A Symposium on Savings-Led Microfinance and the Rural Poor

Introduction by Jeffrey Ashe

Preface

Microfinance has achieved much in the twenty years since it became recognized as an important tool of development, but the demand for credit and savings services far exceeds the current institutional capacity. While microfinance institutions effectively deliver services to cities and densely populated rural areas, they have had limited success serving rural areas more than a few kilometers from urban centers. In only a few countries—Indonesia, Bangladesh, and Bolivia, for example—has microfinance reached a sufficient number of clients to make a difference on a national scale. How can the rest be reached? The answer may be already before us.

While only 11% of the world's 235 million poorest families are served through microfinance institutions worldwide (Daley-Harris, 2002, p. 14) ROSCAS (Revolving Credit and Savings Societies)—Tontines, Susus, Chit Funds, Merry Go Rounds, Tandas—and other locally controlled organizations exist in virtually every village. What would happen if these groups were "modernized" into effective locally controlled savings and credit groups? Taking this another step further, what would happen if these groups with their empowered and prospering members became platforms for literacy, health education,

business literacy, and sustainable agriculture training, or even candidates for bank financing?

The programs from Nepal, Niger, India, Mexico, and Bangladesh profiled in this symposium on “Savings-Led Microfinance” are accomplishing exactly that. Instead of creating new microfinance institutions, locally controlled self-help groups are being trained to mobilize their own savings, manage their own accounts, and make loans at interest to their members. Since the issue is defined as group strengthening, not credit delivery, the standard microfinance paradigm has been turned inside out. In addition, savings-led programs build equity within the group rather then debt to an MFI and the interest paid on the loans contributes substantially to building the group’s fund. When a woman leaves her group, she takes her savings and the interest her savings generated with her. All this is occurring in rural settings where a $30 loan is substantial, where a dollar a day would represent a tripling or more of per capita income, and where literacy rates are very low.

By sidestepping the costly and problem-fraught issue of managing an external loan fund, and by encouraging local NGOs and even group leaders to take the lead in training and monitoring these groups, the process of expansion is greatly simplified, highly decentralized, and very inexpensive. It becomes feasible to involve local partners in large numbers because there is no credit delivery infrastructure to manage, and the potential for fraud at the staff level is minimized since each group manages its own fund. Another advantage is that if the local institution supporting the groups fails, the groups can continue on their own once they are trained.

In these programs, training is often provided by animators or promoters with minimal formal education who are recruited locally, know local languages and customs, and are paid at local rates. Within two to three years, the leaders of

Jeffrey Ashe is a Visiting Scholar at the Institute of Sustainable Development at Brandeis University. Email: JAAshe@aol.com

these groups, who are typically women, have shown their initiative by starting new groups in response to requests for help from nearby villages, and some have become independent agents paid by the groups they start and monitor. This further reduces costs and the need for external funding while increasing the rate of expansion.

Depending on the country, the local setting, and whether or not literacy or other training is included, these programs show that groups can be trained and monitored at a cost of $5 to $30 per member. Most of these costs are incurred during the eight months to three years it takes to train a group to operate independently. In contrast, the start up costs of a typical MFI can reach $300 or more per borrower, including the costs of capital, operations, systems, and training. Even efficient MFIs struggle to reach more remote areas; the fixed costs of lending and collection are simply too high. The savings-led models, however, can accommodate the needs of very small businesswomen in rural locations who may only take periodic loans that are tailored to their business size and specific needs as approved by their group.

The impact on clients is substantial. As group members save and borrow and manage their groups, they gain status in their families and become more active in their communities. As their assets and income increase, they start or grow their often agriculturally based income-generating activities, break free from moneylenders, and send their children to school.

The savings-led programs profiled here,

- Differ from credit unions because record keeping is simpler. Groups are much smaller and often build on existing local organizations or ROSCAS. They operate below the regulatory radarscope and savings and lending policies are adapted to fit local conditions.
- Differ from traditional ROSCAS, since members deposit their money in a group managed fund that is lent to members at interest. Improved record keeping, monitoring, transparency, and auditing mitigate risks and the possibility

of fraud within the groups, and trained groups often serve as platforms for the introduction of literacy, business training, health education, and other development inputs.
- Differ from MFIs because there is no external loan fund; savings and lending are managed entirely by the group.
- Differ from credit unions and banks that deliver microfinance services through their own staff, since the groups are generally trained and monitored by local NGOs, not the credit providing institution.

