Promoters and Providers

Outsiders who want to help poor people get access to better financial services can be divided into two classes:

PROMOTERS aim to help poor people set up their own financial services

- **the poor OWN and MANAGE their own services (they own the financial assets and liabilities involved)**
- **the poor often DO THEIR OWN BOOK-KEEPING**
- **the Promoter does not have a predominant financial interest in the services and often covers costs from other sources**

typical Promoters include Indian NGOs that set up and assist 'Self-Help Groups'

Promoters and Providers

Outsiders who want to help poor people get access to better financial services can be divided into two classes:

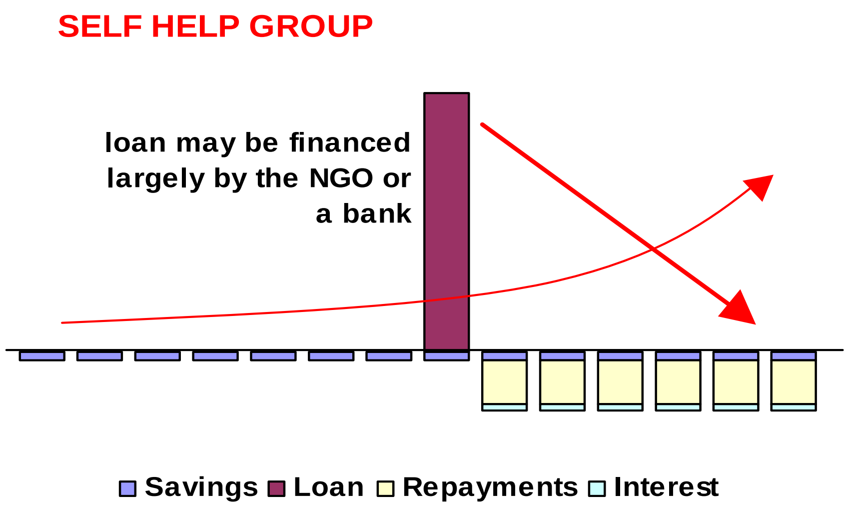
PROVIDERS aim to retail financial services directly to poor people

- **the Provider OWNS and MANAGES the business**
- **the Provider does the BOOK-KEEPING**
- **the Provider therefore often tries to cover the costs of provision from fees and interest payments charged for the services**

typical Providers include the big Bangladeshi MFIs like Grameen Bank and ASA, or the Latin American ones like Banco Sol

Some Promoters, often NGOs, set up a version of the ASCA among the poor

This is the most common form of microfinance in India, where the main aim of the NGO may be to **empower the poor** and to **establish institutions owned and controlled by the poor**.



Often, the NGO provides most of the loan capital. They do this because they believe that the members' "loan needs" are greater than their savings ability.
The NGO often stresses business use of the loan. It is sometimes not clear what will happen to the small savings.

Good SHGs may go on to become Credit Unions (savings and credit co-operatives).

Two Kinds of Groups

Spontaneous groups

e.g. a ROSCA, or 'ASCA'

- Owned unambiguously by the users
- Single-purpose (to turn their savings into lump sums)
- Arises spontaneously
- Often short-lived, but may replicate or reform
- Covers its costs fully – or collapses
- Charges realistically high prices in an unashamed way
- Composed of people who demonstrate trust by obeying the few clear rules
- In their millions world-wide
- Part of a strategy of ad-hoc replication and multiplication
- Fully tested and robust

