INTERCOOPERATION
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The Poor and Their Money: Microfinancial Markets and Product Development for the Poor and Very Poor

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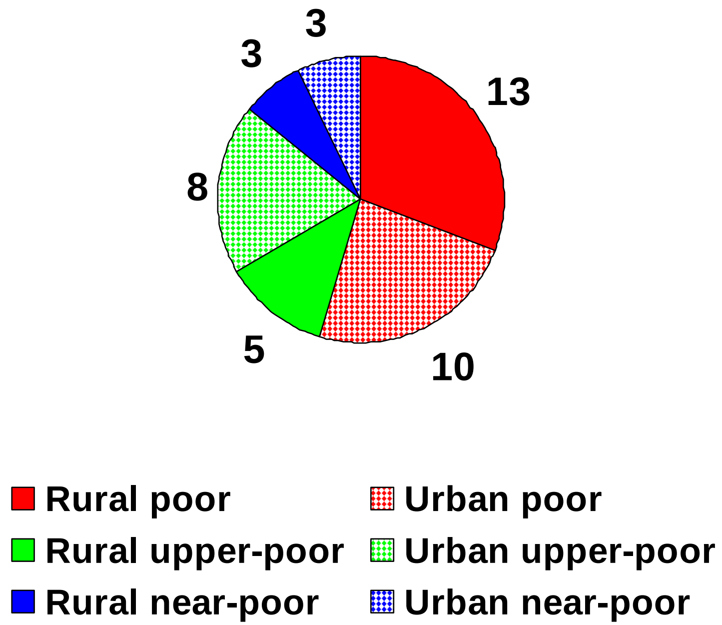
The 42 Bangladeshi households

that we talked to at length twice a month for a year

- The poor: mainly landless and casually employed or self-employed in low-capital activities
- The upper-poor: wide variety of casual, waged and self-employed livelihoods
- The near-poor: share the same environment but do better because they own land or have regular jobs



Similar in many visible ways (housing, food, clothing), but very diverse in livelihood strategies

Do the poor actively manage their money, or do they live ‘hand-to-mouth’, spending all income as soon as it comes in?

Our study shows they are active money managers….

33 ‘instruments’

FORMAL SERVICES:
Bank savings
Bank loans
Coventional life insurance
Pro-poor life insurance

