sweep the money into money market accounts in the name of the customer. You have to give PayPal a social security number and they send you a 1099-INT if your interest income exceeds a certain amount. The money market accounts are not in PayPal's name and have SPIC protection in case the money market fund provider goes bust which I think is up to \$1 million per account. If you consider SPIC protection equal to FDIC protection then since fdic only protects only upto \$100,000 technically money in PayPal is safer than in a bank. However this is only technical as I think the max balance anyone has in PayPal is probably less than \$10000. J

Rgds,

Sanjay

**Post by: Mary Miller**

Garrett,

I see transferring the funds to government, and the government offering deposit insurance as compensation (in addition to interest paid) to telco customers as one possible solution. In many ways, however, this will look like a modern day post bank.

The advantages of providing deposit services through telcos, as well as through post banks, is that they are everywhere, so you are piggy-backing on existing infrastructure that would already be there for other purposes as well - in both cases, facilitating communication. Both are able to provide quite accessible services, for relatively low costs. I am a great advocate of this sort of piggy-backing approach, and certainly think that we should look at building on/expanding services of existing financial institutions rather than creating new networks out of whole cloth.

Where I think we need more consideration is the asset side of the balance sheet - you are suggesting that the funds be handed over to the government, so that effectively the assets will consist of one giant account receivable from government. The monies handed over to the government, however, will be invested as the government chooses, probably in big infrastructure projects. As was noted earlier, this is just what the post banks did - handed the money over to the government, and funds were put in infrastructure projects. As someone pointed out, in several cases in Africa the infrastructure projects did not work out, so did not repay and the post banks went belly up. In these cases I doubt that the government explicitly provided a guarantee to depositors, but there would have been an implicit guarantee because the post banks were government institutions, but the governments were not able to make good.

The other concern that I have with passing on the monies to government, probably to be used for infrastructure investment (which in many places has been safe) is that the deposits are not getting intermediated in such a way that loan funds are available to the depositors, and/or persons like them and businesses that serve their areas.

Deposit insurance is an important element of a financial system, and if available can greatly enhance the safety of the system for the small depositor. Countries that have deposit insurance have supervision and regulatory systems that have been developed enough to do an adequate job of examining banks and other deposit-takers to ensure that they are managing risk appropriately. The challenge I see is for the bank regulators to get to fully understand what risks exist in cell-phone based banking, and then provide appropriate supervision and regulation. This is not the first time that this sort of challenge has arisen - the expanded use of ATMs and mobile branches come to mind as new ways of doing banking that bank regulators had to get to know and understand. Central banks/bank regulators do not yet fully comprehend cell phone based banking, so all the work in this area, like the info on this exchange re M-PESA and the Central Bank of Kenya, will be important for all central bank learning.

Regards,

Mary

DAI

Bethesda, Maryland USA

**Post by: Richard Meyer**

Mary: Good comments. We need to be concerned about moral hazard connected with deposit insurance as we noted in the US S&L fiasco. There is also the problem as you noted in controlling what the government does with the money. With unstable and corrupt political regimes, I wonder what really works in terms of effective controls.

Dick

**Post by: Peter van Dijk**

Sorry 4 t amount of postings, but I haven't seen contributions from regulators.

Based on my experience in working closely with regulators in different parts of Africa and Asia, I can only conclude that TelCo's don't want to take responsibility for cash, cash movements and liquidity management (from basic bookkeeping from in-coming or outgoing cash, to cash projections and so forth). This also means that I have yet to meet with TelCos willing to take any kind of financial institution license or talk about possible alternatives with regulators, which would oblige them to make minimum capital

payments, deposit guarantees, reporting or whatever.

This surprises me, as some TelCos seem to be so positive and vocal about (business) opportunities. I hope people understand that it is then not surprising that most electronic or branch-less banking initiatives are "bank-led".

Peter

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## **FINANCIAL INCLUSION - BANKING FACILITATORS AND CORRESPONDENTS**

**Post by: Peter van Dijk**

Dear Sanjay,

Just last week CNN reported that CitiBank has lost millions of USD of its customers as hackers broke in to the servers that intermediated with the banking correspondent, the 7Eleven supermarkets.

Furthermore, recent studies show that retail agents receive more burdens on obligations for better safekeeping and bookkeeping of money from this added payment/or cash-out services (apart from long waiting lines as seen in pictures in front of retail stores in Kenya who offer M-PESA services), than they earn on an added services (tiny margins).

Consequently, currently I only see banks, governments donors, mobile phone companies, pushing electronic and mobile phone tools on non-financial experts, retailers and mobile phone operators, together with responsibility for added cash and costs.

Peter

**Post by: Sanjay Bhargava**

Hi,

The last question and this has to do with the high cost of waste as we look for solutions. Let me take one example. With real time balance checks and mini statements is it necessary to have paper receipts and paper statements. If we could eliminate these and eliminate a card and a chequebook then the cost of maintaining an account could tend to zero.

If we had all these and it say cost \$5 a year per account and in India we needed 300 million accounts then these would cost \$1.5 billion.

Where do people see waste that can be eliminated or reduced. There is no free lunch and innovation implies change. Will consumers and regulators accept change ?

Rgds

**Sanjay**

**Post by: Peter van Dijk**

Ad 1) Role of central bank and/or government in financial inclusion.

The Central Bank and the regulator/supervisor in general should in my view focus on regulating and supervising what exists, not what is supposed to exist in the future. The more politics the CB takes on its shoulders, the more it will compromise its authority and credibility and the higher it runs the risks of getting more political pressure from Government.

An example, in South Africa the government, experts, trade unions, president's wife, donors wanted laws to stimulate cooperative banks and specialised banks (savings banks, S&L-s). So a Mutual Bank law was created and a Dedicated Banks Bill (remained a proposal). How many coop banks and how many dedicated banks have been created since? 0,0 and so much valuable money and other resources allocated for the poor wasted (legislation, regulation, supervision costs a lot of money and time).

Ad 2) Over the last years CGAP has published quite a nr of studies on correspondent banking. In my view it promotes such systems, even being Tel-Com (instead of

bank-led), although it has found considerable levels of theft, fraud, conflicts with consumers (in countries where consumer protection is near inexistent) and high operational losses of banks (and hardly any evidence of more income for the correspondents, the retailers and phone operators). And as I said earlier, in many options the system merely transfers the basic banking risk and skills (representing its specialist skills entailing high costs), namely for safekeeping cash, cashflows, bookkeeping, liquidity management to the correspondents (retailers and phone operators).

I would love to know whether GrameenPhone made a risk and cost/benefit analysis recently and whether the correspondent banking system has recently been evaluated by the Brazilian government.

Peter

**Post by: Dieter Seibel**

Peter:

You are saying “The Central Bank and the regulator/supervisor in general should in my view focus on regulating and supervising what exists, not what is supposed to exist in the future.”

Maybe, but here is evidence to the contrary:

In 1992 the Reserve Bank (RBI) of India issued a Circular Letter permitting banks to open savings accounts of informal self-help groups and refinance them (with liquidity to be on-lent to their members). As of 31 March 2007, this had led to a total of 4.2m SHGs, covering 58m poor households, maintaining savings accounts with banks, with a total savings balance of Rs35.1bn (US\$0.8bn); and to bank loans outstanding to SHGs amounting to Rs123.7bn (US\$2.8bn). \*) There may many more SHGs in India benefiting from this Circular Letter which do not appear on the monitoring screen of Nabard.

There is now a new move of increasing numbers of these informal SHGs establishing so-called federations – a result of RBI’s earlier regulatory generosity. In Andhra Pradesh (one of 10 states with such a law) they may register under a new law of 1995 as Mutually Aided Co-operative Societies (MACS), as part of the semi-formal financial sector. Some day they will come under RBI. (I apologize for multiple postings)!

Hans Dieter Seibel

\*) NABARD, Status of Microfinance in India 2006-07. Mumbai, Nabard, 2007,

pp. 3, 5

See also: [Report of the Committee on Financial Inclusion](#), headed by C. Rangarajan, Mumbai, Nabard, 2008, p. 77.

**Post by: Peter van Dijk**

Dieter,

It does not immediately mean "on the contrary".

It might well be that SHGs opened S-s accounts on behalf of their clients in different ways. Also you did not give info on why SHGs before did or could not do that. Maybe compromises were found in talks between RBI, SHG rep-s, NABARD, banks. Furthermore, the RBI issued a circular, not a new law or a regulation modifying a law (at least that is not clear from your info).

It is not clear either from your info, why before SHG's did not or were not able to open accounts on behalf of their clients. It might be that, as you mentioned that it is the legal statute of the SHGs or other informal groups, their informality that prevented that from doing so. If the latter is so, you will hopefully not advocate that the central banks will allow all informal entities to open up savings accounts on behalf of others. Can you imagine the possible real, financial and legal implications? Take only the issues of SHG leaders (who open the accounts) who go away (with or without money), administration on behalf of whom, legal proof (for ownerships, responsibility) of identities and transactions on what amounts per group member, etceteras. That would as if the central bank would like to help legalise pyramid schemes or even money laundering.

Kind regards,

Peter

**Post by: Narasimhan Srinivasan**

Dear Peter,

The informality of the groups prevented them from opening accounts. The regulators imagination normally runs riot about the risk, fraud and systemic collapse possibilities. The fact that there are about 3.5 million accounts of this nature after RBI permitted informal groups to open accounts is proof enough that it is not that threatening.

You know (and have commented on it in the past) that legal entities have opened accounts and laundered money, banks have gone belly up dealing in derivatives in metal and stock futures and financial institutions went bust investing in rated debt paper built around sub-prime mortgages. Thanks so much for cautious decision making by regulators.

But When RBI took the decision in 1992, it had no way of knowing that things will work out. That is where one appreciates the regulator for not being too cautious in a development context, but being positive and willing to experiment. (it does not take too much time to clamp down if things get out of hand)

Best regards,

N.Srinivasan

**Post by: Prof. Dr. Hans Dieter Seibel**

Peter:

The SHGs under the SHG Banking umbrella of Nabard and RBI are not opening savings or loan accounts on behalf of others. The banks were authorized by a Circular Letter of RBI to open accounts on their own behalf, i.e., they were treated as if they were legal entities or corporate bodies. That was before the start of the pilot project. You are asking, how come.

To my knowledge, RBI and Nabard staff gained confidence in Linkage Banking as we called it then from visits in 1989-91 organized by APRACA to the pilot project "Linking Banks and Self-help Groups" in Indonesia, which was a project of Bank Indonesia, the central bank, with Bank Rakyat Indonesia and a number of other banks, private, public and rural (BPR).

Dieter

**Post by: Kimberley Wilson**

Dear Dieter -

I am wondering if you or Srinivasan could shed light on the role of MYRADA, the NGO near Bangalore, on its role in piloting the program with NABARD. I did not realize Indonesia was an inspiration.

Incidentally, there is an excellent new book out called Development, Divinity and Dharma by Harper, Rao and Kumar, which tracks among other cases, the evolution of a faith-based NGO in Karnataka (SKDRDP) using the SHG-linkage program as part of a wider development calling and decides to shift to providing credit itself, with savings a key feature all along the way.

Kim Wilson

Tufts University

**Post by: Andrea Dannenberg**

The World Council of Credit Unions is currently implementing an growth program with partner credit unions in Mexico call semilla cooperativa (cooperative seed). Participating credit unions send rural agents on scheduled routes to communities within 30km of the nearest branch. The members assist the rural agent in collecting savings and disbursing loans. Unlike village banking programs, semilla cooperativa participants are credit union members and are not bound by solidarity guarantees and compulsory savings requirements.

The program allows the credit unions to reach a larger portion of their potential market at a lower cost than that associated with opening new branches. The members love the convenience.

Credit unions implementing the program in Veracruz state from 2003-2007 experienced growth in membership and savings of 660% and 583% respectfully. The program is now being expanded to 72 credit unions and 245 branches through a program funded by the Ministry of Agriculture (SAGARPA).

Andrea Dannenberg

World Council of Credit Unions

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## **LEGAL STRUCTURES AND THEIR CHALLENGES IN DELIVERING SAVINGS SERVICES**

**Post by: Madhurantika Moulick**

Dear All,

While discussing issues from the perspective of the service provider, those which lead the list are the fiduciary responsibility of the service provider and the role of formal banking systems in enhancing financial inclusion. N. Srinivas' paper on the topic is available on the resource page for reference.

The other challenges before service providers which restrict the promotion of savings services are likely to include the costs of delivering savings services, financial behavior of clients (which we have discussed to some extent yesterday), skills needed to design effective savings products and others which will come up during the course of discussion.

So let us start our discussion with what are some of the legal challenges that microfinance practitioner's face in delivering effective financial services? Which legal structure is most suited to deliver cost effective savings services?

Regards,

Madhurantika.

**Post by: Akhilesh Singh**

Dear all,

The topic mooted for discussion is of high relevance, particularly in Indian context. The major challenge before Indian MFIs in mobilising saving is unclear/ unfeasible regulatory framework. Otherwise saving would have very good product for MFIs as well as end user. If you will ask MFIs that what factor drive them to add saving product in their product baskets then you will find the answer, that its source of low cost fund. Few of the mfis in India, who had not used the technology, experienced that saving products takes about 60% of the staff time, with servicing two products saving and crediting. This simply implies that servicing saving products contributes about 60% of the cost.

On the other hand if you will see the revenues out of saving service, it merely comes 1-2% under Banking Correspondent model, which is an acceptable vehicle to service the saving product. Therefore MFIs cannot find any reasons to service the saving products, unless they are not compelled by the competition or regulators to diversify their products and service it on the cost of credit product.

If MFIs would have been free from the legal restrictions rather organisation would have been given clear and feasible regulatory frame work under decent control, then they would have found the saving product equally profitable as credit product. The logic is, now a day organisations availing their on lending funds at rate 12 - 15% and charging 27 -30% from the end users. That means their margin ranging between 5 - 6 % (assuming operating cost @ 9-10% and ignoring LLP). With the freedom of using saving - under whatever regulation, that is feasible for them - for on lending, the scenario would be quite attractive for the MFIs. As present rate on saving accounts are about 3.5%, that means if they would be lending at 27% they could make margin of 10% (assuming they are using only 50% of the saving for on lending and keeps 50 % liquidity margin, operating cost @ 10% and ignored LLP). With such a high spread the organisations will also have opportunity to reduce the interest rate for end users and keep their customer satisfied and really help them out to come out of poverty in sustainable and feasible way.

Best Regards,

Akhilesh Kumar Singh

MicroSave

**Post by: Kwaku Berchie**

In Ghana, the major challenge that is facing the MFIs is the minimum deposit requirement that the central bank demands from the Savings and Loans Companies. While this segment of the Microfinance spectrum helps many low end customers, the minimum monetary deposit requirement will kick many out of business.

Another legal challenge is the government allowing the commercial banks to "step down" to the MFI market. To me, if the MFIs cannot conduct regular and normal commercial banking business the commercial banks should not be allowed to conduct MFI business since the two have different attributes etc.

**Post by: George Muruka**

Dear Kwaku,

I was over there in Ghana about 2 weeks ago and players are panicky about competition especially from commercial banks. It was interesting to note that Rural Banks are moving to the urban areas - some have headquarters in Accra!. Most NGO/MFIs are seeking S&L licenses. It is difficult to see how can the regulator can limit commercial banks from going down market? It feels like the game of draft (not sure if that the official name), after your disk(s) become king, you play in different directions, scoring all over the place. By default/design, NGO/MFIs and rural banks etc have been trying to fill the gap note yet reached or left by commercial banks. Perhaps that is why we talk of the non-banked.

If the banks have realised there is no cause to fear, the low income people are bankable, what is the problem? Let the banks come down. The challenge lies with MFs to perfect their game. Let the best team win in the competition to provide convenient, accessible, flexible ... financial services. As you might have read from Arora, in Kenya's slum area of Kawangware (outskirts of Nairobi City) as of last week, we had 4 commercial bank branches - K-Rep (the first &also has head quarters there), Equity Bank (immediately next to K-Rep), Barclays and Kenya Commercial Bank) - with ATMs fitted, never mind the dust! MFIs have not closed shop in that area, I still see SISDO, SMEP FAULU etc operating there.

Most MFI regulations (e.g. East Africa, and even Ghana) appear to develop a continuum of financial services providers (Informal, Semi-formal (registration with a govt ministry like social services) then Rural/Community banks, Savings and Loans Companies (Credit Companies as in Uganda) then Commercial Banks (universal). Following this continuum, I guess MFIs seeking licenses to become MDIs or S&L today (to mobilise deposits), may in 5 -10 years decide to go the next mile and convert as "microfinance" commercial banks (to be able to (demand side) offer more products customers

and from supplier side - to develop more lines of business/profit centres!). And in fact we may call them "microfinance" commercial banks, if they will still have the vision intact..

Perhaps, Kwaku you could suggest ways the regulators can possibly limit banks from conducting microfinance business?

Best Regards,

George

Financial Services Consultant

MicroSave

Kenya

**Post by: Kwaku Berchie**

George,

How are you? I heard a lot about you. I attended a MicroSave workshop in Kampala in May of this year and saw the competition from the commercial banks. It is happening in Ghana now. I think the panic stems from the fact that the MFIs cannot compete well enough with the commercial banks because of liquidity and assets. Applying for a commercial bank license requires a lot of deposit with the central bank. Many MFIs cannot meet that requirement.

The Ghanaian financial customer is concerned with just one thing.

**Post by: Angela Wambugu**

Dear Kwaku,

Here's my take, on the issue of competition from banks going downmarket.

I believe the original goals of microfinance was to extend financial services to those (low income people) who otherwise do not access these services from banks as they are considered unbankable. MFIs have since managed to show that indeed the low income market is bankable, to the extent that banks are now downscaling. For those who had a social objective of seeing people access financial services, I guess the objective has been/is being achieved and so all is not lost.

Now, those who had or have since developed commercial objectives, definitely now find themselves in direct competition with banks (not to mention the informal sector). Going forward I see either MFIs transforming along the continuum as George has mentioned or position themselves for takeovers by commercial banks where they reap a handsome profit and still continue providing microfinance services, by structuring the deal in such a way that they remain the operators of the microfinance operations and leverage on the banks capital, assets, technology, etc. For instance, UML, one of the largest MFIs in Uganda has just been acquired by Equity Bank, currently the biggest MF bank in East Africa. It is not difficult to see similar acquisitions happening in the not so far future.

There is also the OI approach of acquiring small MFIs, sprucing them up, consolidating and possibly setting up a Bank e.g. OI Bank in Malawi.

These are just my personal views...let's wait and see the direction the sector takes...

Regards,

Angela

**Post by: Kwaku Berchie**

Dear Angela,

I think you are right on the issue. The commercial banks taking over is a reality. Barclays tried to take over one of the bigger MFIs in Ghana recently.

My concern is that would not that defeat the purpose of microfinance? The commercial banks will always think like commercial banks no matter who they acquire strategically.

I heard the Equity Bank takeover of UML while attending a MicroSave workshop in Uganda. While I like equity bank's growth, effectiveness, and efficiency, their focus is on the upper end of the poor. Unless they develop products to serve the bottom poor, new and struggling MFIs may be chasing a fleeting illusion.

**Post by: Bettrand Eshun**

This huge gap between the demand and the supply for financial services (savings) is a result of the perceptions of the informal sector and the lack of incentives to attract such customers by the formal financial institutions. On one hand the formal financial institutions consider the unbanked as high risk, due to lack of collateral and unsteady cash flows, high cost due to small loan sizes and the need for close monitoring classifying this segment as unprofitable. On the other hand, the unbanked do not access formal financial services (savings) because of one or combination of the following factors:

- Illiteracy,
- Access, mainly the siting of financial institutions,
- Attitudes and perceptions of staff of financial institutions,
- Informal nature of their business,
- High account opening requirements,
- Lack of collateral.

As I posted earlier on, if policy constraints can be relaxed alongside the above factors, saving products would be attractive on the part of institutions and target clients.

Thanks,

Bettrand

**Post by: Cynthia Odonkor**

The legal and regulatory structures in the financial service sector poses a great challenge for financial institutions. In Ghana for instance, most of financial NGO's operates in the rural communities. However, these institutions are not able to take deposit due to regulatory constraints. As a result, these institutions are limited in their operations as they continue to rely on donor funding or borrow at high cost to maintain their operations. This seriously affects the sustainability of the FNGO's.

The commercial banks and the savings and loans companies which are regulated and allowed to take deposit are not able to move their services down to the poor communities. The rural banks which are supposed to meet the savings services needs of the poor are also moving into the urban areas. As such the poor in the rural communities rely on informal means such as saving under their pillow, through Susu collectors in kind or through the ROSCA's. It is high time measures are taken by the governments and the central banks to legalize FNGO to take deposit as this could have a positive impact on the economy.