There are certain limitations to this methodology, however. Savings-led microfinance is best suited to "horizontal expansion"—the creation of very large numbers of simple autonomous groups. This makes it difficult to introduce new products such as insurance, and the limited size of each group's fund means that those who need more capital will not have access to it (except in India where groups can link to bank credit after demonstrating good performance as savings and lending groups). The methodology is also time-consuming, especially for the leaders. Grouping large numbers of self-help groups into federations is also risky because of the possibility of fraud when funds are not tightly controlled and group treasurers lack the training and sophistication to manage larger structures such as federations. Finally, groups might disband if other credit sources become available, but this point is academic; in the poor rural areas where these programs operate, there are no other sources of credit available.

This collection of articles is suggestive of the range of savings-led methodologies and also the universality of this approach, but like any new methodology, there is still much that needs to be learned:
- What are the most effective ways of developing groups?
- Under what conditions is each methodology most appropriate?
- How sustainable are these groups and what issues emerge as groups have larger funds to manage?
- Who joins and who is left out?
- How can fraud within the groups be controlled?

- How can these groups be best used to introduce other development inputs?
- How can new initiatives be started and how can existing initiatives be expanded exponentially?
- What is the impact at the level of the individual and the community and how does it compare with the credit-led alternatives reaching this population?

A systematic investigation of the profiled programs and others like them will help answer these questions.

Although the number of savings-led programs is small, and there are many questions yet to be answered, it is important to consider that all major innovations in microfinance—including solidarity group lending, village banking, and commercialization—started with a few scattered efforts. Over a few years, these scattered projects inspired a globe spanning process of innovation and replication.

With interest in funding microfinance from donors waning and questions about microfinance reaching the poor increasing, a methodology that can reach several times more clients per dollar of donor subsidy becomes very attractive. This investment becomes even more relevant when it is considered that the NGOs can also use the groups to introduce other crucial development inputs including literacy, health education, and sustainable agriculture in order to improve the standard of living in these communities in the face of growing population and dwindling resources. With further study, training, and financing, savings-led microfinance could rapidly evolve into an important tool for helping achieve the Microcredit Summit's objective of reaching 100,000,000 million of the world's poorest by 2005.

Introduction to the Case Studies

The impressive scale and the low cost of the savings-led initiatives profiled in this symposium underscore the potential of this highly decentralized model.

Jeffrey Ashe, Lisa Parrot: "PACT's Women's Empowerment Program: a Savings- and Literacy-Led Alternative to Financial Institution Building."

PACT's Women's Empowerment Program (WEP) in Nepal operated through 6,500 groups with 130,00 women members. These groups mobilized nearly $2,000,000 of assets in less than three years with 94% on loan to 45,000 group members. By mid 2001, WEP had as many outstanding loans as CARD in the Philippines and Compartamos in Mexico, two very well known "credit-led" microfinance institutions, while working through three times as many groups. In addition, 65,000 group members learned to read through Pact's innovative curriculum that focused exclusively on managing a group, starting a business, and women's empowerment.

WEP was implemented by 240 partners (most of them local NGOs) who were responsible for recruiting the groups and monitoring their performance. Local partners were working with almost all of the 6,500 groups within 60 days of startup, showing how quickly NGOs with their detailed knowledge of local communities can build a program if provided good training and support. The cost per client was $27.20, which included the costs of curriculum development, publishing, and the distribution of the four volume set to the 130,000 members, but did not include overhead and PACT's Washington office expenses. With the end of AID funding, the WEP team was withdrawn from the field in May 2001. Although there are few reports of groups failing, further investigation will be required to see if groups continue to operate on their own with only the support of the local partners.