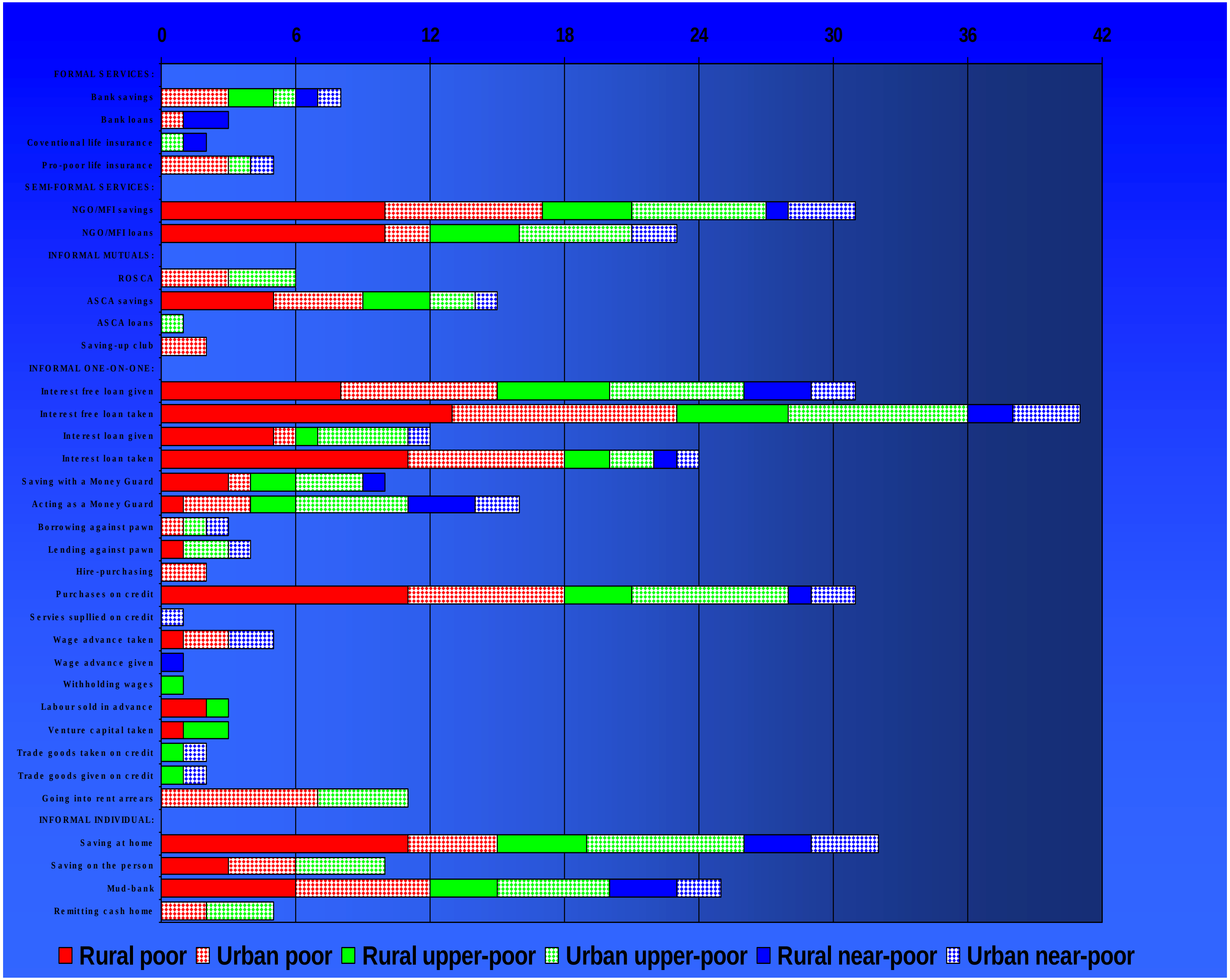
SEMI-FORMAL SERVICES:
NGO/MFI savings
NGO/MFI loans

INFORMAL MUTUALS:
ROSCA
ASCA savings
ASCA loans
Saving-up club

INFORMAL INDIVIDUAL:
Saving at home
Saving on the person
Mud-bank
Remitting cash home

INFORMAL ONE-ON-ONE:
Interest free loan given
Interest free loan taken
Interest loan given
Interest loan taken
Saving with a Money Guard
Acting as a Money Guard
Borrowing against pawn
Lending against pawn
Hire-purchasing
Purchases on credit
Servies supllied on credit
Wage advance taken
Wage advance given
Withholding wages
Labour sold in advance
Venture capital taken
Trade goods taken on credit
Trade goods given on credit
Going into rent arrears

33 instruments, and the number of households that used them



FORMAL (BANKS ETC)

SEMI-FORMALS

INFORMAL MUTUALS

INFORMAL ONE-ON-ONE DEVICES AND SERVICES

INFORMAL INDIVIDUAL

Top services and devices

- All classes of household in both locations use a wide range of instruments – except for formal services which don’t reach the rural poor:
- Most used by far are the informal one-on-one services and devices: above all interest-free borrowing (used by 41 out of 42 households). Interest-free lending is also common.
- Other much-used instruments are MFIs, buying goods on credit, various ways of saving at home, money-guards, and savings clubs.