**Post by: George Muruka**

Dear Cynthia,

I think the Central Banks have done their bit by establishing regulatory frameworks and conditions for each legal status. As such, in Ghana, FNGOs are making efforts to transform into S&Ls so that they can mobilise deposits. Unlike current privately initiated S&Ls, FNGOs have a presence in rural areas and have a largely pro-poor background. But to serve the poor and meet their savings needs, the FNGOs (after transformation to S&Ls) will still need to design appropriate products, put appropriate infrastructure (to satisfy the Regulators and be accessible to customers, have adequate liquidity management capacity to ensure flexibility and liquidity of the savings (meaning customers can withdraw in cases of emergencies) etc.

Cynthia, I think the challenge as at now and in view of the theme of this conference has to do with the motivation for MFIs to mobilise savings. It is not to offer a badly needed service by their clientele (the poor), rather it is viewed as a cheap source of funds to on lend - which is just one side of the coin. Our experience in Uganda when BoU licensed the Microfinance Deposit Taking institutions (MDIs), is that the MDIs converted the forced savings into clients normal/open access savings accounts. Clients came in and withdrew almost all of it, then gradually started saving into these accounts. What were the clients doing? Testing the system! Does it work? Eeehh, is it true? If they see, it is working, then confidence grows in the stability of the institution (as had been noted by David and Arora), they start saving little by little into the accounts. And that is where now liquidity management capacity of the FNGO (or now call it S&L) - how much to have in the branches for withdrawals, how much to on lend, week by week, month on month etc. It is not easy, it takes time to develop these systems for it to work for the institution and the clients. **BUT IT IS DOABLE!**

Regulators may have done the legal bit, but they also need to keep learning the dynamics of serving the poor to make the systems more robust.

George

Financial Services Consultant

MicroSave Kenya

**Post by: Peter van Dijk**

That is why in Uganda the central bank was one of the imitators of the National MF Forum of the Finance Minister (with direct access to the President). At all stages the drafts of the MDI Bill were explained with all MF stakeholders, including with parliamentarians (such as with critical MoP such as Professor Kamuntu and Mao if I remember their names well), women organisations, farmers' associations, etc. Many debates on technical issues, such as on interest rate setting, ownership, profitability vs mission drift, non-financial services took place (and I hope still do).

**Post by: Raj Kumar**

Dear All:

Just to bring a different flavour to the discussion - it is interesting to see how, why and where the savings (or potential savings??) of poor farmers gets parked. In northern India (I am not aware of south), there are these agriculture traders called 'adhtiyas' many of whom have been around for generations. Every adhtiya has a certain number of farmers as his clients. The farmers bring their farm produce to these traders who knock off what is due from the farmers (cost of seeds, fertilisers, other agri inputs and any cash loans). The prices paid for the produce are often not the best. The farmer then has a choice of taking the balance back - but no!! the farmers chose to park their cash with the adhtiya who onlends to another needy farmer (not all end up with a surplus after all!). Adding to the complexity of this seemingly

pure financial transaction is the relationship building by these adhtiyas. These traders don't forget to send kanyadaan (cash gift with high emotional value attached in India) in the marriage and are the most reliable in times of emergency (medical emergency, for example). The banks allow cash credit limit to the traders upon verifying the receivables from the books of accounts of these traders. Banks are allowed to show this lending as a part of priority sector portfolio.

I wonder how much the poor lose in this lose-win situation, and what are lessons to be learnt? At broad national policy level, it is not the extension and outreach of the savings facilities alone that will redeem the situation. What if the farmer has accessibility to a spot exchange wherein he can sell his produce and pay off the debt or what if process of warehouse receipt financing itself was tied up with the warehouse cum exchange where the farmer will even get an option to wait till prices move northward. All these and many more options will result in some surpluses being generated with a host of positive spin-offs at the level of clients...

Best regards,

Raj Kumar

MicroSave India.

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## **SAVINGS LIMITS AS AN INSTRUMENT OF EXCLUSION**

**Post by: Narasimhan Srinivasan**

Dear all,

The SHGs offer the vehicle for poor to save. When the SHGs are in their formative stage, the promoting institution helps them to adopt norms relating to savings behaviour. Very often (more often than I would like) the groups end up fixing the periodic saving limits at a high level (in India). For example a level of Rs 50 every week or Rs 100 every month could effectively exclude several poor. Since the process of norm setting is to be democratic and participative, the promoting institution does not interfere with the higher savings limits. Once such a limit is set by one group, one rarely sees another SHG coming up with a lower savings limit in that area for those who cannot save this much. Over time the groups in the same area tend to adopt the same limit and take it upwards.

There are very few groups (I am yet to come across any) that work on a periodic saving of say Rs 5 per week or Rs 25 per month initially. If such small savings limits are encouraged by the promoting institutions then we can say that the needs of the real poor are met. In these cases, the need and intent is there, but the structure of products exclude the people. What should the self help promoting institutions do to encourage savings in this context?

Some of those from promoting institutions in this debate hopefully would respond.

Best regards,

N.Srinivasan

**Post by: Brett Matthews**

Dear Srinivasan:

In the areas where I have been working (not India!) the key issue here is seasonality of cash flows rather than poverty as such. Poor people who are heavily dependent on a single harvest do not want to commit any amount regularly -- whether it is the equivalent of 5 Rs or 100Rs.

I would like to test arrangements in which groups commit to reasonably similar savings goals over a specific period (e.g., between 2 harvests) but with the flexibility to deposit variable amounts from one meeting to the next.

Brett Matthews

Mathwood Consulting Co.

**Post by: Narasimhan Srinivasan**

Brett,

That would be a great leap in product design if variable amounts with an yearly target could be agreed upon. It would help people with cashflows concentrated during certain periods of the year. This is an example of how promoting institutions can make a difference. But I still persist with my query - to what extent these savings limits exclude people who do not have any harvests to bank upon?

Srinivasan

**Post by: Brett Matthews**

I believe you've answered your own question -- such limits have a huge impact on the participation of poor people whatever the source of their income. SHGs (like solidarity groups, ASCAs, and ROSCAs) are based on common social status. Once there is joint liability involved, you will keep me out of your group if you think I'm poorer than you, because I represent too much of a 'risk'.

As you say, creating groups of poorer people is the key, and having NGOs that are ready to do it is the only route forward.

Brett

**Post by: Pon Ananth**

Dear N. Srinivasan,

I would like to differ from you. There are institutions which facilitates SHGs to save according to their ability to save. Within the group, members are allowed to save different amount rupees. All depends how the promoting institutions are educating/facilitating the group's savings policy. NGOs are helping SHG members to evolve lending policies of the SHGs based on the savings pattern of the group. Say "X" is saving Rs.10 and "Y" is saving Rs. 15 then Y is allowed to take higher amount of loan than X. It all depend the promoting institution's ability to facilitate the SHG to develop a need based savings/credit product.

Best Regards,

Pon. Ananth

**Post by: Hugh Allen**

Dear Srinivasan,

You touch on a critical issue. When everyone in a group is obliged to save the same amount the group will end up stressing out the very poor (who find it hard to reach the minimum) and the better off (who want to save more). Also, such rigidity doesn't take into account seasonality. In some of CARE's work in Africa, ASCA members don't save as such. They invest through share purchase arrangements that limit the maximum number of shares that a member can buy to 5. This means that the share value can accommodate the poorer members and still satisfy the need of the better-off to save/invest, thus tending to optimize savings mobilization in any given group. Using this system we have

found that while groups may start out saving the same amount they quickly start to differentiate the amount that they save.

Hugh Allen

**Post by: Sanjay Bhargava**

Dear Hugh,

Let me throw a technological twist to the discussion. High touch is often a preferred method to high tech. I come from a vintage when computers were not used in banking in India at all.

I still am a fan of the power of technology to cut costs.

The twist I want to throw out is that how can we use "social networking" concepts to group formation and working. If people have mobiles why do they have to meet physically. We will lose high touch but take this conference for example. Useful? Certainly not high touch.

High tech also allows more flexibility.

Rgds,

Sanjay

**Post by: Narasimhan Srinivasan**

Hugh,

These are the kind of examples we need; to impart flexibility. I am curious about the exit route from these shares. Can you elaborate?

Regards,

Srinivasan

**Post by: Raj Kumar**

Dear Hugh,

There are experiences on the contrary also. In most of the Indian SHGs, the idea is to bring together members from same socio-economic background since caste and class dynamics do influence crucial decision making in the group - since the view is also to look at them as social action groups. I had worked for several years with SHGs and many of them used to save Rs. 5 and Rs. 10/week as decided by the group. The deal what is the minimum amount that women agree to save and facilitation is in a manner that the poorest woman is able to voice her comfort level with the figure.

Some organisations have experimented with the idea of fixed plus voluntary saving (with an upper cap). There may not be much of an issue but it has been found to be difficult operationally in terms of managing group accounts (we are talking of bottom poor here...).

Even after some substantial experience of such savings program I am yet to hear about the SHGs doing savings on their own without any external support. Is there any experience - in India or outside - what has led to it?

Best regards,

Raj Kumar

MicroSave India

**Post by: V Parmeshwar**

Dear Raj

The Saving for Change program that is being implemented in 5 countries across 3 continents has positive examples in Cambodia and Mali and Senegal of groups managing their own savings independently without any external support.

The key factor, in my opinion, is the ability of the SHPI to come up with appropriate systems that meet the needs of the customer. For example, I developed an Oral record keeping system for Mali that is currently helping more than 94,000 clients manage their financial affairs without any help from their more literate brethren.

To reply to Srinivasan's post in this email chain below about experiences of saving small amounts, SEWA Bank in India has a 'daily' savings product where the bank employee goes to the customer on a daily frequency to collect amounts ranging from 10-50 cents. This is another example of developing a product delivery channel that is appropriate to the context (in this case, urban poor).

Another crucial idea to promote during the training process of savings groups is also that the amounts can vary according to seasonal cash flows. This enables even those groups where all members want to save the same amount (for reasons of ease of record-keeping, keeping the group democratic etc.) to save much more than what they could have had they stuck to the same amount through the year. We have had excellent results promoting this idea. Hugh has already pointed out the utility of the shares system and this also helps in increasing the amount that members are willing to invest in the savings groups.

Best,

Vinod Parmeshwar

Community Finance Manager

Oxfam America

**Post by: Mary Miller**

Following up on this, SHGs and similar grassroots deposit/loan schemes have an important role in providing savings services to poor people, but poor record-keeping and the potential for fraud are issues. Has the Saving for Change program looked at developing simple bookkeeping formats to standardize record-keeping, and/or standard procedures such as dual controls to mitigate risk? - and if so, how have these been disseminated?

Regards,

Mary M. Miller

DAI Bethesda, Maryland USA

**Post by: V Parmeshwar**

Hi Mary,

The controls in the oral record keeping system come from the following:

Principles

- Every member remembers their own financial transactions as well as for one of the other group members
- The sitting arrangement is kept rigid to enable ease of recall

- Members have to remember only 3-4 data points (amount of loan taken, duration of loan, fines (if any) that are to be paid) for themselves as well the person they are helping

#### Practices

- The president opens meeting
- The box holder and the key holder bring the box and key respectively to the President
- The president opens the box
- The cashier counts the money and announces the amount
- The group members recall the amount from the previous meeting
- The meeting only proceeds if the actual and 'remembered' amount are the same
- All savings payments and fine payments are made
- When loans are made to members, they are announced loudly so that all group members can both see and hear the transaction
- The cashier counts the amount closes the box at the end of the meeting
- All the members repeat the amount in the cash box loudly
- The President gives the box to the box holder and the key to the key holder

#### Other risk reduction measures

- All cash transactions occur in the presence of the group and at group meetings only
- Groups form through self-selection (This helps in screening out clients who are considered credit risks according to their peers)
- The cash box and the key are held by different members and this reduces the potential for collusion

The mode of dissemination is through repeated practice at meetings. The promoter helps the group run through the steps involved in every meeting and normally the groups start managing their meetings after the first 8 training meetings. Also the groups know from the first meeting itself that they are expected to manage their own meetings very soon. Helping set the right expectation goes a long way in creating an autonomous and well-functioning group.

Thanks,

Vinod Parmeshwar

Community Finance Manager

Oxfam America

**Post by: Hugh Allen**

Srinivasan,

At the end of a given cycle the assets of the VSLA are liquidated and physically present in cash. Shares are counted up and the sum divided into the cash on hand. This determines the value of a share, automatically inclusive of net earnings, without the need to write a P&L. If a member wants to cash out part way through a cycle, this can be done using a

similar principle, although normally cashing out prior to maturity allows a member access only to the purchase value of the shares that they hold – similar to

the penalty on a CD, but allowing the full nominal value to be reimbursed.

Hugh

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## **EXTERNAL SUPPORT TO ENSURE DEPOSIT MOBILIZATION**

**Post by: Hugh Allen**

Dear Raj,

The VSL movement in Africa is based almost entirely on the principal objective of creating autonomous community-based and community-managed microfinance institutions (let's be real – no more than 30 members each and preferably less). In order to achieve this objective most CMMFIs are nothing more than time-bound ASCAS that use excruciatingly simple record-keeping systems that are based on passbooks and do not maintain centralized written records, except for closing fund balances. The transparency of the system, in which witness largely displaces written transaction record-keeping and the use of three-lock-boxes ensures the safety and transparency of the system. RoI's usually approach 40% p.a and loan losses are usually less than 1%. The system is simple because it is not predicated on the expectation of being linked to a bank or MFI and is not therefore burdened with record-keeping requirements that are imposed to satisfy the information needs of an external entity. Not being weighed down with this presumption is quite liberating. In Africa there are some 1-1.5 million people doing this through donor promoted programmes (and a whole lot more through traditional systems) and external support, if it is there at all, is over in less than 15 months. Ideally 12. But external support is needed to get things moving until a critical mass is established and fee-for-service community-based facilitators take over. CLP in Bangladesh is using this model in the northwest and is expanding at a very rapid pace

**Post by: Jeffrey Ashe**

Dear Raj and Hugh:

Hugh is right on target. I just returned today from a visit to group in the Kati region of Mali. The group uses an oral record keeping system that Oxfam has developed and the women each paid one to five shares per week with a commitment to save at that rate for the entire year depending on their economic capacity. The oral system can do everything the passbook system can except accept savings payments that vary week to week. Largely illiterate women from the groups are trained to train new groups guides by a "pictographic manual" (developed by Oxfam/Freedom from Hunger) that guides each step in the group development process. In the two regions in Mali using the most refined version of the methodology 50% and 60% of the groups respectively are trained by village "replicating agents" after six months of operations. Groups (if they so choose are linked into associations organized like ROSCAs (tontines) with each group making in the association contributing \$12.50 (5,000 CFA) each month and one group taking the entire amount by lot to add to their loan fund. Since the model is "absurdly simple" and totally transparent there is no possibility of elite capture of the fund. The 100 "animators" from the five NGO partner organizations in Mali in this joint Oxfam/FfH venture are serving groups with more than 90,000 members - a staff client ratio of 1/900. Local costs in Mali with its dispersed rural population total \$15 per group member.

Oxfam/FfH expects to ramp up SfC in Mali to 346,000 group members within three years with a recently received Gates grant.

I hope this provides some food for thought,

Jeffrey Ashe

Director of Community Finance

Oxfam America

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## **DAY 2: DEPOSITS VS LINES OF CREDIT FOR ON-LENDING BY MFIS**

**Post by: Mary Miller**

A major disappointment for me over the years has been the failure of MFIs that could mobilize deposits to actively do so - it seems that the easier path is to look to donors and social investment funds for lines of credit for on-lending. Since MFIs are largely donor-created entities, targeting service to the poor, shouldn't they be taking the tougher path of developing savings services, so that they are better serving target populations? On the other hand, developing savings services is a major task, is expensive to initiate, and may take a long time to recoup costs - is this more immediately sustainable approach to funding lending understandable? I would be particularly interested to hear from anyone who has worked with an MFI that has been making a choice.

Regards,

Mary

Mary M. Miller

DAI Bethesda, Maryland USA

**Post by: Kwaku Berchie**

Dear Mary:

There are 3 MFIs in Ghana (Savings and Loans Companies) who commenced businesses without depending on donor funds. I think if an MFI gets donations to run its business, the donor must set up rules and regulations, and even time lines to achieve certain targets. If these targets are not met, then the donors must issue out penalties.

One issue I have realized with some donor funded MFIs and their customers is that they all think and believe the credit being extended is from the government (at least in Ghana). Even some people think money from S&Ls and banks are from the government and therefore, could be "free".

If an MFI has a target to meet or beat, the officers would not allow the portfolio to be contaminated. Once the portfolio performs well, the MFI would not have to depend on donors forever.

Another important issue that is usually overlooked by many MFIs is teaching customers to save. I know of an MFI in Ghana that uses good savings habit as a bait to get credit.

While this may not be a foolproof remedy against default, it really helps to educate the poor about the importance of savings.

**Post by: Bettrand Eshun**

Hi Kwaku,

Could you please name the three MFIs you talked about, am thinking they should be more than 3.

**Post by: Kwaku Berchie**

The 3 that I have are:

First Allied Savings and Loans Limited

Garden City S&L

Pacific S&L

But of course there are:

Pro Credit

First National

Women's World Banking Ghana

Opportunity International

**Post by: Mary Miller**

Kwaku,

Looks like the MFIs in Ghana can take savings, and I assume intermediate the funds. How are they regulated?

I think you make an interesting point about using savings as bait to get credit. With the banks that I work with that are going down-market or trying to, I encourage them to first look to their own deposit customers - maintaining a deposit account for a period of time is an excellent reference on money management habits. As other parts of this discussion have pointed out, there is a role for both savings and credit for most people, both for long term investment and smoothing periodic cash flows. I would think that most lenders should look at offering (or responding positively if asked) credit to savers who have maintained accounts with them for a period of time - already have a well-documented cash flow history.

Regards,

Mary

Mary M. Miller

DAI Bethesda, Maryland USA

**Post by: Kwaku Berchie**

Mary:

The MFIs that I mentioned are the rural banks and the S&Ls. There are some MFIs that are not allowed to receive deposits. Those are the ones that operate on donor funding.

**Post by: Jenny Brink**

Mary,

I'm jumping into this thread a bit late... topics are changing rather quickly!

I wanted to address several posts yesterday about the moral perils of offering primarily (or only) credit services to the poor, as well as the question you've posed here as to whether it's actually viable for institutions to provide credit without donor subsidies. In part because of the high risks loans can pose for a person living in poverty, World Council of Credit Unions has long promoted the use of savings as a vehicle for members to get out of poverty. At the same time, our research primarily in Latin America has proven that mobilizing savings also makes business sense for credit unions. A 2002 study of the costs of savings mobilization conducted by David Richardson and Oswaldo Oliva found that member savings is the most cost effective source of finance. Using detailed cost information from credit unions in Bolivia, Ecuador, Guatemala and Nicaragua, they determined that the total costs of mobilizing savings from members was

considerably less expensive than borrowing from the banking sector for the credit unions in all four countries. Our subsequent work in Africa, Asia and other Latin American countries has reaffirmed this concept. Not only is member savings the least expensive source of funding for the institution, it also is the most flexible and dependable source of financing. You can find tools and resources in savings mobilization on WOCCU's Web site: [www.woccu.org/savings](http://www.woccu.org/savings).

Regards,

Jenny Brink

World Council of Credit Unions

**Post by: Narasimhan Srinivasan**

Dear all,

It has been a long day (and night in India ). Before I sign off for the day, I would like to point out two areas that need more discussion and views. First is the regulation or the lack of it inhibiting savings both from suppliers and savers. What alternative supervision/regulation measures are possible? Are there examples other the ELMI referred to by Sanjay Bhargav and the German audit federations?

Second is that of deposit insurance: Are mainline insurers offering such a product or is it the preserve of the deposit insurance/guarantee corporations? How to provide effective cover of deposit insurance to MFIs and others? What is needed to influence the deposit insurers and governments to make this happen.

Looking forward to exciting discussions tomorrow.

Best regards,

N.Srinivasan

**Post by: Mary Miller**

Dear All,

Deposit insurance, provided by the government (but largely funded through premiums charged to the banks, hence ultimately the customers) is prevalent in strong economies as a secondary line of defense to depositors. In many countries the primary deposit-takers are government-owned banks or agencies (savings banks, postal savings schemes), implicitly providing a guarantee because the government is providing the savings service. Are there any initiatives for MFIs to provide some level of deposit insurance privately, or in tandem with a government or donor?