Hugh Allen, William Grant: "CARE's Mata Masu Dubara (Women on the Move) Project, Microfinance for the Rural Poor that Works."

CARE's Mata Masu Dubara (Women on the Move) is serving 162,128 women organized into 5,654 stand-alone groups in the rural areas of Niger, one of Africa's poorest countries. These

groups manage $3,000,000 of savings with virtually all of it on loan to members. Five hundred trainers selected by their communities and trained by the CARE staff monitor the groups and develop new ones. The group members themselves pay for these services. Sustainability, then, is achieved through fees paid by the groups, rather than interest charged to an MFI. Virtually all of the groups created over the last several years are still functioning, dropout is minimal and loan repayment is nearly perfect.

According to the State of the Microcredit Summit Campaign Report, 2002, MDD is the second largest microfinance initiative in Africa (p. 21), and very likely the only one that depends entirely on internally generated group controlled savings. Costs per client are estimated at $18 to $25 per member when training is carried out by the CARE staff, but drop to $3 per client when local facilitators do the training.

Kimberly Wilson: "The New Microfinance: An Essay on the Self-Help Groups Movement in India."

Indian NGOs have created at least one million self-help groups with 17,000,000 members since the self-help group concept was developed by MYRADA in the late 1980's. India is unique in that banks are permitted to lend directly to unregistered self-help groups and by May 2001, banks and cooperatives had financed 461,478 of these groups, with almost 200,000 new self-help groups financed between May 2000 and May 2001, indicating the accelerating process of expansion.

The National Bank for Agriculture and Rural Development (NABARD) trains the banks and refinances their loans. The key to NABARD's success is decentralization. Responsibility for group development and training is devolved to NABARD's 2,100 NGO partners and almost 450 banks and cooperatives provide banking services to the groups. According to the Microcredit Summit Report (p. 22), 2,663,901 of the 6,651,701 active members of the groups financed by through NABARD (most of them women) were categorized as "the poorest," making NABARD the largest microfinance

initiative in Asia, with the Grameen Bank a close second. (If the number of members not linked to bank financing are included, the number of the poorest being reached through self-help groups is at least double that number.) Local costs range between $4 and $12 per member to train and support a group until it can operate independently.

Gabriela Zapata: "Community Savings Funds: Providing Access to Basic Financial Services in Marginalized Rural Areas of Mexico."

Showing that savings-led microfinance is not only an Asian and African phenomena, the Mexican Government has underwritten the training of 540 Community Savings Funds with 12,800 members since mid-2000 and plans to expand this number to 20,000 groups with 600,000 members over the next several years. Each CCF mobilizes its own savings and manages its own loan fund, similar to the other self-help group initiatives.

Considering that only four percent of the eight million economically active population living in the rural areas of Mexico have access to financial services from banks, nonbank financial institutions, or government agencies, the potential to develop this market niche is great. (There is likely to be a similar demand for these services in other poor Latin American countries.) The cost for training a group averages $31 per group member and includes the fee to the promoter, transportation, and a model kit that presents all the systems needed to manage a group. Promoters are paid on a per-group basis. The costs for recruiting, training, and supporting the promoters are an additional cost.

Brett Matthews and Dr. Ahsan Ali. "Ashrai: A Savings-Led Model for Fighting Poverty and Discrimination."

Ashrai is getting good results with a savings-led model among minority peoples in northwest Bangladesh. Group members are mostly landless and illiterate, and earn about $50 per year. Ashrai began its field work ten years ago by replicating the Grameen Bank, but rapidly learned form its clients that they

needed savings at least as much as loans, flexible repayment schedules structured around seasonal cash flow, and the easing of the requirement that loans be for productive purposes.

Ashrai operates through 3,100 groups with 55,000 women members, who have saved nearly $1 million of their own capital. As each group builds its capital base, its vulnerability to land loss, drought, and moneylenders drops dramatically, and members invest more in productive activities and education for their children. They hire and oversee their own bookkeeper and managing their finances without external support. It costs Ashrai $18 per member to support group development during the incubation period, considering all costs.

References

Daley-Harris, S. (2002). State of the microcredit summit campaign report, (November).