Two Kinds of Groups

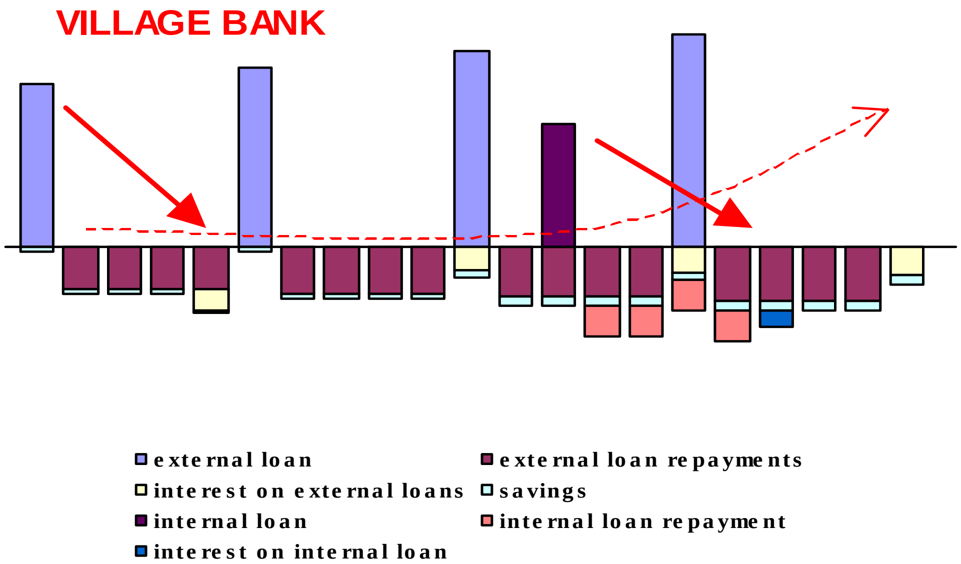
Promoter's groups

e.g. a 'Self-Help Group'

- Owned somewhat ambiguously by the members
- Often multi-purpose (some aims stressed more by the members, others more by the NGO)
- Can take time to set up
- Often of indeterminate life but may fail if NGO pulls out
- Takes time to cover its costs (if ever), and is often subsidised from outside
- Aims somewhat shame-facedly to charge prices high enough to cover costs
- Composed of people who are supposed to have trust based on some previous 'homogeneity'
- In their thousands world-wide
- Part of a strategy of permanence and growth of people-owned institutions
- Still under test

A Village Bank starts with an outside agency (usually an NGO) making a bulk loan to a club (or 'bank') of fifteen to thirty women. The women (the 'bank') lend this money on to their members, who are required to repay it in strictly equal weekly instalments over sixteen weeks.

It is assumed these loans are invested in businesses that have expanding profits from which the repayments are made.



If they repay properly, the NGO increases the amount lent next round.

Meanwhile, the 'bank' is also acting as a savings club. Members save weekly and the 'bank' uses this money to make additional loans to the members.

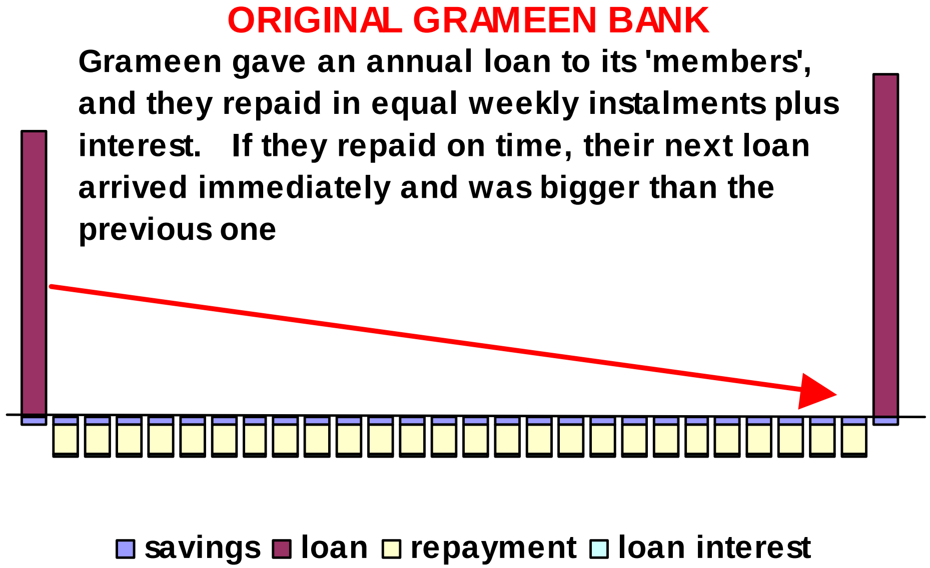
The original idea was that after so many rounds, the 'bank' would have enough funds to carry on by itself, and the NGO could move on to start other banks elsewhere.

But the trend now is the opposite – NGOs are turning themselves into 'MFIs' and want to keep the 'banks' as their permanent clients.

The role of reliability.

Originally, Grameen Bank offered only 'savings down'. But it did it in such a reliable and affordable way that its loans became massively popular with its clients (or 'members') in rural Bangladesh.