Regards,

Mary M. Miller

DAI Bethesda, Maryland USA

**Post by: Narasimhan Srinivasan**

Dear Mary,

Vietnam is in the process of rolling out its new law for MFIs. The MFIs that would be licensed under the law to mobilise savings would be eligible for coverage for deposit insurance by the Vietnam Deposit Insurance company - just as in the case of banks.

Regards,

N.Srinivasan

**Post by: Gert van Maanen**

Dear Narasimhan,

Deposit insurance is in general a mutual insurance in which all banks(have to ) take part and take their share of the loss pro rata to their savings and deposits portfolio. In some cases the National Bank takes also part of the losses.

No insurance company would want to do it, because the risk could occur when the public perceives a major bank to be in trouble such as Midland Bank more than 10 years ago, or Northern Rock this year.

Gert

**Post by: Sanjay Bhargava**

Please take the comments below with two pinches of salt. Apologies for the long message.

Some of you have been thinking about these for years so I am a bit of a layman. Sometimes a lay persons comments can be useful.

I am also neutral as my company Eko will serve any service provider who operates legally whether it is a scheduled bank, cooperative bank, regional rural bank, MFI, Post Bank, Credit Union or licensed money lender.

The cost of scaling a deposit programme in an MFI could be considerable. Besides capital and reserves, what about the cost of vaults, security, tellers, fraud etc. when you are handling cash. The other problem that you have to deal with is an asset /liability liquidity mismatch. What if there is a run on the MFI where most depositors want to withdraw. Deposit insurance could mitigate this but in my opinion insurance from someone else than the government brings the risk that the insurer will go bust. When all these costs are factored in I am not so sure that having MFI's accept scalable public deposits is such a good idea.

If MFI's get rated and the risk capital required under Basel –II goes down and wholesale loans to MFI's can help banks to meet their social obligations then MFI's could get loans from banks which maybe lower cost than public deposits( when all costs are factored in). MFI's could also issue debentures if they were rated and or securitize loans. My sense is that public deposits is a slippery slope for MFI's.

On post banks lending I think DNA of an organization is important as already mentioned so in my opinion in most cases that may not be such a good idea.

With collectors susu or otherwise the cost of compensating collectors and managing fraud is high. The Postman at least in India is another story. They deliver mail and money orders. Could they do more as part of a shared infrastructure.

The other way of getting deep distribution which I am very enthused about is the business correspondent where if it is possible that even a small retailer who has a mobile phone and is recharged by a distributor can accept deposits then a poor person can walk to the retailer which should be lower cost than doorstep service. The retailer can also handle withdrawals.

MFI's do need savings accounts for customers so that collection and disbursements become lower cost. That need can be met if banks can provide this service at scale and at low cost or better still free.

Rgds

Sanjay

# DAY THREE: DELIVERING SAVINGS SERVICES IN DIFFICULT AREAS

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## SAVINGS IN DIFFICULT AREAS – WHAT'S DIFFERENT?

**Post by: Madhurantika Moulick**

Dear All,

We are on the last day of the virtual conference. Welcome to those you have signed in last night and thanks again to those who have been active with us since we started on 8th July.

When I had put up Savings Options in Difficult Areas as the topics for the day, I had probably only remote areas or inaccessible areas in mind. Probably I was biased by the research I completed last month in the North Eastern region of India where significant part of the sample was from the hilly terrain.

However different geographies (and not essentially only remote areas) come with their typical features which may be challenging. So would be enriching to learn from participants on the challenges of delivering savings services in areas prone to natural disasters like floods in Bangladesh, post conflict environments in Afghanistan, remote areas of Ethiopia, hilly terrains of Nepal, or the dense slums in Indian metros.

On the first day we agreed that designing effective products is all about understanding client needs. So can we begin the discussion with what is different about working in distinct geographies? And is it all about risks, or there are some opportunities too, which motivate them to start operations in those areas.

Thanks

Madhurantika.

(Don't forget to check out on some of the fresh publications on the topic in the [resource section!](#))

**Post by: Getaneh Gobezie**

Dear moderator and Colleagues,

Saving services in remote areas is really a challenge -- traveling long distance to reach your client, in areas which are not accessible by vehicles or motorbikes, building trust with locals, avoiding risks of traveling with 'live' cash where the security system may not be strong, and doing it frequently in-order not to miss whatever small money is generated by poor clients there, especially women, etc, etc is hard indeed. You need to recruit staff from with-in the area who can be trusted by local people, physically strong to do long travels,.... Much have been attained in saving mobilization so far.

The most recent introduction is the 'Piggy-Bank' (we call this 'Muday-Bank' -- a name from local women saving devise at home). This is a box to be sold to poor clients at a price, which they would keep at home, locked, with a small hole where they can put whatever income they generate at 'any' time. It has two keys, one of which would be held by the client and the other by MFI staff, so opening the box would only be possible at MFI office.

Two very clear advantages: 1) the client do not have to make 'frequent' travel, long distances to MFI office to save a very small amount, and 2) the client can do 'any amount' (however very small cents...) which they couldn't comming to

offices. This is indeed attracting huge interest from clients where we did the pilot, especially from women. Next step is spreading it widely to reach virtually every potential saver in difficult and isolated geographies, and who really 'need' this service.

I believe others have similar experiences, and look forward to hear.

Getaneh Gobezie

Amhara Credit & Saving Institution

ETHIOPIA

**Post by: Hugh Allen**

Dear Getaneh,

A similar approach is used by the Banque Populaire de Developpement in Rwanda.

Hugh

**Post by: Anup Singh**

Dear Friends,

One of the ways people save up in dense slums such as the ones in Delhi or Bombay is that they pay to the contractors (called mahajans) to save their money for the specific period of time. Mostly these slum dwellers are migrants from various geographies and they need to pool up money so that they can take it with them when they go back to their native places.

Recently while traveling in a train, I came across a teenager selling mouth fresheners, cigarettes and other knick knacks deposited his daylong savings with a particular Railway Police Official. I was intrigued to find out what exactly was going on. I enquired the teenager regarding this and he told me that he has an agreement with the policeman that he would save for a month with him and in turn will supply cigarettes free of cost. Further probe revealed that some of the miscreants always robbed him of his hard earned penny at the day end, so as a solution to this problem was that he along with the policeman devised this mechanism. However he had no answer when I posed a hypothetical situation that what if this policeman is transferred to another location. Also I enquired about the quantum of savings he did with this person, which was around Rs. 120 a day on average. He also told me that around 7-8 such vendors save with this policeman. So this ensured a regular supply of vegetables, milk products, eatables etc for the policeman.

Coming back to the slums, during one of our market research for urban slums of Delhi, we came to know about an institution that operates as Nidhi and collects daily deposits from the slum dwellers. The cost of collection is very low as the institution staff double act as collection agents and are given a commission. As this Nidhi had a proper office, staff who were trusted by the slum dwellers and the funds were secured, it was a preferred service provider.

Best Regards,

Anup Singh

Financial Systems Officer

MicroSave India

**Post by: Lalita Rao**

Dear Madhu,

Good you clarified that remote areas is not just rural areas. It includes all unreached areas (?).

I would like to respond to your comment on working in dense slums , whether "there are some opportunities too, which motivate them to start operations in those areas".

I am currently working with an MFI which has over 1 lakh customers, in urban areas, the clientele is only women living in the slums.

These women are very hardworking [work as housemaids, cooks, garment factory labour, security services in hospitals, or other offices, etc.], and have to work hard to support not only themselves and their children, but their husbands, who (more often than not), are not working at anything more than 'rotating' her money in cards, alcohol, or at least, tea shops!

These women aspire for a better life, and are good savers , once they are shown the benefits of having a nest egg [and, I may add, keeping the hard earned money safe from the attack of 'rodents'].

Hence , the opportunity to the MFIs who work with them is huge in terms of getting customers for their savings and also, loan products.

BUT,

1. accessibility to the residences in the slums is very difficult in the serpentine paths .
2. these women would be available only after the day's work, which entails late working hours for the MFI staff, who are mainly women, and the aspect of security of the staff is paramount.
3. collection of money after banking hours, and carrying it through the slums, from door to door, is hazardous [insurance does not cover this, stating 'you have taken unnecessary risk'].
4. Again, security of the money thus collected, becomes an issue if the staff decides to embezzle some of it. Reconciling the money actually collected, with the money deposited in the bank is a huge task with no reliable data. The customer says she has paid, while the staff may deny it, or might have already left the MFI for greener pastures.

With warm regards,

S. Lalita Rao

**Post by: Bhaskar Lakshakar**

Dear all,

Difficult areas include difficult terrain (geography) as well as the difficult social set up where savings service provider does not feel comfortable enough to offer services. This happens mainly because the service provider not able to think beyond the traditional ways of service.

This excludes several segments of population out of financial services' universe. The reasons can be different ranging from sparse population and difficult terrain to poor infrastructure and law and order. While discussing the difficult areas the focus should not exclusively remain on the geographically difficult but also the socially (?) difficult regions the turbulent regions.

In central India Bundelkhand and Eastern Rajasthan regions there is a significant population belonging to the communities known as de-notified communities (perceived as criminal communities like Paradhi and Bediya). Even state machinery is least concerned to run welfare schemes, leave the financial inclusion etc.

In such areas how to offer savings is really a difficult question. These are neither sparsely populated like north eastern Indian state of Arunachal Pradesh (12 per sq km) nor located in hills. Still due to social negligence these segments are left.

Bhaskar

MicroSave

**Post by: Bhaskar Lakshakar**

In a typical urban slum, where people from distant places have settled (partially or permanently), people lack a cohesive bonding and hence the mutual trust is missing, therefore informal mechanisms which are evident in rural areas are also missing here. Such situation advocates the need of savings services in these areas more emphatically.

In some of the market researches conducted in the urban areas in India, I observed that following factors act as deterrents for savings:

- a. Problem of legal/technical documents for identity or residential proof most of the service provider whether they are banks or MFI, need some kind of documental proof for identity and residence which these people are generally not able to produce. It happens because their residences are on illegal land/encroached land and also as they do not have political clout to get the documents issued. However most of these people have been dwelling for as long as two or three decades.
- b. Most of the people are migrants and they keep on visiting their home villages on different occasions for long periods. In case of Delhi where most of the migrant population is from Bihar and rural Uttar Pradesh regions, people are still associated with their agricultural land and therefore in agricultural season they come back, cultivate the crops and leave in lean season.
- c. The income is highly affected by seasonality as the poor people are engaged in micro enterprises and hence they do not have a fixed income making the
- d. Since many fly-by-night operators have cheated the people thereby trust on the service providers is very low and now people in general are apprehensive to deposit with private financial institutions.
- e. High cost of living and money transferred to native place for various purposes makes the excess amount available for savings thinner.
- f. As the micro-business opportunities are more in metropolitan cities, so the tendency to invest rather than save is more prominent among the people. Though this tendency is in rural areas also but there majority of people are dependent on agriculture or related activities (which do not require that frequent working capital replenishment or investment) while in urban slums people have to invest in small shops, roadside vending etc. making savings less attractive.

Due to focus of MFIs on rural areas so far urban slums are neglected and most of us do not know much about the financial behaviour pattern of urban areas, making the product design task more challenging. However there is a need to incorporate two major aspects of irregularity (migration) as well as uncertainty (seasonality) in income makes the design of savings product more challenging.

Best,

Bhaskar

MicroSave

**Post by: Arunkumar Padmanabhan**

Hi Bhaskar,

While you are correct that there may be relatively less cohesion in urban areas due to migration, we have seen that in the Mumbai context in many slum communities its quite the opposite! in a recent survey conducted by us in many slums in Mumbai we saw that 90% of the people reported living in the same area for more than 10 years and over 80% reported living in the same household for that time. these are the slums where informal savings mechanisms like chit funds are widely prevalent. other places where people have moved in relatively recently reported fewer informal mechanisms. for instance there are hundreds of "slum buildings" here where people from various slums throughout the city have been relocated. in these areas the people have moved in relatively recently and have not yet formed informal savings associations.

Two points are worth noting in the context of urban poor and documentation for account opening: one is that in old slum areas in Mumbai almost every household has electricity delivered through reliance energy. hence they can at least produce an elec bill as address proof. they also tend to have ration cards and voter id cards. hence KYC docs may not be a serious deterrent in account opening. likewise, in many of the new "slum buildings" people have address proof and id proof because they typically own the apartment allotted to them. despite this, the penetration of savings products through banks is quite low--reported at 40% in our survey, which is quite low, given that people have adequate documentation and that banks are all accessible. people also reported keeping high amounts of cash at home and also using the informal savings mechanisms frequently, despite having bank accounts.

I believe the real issue here is the reluctance of banks to provide a no frills/ no charge account with zero balance requirement. servicing to this segment by banks is also an issue. banks also do not give ATMs for the no frills accounts. all this makes the process of going to a bank each time deposit or withdrawal is required quite cumbersome. hence i believe BC channel with ATMs would be a good short term solution to increase savings habit amongst urban poor. the BC channel can also address the issue of lack of documentation in many households and thereby take savings products to households that lack requisite documentation.

Best,

Arun

Arunkumar Padmanabhan

**Post by: Arunkumar Padmanabhan**

I can speak from the perspective of the market we are looking at, i.e., slums in Mumbai. From a savings business perspective, working in slums in Mumbai presents some challenges. People in Mumbai slums have lost a lot of money to semi formal institutions and are very suspicious about new entities that offer savings services. The savings mechanism followed most frequently by women that i have seen are chit funds. Women contribute to the chit fund on a monthly basis. Loans are made to the highest bidder or to members who are in grave need like during medical emergencies. On studying this process further, it was actually less of a savings mechanism and more of an insurance mechanism whereby the women were trying to keep a reserve pool ready to fund their emergencies. There was a huge confidence level amongst the groups that the monies borrowed by the bidders would definitely be returned with interest. The rate charged varied from 2% to 5% per month for members and sometimes even higher rates for non members.

So safekeeping and insurance appeared to be greater reasons for people to seek out savings mechanisms, rather than interest rates.

The experience of business correspondent originated bank accounts has been very good in Mumbai. Banks like the Union Bank of India have opened thousands of accounts through this model by taking limited KYC documentation and I believe are seeing good average balance build up.

One potential issue that banks may face in offering no frills savings accounts to customers in urban slums is that there is a high likelihood of increase in footfall at their branches since in urban areas branches of banks are reasonably accessible. This greatly increases their servicing costs and also, in their view, may tend to keep away the HNIs from the branches. This can be mitigated by giving ATM cards that would have universal access. Urban poor will not face major challenges in using ATMs and can be trained for this more easily than rural poor. The recent RBI regulation stipulating that there should be no cost to customers for ATM usage of any bank from March 2009 is a step in the right direction. So in my view the best way for banks to increase financial inclusion in urban slums is to hire services of business correspondents to originate customers with relaxed KYC norms and to give the customers an ATM card that would have free universal access and thereby get them to open zero balance/ zero charge savings and fixed deposit accounts. The customers can access ATMs for withdrawals and use the BC channel/ bank branches/ ATMs for deposits. I believe that the average balances that would be maintained in this offering by the urban poor would be quite significant within a year of the offering. This is because this offering addresses the safety concerns and at the same time provides the customers with ready access to their money whenever required since in Mumbai every train station has an ATM and generally also the ATM network is quite good. There may be some service issues, like handling lost ATM cards etc. that need to be addressed. But overall this would go a long way in improving financial access and savings habit for urban poor.

best,

arun

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Arunkumar

Svasti Foundation, Mumbai

**Post by: Hugh Allen**

Dear Madhurantika,

The Chars Livelihood Project in north west Bangladesh promotes VSLAs amongst the Chars dwellers along the river. The programme has been highly successful and, according to Mark Staehle, will reach 35,000 participants after 2 years in operation. VSLAs in Jamalpur have completed their second cycle and shared out an average of 45,000 Taka (\$600). The first cycle shareouts were in the 15-20,000 (\$233) range. The target group are those who are mostly not served by local MFIs owing to the costs of outreach. The unique feature of this area is the fact that it's flooded and the population dispersed for 3 months of the year.

Hugh

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## **CENTRAL AMERICAN LESSONS FROM PROMIFIN - POST ON BEHALF OF HARRY NDAMBALA**

**Post by: Juan Vega**

Hi everyone,

Some experiences from Central America, since PROMIFIN a program funded by the Swiss Agency for Development and Cooperation we have worked during the last 5 years with more than 70 financial institutions in three countries that deliver financial services for low income populations (1 million clients).

What we have seen is that is not only about the institutional alternative to outreach difficult areas and populations, but also HOW the alternative is developed and how the institutional culture works.

Strong Institutional pro-poor Vision & committed Board & Management enables factors like the capacity of creating a culture that at the same time listens to the clients and generates an adaptable technology that emphasizes in the efficiency, discipline and the quality of financial services.

The opening to alliances with local proactive actors and the permanent follow up to the process, assuring the opportune feedback to the human resources based on clients opinions are critical subjects for the success of any model.

Juan Vega

**Post by: Ruth Odera**

Research work done on savings habits in some remote areas of northern Kenya among the Turkana people. indicate that culture influences savings in some remote areas. Northern Kenya is a difficult area experiencing floods or drought alternatively and with very limited infrastructural facilities - roads, hospitals, electricity, financial institutions etc. Generally, the Turkana keep several heads (hundreds or thousands) of cattle - camels, cows, goats, sheep as a form of savings/wealth. A rich Turkana lives in the rural area with his cattle and would rather see the animal die than sell it, even in an event of drought or flood - because the number of animal one has signifies wealth and status in the community. Programmes by relief organizations in this region that aims buy cattle at times of drought (for reselling in urban areas) to enable them save cash have failed miserably. Few financial institutions in this region is patronized by immigrant traders or those in government institutions but rarely the indigenous Turkana. It is only a poor Turkana who has lost his/her animals through flood or banditry who lives in town and saves little amounts of money in a box or at home or hidden under their clothing.

Ruth Odera

**Post by: George Muruka**

Dear Ruth,

And so how best can we serve this poor Turkana who has lost his/her animals through flood or banditry, living in a shanty town in the Northern frontier and saves little amounts of money in a box or at home or hidden under their clothing walking daily with the money on self? Lodwar being several kms away!

George

Financial Services Consultant

MicroSave, Kenya

**Post by: Hugh Allen**

Ruth,

You might be interested to know that CARE Niger has successfully pioneered the use of ASCAs amongst the Touareg in the Sahel. It's based on a system of agreed meeting points and dates as camel herders move from place to place and meet at periodic markets, with one of the camels carrying the cash box.

While the Touareg don't want to sell their camels, they are active traders and artisans as well, so, where there is a use for cash and people are part of the trading economy, there is certainly room for financial services. But I don't think they are ready yet for smart cards.

Hugh

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## QUESTIONS ABOUT SAVINGS SERVICES IN TANZANIA

**Post by: Anna Van der Heijden**

From Harry Ndambala:

Tanzania is still a cash economy and her physical and financial structures are not well developed. However, the Govt is trying its level best to put in place a national payment system that has so far marked the introduction of new products mainly in urban areas. Majority of Tanzanians depend on agriculture in rural areas where MFIs that could have provided the savings services are still not there. In addition, the income that is realized by most of rural people is very small and seasonal.

In a situation like this what measures should be taken on board to increase the number of savers and savings volume?

Harry Ndambala

### **Day 3: Savings in remote areas, difficult terrain, irregular income**

**Post by: Hugh Allen**

Today's topic covers the challenges faced in trying to mobilise savings in difficult areas, such as remote rural areas, in difficult terrain and amongst clients with irregular income.

I'd like to kick off by making some general statements not only about the physical location of potential clients, but also the much less considered match of client type to service provider and what this means in terms of institutional design/provision and how, I believe, service providers need to think differently.

It is becoming evident that MFIs are ideally structured to reach the poorer of the entrepreneurial classes whose principal interest is likely to be access to quite substantial capital in order to expand a full-time economic activity. But MFIs are finding it hard to operate profitably in markets where the costs of doing so are higher, while serving clients whose needs for debt finance are (wisely) constrained. This is particularly true in Africa.

The very poor and those who live in remote rural areas are not usually engaged in full-time economic activity and, for the most part, have needs for useful lump sums that revolve around the household rather than the enterprise economy. The amounts they deal with, and need, are also quite small and may be satisfied by smaller institutions that deal in smaller amounts of money, mobilised by a smaller pool of depositors and where (through risk aversion) savings products are more highly valued than credit or insurance (although both have their place).