Households who used most instruments

- Sultan and Kuruna, urban near-poor, used 16 instruments – to raise their children and to finance her sari-selling business
- Hafiz and Ramisa, young and landless rural poor, used 14 – to manage their family on his tiny unreliable day-labouring income
- Siraz and Monwara, urban upper-poor, also used 14 – he is ill and gets irregular work as an auto-rickshaw driver, she gets casual domestic work and their son picks rags when he should be in school
- Taleb and Kukhumoni, rural upper poor, also used 14 – to support his market shop and timber-trading business

Rich and poor, business-people and the casually employed – any type of family may be using a wide variety of instruments

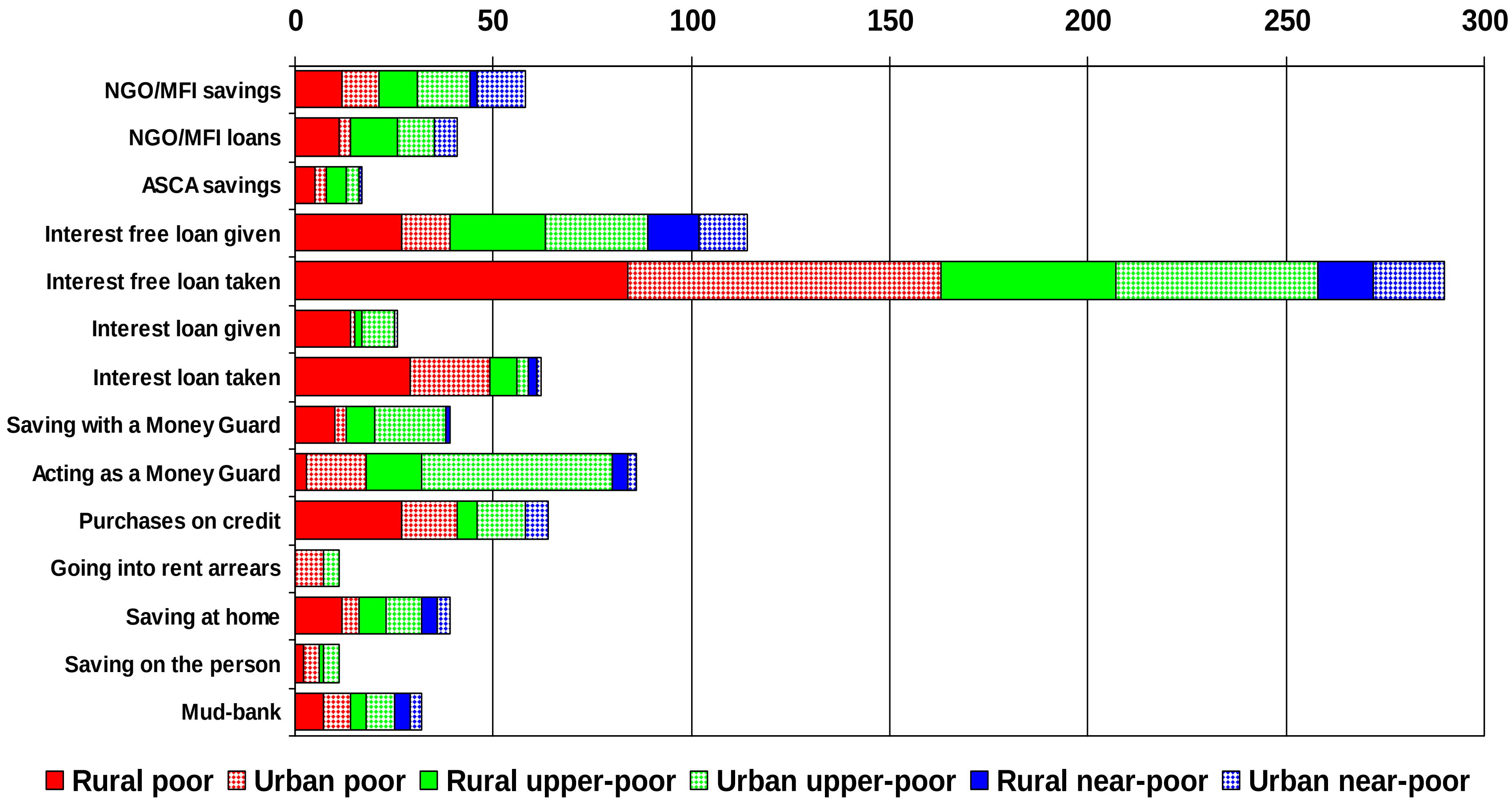
Households who used least instruments

- Maymana, rural poor, used only 4 instruments – she is an abandoned mother with a teen-age son who has a growth on his spine. Still, Maymana manages to give interest-free loans to neighbours as well as take them.
- Hosen and Safia, an elderly urban upper-poor couple, also used only 4 – he takes a loan to buy a second hand rickshaw to hire out, and he sends cash home to the village to buy land
- Akkabar and Haruna are rural near-poor farmers with 3 acres of land. They used only four instruments, too: Akkabar says he just doesn’t like getting involved in financial transactions