The product is like that of the urban moneylender – except that it is more **reliable**, **cheaper**, and **accessible** to millions of poor people.



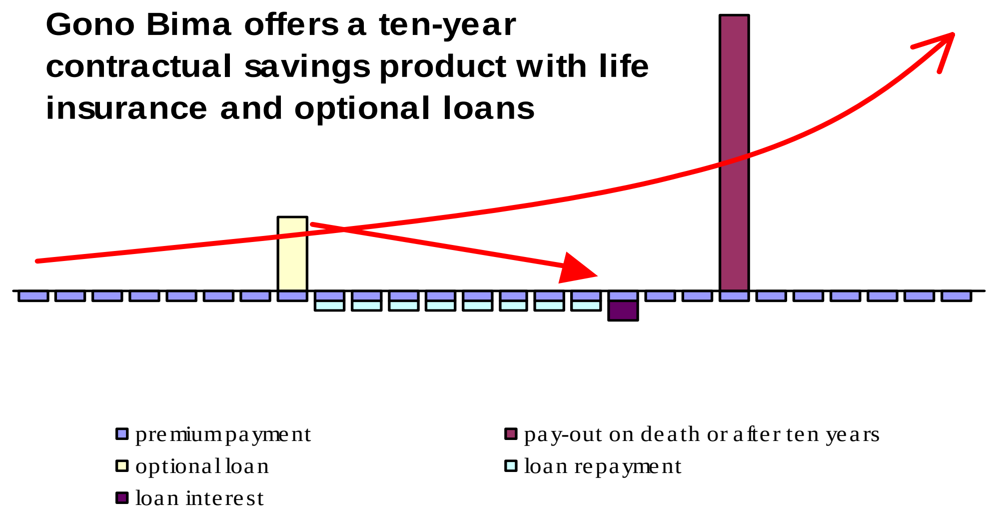
Grameen's success is explained more by its offer of a reliable way to turn savings into loans (via 'saving down') than by joint-liability group membership, which is in decline in Bangladesh

Innovation in Bangladesh

Gono Bima is a subsidiary of a large private commercial insurance company in Bangladesh.

It offers village men and women a simple contractual savings scheme over ten years, with life insurance added. This means that if you die before the ten years is up, you get the same pay-out as if you'd completed ten years' worth of pay-ins.

GONO BIMA



In addition, it has borrowed Grameen Bank's system of loans repaid in weekly instalments. These are optional.

Most of the other insurance companies have either copied Gono Bima or are rushing to do so.

However, Gono Bima has suffered from poor internal control, leading to a severe **loss of reliability**.

Actually, *three* Kinds of Groups

Provider's group

e.g. a Grameen group

- ownership unclear but controlled by the MFI
- single-purpose (that of financial service provision by the MFI)
- can be set up very quickly
- lasts as long as it is useful to the MFI
- is there to help MFI cover its own costs – but not always effective in this role
- is often (but not always) charged a realistic price
- composed by people who accept joint liability as a condition of access to MFI loans
- in their thousands
- part of a strategy of permanence and growth of microfinance institutions
- still under test

Summary of the 'Poor and Their Money' argument

Financial services for poor people help them turn savings into usefully large lump sums.

Poor people are in special need of this service because they hold such small amounts of cash that almost any expenditure needs financing from savings made from past or future income.

Such sums are essential for a wide variety of uses including life-cycle events and emergencies, and opportunities to invest.

Savings can be turned into usefully large lump sums by means of three basic patterns:

1. saving up (building lump sums from savings already made)
2. saving down (building lump sums from savings to be made in the future)
3. saving through (building lump sums both from savings already made and to be made in the future)

Our review of how poor people actually manage their money shows the many ways in which these three basic 'swaps' have been developed in the informal sector.

Practicing the 'Poor and Their Money' argument

To accommodate the full range of needs and opportunities, the three **'swaps' need to be made in a wide range of values and over a wide range of periods.** (For example, from borrowing a few cents now that will be paid back next week, to saving up now for a pension in thirty years time)

Good* financial services for poor people** are therefore ones that make it convenient to store the savings and convenient to take out the lump sums, in any range of values, over any time span, and using any or all of the three basic 'swap' types. The ***best financial services for poor people do this in an affordable and reliable (sustainable) way.

Good financial services for the poor turn out to look very much like good financial services for the not-so-poor!