Does this then call for different types of institutions? Or is the solution technological. Or it is a mixture of the two

Both approaches deserve serious consideration. Cell-phone technology is showing real promise in terms of cash transfers and, soon, one assumes, deposit services available on a widespread scale. But for those who can't afford a cell phone and charger (and even for those who can) community-managed institutions (SHGs, VSLAs/Saving for Change groups) have proven their capacity to survive and generate significant profit for their member-owners, retaining both capital and profits

The question, then, is to ask if these, and other approaches, offer scope for broader applicability and how they are evolving in the light of our collective experience.

**Post by: Jacob Mahunda**

Dear all,

In simple Economics definition - Savings means extra income after satisfying the basic needs. In reality in remote areas in most developing countries the sources of income are seasonal and normally during harvesting season. So in between during sowing and harvesting seasons there are no savings at all. Imagine under those circumstances whether it is formal or informal institutions, what money will you mobilize?

Another hindrances experienced in rural remote areas are infrastructures. In most areas have no electricity power. A very few people that afford to purchase Solar Power. The roads itself are not passable over all seasons. Under such environments, savings is a nightmare.

Under such settings even advancement in technology could not solve the challenges savings mobilization in rural areas.

Technology in rural remote areas has solved the problem of funds remittances not savings. I have a case from my home village which before I was not aware! My mother at the village, one time was very broke. She suggesting to me to sent certain value of Mobile Phone Voucher. What they do is that upon receiving the vouchers, they discount to the Voucher Sellers. In my case the discounting rate is 10%.

**Post by: Eric Nelson**

Jacob,

I have been fascinated by the telephone transfers, but this is the first I have heard about a fee as large as 10% for monetizing. I wonder if this is insufficient competition within the village or rather a norm that is being established. Does someone from the Philippines, Kenya or South Africa, where telephone banking is most established, have evidence from rural areas on the size of the fee?

Eric

**Post by: Dr. Geetha Nagarajan**

I am posting this on behalf of Jerry Grossman, my colleague at IRIS center, Univ. of Maryland.

Eric,

In response to your question about fees for mobile phone transfers:

Philippines: 1) GCash charges a fee as low as PHP 10 per PHP 1,000 (1%) to convert GCash to cash. Loading GCash to your account costs as little as PHP 10 (approx. USD 0.22). 2) Smart charges PHP 2.50 (approx. USD 0.06) for a wallet-to-wallet transaction from one Smart Money customer to another.

Kenya: M-PESA charges KSH 30 (approx. USD 0.46) for remittances of up to KSH 2,500 (approx. USD 38.38), which would be as low as 1.2%.

South Africa: WIZZIT charges approx. USD 0.13 - 0.66 per transaction, depending upon the transaction.

Sincerely,

Jerry

Jeremiah Grossman, Program Specialist | IRIS Center at the University of Maryland, Dep't of Economics

**Post by: Motaz El Tabaa**

Dear Eric,

This is Motaz from Egypt, I asked the operator in Philippines about the cost , I was surprised it is \$0.02 for transaction including sms cost.

Thank you,

Motaz

**Post by: Hugh Allen**

Dear all,

So far on this thread there seems to be a 'no objection consensus' concerning the idea that together with the application of technology, different institutional approaches, based on the evolution of traditional models will have a role to play for the foreseeable future in promoting savings-based financial service to marginalised and remote populations. Having said this it is probably useful to note that these systems are also applicable in urban areas as well, with some reduction in group sizes and tighter cash security.

My questions, then are:

1. To what extent and how are these systems likely to evolve? There is considerable experience in India in terms of creating SHG federations and apexes. In Africa the experience has, for the most part been negative, involving complexity, cost and reduced transparency. How has India succeeded in making this work (or has it?)
2. What are proven approaches to creating relationships between formal sector financial institutions and community-based groups? What criteria should apply to crafting these relationships? Should the relationship start out being deposit-based rather than debt-based? What are prudent ratios of external debt to group equity? When should this occur? How do you prevent over-lending? How do you ensure that external borrowers don't simply impose their methodology on groups? Is consumer education important? Are loan guarantee deposits needed at all?

Hugh

**Post by: Brett Matthews**

Your questions are highly relevant and I will do my best to comment. First on India (I am slowly coming up to speed here) success is anything but assured. Amartya Sen in his book *The Argumentative Indian* describes the phenomenon of 'friendly fire'. Inequality is being perpetuated, in his view, by "institutional devices that are intended to be among the remedial features ..." against it. He cites many examples in India, but surely there are few as compelling as the insistence on the part of many NGOs and politicians here on viewing SHGs and their federations as primarily a distribution channel for a variety of government and donor social benefits. And the bank linkage program is really the final nail in the coffin of any potentially viable institutions owned and controlled by poor people for their own benefit. Was nothing learned from the failure of rural credit cooperatives here? Must we keep repeating the same mistakes?

On the second series of questions you ask, the key principle is that poor people themselves must be in the drivers' seat -- it must be their money and they must be in a position to decide what to do with it. External credit (in the kinds of doses routine in the developing world) is the crack cocaine of microcredit -- as addictive to donors as it is destructive to the inherent right of poor people to own and control viable institutions (a form of collective property) by themselves. WOCCU's PEARLS ratios call for external credit to be a maximum of 5% of total assets (which seems reasonable). Must we keep repeating the same mistakes?

In terms of evolution, if we can shake off our addiction to meddling and shift more to a relationship based on mutual respect that would be an excellent first step. Beyond that we need to develop new tools that poor people can really use to govern their own institutions effectively.

Brett Matthews

MicroSave

**Post by: Brett Matthews**

Dear Hugh:

You are probably quite aware of the history of 'elite capture' that has plagued credit unions, village banks, SHGs and other community-based organizations for the past century every time they have become externally leveraged.

If these organizations, which generally lend in the range of 10% a month, can systematically access external loans from banks at vastly lower rates at a level of 3X internal savings, what's to stop them becoming simply another delivery channel for the village moneylender? Or do you consider that important?

Brett Matthews

**Post by: Peter van Dijk**

Brett,

All informal MF bodies, meaning without formal prudential regulation and supervision, that operate in an area and with clients representing risks (no support of public services, no education, lack of healthy environment, instability, insecure income), costs, lack of alternatives, underdeveloped infrastructure, and so on, they depend on their own capacities and their own control.

The strength of capacities and controls are absolutely necessary to ensure safety of the money they depend on for day-to-day survival. Now, you can imagine that when such groups will accept external funds for on-lending, the capacities, controls, and continued focus, will weaken. Maybe Hugh can explain about such incidences or about the CVECA in Pays Dogon (Mali, West Africa) where every "self-respectable donor" wanted to give capital to these SHGs, where savings went down, thus cash for the members from the members, leading to b,c,c,d -zzzzz

BTW leveraging capacities of many MFIs is an important problem, deciding on best sources of funds i t best interest of the MFI, their clients, and t future.

Peter

**Post by: Hugh Allen**

Peter,

You have put your finger on a key issue when you ask..... "Maybe Hugh can explain about such incidences or about the CVECA in Pays Dogon (Mali, West Africa) where every "self-respectable donor" wanted to give capital to these SHGs, where savings went down, thus cash for the members from the members, leading to b,c,c,d -z"

I am personally very skeptical of the value of external lending to community-managed groups, despite the popularity of the practice in India (where conditions are unique and results mixed). I wish I could ban it!! Rosenberg's CGAP focus note No. 36 of May 2006 concluded, after studying 60 community-based programmes, that..... "When loans are financed by an early injection of external funds from donors of governments, CMLF projects appear to fail so consistently that this model of microfinance support is never a

prudent gamble". He's not at all equivocal about this conclusion. He then went on to say "CMLFs are often successful when loans are financed by members' own savings, and there is either no external funding, or such funding arrives in modest amounts after the group has a solid track record of lending and recovering its own savings" - those are two

extremely important caveats that are usually ignored by the proponents of inclusion. He then goes on to compare programmes that inject external funds at an early stage and reports an average repayment rate of 63%, while savings-based CMLFs achieve an average of 98.7%.

The fundamental point is that people are much more serious about repayment (and borrowing in the first place) when money comes from their neighbours. Donors are entranced by the idea of pouring money into community-based groups that have shown some self-reliance by saving on their own and, as often as not, kill them by lending too soon and in excessive amounts. In Niger, where I visited recently I came across more than 30 groups that had been running their ACSAs just fine for 10 years and managing about \$1,500 each. Along came a gaggle of MFIs, no doubt driven by the donor mantra to become sustainable (quickly), who lent to these groups (sometimes 3 MFIs at the same time), which promptly went bankrupt, and ended up with debt, civil prosecution, humiliation and recrimination. Overall, some 60% of CARE's groups in the western part of Niger used to borrow from banks and now only 15% do, because the terms are so rigid and the penalties unacceptable. That's why I am so nervous about this whole idea of bank linkage. It's not whether or not it should be done (I don't think it's a bad idea), but how. And until then, let's not underestimate the capacity of such groups to generate their own capital, manage it and make a tidy profit. It's not rinky-dink or irrelevant: it's transforming and there is a body of evaluations emerging that prove it.

Hugh

**Post by: Peter van Dijk**

Hugh,

Experience seems very clear.

Together with the fact that CMLF/VSLA's comprise of people with little or no knowledge of these effects and dynamics, some of whom even illiterate, how come still experts defend experimentation by organisations (foreign financiers) that should know better (or say that they do)?

As I said, small member-based organisations can for many reasons not be effectively be accompanied by local regulators/supervisors, and maybe that should not be the ideal case. But the world-wide known, decades long discussed results of realities, "best practices for donors, for funding" and what not, could lead to more force, donors/funders being integrated in local systems that hold them responsible for failures (not deposit insurance for poor people, starting MFIs in narrow shallow financial systems that can increase risk of "moral hazard"). But CGAP, WB, UN and all the national aid organisations don't want to discuss that option. They know that it's wrong and think writing about the positive will make the wrong go away gradually. Wrong. Money management for the benefit of the poor's better money management will only become better when intentional mistakes or gross ignorance in such money management will be "felt badly" by the organisations (and managers) responsible for such MF projects.

Peter

**Post by: Jeffrey Ashe**

Peter and Hugh:

I am glad that the list serve is still functioning although I don't know how many are on line. A few points:

\*Self-help groups should not be regulated. The risk to members is slight if the groups are well trained (loan repayment is 99% plus and only a handful of groups have failed in Mali.). The methodology insures good performance. Regulation is not practical. In Saving for Change alone there are already 4,300 groups in place in Mali with this number slated to increase to close to 16,000 in the next three years. Many of these groups are 20 to 30 kilometers from a main road.

Registering and supervising this vast network of 20 member "nano credit unions" is an impossible task and any kind of registration would be an impossible burden for the women members who are largely illiterate and who keep records orally. There are few groups with no written records.

\* When these groups federate into associations it is in the form of a ROSCA with each group making an equal contribution and one to four groups (depending on the size of the association) drawing all (or a share) of the collection each month. The associations become forum for discussion among groups. The ROSCA structure assures transparency and avoids elite capture or complex record keeping while developing social capital. Some of these associations are registered to qualify for government services.

\* I share Hugh's skepticism of linking groups to external sources of credit. (As discussed by Hugh and Paul Rippey and others in this list serve.) Typically only two or three in a group need a larger loan and when the group takes out an external loan the savings all the group members is at risk. If group members need a larger loan they can take out a loan from an MFI as individuals.

\* Linking to an external source also decreases the incentive to save internally. One group I saw yesterday was managing \$1,400 through the oral record keeping system without difficulty (I know the Zanzibar groups were managing more much more money but they were older groups. Consider that in this group only four were members of tontines and none had taken out a loan from an MFI.) These is substantial evidence that groups will mobilize enough to meet their own needs in two or three years with good training and increasing the amount they save. Why pay an MFI if the interest income goes back to the group.

Jeff Ashe

Director of Community Finance

Oxfam America

**Post by: Richard Meyer**

Sorry for joining the group late. In previous postings, has anyone provided quantitative evidence derived from robust studies of the cost of mobilizing savings under various circumstances compared to the approach of borrowing from other sources, or seeking grants, or as in Compartamos charging very high interest rates so lending can be expanded from high profits? In spite of all the value that savers may receive from savings services, mobilizing savings is a cost and needs to be evaluated for institutions that have alternatives.

I noted that David referred to finding and serving net savers who can furnish surplus funds for others who have good borrowing alternatives. What institutions in which locations in rural areas serve what kind of clients that generate those net savings to finance others who have good investment alternatives, or is the vision of many of us that we view savings as simply a method of passing around tiny bits of money in a ROSCA or VSL in a stagnant rural economic environment?

Dick

**Post by: Harish Chotani**

Dear All,

MF services in remote areas is quite a challenge because by the very fact of remoteness, the infrastructure development and also the productive economic opportunities are at lowest level. Indeed these communities are often not on the radar of policy makers, investors and those service providers who do care for financial sustainability.

However, there are many terrains that are remote because of natural geo. When we look at microfinance service in Afghanistan, I observed a number of fact over there:

1. The terrain is difficult
  2. War ravaged country with hardly any infrastructure and economic opportunities are at the most minimal
  3. People are starved of funds and those who had their money in the bank, even in Afghan Development Bank have lost all or most because the records are lost, money value is gone down, currency also changed
  4. Where women often remain in the "Parda" veil or at times even closed door and their men counter part do represent especially when men from MF are present.
  5. Significant land is still under the siege of land mines that limits the mobility for all. In addition tremendous risks to the lives still prevail which is restricting the outreach and scale.
  5. But, MFIs with great support from MISFA (World Bank & Consortium of Development agencies initiative) have been able to get financial and technical support to reach out to people.
  6. The country has got an excellent "Hawala" systems where remittances are done on efficient and faultless basis over the mobile phone for a reasonable price. Many MFIs do transfer their money to the branches through them as the bank branches are still significantly scarce. You may read more on Hawala over the net.
  6. Costs are high in certain areas and if an MFI has got the mode of opening an Area Office (equivalent to a small branch) with catchment of 3 km radius near to the road, the portfolio is healthy. However, if one goes to Badakshan terrain, where the communities are sparsely spread, communication including roads are difficult, the off take of credit is tough and very seasonal. Trade does prevail as people do need regular consumable items.
  7. If the two or more MFIs are striving to get some market share in the same zone, there are evidences of over trading (multiple credit) to the same client.
  8. The strategy I can think for difficult terrain is to work on a thin office structure, have the office located at key geo locations (near market/Haat) as the people do tend to live in small to medium clusters and there are common market places for purchases. Friday (Jumma) is good MF services when Islamic communities when after the prayer they come to buy goods. There are also potential to locate services near to the religious places as people do visit them regularly.
- Secondly, the age old mechanism of pricing is to service the difficult zones preferably at profit, if not, then at break even, even if not, then at some marginal loss as they is always % of good will in the business. Indeed, even in difficult terrain, there are medium clusters where major business is possible.
9. There is always a post office where people do go for some service.

As the terrain is difficult, win win is difficult too, but the lives of people, safety nets to remain protected from marginalization and MFIs identity is to service such people with a mixed bag strategy.

Thank you,

Harish Chotani

Stay Connected (MLO)

**Post by: Prakash LB**

While we seem to be excited about the possibilities of mobile savings, one aspect which could increase the savings is charging the client for offering the savings facility. In all probability, even mobile companies will do the same - charge some amount for transactions - deposit and withdrawal - in addition to transfer.

When people (including the regulators) become comfortable and accept with the concept of paying for using the savings service (resulting in a reduction in savings), probably savings services become more popular. Of course the attributes of safety, confidentiality, ..... are to exist.

Regarding SHGs and Cooperatives, while they have had enormous impact on the empowerment of women, somehow the savings amount has either stagnated or reduced (and in some cases even stopped). In most SHGs, the accounting principle of adjusting the amount to fines, penal interest (if any), interest, loan principal in that order and only if there is a balance considered as savings.

In the initial stages of an SHG, savings assumes importance because the bank linkage loan is based on the group corpus which consists predominantly of savings. As the bank linkage loan cycles increase, due to the interest difference and the savings remaining stagnant, the corpus becomes

predominantly of the accumulated surplus - thereby reducing the significance of savings in the eyes of members. In some cases, it has been observed that members either have withdrawn savings or show savings as given out as loans, but these loans rarely get repaid!

If the bank linkage loans also consider the savings as a separate indicator and not just group corpus, there can be an increased interest on savings among members.

LB Prakash

**Post by: Hugh Allen**

Dear Prakash,

What you have to say about external loans from banks reducing the willingness to save is of real concern. We propose to deal with this in African programmes by developing an industry code of practice that limits debt/equity ratios to levels (preferably never more than 2:1 and starting out at 1:2) such that savings remain an essential part total assets. By limiting also the value of loans to no more than 3 times the amount saved, the same incentives remain. But this is a fragile situation because it

depends on MFI and bank willingness to accept the principle and then conform. With donor pressure for MFIs to achieve scale and field officers rewarded by portfolio volume it is hard to fight against this tendency. Independent VSLAs that are not linked to banks (and especially those that liquidate annually) exhibit consistent upward trends in savings, over many years.

Hugh

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## **DAY 3: OVERVIEW**

**Post by: Dr. Hans Dieter Seibel**

Hi, everyone:

Together with Hugh Allen I am supposed to be a facilitator from the middle time zone. Following the debate I am impressed by its self-propelled dynamics and depth. So I am not quite sure about the role of a facilitator. But I won't

miss this opportunity of presenting to you in subsequent emails a few institutional alternatives, with outreach to marginal or difficult areas and populations, “institutional” in my terminology encompassing the informal, semi-formal and formal:

- (1) Informal institutions
- (2) Upgrading informal to semi-formal institutions
- (3) Upgrading informal to formal institutions
- (4) Linking formal and informal institutions
- (5) Downgrading formal institutions

I am sure you will add other models.

Hans Dieter Seibel

**Post by: Gert van Maanen**

Dear Hans Dieter,

Thanks for your helpful outline showing the migration path from informal to formal Am I correct that the informal institutions you start with are - say - the susu's/rosca's etc ? If so, what is then (an example of) a semi-formal institution?

I think we agree that credit unions, MFI's etc. are in most cases formal institutions. Nevertheless their focus and their position in the financial landscape is different from the major players. Isn't then a more relevant criterion whether their core business is to serve people in the informal or in the formal economy, or whether they are regulated or not (yet)?

Very best wishes

Gert van Maanen

**Post by: Prof. Dr. Hans Dieter Seibel**

Dear Gert van Maanen:

Here are the definitions you asked for:

Formal financial institutions fall under the banking law and are regulated and supervised by the financial authorities of a country. In Indonesia for example, this covers two types of banks: general banks (bank umum), including commercial and development banks, and rural banks or people's credit banks (Bank Perkreditan Rakyat, BPR), insurance companies, non-bank financial institutions (NBFIs). The microbanking units of BRI are formal (I would call them formal MFIs).

Semi-formal financial institutions are registered and recognized as institutions with financial functions, but do not fall the authority of a regulator and supervisor. In Indonesia, savings and credit cooperatives (USP, KSP, Credit Unions) and what is mostly referred to as MFIs in this online discussion are semiformal.

Informal financial institutions are not registered and not officially regulated and supervised. However, they may (or may not) fall under what in West Africa is called native law and custom, or traditional law, and social pressure. This includes SHGs, Roscas (susu, arisan) and Ascra in so far they have not evolved into semi-formal or formal Fis (as some dhikuti in Nepal did).

Hans Dieter Seibel

**Post by: Peter van Dijk**

Just to add a small legal remark.

A credit union, VSLA, SHG, Village Bank, S&L or financial cooperative are only such as coops when they are registered under their appropriate legally recognised term with the respective authority, that is as a Cooperative Society. In several countries I worked in the legal term of Cooperative Society was recognised and included in banking and MF laws, but there is no registering authority or process. Can you imagine??

Secondly, if such coop authorities exists with a registering process, often such authorities do not have the means to make sure the registered entities operate as coops (training, report collection, monitoring, analysis, effective supervision, etc.).

That means that in such countries the term CU, or whatever term referring to cooperative principles is an empty shell and obviously endangers the MFIs created on such legal term from day one.

These weakness may explain some failures of financial coops in the world, resulting in millions of poor members having lost their savings, or for their governments (and central banks) to take the blame and reimburse (some level) to savers, thus poor governments becoming poorer.