The number of instruments used is not directly related to wealth or status

Multiple use

the number of times some commonly-used instruments were used



So interest free borrowing and lending are the most often used, as well as the most commonly used, of all the instruments

Average transactions flows per household in the year (US$)

Class	Rural	Urban	All
Poor	433	402	420
Upper poor	2,019	988	1,384
Near poor	1,307	1,222	1,265
All	935	742	839

- households are pushing or pulling about 60% of their annual income through financial instruments (annual household income is about $1,400)

- at this rate, the microfinancial market for the poor in Bangladesh may have an annual turnover exceeding $10 billion

Six households with big transaction flows

- Sayed & Asma, rural poor: $1,354 of transactions in the year, mostly one-on-one informal. Sayed is a timber trader and a gambler.
- Amala, urban poor: $874. Amala's husband left her years ago: she takes MFI loans and on-lends them to others.
- Abu Taleb & Khukomoni, rural upper poor: $3,489. A mix of private and MFI loans to run his shop and timber trade.
- Sobhan & Halima, urban upper poor: $2,142. He is a salaried car driver: they use ROSCAs and ASCAs, private and MFI loans, take money as a 'guard', and lend against pawns: they try to maintain a high standard of living.
- Gani & Jahanara, rural near poor: $2,767. He has 3 acres and uses bank savings and loans, and gives and takes private loans
- Sultan & Kurnuna, urban near poor: $1,969. Car driver and sari-selling wife, enthusiastic users of financial instruments for all purposes!

A wide diversity of needs and lifestyles lead to large transaction flows

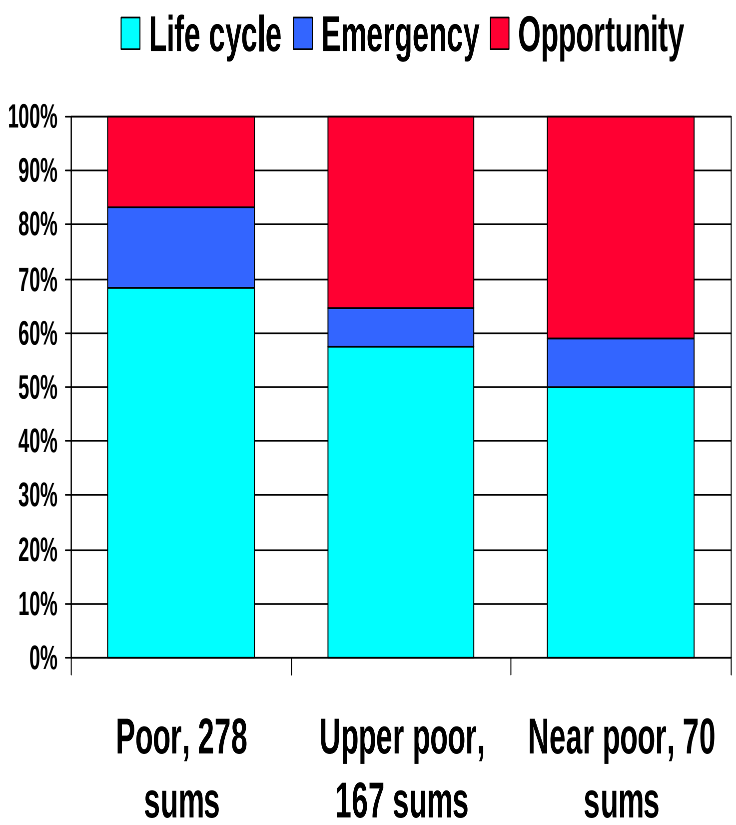
Big flows, small balances:

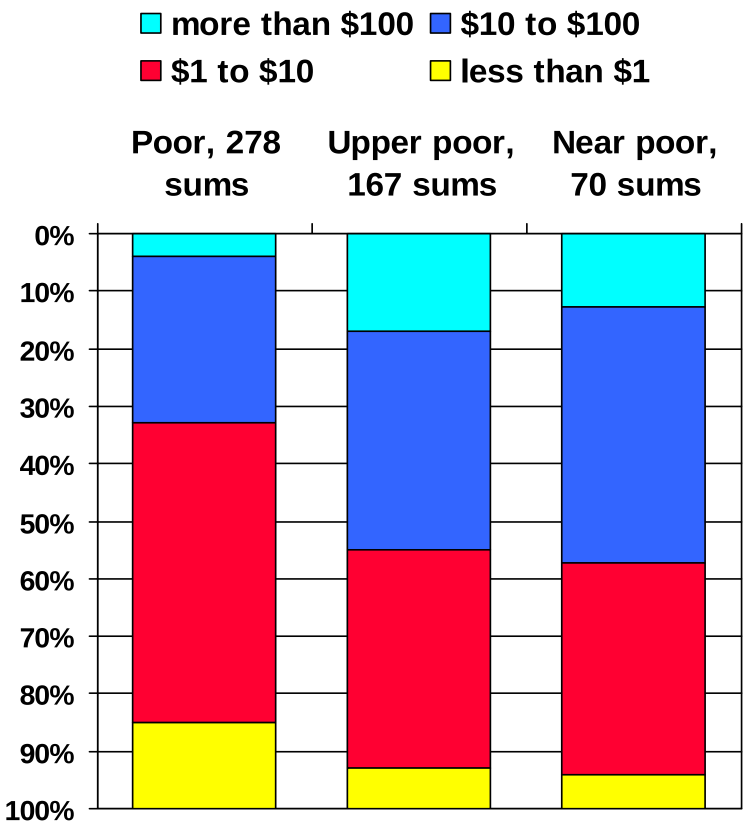
average annual flows and year-end balances (US$)

Year end:	Financial assets	Financial liabilities		Total annual transaction flow
Rural	210	137		935
Urban	129	179		742
All	170	158		839