Peter

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## INFORMAL FINANCIAL INSTITUTIONS

**Post by: Prof. Dr. Hans Dieter Seibel**

In 1967-68 I surveyed traditional organizations in all 17 ethnic groups of rural Liberia. There was virtually no village, not even in the remotest area, where such organizations were absent. In terms of ownership they were either owned by their members or by the community. In terms of activity there were two main types: those focusing on savings and credit in cash or kind (particularly livestock); and those focusing on labor. Both, the member- and community-based savings and credit organizations, were of the ASCRA type, as Fritz Bouman later called them: accumulating and equity-based, not rotating. At the year's end the fund was usually distributed among the members. Interest rates on cash loans were mostly 10% per month. ROSCAs existed only in Monrovia, where people had regular incomes.

Elsewhere the original informal financial institutions (as they were called later) were ROSCAs (tontines). There seems to be a tendency for the ROSCAs to evolve into ASCRAs, eg, in Nigeria and Cameroon.

In several West-African countries I found that the cultural origins were rotating work groups; they accumulate a scarce good (labor) and allocate it to one member at a time (or to the community). *Le travail, c'est notre argent*, as a farmer put it in Cote de Ivoire. Transitional types and the transformation of rotating work groups into rotating savings and credit groups is still ongoing.

Is all this a thing of the past? The esusu in Nigeria existed in the 16th century, when the institution and the term were carried to the Caribbean, as part of the institutional luggage (or social capital) of the slaves. From there they are now being carried to the North-American cities.

You are all aware that today, 40 years after these studies, such organizations are even more prevalent than before, because there is more money around. Bank staff organize Roscas and Ascra among themselves (as many of my former colleagues at Bank Indonesia, the central bank, did).

There were always two schools of thought: those suggesting to leave them alone, and those, like Tara Nair this morning in our discussion, who suggested strengthening the traditional savings system along the lines proposed by Dietrich Westermann around 1903 in Togo (published in 1934).

My basic question is: Is there still time for a modern financial system, with outreach to remote areas and marginal people, to be built on indigenous foundations?

A corollary: Should informal financial institutions be carried into areas where such traditions are largely absent (eg, many parts of East Africa)?

Hans Dieter Seibel

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**Post by: Hugh Allen**

Hans,

Your last two sentences really caught my attention. One of the issues that I have with standard models of microfinance is that increasingly they seek to emulate the very formal sector counterparts whose performance in reaching the poor was so dismal. The origins of the MF revolution were based on blending together what the informal sector (ROSCAs, ASCAs, Moneylenders etc) taught us about the characteristics of attractive service, with what the banks could teach about scale, organisation systems and security. These lessons seem to have receded. Increasingly the solutions to rural outreach seem to be driven by the mantra "give us money and time and, together with technology, we'll get there in the end." There needs to be, I think, a balance restored between what indigenous systems have to offer, which are often remarkable. After all, if I'm in a village and I can get a 40% return on my savings in an ASCA compared to -2% from a bank, I am inclined to look favourably on the former. Not to mention crucial cost, access and transparency advantages..

Asking whether or not these systems should be transferred to places where they are not already known is an easy question to answer. The explosive growth of ASCA programmes in Ethiopia, Kenya, Tanzania, Mozambique, Zimbabwe (yes!), Uganda, Rwanda, promoted mainly by INGOs, attests to the feasibility of the approach. After all, it may well be that the wheel was invented in Mesopotamia 7 millennia ago, but once the idea was known it spread quite quickly.

**Post by: Brett Matthews**

Dr. Siebel:

In answer to your first question -- is there still time to build a modern financial system on an informal foundation? -- the answer is clearly yes. As you are doubtless aware, the credit union movement in rural Europe in the 19th century was built on these informal foundations. While credit unions in Europe and America have gradually lost their position as banks have acknowledged the value of serving credit union members, the result of that movement is a modern banking system in both regions that exhibits greater outreach in terms of both geography and income levels.

The point is that while banks will move down-market over time, this is a historical process. In spite of the remarks of some about how profitable it is to bank with the poor, market signals are not exactly rushing the average mainstream

banker to the rural areas at the bottom of the pyramid. But the process can be accelerated by less formal intermediaries that pave the way in advance by proving their clients are bankable.

Brett Matthews

MicroSave

**Post by: Peter van Dijk**

Brett,

You very rightly mention the word "process".

What makes "gradually but surely building inclusive financial sectors" a process? And are there processes to speak of in the countries with mass poverty challenges, with failing governments, with atomised MF services providers?

Working on a national process and building in tools to ensure that the process is implemented as such over time is the key. Putting MF (after a national MF strategy was written by a -foreign- consultant in a nationwide consultative process, e.g. 5 regional seminars and a national seminar) under the responsibility of the Head of Unit Social Affairs in the Labour department for instance is certainly not such a tool or will definitely not result in a process.

Peter

**Post by: Hugh Allen**

Dear Brett,

I agree entirely with your proposition except for one detail that's relevant to the MF industry. Banks now serve credit union customers not so much because they realised that it was profitable, but because it became profitable to bank them. I suggest that this was because, over time, the poor became the not so poor (indeed, downright prosperous) and the amounts of money that they were able to put on deposit and reliably borrow was sufficient for the banks to turn a profit: it was not so much because they found smart ways of reaching lower down, except perhaps marginally. I am not an expert in this area, but Dr. Siebel undoubtedly is and perhaps he can respond?

Hugh

**Post by: Narasimhan Srinivasan**

Dear Hugh, Brett,

The microfinance space is occupied by institutions that found fault with the banking systems' approach towards the poor. The lack of empathy, unfriendly products, high client transaction costs and unwillingness to reach out to remote and sparsely populated areas were held against banks. As Prof Siebel points out every such remote area has its own informal system. The credo of MFIs is that they would try and build around such informal systems. But the growth of MFIs, when critically analysed, is no different from that of banks. The MFIs too seem to grow into areas where there is good business potential (nothing wrong with that) and where the transaction costs of MFI would be low. But the products are inflexible for the most part and very severely limited. How does that compare with the banks which were criticised for precisely the same set of issues?

The community based approaches such as cooperatives, VSLAs, SHGs, and other group based methods seem better placed to meet the financial services needs; but these are not glamorous models. In the continuum of informal to most formal, as and when the commercial and business potential of clients improve, the for-profit organisations whether MFIs or banks try to take them away. The bottom of the pyramid would continue to be served by the informal and at best

the semi formal mechanisms. How to make these more efficient (assuming that these are not all efficient) is an important issue for examination.

Best regards

N.Srinivasan

**Post by: Andrea Dannenberg**

Hugh,

Your post about banks moving in to serve credit union customers peaked my interest. You suggested that maybe the banks are moving into these markets because it's now profitable to serve these customers. Is this the case or is it simply that the banks won't serve the lower income market segments because conventional wisdom tells them that serving the poor cannot and will not be profitable for them? If/When MFIs and credit unions show they can make a go of it in these rural and peri-urban areas serving poorer customers, the banks take notice. Is it really an issue of profitability or an issue of perception or conventional practice?

We've had a lot of success helping credit unions profitably expand their membership in rural and semi-rural areas. The credit unions were already serving markets in similar areas but for one reason or another had not expanded outreach to these communities. With additional tools and technical assistance, they find that serving these new markets can in fact be sustainable.

It takes commitment, desire, tools and techniques to expand outreach. I wonder how often it's a lack of the first two (commitment and desire) that prevents financial institutions from serving potential markets, especially when they may be less profitable than the ones currently being served.

Andrea Dannenberg

Program Specialist Project Development

World Council of Credit Unions

**Post by: Prof. Dr. Hans Dieter Seibel**

Hugh:

Did banks realize it was profitable to serve credit union customers?

That may be so, but the predominant experience in continental Europe has been that the savings and credit associations of the 19th century turned into cooperatives and eventually into banks (eg, Rabobank in the NL). In Germany, together with the savings funds (Sparkassen, caisses d'épargne, caja) which started to take off before and 1800, they came under the banking law in 1934, which at the time turned 15,000 village based credit cooperatives and up to 1000 Sparkassen into regulated and supervised banks. A good number of these were in remote and marginal areas (including Urmitz, my home village, with less than 1000 inhabitants at the time). What has been the result? In Germany savings and cooperative banks, ie, the former microfinance institutions which are not so micro anymore) have an outreach to 90% of the population and account for around 50% of all banking assets. That percentage has been going down recently with the influx of international banks.

A legal framework for small local financial institutions matters – far more than capital transfer from the rich to the poor!

Hans Dieter Seibel

**Post by: Brett Matthews**

Dear All:

Since we do seem to be on this track, I would like the views of all who care to answer on the role of time limitation in the evolution of informal financial systems.

We know that Hugh and others are making some progress with time-limited ASCA models. We know that time-limitation, in its role as action audit, matters tremendously to viable control. But after that's there a big question. I hear some people saying that these time limited models are simply a kind of 'Christmas club' -- helpful perhaps but by no means decisive for development. And that that is the best, realistically, that we can expect from them. I hear others saying they could form a foundation for a historical evolution into a more inclusive financial system.

In short, is there a 'limitation' to time limitation, and if so, when we can expect to see it?

Brett Matthews

MicroSave

**Post by: Chris Linder**

I thought this [article](#) from today's BBC website was very a propos...

Chris Linder

Indian beggar gets bank account

By Subir Bhaumik

BBC News, Calcutta

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## **UPGRADING INFORMAL TO SEMI-FORMAL FINANCIAL INSTITUTIONS**

**Post by: Prof. Dr. Hans Dieter Seibel**

There are numerous cases of upgrading informal financial institutions to semiformal institutions, or mainstreaming (see WP 2001-6 below). Here I want to present the case of the SFCLs in Nepal, which made the transition from government- and donor-financed credit delivery channels to autonomous local financial intermediaries in remote areas.

Transforming an unsustainable credit program into viable semiformal financial institutions (some with a limited banking license)

In 1975 the Agricultural Development Bank of Nepal (ADBN) started building up its Small Farmer Development Project (SFDP), a subsidized credit program targeted at the poor. With assistance from IFAD, as the first major donor until 1992, farmers were organized into some 25 000 small groups (end-1998 data). With repayment rates of 39-54% since 1980 and a savings ratio consistently below 1%, plus high transaction costs, the program was unsustainable and the growth of outreach to poor farmers remained restricted. However, the credit line to ADBN enabled poor farmers, including women, to build up a group structure, comprising a three-tier system of SHGs, inter-groups and committees comprising several intergroups, serviced by a sub-project office (SPO). The program extended into the hills and remote areas, including the Far West. In the more liberal policy environment of the 1990s and with assistance from a bilateral donor, the German Agency for Technical Cooperation (GTZ), ADBN responded to farmer initiatives. The groups under each subproject office are being transformed into autonomous self-managed Small Farmer Cooperatives Ltd. (SFCLs), which mobilize savings and cover their own costs. The initial results were spectacular: the repayment rate of channeled funds doubled; internal resource mobilization progressed rapidly; and the repayment rate of loans from internal resources was almost 100%. By the end of 1998, 73 SFCLs had been established, comprising 6 083 small groups. Some

groups received a limited banking license, which allows them to further increase their outreach. The program suffered from the conflict, but has continued to grow (see references below).

The principal lesson: Through user-ownership and vigorous savings mobilization, unsustainable credit programs using program-initiated SHGs as delivery channels can be transformed into networks of viable local financial intermediaries. More evidence, and qualifiers, would be welcome.

Hans Dieter Seibel

References:

H. D. Seibel, [Mainstreaming informal financial institutions](#). Working Paper, 2001-6

The [case of the SFCL](#) has been extensively documented by GTZ-RUFIN in several papers.

**Post by: Namrata Sharma**

Dear all,

As I had mentioned yesterday too, transformation of Small Farmers Development Programme (SFDPs) to Small Farmer's Cooperative Limited (SFCLs) is indeed an exemplary case. To add to Prof. Seibel's comments on ".user-ownership and vigorous savings mobilization, unsustainable credit programs using program-initiated SHGs as delivery channels can be transformed into networks of viable local financial intermediaries." Here, I would like to add that Nepal has a lot of experience where the government has initiated programmes like SFDP, Productive Credit for Rural Women (PCRW) and Micro credit Project for Women (MCPW). Therefore thousands of Savings and Credit Organisation (SCOs) the equivalent of SHGs here were created through these initiatives. Most of these initiatives were commenced under the government's poverty alleviation program with donors support mainly from ADB and IFAD. As project phases ended the groups were left just like that. In case of SFDP with IFAD and GTZ support a sustainable approach was established as SFCLs. In MCPW the ADB was behind the central bank to establish an Apex institution which gives wholesale lending to MFIs – the rural Micro credit Development Centre (RMDC). As an outcome of this very bilateral project Nepal now has an Act - the Financial Intermediary Act which allows MFIs to register as Financial intermediaries known as FINGOs. Many NGOs who were promoting SCOs under MCPW have registered as FINGOs.

Therefore, various SCOs/SHGs who are created for a purpose undergo different phases and at times metaphorphism. Some land up turning into viable institutions like SFCLs or FINGOs while others still serve the population where they exist. There are many SACCOs in rural remote hills of Nepal who have been started by the community themselves who are existing for years and serving without registering but serving the purpose they decided to exist for.

Namrata Sharma

MicroSave, India.

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## **UPGRADING INFORMAL TO FORMAL FINANCIAL INSTITUTIONS**

**Post by: Prof. Dr. Hans Dieter Seibel**

India has been receiving a lot of attention with its MFIs and its SHG banking. Some participants in this discussion have also referred to the chits (ROSCAs); but on the whole chits are “the forgotten half”, if not two-thirds of microfinance in India. India is one of the few countries where Roscas, as indigenous informal financial institutions, have been offered a legal framework integrating them into the formal financial sector. Here is some information that might inspire some of you to work towards a legal framework, which of course remains optional for a long time to come, as no one can force an informal group to become formal, unless it is to its advantage.

Chits (chit funds, chitty, kuri or cowry) are widespread institutions of ancient origin in India; but the time of their origin is unknown. A number of people join together and regularly contribute equal amounts, allocated to one member at a time; a cycle ends when each participant had his turn. Conventionally allocation is either by lot, demonstrated need or in an agreed-upon sequence. Alternatively, as business opportunities increase, the allocation may be by auction to the lowest bidder, the balance being returned to the members. As chits grew and fraudulent pyramid schemes came up, the regulator stepped in. Starting with the Travancore Chit Act of 1945, they eventually came under the federal Chit Funds Act in 1982, regulating minimum capital, ceilings on aggregate chit amounts, and procedures of dispute settlement. This has greatly contributed to the growth of licensed chits. Yet large numbers of smaller, unregulated chits have remained, particularly in southern India.

Could anyone refer to studies of the historical origins of chits and of the prevalence of licensed and unlicensed chits in India? I presume this would show that licensed chits prevail in urban areas; while marginal people and areas are only reached by small informal chits. But there might be interesting exceptions.

To my knowledge no effort has been made by NGOs, GOs and Nabard to include informal chits as local self-help groups in SHG banking, which is surprising given the large number of SHGs (more than four million) under this umbrella. Or have I missed something?

Perhaps we are also interested in learning more about other countries that have provided a legal framework for Roscas and similar institutions and whether this has facilitated outreach to marginal areas and people. E.g, South Korea has built its highly successful cooperative system on the indigenous kye, which have continued to exist side by side. But this is not the same as providing a legal framework for kye.

Hans Dieter Seibel

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## LINKING FORMAL AND INFORMAL FINANCE, SAVINGS AND CREDITS

**Post by: Prof. Dr. Hans Dieter Seibel**

SHG Banking in India is the best-known, largest and most dynamic program of linking formal and informal finance, linking banks and self-help groups, or linkage banking. The pilot project in India, which was started by Nabard in 1992, was preceded by a pilot project in Indonesia under the umbrella of the central bank and paralleled by pilot projects in the Philippines (Landbank), Thailand (BAAC) and, on a smaller scale, several African countries. With support from GTZ, APRACA and AFRACA, regional associations of agricultural banks, played a coordinating role.

Prakash LB, in his posting at 10:08 a.m. today, challenges the usually positive rating SHG banking in India has received. He talks about “the myth of the people getting linked to banks. Most of the time, bank accounts are opened, and that’s it!” Detailed information by Nabard has just come out – see references below. Here is a summary:

After centuries of highly exploitative rural credit, India developed during the post-independence period one of the most diversified rural financial infrastructures. Yet, despite a massive network of commercial, regional and cooperative banks, the All-India Debt and Investment Survey in 1981 found that some 250 million rural poor had no access to financial services. Searching for innovative solutions, Nabard, carved out of RBI in 1982, encountered new moves simultaneously by NGOs like Myrada at national and

Apraca with GTZ at regional level. This inspired Nabard to start a pilot project in 1992, promoting SHGs as savings-based financial intermediaries to be linked to an existing bank infrastructure for refinancing. The Reserve Bank of India, as the regulator, played an important part, issuing a Circular Letter authorizing banks to open savings accounts for informal groups and lend to them as groups. Encouraged by the results and backed by the joint political will of the Union

Government and RBI, Nabard began mainstreaming SHG banking in 1996, setting up a Credit and Financial Services Fund for program dissemination and capacity-building and, in 1998, a Micro Credit Innovations Department (MCID), with MCI cells in every state. This prepared the ground for an extraordinary surge in the number of SHGs credit-linked to banks, from 33,000 in 1999 to 2.9 million as of 31 March 2007, with more than 40 million members, covering a population of some 200 million (cumulative data). Bank loans outstanding to SHGs amounted to Rs123.7bn (US\$2.8bn).

The SHG approach promoted by Nabard is based on internal capital formation of SHGs as the basis of institutional self-reliance and growth. The main sources of internal funds are regular savings and profits from a rather large interest rate margin. Most of the savings are recycled as loans to members; but a portion is kept in banks or PACS. By 2007 a total of 4.2m SHGs, covering 58m poor households, were maintaining savings accounts with banks, with a total savings balance of Rs35.1bn (US\$0.8bn), equivalent to 28% of bank loans to SHGs outstanding. There are no consolidated data on the internal savings of SHGs; but they exceed savings deposited in banks by a wide margin.

Does SHG banking reach remote areas and the very poor? Much remains to be done in terms of expanding into remote and marginal areas, particularly in the north. Here is a piece of information gained from [Apmas](#), about SHGs of Dalits, the lowest caste: SHG banking in Andhra Pradesh includes 6,000 SHGs of Dalit, with a total membership of 90,000.

There is plenty of room for expansion, within India and without. In the framework of South-South cooperation, Indian NGOs, with their rich experience, may have a crucial role to play in adapting the model to other parts of India and other countries.

Finally, a word on the role public banks have played in SHG banking in India: As of 31 March 2007, public commercial banks accounted for 66.5% of bank loans outstanding to SHGs, private commercial banks for 4.3%, Regional Rural Banks for 22.7%, and cooperative banks (which are public institutions in India) for 6.5%. Nabard, the promoter and financier, is a national public institution.

Hans Dieter Seibel

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Post by: George Muruka

Dear All,

Congratulations Madhu and the facilitators for the good work coordinating this conference. Thanks to all participants, this was very educative.

As my last posting, news from Kenya ([www.nationmedia.com](http://www.nationmedia.com)) indicates that FAULU Kenya (an MFI) has just signed an Agency Contract with Postal corporation of Kenya (Posta) to use its branch network to deliver services. "Customers of faulu Kenya can now access and repay their loans through 330 PCK outlets across the country at no cost. They will

receive and send the money in real time through PCK's electronic funds transfer, Postapay" While it is not clear yet how Faulu will leverage this to encourage savings, but the Postmaster General's comments are informative that their could more inflows (repayments and savings) than outflows (loans), Post Master General said "the partnership, which was launched on a pilot basis a few months ago, has since seen the corporation disburse Kshs 129.3 million (about US\$ 2 million) in loans and collect repayments to the tunes of Kshs 267.8 million (about US\$ 4.1 million). This is a demonstration that the partnership is making an impact in the lives of many Kenyans who are just a post office away from accessing loans from Faulu".

So, these partnerships can work and enhance effective financial services delivery to outlier communities. Lets see how this will go and which other services can be added to the channel.

It was my pleasure to meet you in this conference. Until next time, bye.

Kind Regards,

George

MicroSave, Kenya

Post by: Harish Chotani

Dear All,

I have been all the time propagating that for mutual effectiveness of all the service providers and for financial deepening besides balancing the social and financial intermediation, the linkages with specialized agencies is must.

I recall making lots of efforts after conceptualizing a model for Orissa, state in India. Madhu was part of this effort. The key hindrance was that each institution wanted to have its own identity by controlling the case loan and doing everything from one window. Specialisation is critical along with effectiveness of supply and value chain.

So, I am wonder, if formal financial institutions or even within the ambit of large MFI, could out source (it is a global topic and huge for America and Europe). Businesses do become strategic and economically viable with linkages/outsourcing.

I have already seen cannibalization of MF clients in particular geo zone between the smaller and larger MFIs (some of us may consider this healthy competition, but unfortunately, I do not see that as the pricing of products and services is not too distinct (differentiation).

So, in conclusion, we need to encourage linkages between formal and informal financial institutions, we need to mature on value chain and supply chain to be effective and look for linkages even within informal sector and also linkage for the non financial products and services. I do recall some experienced person telling me for non financial intermediation, the 16 or 18 points written on the passbook are like dictionary where the owner of the passbook can refer to it on her own!!! Well, I believe that it needs some clarity in thinking.

Linkages are to be thought through more and more

Harish Chotani

Stay Connected (MLO)

**Post by: Kimberley Wilson**

Dear Dieter -

And here is an innovation that links formal supply to local custom. In FMBL own words.

"The First MicroFinanceBank Limited would like to share its experiences with you on the Contractual Saving Product, based on the model of ROSCAs that we developed for our target clientele. The Bachat Committees, as they are referred to in Pakistan, have poor people saving a predetermined amounts in groups for a predetermined time period. Each month, there is a draw and 1-2 persons get the lump sum amount. Based on this, the Bank developed a contractual saving product, which is marketed to the same target market.

Under the product, poor people save a predetermined amount on monthly basis in a group, for a predetermined period. We are currently offering savings of Rs, 100, 300, 500 and 1,000 on monthly basis for 1,2,3,and 4 years. The group members all have their independent saving account linked to a checking account. Amount is deposited into the checking account and automatically credited to the saving account. Generally, withdrawals from the saving account are discouraged, yet it is allowed. The withdrawal terminates the contract and automatically transfers the amount saved back to the checking account.

The group size can be from 3-35 members. Everyone saves the same amount in a group. There is a market-based return on each amount saved accrued on daily product basis, but paid only on maturity. The product is linked with a insurance; in case of death of the client during the saving period, the insurance chips in the unsaved balance of the contracted amount.

The product was launched this year, and by June 30, we have 1,639 clients who have saved Pkr 2.974 MM."

Kim Wilson

Tufts University

Post by: Prakash LB

Dear Prof. Seibel,

I was not referring to the SHGs opening bank accounts and not transacting. In fact where SHGs open bank accounts, almost all of these accounts are active and transactions do happen regularly - as members deposit their savings and loan repayments, and withdraw amounts as and when needed.

I mentioned " Added to that, the concept of financial inclusion will add to the myth of the people getting linked to banks. Most of the time, bank accounts are opened, and that's it!" I financial inclusion, it is the individual who gets to open the bank account in his/her name, and I was referring to this - not the SHGs. Apologies if I had miscommunicated.

LB Prakash

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## **THE ROLE OF PUBLIC BANKS IN MICROFINANCE: THE CASE OF THE BRI MICROBANKING UNITS**

**Post by: Dr. Hans Dieter Seibel**

Public banks have found little attention in this discussion as providers of microsavings and micro credit services. An increasing number of (former) agricultural development banks have moved into savings mobilization, portfolio diversification and microfinance. In many countries they are by far the largest providers of financial services to the rural population, small farmers and microentrepreneurs. In Asia many have remained public institutions; but some have been fully (Khan Bank, Mongolia), others partially privatized (BRI, Indonesia), without mission drift. BAAC in Thailand is the third flagship in Asia that needs to be mentioned. In Africa many have been closed, many in Latin America have been privatized.

Hopefully as an inspiration I am presenting below some recent data on the microbanking units of Bank Rakyat Indonesia, which cover all of Indonesia, including the outer islands. In 1983/84 they were transformed from channels of subsidized credit into self-reliant financial intermediaries. Without the units, BRI might not have survived the financial crisis of 1997/98.

Savings: making the units self-reliant and donor funding superfluous

There have been three major sources of funds of the BRI units: (i) an injection of Rp 210 billion (\$200m) of seed capital in 1984 by the government as start-up liquidity for loans and initial administrative costs, which had been fully used by 1986, when the units started turning a profit; (ii) a World Bank loan of \$102 million, \$5 million of which was provided in 1987 for technical assistance and \$97 million in 1989 for on lending; (iii) savings deposits, mobilized through attractive products and remunerated at positive real returns.

Simpedes, voluntary savings withdrawable at any time with a lottery component, proved to be BRI's most attractive savings product, outperforming time deposits and other savings products by a wide margin. Piloting had started in November 1984, national implementation in 1986. During 1989, the units broke even in terms of resource mobilization; by December 1989, they had generated excess liquidity of US\$ 63 million. Ever since, BRI's unit desa network has been completely self-reliant (mobilizing its own resources) and viable (covering its costs and making a profit). Disbursement of the World Bank loan in 1989 came thus at a time when BRI had outgrown the actual need for it; and the funds were used by the branches. The number of savings accounts has increased continually since 1984, with the biggest strides made at the height of the Asian financial crisis, 1998-99. During the three-month peak crisis months alone in 1998, the units with their deposit guarantees attracted 1.3 million new savings accounts. As of 2005, the BRI units served 32 million savings accounts at a loan-to-savings-account ratio of roughly 1:10. In 2006 and 2007 BRI closed dormant accounts, reducing the total number to 21 million as of 2007. Savings balances crossed the \$1 billion mark in 1991 and the \$2 billion mark in 1993, fell briefly below that mark in 1997, exceeded \$3.5 billion in 2003 and reached \$5.65 billion in 2007, averaging \$266 per account. BRI's self-reliance in terms of fund mobilization and profitability has created the material base for its autonomy and freedom from political interference which had so severely afflicted the rest of the banking system.

Performance of the units

Within eighteen months after its reform, the unit system had broken even in terms of profitability. From 1984 to 1986, the share of profitable units increased from 14% to 72%. Since then, the units have become a model case in Asia of the transformation of an ailing directed credit program into a viable and self-sufficient financial intermediary, like a subsidiary within a bank, with ever-increasing financial resources and numbers of customers, competing successfully with a wide array of other local financial institutions. Further strength was added to BRI's microfinance operations during the Asian financial crisis. When the Indonesian banking system collapsed, BRI's microbanking division remained profitable. Return on assets hardly budged, declining from 5.7% in 1996 to 4.7% in 1997, but, at the height of the crisis, recovering to 4.9% in 1998 and 6.1% in 1999. The BRI microfinance operations are the prime component of BRI's survival after 1998 and BRI's success as the most profitable bank of Indonesia in 2007

The reformed units are now into their 25th year, comprising 4,228 units and 117 village services posts, totaling 4,345 outlets. On average each outlet holds 4,886 deposit accounts (about 7,400 before the cleaning of accounts) and 809 credit accounts. The average loan portfolio per outlet is \$0.80 million; deposit balances amount to \$1.30 million. Growth of outreach of the units is unabated; on average 225,000 loans were disbursed every month by the units in 2007, a steady increase from 196,200 in 2003. 37.7% of borrowers and 49.1% of loan portfolio are outside of Java.

The new multiple incentive system for staff, depositors and borrowers has made the BRI units the world's largest and most successful commercial microfinance network, with a predominantly rural outlook. As of December 2007, the BRI microbanking business segment had a portfolio of 3.5 million loan accounts and \$3.46 billion in loans outstanding, and 21.2 million deposit accounts (down from 32.25 million in 2005, after cleaning dormant accounts) and \$5.65 billion in deposit balances; excess liquidity amounted to \$2.19bn. With a return on assets of 9.4% in 2007, the BRI units are highly profitable, more than any other business segment of BRI, and a major contributor to BRI's profitability.

The challenge of success: how to recycle savings at village level

The units' success in savings mobilization has created a new challenge: recycling the savings within the village economy off. Since 1989, the units have produced excess liquidity, which the units are required to place with the BRI branch system. Since 1993 excess liquidity has been consistently above US\$1bn in all but one year. During the crisis year 1998 and the following year, excess liquidity was \$1.43bn and \$1.56bn, respectively – at a time when banks ran out of loanable funds and donors rushed in to provide fresh credit lines. In 2007 excess liquidity amounted to \$2.19 billion. Over the last ten years, the units have succeeded in lowering their savings-to-loans ratio from 344% in 1998 (mobilizing 3.4 times more savings than loans outstanding) to 163%-171% between 2004 and 2007. With its individual lending technology and no special outreach mechanism to villages beyond the subdistrict towns and their vicinity, the BRI units have not been able to recycle the savings mobilized locally, despite an unmet demand for credit (presumably by about 50 % of the rural population). Should the units leave the remoter villages with their savings potential and their demand for smaller loans to smaller financial institutions? Or has the time come to develop more inclusive outreach strategies? Theory has it that “taking the bank to the people” increases overall efficiency, as the reduction in borrower and saver transaction costs is larger than the corresponding increase in the costs of the bank. BRI is taking steps in that direction, but not through its units, focusing instead on a new strategy: linking BRI and MFIs.

Hans Dieter Seibel

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## SAVINGS AND THE LOTTERY

**Post by: Kimberley Wilson**

Oxfam has reported that in Mali, village savings and lending groups have come together and started their own lottery where several groups - ROSCA style - each come up with an additional amount to what they are already saving. Each time or round, one group 'wins' and takes home the pot, a way to beef up the group fund. Eventually, every group 'wins' the lottery.

I ask for more examples because recently while in Haiti, I noted lotteries on every block and dozens even in the most rural, difficult to reach crossroads. There must be a creative way to tap people's keen interest in playing the lottery while helping them save (as in SIMPEDES).

Kim Wilson

Tufts University

**Post by: Andrea Dannenberg**

I question the use of lotteries until, in the case you mention, that everyone eventually wins. If we're trying to promote a savings culture and smart investment choices as socially responsible NGOs/MFIs etc, I think using lotteries is extremely counterproductive. These are typically inherently risky propositions with little chance of return; we shouldn't promote the view among clients that they are appropriate venues for them to increase their wealth.

Using promotions and prizes to promote a savings culture is another story and shouldn't be looked upon negatively, but unless lotteries ensure that all participants eventually get back at least what they put in, they seem to be socially irresponsible mechanisms for organizations such as ourselves to promote.

Andrea Dannenberg

World Council of Credit Unions

**Post by: Brett Matthews**

Kim, this idea is very interesting. All over Vietnam and Cambodia there are lotteries on every streetcorner, where poor people will gladly drop \$1 or more a week. I believe this is true throughout much of Asia. I have always found it intriguing that poor people are very careful not to trust simpler savings mechanisms like village banks or self-help groups, but consider this quasi-savings mechanism -- which is inherently more risky in that the likely pay-back is far further off -- quite acceptable.

As Stuart Rutherford and others have documented, lotteries form the basis of many ROSCAs. Can a lottery-type instrument, based on small ticket-sizes and small winnings (10-25X the ticket size) be quickly accepted and easily adapted, for example to networking ROSCAs and ASCAs?

Brett Matthews

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**DAY 3**

**Post by: Lalita Rao**

Good morning,

Is it not day 3 yet?? Compared to the flood of msgs in the past two days, there is not even a trickle today; or maybe, there is something wrong with my email settings??

My comments for Day 3 are very few [as usual]:

Reaching out to customers in remote areas is not so difficult for Indian Banks and MFIs, since they already have a wide network and are working in rural and remote areas.

So offering savings product to those areas where they are offering loan and other products is a mere extension of product, and does not involve putting any additional infrastructure in place.

Banks : Syndicate Bank was in the forefront , for offering tiny savings services in remote areas [specifically, the hilly terrain of South Kanara], with their PYGMY deposit scheme. As the name suggests, pygmy deposit was any surplus the small householder or small business man had, collected at the doorstep by the pygmy agent [paid for by the bank, and did not retain any money from the saver, unlike the Ghana case quoted on Day 1 of this discussion]. This is a great success story and is still continuing.

DCC Bank, Bidar, a no-industry district of Karnataka, had collected nearly Rs.19 crore from its SHG members in 2004!! This again was possible because of its network of branches.

MFIs/NGOs : Most MFIs or NGOs offering loan products would cover the entire area in the vicinity of their branches, and would cover rural areas too.

So at the end of the day, very, very few are left out of the savings net.

But the big question that remains is, the safety, maintenance of large volumes of small transactions, and returns [if any]

to the poor.

With warm regards,

S. Lalita Rao

**Post by: Madhurantika Moulick**

Many thanks Lalita! There is nothing more rewarding for a moderator than such an eager email to begin the day. The discussion starts at 9 a.m. Indian time every day. As for the flow of mails, I am sure the participants will not let you worry very soon!

Talking of presence of service providers, especially formal institutions, in remote areas, government surely has an advantage of outreach - Banks, especially RRBs, post offices in India which also undertake financial activities or Post Banks that I have worked with in Kenya and Tanzania.

But can presence only make a service provider a preferred choice for the client, especially if working in remote areas which are characterised by certain traits.

Regards,

Madhurantika Moulick

MicroSave India

**Post by: Namrata Sharma**

Dear all,

Taking up on what Madh writes, it is not just enough to have presence of financial service providers in remote places. While doing a research in remote hills of Nepal using the financial service matrix it was clearly seen that although the Rural development banks and other Government banks together with commercial banks were present in their area the poor and the marginalised were often left out of these services as they were intimidated. They preferred community based organisations closer to their community and with managers who understood their needs. Also, doorstep services were preferred. If not the more remote places, the more reliance on friends neighbours and money lenders for credit needs but for saving a huge gap. Saving in kind is still preferred in very rural and remote areas.

Best regards

Namrata

**Post by: Rupaal Singh**

Dear Madhu,

An excellent work initiated I guess....for the last two days have been reading about various opinions and views and In fact I felt quiet inundated with the quality of responses. Well I guess I am still crossing the learning curve in taking forward this discussion, at the outset though my opinion would be more general in nature stating that savings in my experience should not only be viewed as a stand alone service being provided to the client but has to be a part of the overall cash flow scenario of the client (being met out of a combination of credit, borrowings and savings) and how it fits into her/his lifecycle to augment the household incomes.

Hence while we traditionally talk of these services but for the mFIs/Member Institutions I guess what would also matter is for these services to be delivered in a market linked manner for them to be truly beneficial for the client.

Please keep up the excellent work.

Rupaal Singh

**Brett Matthews**

Dear Rupaal:

As you say, the overall cash flow requirements of poor people are critical when we look at rural and remote areas. Credit without savings makes household asset accumulation very difficult. But when savings are offered, seasonality becomes absolutely critical, because it is also critical to our clients.

Since everyone faces a cash shortage at the same time, there is a huge premium on providing service that is focused on keeping promises related to dates and payments at which money will be available. NGOs and MFIs that can't keep these promises about this should get out of savings altogether.

Stuart Rutherford wrote an interesting paper a few years ago called Money Talks that deals with household cash flows and the service problems they highlight. Perhaps Madhu can post it for us.

Brett Matthews

MicroSave

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## **SAVINGS AND CHILDREN**

**Post by: Kimberley Wilson**

Dear Participants -

Hatton Bank in Sri Lanka has reported widespread success with encouraging children to save through an innovative school banking program which combines awareness volunteerism and savings accounts. Colombia recently reported an increase in children's savings accounts from 97,000 (2006) to more than 688,000(2008). I have heard from Jeff Ashe that savings groups in Cambodia (Oxfam) have many youth groups. Starting with young children seems to make a lot of sense. It develops familiarity and a habit.

Is anyone else familiar with special efforts to reach out to children, especially in difficult places.

Kim Wilson

**Tufts University**

**Post by: Jeff Meyer**

Dear Kim,

Thanks for opening this thread. My colleagues at the New America Foundation's Global Assets Project and I have been researching for the past year or so the prevalence of children's savings accounts (CSAs) around the world. We conducted a survey of financial institutions and NGOs to get a sense of the features of the CSAs they are offering and the reasons they have for offering them. We received responses from about 20 institutions, including those in Papua New Guinea, Kenya, Bolivia, Chile, and India. Sri Lanka appears to be a hotbed for CSAs, with FIs including Hatton, National Savings Bank, Seylan Bank, SANASA primary societies, and HSBC, among others, offering accounts to children.

A paper summarizing our findings is in the works and will hopefully be out in the next couple months. I am happy to send you, and anyone else, a copy as soon as it is released.

While it may be outside the scope of this conversation, it may also be worth noting that governments around the world are increasingly adopting CSAs as a tool to reduce poverty and increase equity in society, among other reasons. So far, it is mostly developed countries, such as the U.K. and South Korea, that have adopted such policies. But I mention this

only because it may be useful to think about the roles governments, as well as international children's charities, can play in supporting the roll-out of, and perhaps providing incentives for, CSAs in developing countries. The websites of the Center for Social Development (CSD) at Washington University in St. Louis and New America can serve as resources for those that want to learn more about CSAs.

Also, please feel free to contact me online or offline anytime.

Best regards,

Jeff Meyer

Johns Hopkins University

**Post by: Peter van Dijk**

Jeff,

Childrens' savings accts existed since the early 22th century, in Africa, Asia, Europe and have been activley supported by governments. One product of these global activities was the global "piggy bank contest".

A lot of material is available on the role of government, banking partners, programs, responsibilities at different levels at different phases, legal issues (such as parents' management over childrens' accounts), etc.

Peter

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## **FINANCIAL INCLUSION AND LITERACY (POST ON BEHALF OF NP MOHAPATRA)**

**Post by: Anna Van der Heijden**

It may be mentioned that Financial Literacy is one of the key areas of National Rural Financial Inclusion Plan as envisaged in the Committee on Financial Inclusion (Rangarajan Committee). The committee report says that in order to educate vulnerable group, it is essential that the Financial Literacy Programmes are being encouraged.

What is Financial Literacy?

Today's complex financial services market offers consumers a vast array of products and providers to meet their financial needs. This degree of choice requires that consumers be equipped with the knowledge and skills to evaluate the options and identify those that best suit their needs and circumstances. This is especially true for populations that have traditionally been underserved by our financial system. Financial education is also essential to help consumers understand how to prevent becoming involved in transactions that are financially destructive.

Several broad categories of financial literacy activities can help potential bank customers participate in the financial system and help banks strengthen their communities :

Basic financial services and asset building programs provide a working knowledge of financial products, financial planning, and an overview of the banking system.

Credit management and repair programs enable individuals to correct and learn from previous financial markets.

Homeownership counseling prepares individuals for what is often the largest single investment in a lifetime.

Education aimed at recognising and avoiding abusive lending practices can protect individuals at risk of obtaining inappropriate loan products.

Small business and microenterprise technical assistance provides entrepreneurs with practical business knowledge.

What are the benefits of financial literacy programs?

Assists residents of lower-income neighbourhoods build wealth and participate in the financial system.

Enhances a bank's visibility in the communities it serves and contributes to a larger customer base.

Increases access to depository institutions by educating consumers about available products and services.

Enables consumer to make better informed choices in the financial market place.

Participation in these programs may receive consideration under various Community programmes.

Such programs must have a community development purpose, which is defined to include community service targeted to low and moderate income individuals.

Examples of bank support for financial literacy include :

Loans to organisations to be used for financial literacy programs targeted to low and moderate income individuals.

Investments in, or contribution to, a program, activity, or organisation that provides financial services education programs targeted to low and moderate income individuals.

Providing bank staff to serve as educators in financial literacy programs targeted to low and moderate income individuals.

What are some examples of financial literacy activities?

Basic financial services and asset building programs

School Age Programs

School saving programs and savings clubs in elementary schools.

Educational programs that progress in complexity as students get older.

Field trips to banks, guest speakers, investment clubs, stock market simulation games.

School based bank branches.

Adult Programs

Presentations to local community and religious organisations.

On-the-job financial literacy seminars conducted in conjunction with employers.

Educational outreach tailored to consumers with limited English proficiency provided in partnership with community based organisations.

Counseling, training, and offering of Individual Development Accounts (IDA).

Providing assistance at Volunteer Income Tax Assistance (VITA) sites offered by the Internal Revenue Service (IRS) which can help qualifying low-income individuals apply .

Credit management and repair program

Assistance to organisations that offer consumer credit education programs.

Providing staff and materials for credit training classes.

## Homeownership counseling

Providing financial assistance to support programs or providing staff to lead classes.

Jointly offering targeted counseling classes with realtors, private mortgage insurers, and employers.

## Recognising and Avoiding Abusive Lending Practices

Supporting educational campaigns aimed at warning borrowers about these practices.

Providing financial support to organisations that help individuals target and avoid some financial products that might pose threats to them.

## Small Business and Micro enterprise

### Technical Assistance

Providing seminars on topics such as developing a business plan.

Providing financial and teaching assistance to business development centers and small business incubators.