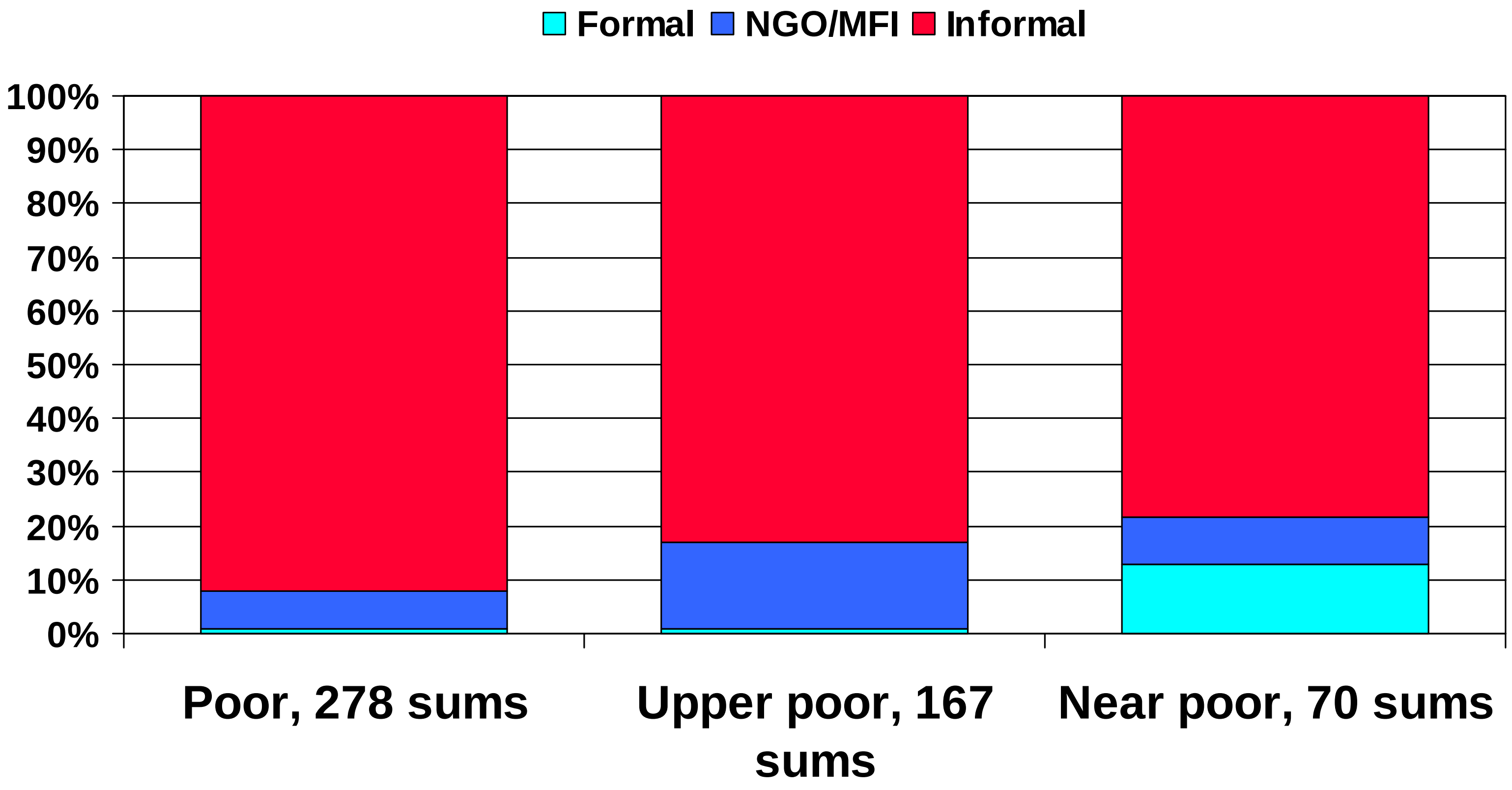
These household are using financial instruments to build the lump sums they need, and not to hold long-term financial assets nor long-term debts

What they spent their lump sums on, and the values of the sums





Where the sums were formed



Financial transactions

…an important part of poor peoples’ lives

- ‘You can’t get by without borrowing, even though it’s unpleasant. I’d love a better place to keep my savings’ (Hamida)
- ‘I feel a lot of pain when lending or borrowing goes wrong – but I have to do it as I can’t manage without’ (Renu)
- ‘I don’t like lending and borrowing – it’s a mental burden’ (Akkabar)
- ‘Financial transactions are an important part of life – but they can be bothersome’ (Barek)
- ‘Actually, when we borrow, we don’t sleep at night, for thinking of it’ (Saman and Hazara)

*The poor need **basic banking services** – not just finance for microenterprises run by women*

Where are the MFIs?
The good news….

- MFIs reached no less than 33 of our 42 households
- 26 MFIs altogether were found during the study. Between them:
- They reached 17 of the 23 poor households
- They reached 11 out 13 upper-poor households
- They reached 4 out 6 near poor households
- Most of the MFI loans were quite large and many of them were used for ‘opportunities’
- Many of our respondents tried hard to keep up with MFI loan repayment schedules because they found MFIs generally more reliable than other instruments

MFIs have good ‘outreach’

…so why do they have such a small share of the business?

- There were five times as many interest-free loans reported in our study than there were MFI loans
- The MFIs took a mere 15% share of the total ‘transaction flows’ reported
- The MFIs had only a 10% share of the 515 ‘lump sums’ that we analysed in detail
- The MFIs held only 14% of the year-end assets of the 42 households, and 21% of their debt
- Although many households found them relatively reliable, there were many reports of MFIs breaking promises

No matter how you measure it, MFIs, even when they have wide outreach, have a shallow penetration of the microfinance market