In US, The Financial Literacy and Education Commission, representing 20 federal agencies, published “Taking Ownership of the Future : The National Strategy for Financial Literacy.” This national strategy assesses the current state of financial education efforts and outlines a plan to improve financial literacy across the country.( source-Financial literacy workshop,Washington,12 June 2008)

In India, RBI has developed some materials for Financial literacy. ICICI bank and SBI are continuously coming up with ads in papers. NABARD has taken initiatives to launch the pilot project in 5 districts of Maharashtra in collaboration with LIC. The broad areas that can be covered under financial literacy programme may be as under;

1. Principles of Financial Planning
2. Income & Expenses Tracking
3. Financial Markets
4. Overview of Financial Products
5. Real Estate, Bank Deposits
6. Company Fixed Deposit
7. Gold as investment
8. Public Provident Fund
9. Postal Savings Schemes
10. Life Insurance Products
11. Unit Linked Plans
12. Annuities
13. Mutual Funds

- 14. Stock Markets
- 15. Asset Allocation
- 16. Life Cycle Stages of Investing
- 17. Tax Planning
- 18. Retirement Planning
- 19. Building your Children's future
- 20. Building & Organizing your Financial Plan

Financial literacy is a prime intervention for all financial products including saving in future. All are requested to contribute further in this area.

NP Mohapatra

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## **TRUST IN REMOTE AREAS**

**Post by: Brett Matthews**

In general geographic remoteness is highly correlated with illiteracy. A study I did in rural Cambodia found that illiterate people were much more likely to select themselves out of local microfinance services than their literate neighbours (see Towards Safety and Self-Reliance in the document postings). Observations in other countries lead me to believe this is not unusual.

I believe the loan contract (or savings contract) with thumbprint affixed symbolizes much that is wrong in our industry. We know how to tie a poor person into a net of obligations to us (through text and their thumbprint) but not how provide her with an easy way to understand those obligations or retrieve information about them later. I don't deny she can ask her daughter. But she may not want her daughter to know her situation (she may be no different from us). I believe we can offer transparency and confidentiality -- and if we don't, trust will not follow.

Technology has always been text-based, though it need not be in future. Does technology hold the key to earning trust in rural and remote areas? Can we make it comfortable for people who have reason to fear the trickery of the educated?

Brett Matthews

MicroSave

**Post by: Abhijit Sharma**

Dear Brett,

You have made an very interesting point on exclusion: i) that the format of text based systems which is alien to an illiterate and also to many neo-literates, can exclude large section of clients. ii) most of them have an oral culture and they have developed mechanisms which ensures that contracts are made and followed. This system of oral contract making and its compliance are still practiced largely in the hill communities through their clan mechanisms. Can we bring the fool - proof arrangements of the text based systems ( which is recorded and hence verifiable and can be validated by third parties) in the oral based mechanism. This would surely help include a more larger section of people in the remote areas.

Your views on this please.

Regards,

Abhijit Sharma,

IIBM.

**Post by: Brett Matthews**

Dear Abhijit:

The short answer to your question is that I think we can. The bottom line for me is that if the Mesopotamians could operate a city of 50,000 people, including managing its infrastructure, raising taxes and distributing surpluses, five centuries before they invented writing, we should be able to figure out how -- without writing -- accomplish the far simpler task of helping villagers organize their own banks. The problem is partly that no one made it a priority in the past, and partly that too many outsiders want to meddle in these organizations whenever they are actually working. Solving the first problem is relatively easy; solving the second will be distinctly more difficult!

Brett

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## **FINANCIAL INFRASTRUCTURE FOR REMOTE AREAS**

**Post by: Narasimhan Srinivasan**

Dear all

Let me start something controversial - subsidy for savings

The low density, difficult to access (both harsh and remote locations) geographies also require financial service, which is why financial inclusion as a theme is espoused by government and Central Banks.

When we connect a remote area with a road, power line, to telecommunication network the infrastructure is laid out first. Then users come on board and pay for services. The planning for infrastructure takes into account the demand and the potential returns. But most of the infrastructure is planned and delivered as a public good (at least till recently). Why not savings infrastructure be considered a public good and funded by the state at least partially.

The Indian government has set up two funds on financial inclusion to support technology options and promotional efforts. One of the best uses would be provide technical infrastructure such as hand held devices, portable smart card readers, mobile phones and the necessary software to those engaged in mobilising savings in difficult-to-access areas. If these initial technology investment costs are underwritten by the State, collection of savings would be a shade less risky and client comfort higher. This would greatly reduce costs of facilitators and correspondents.

Best regards

N.Srinivasan

### **Financial Infrastructure for Remote Areas**

**Post by: Brett Matthews**

Dear Srinivasan (and others):

Your point on the need to invest up-front in financial infrastructure is well taken. But my own research in Cambodia indicates that because savings are based on trust, the issue is not simply one of getting technology into the villages. Illiterate villagers don't trust written text and they don't trust fancy devices either. They trust what they know and what is familiar to them. (We respond to similar signals when we open accounts at banks that have a more comfortable look and feel.)

This is one reason a technological solution to microfinance may complement, but is unlikely to ever replace, the community-based approaches mentioned here by Hugh Allen, Dr. Siebel, WOCCU and others.

Investing in the human capabilities and meso-level supervisory and auditing infrastructure needed to improve the performance of community-based microfinance can be justified on similar grounds to the ones you mention but is rarely contemplated and almost never practiced.

**Post by: Narasimhan Srinivasan**

Brett,

I see the point that you are making. What creates trust in the client is contextual. Some areas there is trust in a person, in some in a good building and in some a piece of official looking paper. In many parts of India with the widespread TV viewing habits, semi-literate and illiterate people are familiar with many forms of gadgetry; enough to develop some trust.

In Rajasthan, I had visited an urban savings and credit society which introduced a simple handheld device through 10 field officers. This is not a smart machine - no card reading, no biometrics - but it can print out a transaction slip. The ability to issue a slip on the spot and the fact one could see the numbers on a screen (the account no and amounts) have made the field officer's job easy. There is a lot of credibility and the back office work is simplified. The society had to buy these at the rate of Rs 15000 each (around \$ 400) and spend on developing a handshaking software internally - to enable the handheld to transfer data back and forth to the back-office server. The society requires more money to expand this and it could then improve outreach. Why not this be funded at least partly from the dedicated funds set up for financial inclusion?

Best regards,

N.Srinivasan

**Post by: Bhaskar Lakshakar**

Dear Arun,

Undoubtedly there can be different mix of various factors that I mentioned in previous mail. Even we were surprised during the market research that with in Delhi only there were completely different scenarios (seasonality and income levels varying from slum to slum) and hence people's comfort for various options differed significantly.

In the areas where the slums are settled 2-3 decades back, there does exist a social cohesion, however it is not the age of slum but the duration of staying of family that generates social cohesion.

Regarding chit funds and other informal mechanisms, on one side such options are available but subjected to high risk of fraud and cheating. Such things do nothing but weaken the social cohesion only.

Therefore assessing the client behaviour in urban set up becomes much complicated and dynamic at the same time and certainly very different for different localities.

Best,

Bhaskar

MicroSave

**Post by: Tara Nair**

I am fairly overawed by the deluge of thoughts/ suggestions/ worries that I've been witnessing on these pages for the past 48 hours or so. Not sure whether I'm reaching out to voices similar to mine – still thought of sharing something based on the insights which come from our field research.

The discussion on financial services in remote areas has always been a discussion of paradoxes. These regions are remote since they have been insulated for historical reasons. Definite state action is warranted to unshackle the barriers to include them in the main stream. Technology surely holds great promise here.

What about strengthening the traditional savings systems and practices that are legitimate in local contexts and represent rational community behaviour? The numerous versions of revolving saving funds have been a boon in difficult times to the poor and not so poor in remote regions. What do they actually lack? Can there be collective efforts to enliven them and make them robust micro saving institutions?

It is common knowledge that livestock is considered by households as store of value (as they can be converted into future consumption), while they also derive current value from direct consumption services. Are there ways to build on such practices so that workable models can be evolved?

As Namrata seems to point out, "access" is a complex issue, especially for regions and populations that have remained away from the mainstream for long periods of time. The solutions are not going to be simple and straight forward too.

Tara Nair

**Post by: Namrata Sharma**

Dear all,

Although late, I would like to share with you the following points I have jotted down based on a study I had done related to a suitable hill model in Nepal and what were the criteria for suitable products.

- \* Small Amounts: The people may have ability to deposit very small irregular amounts on a regular basis. Very poor people may be excluded by a high compulsory savings requirement. Similarly loan products should be small and should match with income generation activities and other needs of particular region.
- \* Liquidity: Small savers, because of their low disposable income, may place a higher premium on liquidity than others in order to smooth their life cycle needs. The poor often need voluntary services that allow them to save when they have money and withdraw when they don't. The poor do not want to withdraw savings (which is equity for them) as long as they can get other financial services such as emergency loans and micro insurance.
- \* Returns: Small savers are also looking for and are sensitive to returns on savings. Access to savings is very important to the poor. But if they have alternative options for savings, then returns are very important. The cost of loan to the loaner must be lower than that provided by other informal financial sources.
- \* Delivery system: Delivery system must be secure and convenient. Very poor people may not have the time to come to an office to deposit savings and take loan. Some may only participate if services are available near their home or work. Convenience can mean collecting deposits and installment in the evening when cash is available and before it is lost to wasteful expenditure. The poor are best served by easy deposits through group methodologies or mobile personnel near their home or work and more difficult withdrawals and loan taking, for example from an office. This helps them with the discipline not to withdraw and take a loan except for real needs or opportunities.
- \* Introduction of product range: Community-based cooperatives that start by offering compulsory savings services and a range of loan products can grow the capacity - skills, MIS, etc - to deliver a range of financial services as per member's

needs. Where there are plenty of economic opportunities, a range of products may mobilize more savings needed for on lending. Remote areas may have less economic and investment opportunities and cooperatives there may have excess liquidity. In those areas, compulsory savings with some restricted flexibility is more appropriate. In some areas the poor may have a high demand for festival products, Children education, etc.

\* Range of products: Financial products offered should be oriented toward the actual needs of the client and be adequate for the type of activity in which they are engaged. Whether the type of products and delivery system are appropriate or not will depend greatly on local needs, culture and context. Market research should determine what products are most appropriate locally.

\* Confidentiality: Remote poor savers, especially women, also seek confidentiality with regard to their savings. They prefer that their husbands or neighbors not know how much is in their account. This is one reason that they prefer voluntary instead of mandatory savings.

Best regards,

Namrata Sharma

MicroSave India

**Post by: Prakash LB**

The issue of savings not being so popular with MFIs and their clients is probably due to aspects of confidence in the institution offering such services.

In case of taking credit, the client has the MFI money and therefore is not worried. In case of savings, the client money is with the MFI, and the aspect of security comes into picture - will my money be safe with the MFI will be the primary question.

LB Prakash

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## **M-BANKING FOR REMOTE AREAS**

**Post by: Graham Wright**

Dear All,

There is much hype and limited delivery around m-banking for the poor but nonetheless, I believe that in the long run it will eventually be the key to serving people in remote areas. The cost of mobile phones and sending text messages (SMS) is coming down and there are now options for multi-user public call office model systems under which very poor people would simply insert their SIM and complete the transaction. The take off of MPesa in Kenya show how poor people can understand and use this technology very quickly indeed. it seems only yesterday that MicroSave was working with Vodafone/Safaricom and Faulu to pilot test it and now pushing 1.5 million people are using the solution.

For all the discussion of village savings and loan associations(VSLAs), they really are a "poor man's" (or more typically poor woman's) solution since they provide no options for longer term build up of savings balances, as members quite rightly insist on regular (typically annual) closing of the accounts and distribution of funds . What Stuart Rutherford calls "an action audit". So while they are great for disciplined savings of small amounts to generate relatively small lump sums over a limited time period (and provide a great system for petty credit), they do not satisfy needs for long term (marriages, land acquisition, house building, old age etc. etc.) or discrete lump sum savings. I therefore view them as a superb solution for remote areas for now . until m-banking systems penetrate these areas and offer a better quality, more secure, more flexible alternative through a centralised, supervised system.

But as Hugh and others have pointed out, even when such m-banking systems arrive, it may well be that the ability of VSLAs to meet a very specific set of needs of very effectively will mean that they continue to be used along side the m-banking systems.

Best regards,

Graham A.N. Wright

Programme Director

MicroSave-India

**Post by: Hugh Allen**

Dear Graham,

I think that you are probably right about the long-term future of VSLAs. I think they will fade away, not so much as the industry gets technologically savvy (although that will help), but as general levels of prosperity increase sufficiently to attract the banks to the cash that's beginning to slosh around at the bottom of the pyramid. That's why Deutsche Bank now offers accounts to people who used to be members of credit unions. But don't believe for a minute that VSLAs can't mobilise and manage large sums.

What is now increasingly widespread is the habit of rolling over a significant percentage of the available funds at the end of a cycle into the next cycle and increasing the value of shares from cycle to cycle. The average VSLA in Zanzibar now manages \$6,000 worth of loans (the average size of a Zanzibari VSLA is 29 people). Loans in the order of \$1,000 + are quite common and in Zanzibar and elsewhere, are used to buy houses. I was recently under a tree in some very remote part of central Mozambique with 2

groups. One was managing \$6,000 and the other \$9,000. I had never in my life seen such a large amount of the folding stuff in a single spot.. These are huge sums that no MFI would find it possible to offer except at the end of a laborious process of proving ones creditworthiness.

Hugh

**Post by: David Cracknell**

To follow Graham's discussion. I too believe that formal sector systems will work out from the urban and peri urban centres using technology, and this is to be encouraged. I suspect that it will redefine in a few years the concept of 'remote areas'.

Much of the discussion understandably has been on the role of informal sector providers in addressing rural access. I would like to hear about the role of formal sector providers too... or at least the role that we can envisage.

I say this, in part as it is already clear in some cases that competition and mission is driving some MFIs, and community banks to establish operations in more rural areas. Yet offering deposits in this environment is very difficult...

There are significant capacity issues in delivering savings services - developing new products, pilot testing, costing and pricing, process reengineering, branding, customer service. And yet in more rural areas (for example) Rural Banks in Ghana, the capacity for implementing these necessary approaches is even more limited. We have not talked about these very much either... how do we build appropriate capacity that can be afforded by these institutions?

Best,

David

David Cracknell

MicroSave-Kenya

**Post by: Peter van Dijk**

David and others,

Donors have long been stating that competition would push Micro-finance services providers down and competition would decide on which MFI would survive and continue.

It is clear that this is on many levels a contradictory proposal as there often is unfair competition because of different ownership structures, different funding sources, different legal conditions and obligations, tax systems, government programs, and so on and so on.

Competition also leads to "concentration" incentives, banks linking up to NGOs or other MF services providers, NGO-MFIs cosying up with certain ministries or even with powerful trade unions (for instance in South Africa), or even with national leaders (or their wives!!).

This makes "competition" quite an empty term, unless there exists a national MF strategy, that is integrated in the financial sector (distinguishing from non-financial micro credit initiatives that do not want to become financial institutions, thus not professional, not accountable, not responsible for professional management, not responsible for losses!!) and with local financial sector competition authorities who monitor the local financial market, try to avoid or fight unfair competition practices of any kind.

Peter

**Post by: Lisa Parrott**

Hi All,

I think Graham is right in that people will inevitably use a variety of services - m-banking for some of their savings and money transfer transactions, but village savings and loan (VSLA) type groups for other purposes. One of the issues that was brought up on the first day was the concept of "social capital." The VSLA type groups seem to allow individuals to build up some social capital and develop additional safety mechanisms (such as social funds) that they can draw on in terms of emergencies. In Tanzania I saw VSLA groups saving into a social fund that was used to support members and others in the community in terms of crisis. I am looking for information the social capital aspect of VSLAs, if anyone knows of any good studies.

Madhu has mentioned the challenge of natural disasters, conflict and other difficult settings in her opening remarks for today. What happens to both m-banking and VSLAs in these "difficult environments"? I know that when the post-conflict violence broke out in Kenya people needed cash and there was a reverse of money transfers from the rural areas to the urban areas (via the M-Pesa cell phone money transfer service) to help people affected by the violence in the slums. However, being able to access the money was difficult because many cash points were closed. Likewise, when a natural disaster hits, what happens to the money in a VSLA has been lent out and then people disperse to save their lives, and rebuild their lives?

What do we know about what happens to savings when the environment changes quickly and cash might be needed to help people make it through the crisis and recovery period? Are their products or delivery systems that address these situations?

Regards,

Lisa Parrott, Africa Advisor, Livelihoods, Save the Children USA

**Cecilia Kariuki**

Dear Lisa,

I agree with you, there were cases during the post election violence in Kenya whereby M-Pesa was used to transfer cash to individuals. This is mainly because banks closed their branches in affected areas and ATMs ran out of cash because they could not be loaded.

I have conducted market research in areas where by it is considered as a form of banking. When I ask participants in a focus group discussion what form of financial services (banks) they use, a lot of them say that they have an 'account' with M-Pesa. More and more, Kenyans are beginning to consider it as a financial service provider. Of course there are a number of regulation issues that need to be considered in this case. All the same, M-Pesa is more accessible in rural areas than mobile banking and ATM facilities because the infrastructure in Kenya is poor and so transport is jeopardized. However, to get to your question even M-Pesa, (Like the other options available) has its challenges when it comes to addressing the needs of people in crisis or remote areas. Some people who received money in their phone through M-Pesa could not cash it. There were no traders or dealers available to cash the money. Even those who opened did not have enough cash in their businesses because cash transfers from banks had been affected.

But there is proposal to use M-Pesa to resettle Internally Displaced People as part of the Social Protection Scheme that the Kenyan government is trying to put in place.

Best Regards,

Cecilia

**Post by: Abhijit Sharma**

Dear All,

Providing financial services to the remote areas is a challenging primarily because of the costs which can be very high - much more than the normal areas due to the remoteness and also due to the poor infrastructure (poor roads, electricity etc.) These costs, in addition to the cost of the formal banking institutions would make delivery of financial services unsustainable to these areas.

However, within the broad region there could be markets which can be serviced through the typical model but have got missed out. A good case is the Northeast India. Here, one comes across areas with very high density patterns and cash vibrancy like the Manipur Valley. Yet the savings account per 100 adult populations in Manipur is only 19.5 and has come down from the figure of 20 in 2001. So, we do have opportunities within the larger canvas where solution can come from our knowledge from the microfinance sector. The hills present a challenging task. A 'brick and mortar' model of providing financial access would not do and other alternatives like technology would have to be exploited. Mobile banking surely shows immense promise. However, even here, there is a constrain of costs as the SBI Tiny experience in the state of Mizoram in North East India shows. One of the prohibitive factors for expansion has been the cost of the card which is provided to the clients. This cost was absorbed by the SBI during the 'pilot phase'. They are not willing to bear the costs now. I, agree with Srinivasan that it is here that smart subsidy would help kick start this initiative and expand outreach. The North Eastern Council is showing some interest in this and discussions with the SBI have already started.

There is also very little understanding of the workings of the traditional institutions and whether they could be vehicles of providing financial access to the remote areas through the banking correspondent model. Presently some of them are

involved in financial intermediation in a small way like the Dong committees of the Bodo areas in Assam, the Namghar committees in Assam, the churches in the hills of Nagaland, Manipur and Mizoram etc. There is also a need to understand social capital and its impact on financial behaviour more closely. Graham has discussed on the first day that the impact of social capital on the group size is clearly correlated. I want to add another dimension to that. The tenure ship of the informal groups. In areas where the social capital is high, we find that the tenure ship also extends – sometimes to 3 years as compared to an area of lesser social capital where the tenureship is much lower – not more than year. However, we still haven't understood the concept of reciprocity and its impact on financial behaviour.

So, we need to have a diversified approach even within the larger canvas of remote areas. Too often, bracketing the entire region sometimes snuffs out markets which exists and can be provided by different products and delivery channels as has been clearly demonstrated by the savings study in the North East. Delivery of financial services to remote areas would be possible if only partnerships are developed with institutions which are locally embedded and understand local context much better; thus giving the security and also access at the same time to the clients.

**Post by: Trevor Mugwanga**

Dear ALL,

Picking up from Graham's mention of m-banking, while agreeing that costs reductions are growing which can be passed on to the users, there also needs to be effective partnerships between more than one technical enabler (GSM companies, Switches for ATMs etc), financial institutions, and agents with POS devices amongst others where this makes more sense by reducing costs all round.

There are significant cases of misplaced competition between providers and solutions piloted based mainly on technical feasibility without concrete business models where all stakeholders gain. The result is one solution after another being tested and stopped because clients did not benefit enough and dropped off, one or more financial institutions in the partnership is not adequately rewarded, agents incurred losses in real terms around liquidity and time/processes, amongst others. Where such initiatives fail, this gives rise to reputation risk and increased client pessimism that future attempts have to contend with.

Regards

Trevor Mugwang'a

MicroSave - Kenya

**Post by: Sanjay Bhargava**

Trevor Mugwang'a has correctly pointed out that just as airlines compete but share infrastructure like airports service providers need to compete but share infrastructure.

A single operator, single bank system will be further hamstrung in its reach... Apart from multiple banks, telecom operators there are multiple regulators. In India you have RBI, NABARD, TRAI, MOF, NSA and maybe others who have a say and at times are not coordinated, pragmatic and prudent.

The Rangarajan report Jan 2008 on Financial Inclusion in India talked of setting up a national mission for Financial Inclusion which would tackle this in a mission critical mode like hosting the commonwealth games or building the metro.

To me a single point agenda of declaring financial inclusion a national priority in India with "Universal Financial Access" for all by 2013 and then creating an empowered national mission to deliver is key. We will have elections within a year in India and a well orchestrated campaign could ensure political support for this mission from all political parties.

I am reposting my earlier post here as it is a more appropriate heading.

Cell phones offer hope but are still not all pervasive. If an area has cell phone coverage and a retailer I think we will soon have solutions.

In areas where this is not true informal systems or the other approaches suggested maybe the best way to go.

There is the also the problems in areas with insurgency or slums where people may not want to go. A system which uses locals as business correspondents I think offers the best hope as it uses people on the ground who can react as appropriate. As long as the correspondents are trained, have incentives and simple infrastructure the dream of universal financial access will not just be a pipe dream.

**Post by: Anant Natu**

Speaking of shared infrastructure and public goods, financial services providers can piggy ride on Govt. sponsored social security schemes. For e.g. in India, National Rural Employment Guarantee (NREG) Act mandates a minimum of 100 days of employment to one person in every poor household. As the work involved hard labour, households self-select themselves and in this way NREG aims to benefit the poorest. The scheme was first launched in 100 most poorest districts (mostly in underbanked states of Bihar, Jharkhand, Orissa), less than 50% of the districts had MFI presence. Wages are paid on a weekly basis to villagers based on the work done.

Such a scheme generates a weekly cash flow of approx. \$15 per week for an individual. In most places this amount is disbursed as cash via the local village body (the panchayat). In other places though (e.g. Karimnagar in Southern Indian state of Andhra), banks have tied up with the Government such that, wages directly come to the no-frills (zero balance) bank account that the bank has opened in the name of the NREG beneficiary. For more on this see the CMF working paper [found here](#).

Such an approach serves twin purposes of financial inclusion (as every beneficiary has a savings bank account) and also ensures that the accounts do not fall into disuse as beneficiaries keep transacting with bank overtime. Latter point is especially important because research has shown that most financial inclusion initiatives have fallen flat because beneficiaries, for many reasons- primarily because of lack steady of cash flow, stop using the account. Linking the initiatives of financial inclusion with Govt. security scheme provides a steady cash flow and a reason for people to bank.

Anant Jayant Natu

\*MicroSave\*

**Post by: Sanjay Bhargava**

Anant,

I glanced through the PDF in your link and it seemed to me that the FINO pilot was not scalable because of the high costs and that the alternative manual system seemed better. That could be far off the mark. Has it actually scaled?

The TCS involvement was to let GOI decide who has to be paid how much and that would have been same in both the manual and the FINO system. Am I correct?

In a cell enabled solution for this assuming that the workers do not have cell phones would work as below:

1. Workers open accounts with dummy cell phone numbers, get and activate numeric signature cards at a retailer ( a numeric signature card costs Rs 1 ( can be used 9 times) as opposed to a smart card costing Rs 120.

2. Money reaches account electronically

3. Withdrawal is done using retailers cell phone and signature card of the beneficiary. ( No handheld device costing Rs 20000 is required)

Rgds,

Sanjay

**Post by: Kashi Metya**

Dear All,

Thank you that I got so much to read and know from people involved in delivering fin-services in rural/remote areas.

As suggested by many teach/micro credit institutions are good arrangement. Tech driven technology would have limitations as the service provider would not generate much employment or service cost or if it does would go to big brothers/coos. While in micro credit arrangement things remain in the hands of private player where the cost of fund is always more (almost double as in India operations).

And when we want to reach people who are not serviced or poor why not think for some government initiative that could be run by the banking sector itself through creation of service provider (part time) to reduce cost and to ensure home delivery. or village based arrangement.

The proposed fin-centre in villages ( one in two villages) could create part time job for 300 thousand jobs in India alone. And that would help to mobilise savings which right now do not come to mainstream.

I work in villages.

Kashi Nath Metya

India

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## **SAVING IN A MILLION VILLAGES**

**Post by: Brett Matthews**

Hundreds of millions of very poor people live in rural areas that are not densely populated. The early successes in Bangladesh, diverted our attention from the fact that less densely populated rural areas are not nearly as easy to reach.

In less densely populated rural areas (say less than 100 people per sq. km) microfinance has made very little real progress. Micro credit goes to the top economic strata in the village or gets recycled through the moneylender; losses of forced savings have taken place in almost every village, and microfinance practitioners have shown a sad lack of commitment to delivering genuine savings products.

In many developing countries, the terrible conditions of the roads effectively means the rural areas are cut off during the rainy season.

Our current microcredit-centred model is based on urban headquarters and urban educated staff. They don't always want to go to the villages, and don't always know what to do when they get there.

Can anyone describe ways in which they have brought villagers and other rural inhabitants more actively into microfinance as agents of savings delivery?

Brett Matthews

MicroSave

**Post by: Hugh Allen**

Brett,

You make an excellent point. Many of the postings come from India, which is almost alone amongst developing economies in having an extraordinarily comprehensive bank network. I read somewhere recently that there is a bank branch in every second village. In addition, the mandate that requires the banks to lend a significant proportion of their loan funds to the poor and the refinancing facilities offered by NABARD have provided a highly conducive environment for rural outreach. The situation is almost completely reversed in Africa and Latin America and the SHG bank-linkage approach has, at best, stumbled.

Hugh

**Post by: LB Prakash**

**Dear Hugh,**

India definitely does not have a bank branch in every second village. While SHGs have definitely helped the (predominantly) women members and thereby their families get linked to a formal bank, the SHG density itself is skewed. Most of the SHGs and SHG members are in the south - though the picture is changing slowly.

Added to that, the concept of financial inclusion will add to the myth of the people getting linked to banks. Most of the time, bank accounts are opened, and that's it!

This could be a dangerous myth as then everywhere it would be quoted as to how the people are all financially included, and therefore most do not see the need for offering financial services.

Best Regards,

LB Prakash

\*MicroSave\* India.

**Post by: Gert van Maanen**

I agree with Hugh Allen. Many of the participants in this discussion come from India, that is from a context where the government is actively promoting microfinance and institutions like Nabard are really on the ball to increase the outreach and the quality. Most other countries don't have such a context with such a concerted action. Their governments could learn a lot from India, but for MFIs in most other countries it is a very long shot.

Gert van Maanen

**Post by: Anthony Nderitu**

Dear all,

I think the focus should move from just savings to investment.

The poor can participate even in sophisticated financial investment vehicles if we take advantage of large numbers of savers forming an investment block, participating in consistent saving and accessing expert investment opportunity advice being availed. Indeed they can be helped to form investment clubs (very common in Kenya today) which examine market opportunities and take advantage of them.

There should always be a balanced between hedging risk and creating wealth.

I feel for far too long, the focus has leaned too much on removing vulnerabilities affecting the poor without corresponding efforts on wealth creation strategies.

If you want to win a football game, you do not enter the field to defend; you go in all pumped up to win: You must be on the offensive!

It is time for the poor to get into "win mode"!

Best prospects!

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## **PAYING TO SAVE**

**Post by: Kimberley Wilson**

As a last comment and question on 'difficult to reach people' ...

Comment: In the USA 10 million people are unbanked. New York City in response is paying people \$50 to open a savings account.

Question: Do any of you know similar programs where people are paid to change their financial behavior (not just encouraged or given economic incentives but actually paid in cash)? And the second part is: what are the impacts of those efforts?

Kim Wilson

Tufts University

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## **SEASONAL SAVINGS PRODUCT?**

**Post by: Brett Matthews**

Different savings products meet the needs of different segments: for example contract savings are very good for poor people who are urban or at least have some non-farm income. Voluntary or demand savings are useful for everyone, but offer very low returns.

Can we design a quality savings product for those who are highly dependent on seasonal cash flows? Any suggestions about what it would look like?

**Post by: Anup Singh**

Dear Brett,

Regarding the savings product based on seasonal flows, I recall of a similar arrangement when I was working with a Dairy plant. This dairy plant had a chilling station at one of the locations where milk for 20 villages used to be collected and preprocessed before sending it to the plant. This chilling centre paid back the money for milk collected that week to the member farmers. They had the option of withdrawing all the money that was due for that week collection of milk or leave some part of it. It was often seen that many farmers due to lack of saving instruments/institution left a substantial portion of money with the plant during the flush season and used to withdraw the excess in the lean period for buying another cattle or for ensuring proper feed/medicine/vet fees during the lean period. This was a very good mechanism as the accounting was done properly.

Anup Singh

MicroSave

**Post by: Brett Matthews**

Has anyone tried designing savings contracts that include only numbers (numbers for months or weeks and numbers for currency contributions)?

Since the client can enter the numbers herself based on her expected future cash flows, such a system could prove very flexible.

Comments?

**POST BY: ANUP SINGH**

Dear Brett -

This may be a repeat of a response I sent earlier - apologies if so.

The First National Bank of Pakistan is experimenting/pilot a savings product for rural (and urban) areas that draws on the ROSCA ('Committee'). While it is not a seasonal product, neither are ROSCAs entirely seasonal. The idea is to attract folks who save anyway regardless of the season but are unfamiliar or shy away from banks. The product encourages folks to save alternate ROSCA rounds in the bank as groups or as individuals.

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**WHERE IS THE EVIDENCE?**

**Post by: Kimberley Wilson**

Dear Participants -

I'd like to remind us all that savings and microsavings, like micro credit, is hugely subsidized. Whether it's governments helping to insure savings or NGOs helping to form savings groups or activists educating people on its value, the savings sector is attracting resources like a giant magnet. But still in question is the comparative effectiveness or impact of subsidizing savings versus investments in other sectors such as education or health or environmental rehabilitation, especially in very poor and remote areas, the subject of today's discussion.

Who out there among you is collecting evidence that savings for the very poor is leading to longer term social gains (defined any way you wish)?

Kim Wilson

Tufts University

**Post by: Hugh Allen**

Kim,

I've got studies from Ethiopia, Zimbabwe and Malawi that prove what you seem to be seeking: social impact derived from savings. Glad to pass on the studies if you wish.

Hugh

**Post by: Evelyn Stark**

Hugh,

I'd love to see them as well - - are they posted on the microfinance gateway?

Evelyn Stark

CGAP

Global Resource Center for Access to Finance

**Post by: Jeffrey Ashe**

Dear Kim and Hugh:

While I don't think that the Oxfam/FfH Saving for Change initiative will shed much light on the issue if subsidizing savings is a better investment than health, education or environmental education, under the Gates grant IPA will interview 6,000 households in 600 villages with Saving for Change introduced randomly to half of these villages. The objective is to see if participating in these groups makes a difference in these areas:

- \*How villagers save and lend
- \*Changes in vulnerability, risk coping and food security
- \*Investment income and assets
- \*Health and education
- \*Social capital
- \*Women's empowerment

Granted there is subsidy, but we are making every effort to minimize the cost by:

- \* Groups operating on their own in a year
- \* 80% of group trained by villagers at little cost to the program other than recruiting and training the "replicating agents"
- \* Underwriting the costs for an NGO working a cluster of 200 to 300 villages for only three years
- \* Creating a structure of trained replicating agents who will continue to support existing groups and train new ones after the three years.

With these measures the cost per group member should be close to the \$15 per group member range even in an country as poor as Mali and where villages are far apart. Consider that the subsidy for an MFI is often in the \$200 to \$300 range.

Jeffrey Ashe

Oxfam America

**Post by: Peter van Dijk**

Dear Kim,

There is a huge difference between subsidising savings, subsidising other essential life services and subsidising credit.

In poor countries, with underdeveloped sectors, with underdeveloped market-oriented processes to make provision of basic life services more sustainable (and with a multi-directional dynamic to improve them continuously) subsidies in all areas are needed and justifiable.

There is, however a big difference in supporting people to provide them with choices, give them freedom, than by giving them certain heavy repayment obligations in a still uncertain, unstable, unprotected environment (with poor people have little knowledge, little protection, little unstable income, and many surrounding risks).

As explained by many earlier, people will only deposit/ save (for several reasons I think it better to add and distinguish the two) in institutions when they have the opportunity and when they find the institution SAFE. The more subsidies a deposit-taking institution receives, the less successful it will be in collecting public deposits; take the state-owned guaranteed postal and savings banks in their decline in some countries.

Allowing people, giving them understanding, the right institutions and the right regulatory framework (not only for financial institutions, but also for legal protection in general, against abusive practices of any sort, and consumer protection), to manage the little money they have (to live from day to day) better, will also allow them to take a more active role in making other government supported services better (health education etceteras).

That is what you call social democracy based on capitalism - where money is a true indicator of the trust between people in a society and the performance of producers of goods and services, including the government.

Peter

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## **UNFINISHED BUSINESS IN INSURANCE**

**Post by: Kimberley Wilson**

Dear Participants -

USAID and Microsave have been heroic in trying to assist with some technical glitches. This will be short since you likely will get a spate of emails all at once.

Those of us who are so passionate about savings might from time to time hold it in check. Yes, we would like poor people to benefit from the same services afforded the rich and middle class. But, we need to ensure that we do not encourage people to substitute one form of savings for another more riskier form, simply because the new form is more recognizable to us, deemed by us to be more secure. I think on savings fiascos such as the US Savings and Loan crisis, SBER bank in Russia or the credit union crisis in Haiti. These had negative impacts on the poor as savers or investors. Along this line Srinivasan pointed to some business none of us has finished. Insurance for savings is critical and without it we haven't much an industry. With such masses of subsidy going into savings, some of it surely should go into bona fide, rock solid protection (which means serious supervision), else we might just as well encourage folks to continue saving in livestock and clay pots.

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## **CLOSING MESSAGES**

**THANK YOU VERY MUCH INDEED!**

**Post by: Madhurantika Moulick**

Dear All,

This is the last email from me....I promise!

I will never be able to thank all the participants enough for making this virtual conference so interactive and informative. Each and every post was well thought through and was of importance. This enhances our responsibility to work harder to promote savings options. Thank you ever so much!

Connecting multiple emails by 324 participants was impossible without the constant support of our guest facilitators Lisa Parrott, Sukhwinder Arora, Narasimhan Srinivasan, Mary Miller, Hans Dieter Seibel, Hugh Allen, Kimberley Wilson. Adding your knowledge to the thoughts presented in the postings, following multiple threads with a lot of patience and finding time from your already overloaded schedule was more than we could have asked for.

We enjoyed being vocal and wanted to share more and more..... probably not realising the trouble we were causing for the MicroLINKS technical team at QED and IRG: Amanda Hawkins, Catherine Horn, Lisa Laegreid, Natalie Greenberg,

Anne Speca, Bonnie Strong, Radha Arunkumar, Eric Stephan, and Anna van der Heijden thanks ever so much for clearing messages, bounces, correcting addresses, uploading documents and registering more people till the last day. Sorry for giving all of you such a tough time! Anna, it has been great interacting with you for the past few weeks almost round the clock in turns!

MicroSave acknowledges USAID for commissioning the assignment and DAI for entrusting it to us. Thanks to Lauren Mitten and Nhu-An Tran for their encouragement and support. Thanks to Timothy Sparkman for providing support just when I needed it.

Thanks to the MicroSave team who are always closely linked to the field and brought the rich field experience to the forum. Thanks for joining in from the action area. Thanks to Graham Wright and Manoj Sharma for the opportunity and to David Cracknell and Brett Matthews for their invaluable tips on running virtual conferences. Hope I have been a decent student.

Thanks to the mails of encouragement that I have received from Evelyn Stark, Madeline Hirschland, MicroSave's Action Research Partners and other well wishers, which were boosters to work through the long hours.

While the forum officially closes today, the actual discussion space will remain open through Friday to allow everyone to post their final messages. The postings and resource documents on savings will continue to be available in the discussion page. A compilation of the emails will be made available by MicroLINKS on the same page shortly.

Please do also visit [www.MicroSave.org](http://www.MicroSave.org) for more papers, briefing notes and toolkits to support the development of market-led savings services!

Thanks again for your response and support.

Best regards,

Madhurantika.

**Post by: Rewa Misra**

Hi

I am sorry that travel made me miss this important discussion. The Coady which has been researching on microfinance through member owned institutions in remote rural areas in India, Indonesia, Niger, Cameroon, Ecuador and Mexico and is particularly interested in this question around mF in difficult terrain.

A thread I would like to add for future reflection is a) what organizations and arrangements work best in remote areas? We were looking at the poorest and most remote regions in the markets of large member owned models that had scaled up and found inevitably that the nearest other kind of institution (MFI, bank branch would be inevitably 10-40 kms away) and likely not reaching as deep anyway (for numbers please refer "Reaching the Hard to Reach: Comparative Study on Member owned financial Institutions in remote rural areas" on the Coady website [www.coady.stfx.ca](http://www.coady.stfx.ca)).

Clients like to save in organisations that are accessible and so the member owned (VSLAs, cooperatives, networks of the same, village owned associations) are really a key entry point for someone wanting to save. Another trend was, rarely were MOIs operating in exclusion from the broader financial system. Small associations were either linked (as in bank linkage a contractual relationship) or federated (a relationship of ownership) and the effects on sustainability, control, worth (to members) were different in both cases. For savings the relevance of linkages and federating was definitely limited in direct terms except in the more centralized cooperative networks such as in Cameroon, Mexico and

Ecuador. But in indirect terms linkages at least (not so much networks) did seem to contribute to the sustainability of associations. And there was a demand for services, for larger loans, more so than what banks were willing to address.

In terms of the question around external internal - the issues seemed not to hinge on how much of the fund should be external but that the entry level capital should be internal and that the returns from external funds clearly visible and valued by members. I really value Brett's provocative comment on this matter but am thinking back to discussions with clients in member owned systems (not a part of this study but earlier field work) which diligently limit external cap to less than 5% and find no outstanding differences in the value that members find in the services at the association level. Or in the quality of governance. A lot of that I think has to do with who is promoting and transparency within the system.

The second question I would have for the forum for any future reflection relates to supervision and capacity building - I believe regulation has already been talked about at least to some extent. But there is a lot that need to be done to build supervisory capacity even in the well regulated systems as also on the capacity building front. One quick mention of Indonesia where with the LPDs the rural apex is trying to work with a supervisory model that allows for cost recovery.

**Post by: Abhijit Sharma**

Dear Madhu and all responsible for hosting the conference,

Thanks a lot for hosting a wonderful conference. It was quite a learning experience where one got different perspectives from people across several continents and also from the leaders of the movement. The papers were also very enlightening and the debates were rich and deep; albeit the deluge of mails sometimes did get overwhelming. Gathering the views of one theme into one slot or box could perhaps be useful so that one could follow it up. All in all, it was a wonderful experience. Congratulations ! Keep it up!!

Abhijit Sharma,

IIBM, Guwahati.

**POST BY: NHU-AN TRAN**

Dear participants,

I would like to add my own thanks to Madhu and all the other guest facilitators for making this virtual discussion such a successful event. Thank you also to Graham, David, George, Brett and others from the MicroSave team for their excellent contribution. The level of participation was truly unprecedented for USAID microLINKS and we sincerely apologize that several of you experienced some technological difficulties with the site.

I was heartened to see however that these glitches did not stop or slow the level or quality of conversation and debate. As Madhu mentioned, we will keep the community space open through the weekend so that you can continue to post comments. A summary document will be published shortly on microLINKS.

The Speaker's Corner is a monthly event organized by USAID's Microenterprise Development office and we welcome your suggestion as to future topics to be featured on this site. Please email your ideas to [speakerscorner@microlinks.org](mailto:speakerscorner@microlinks.org). Thanks again and we look forward to having you with us during future online discussions.

Best,

Nhu-An Tran

USAID/Washington

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