A photograph of a small wooden boat on a wide river. Several people are on board, handling a large, light-colored fishing net that is partially submerged in the water. The boat is filled with various items, including what appears to be a large quantity of small, light-colored objects, possibly fish or floats. The background is a vast, calm body of water under a clear sky.

Reaching the poorest

Stuart Rutherford
IDPM Manchester & SafeSave Bangladesh
www.safesave.org

The views expressed in this presentation are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank. The Asian Development Bank does not guarantee the accuracy of the data presented. The countries listed in this presentation do not imply any view on ADB's part as to sovereignty or independent status or necessarily conform to ADB's terminology.

Reaching the poorest in Asia with Microfinance

- but do the poorest need or want microfinance?
'Yes', they say - and their behaviour confirms it
- then what sort of microfinance services do they want?
Frequent, close-at-hand access to flexible basic banking services of a reliable kind
- so how can services of this sort be delivered?
By pushing the boundaries of what we have learnt already



Sultana's household portfolio



The household squats in a disused condemned school building, no rent - but no security either
Sultana (pictured), 38, maidservant on \$10 a month
Husband Rakeb, 52, unskilled construction worker on \$2 a day for 10 days a month

Her father Gagan, beggar: these three are all illiterate
Son Ripon, 14, mason helper, \$1.60 a day, 20 days a month
Children Aklima, 11, Fularo, 9, and Rajib 7, in school

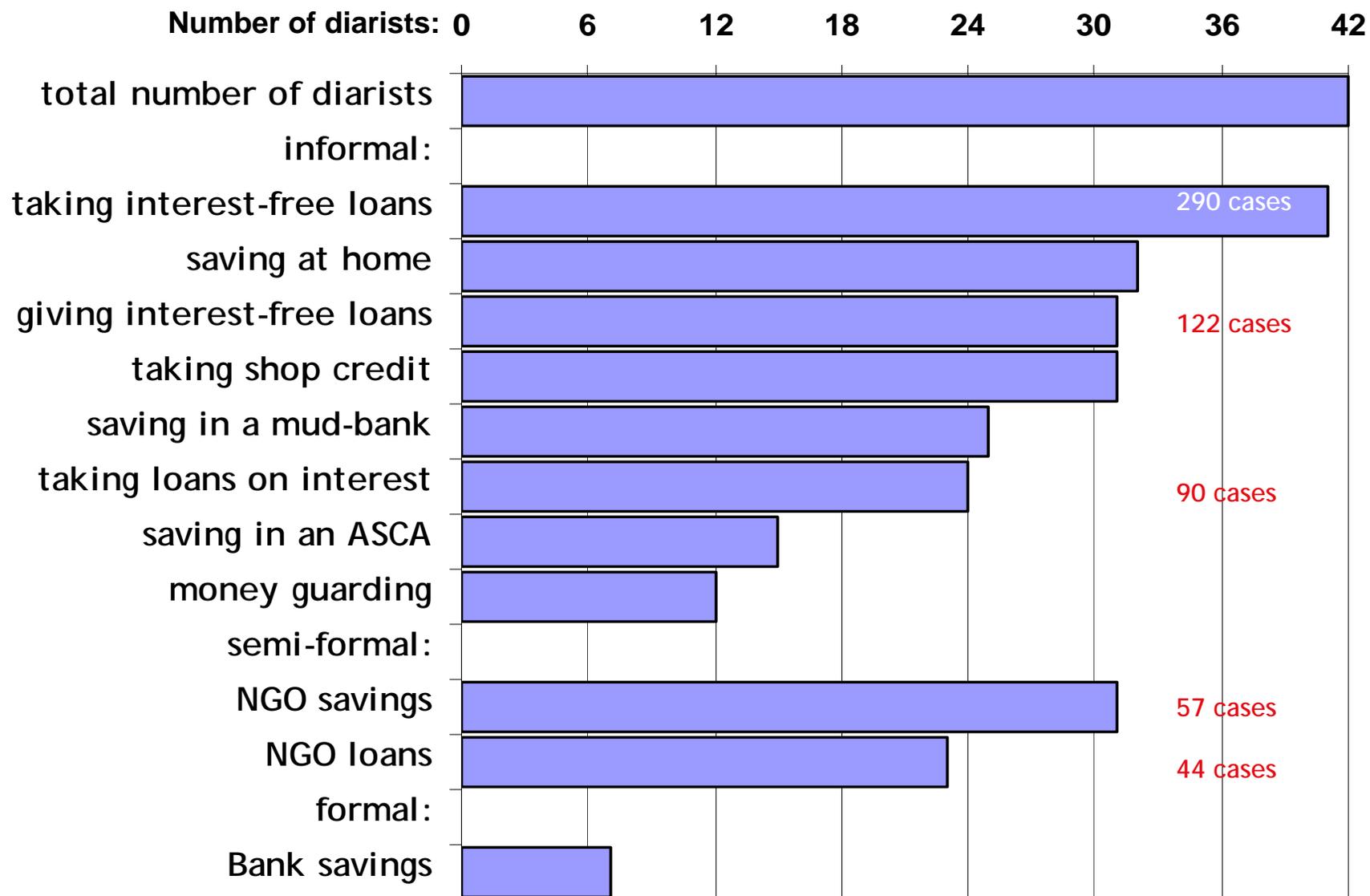
Household per capita income: \$0.32 a day - but unreliable

Their financial services portfolio:

- a \$0.04 a day goes into a daily savings club run by local women
- b Sultana has a 'mud bank' (a piggy bank) and pays in coins occasionally
- c they have seven interest-free loans in from neighbours (\$1 to \$65) and have two interest-free loans out to neighbours (\$2 and \$10)
- d two interest-bearing loans in from neighbours and family (\$15 and \$30)
- e shop credit from six shops (\$1 to \$15)
- f Sultana holds cash from neighbours as a 'moneyguard' (total about \$15)
- g when Rakeb was earning more regularly, they had an MFI membership
- h for a few years they paid into a life insurance policy - until the agent disappeared

The Bangladesh diaries: 42 very poor, poor and near-poor households, half rural and half urban

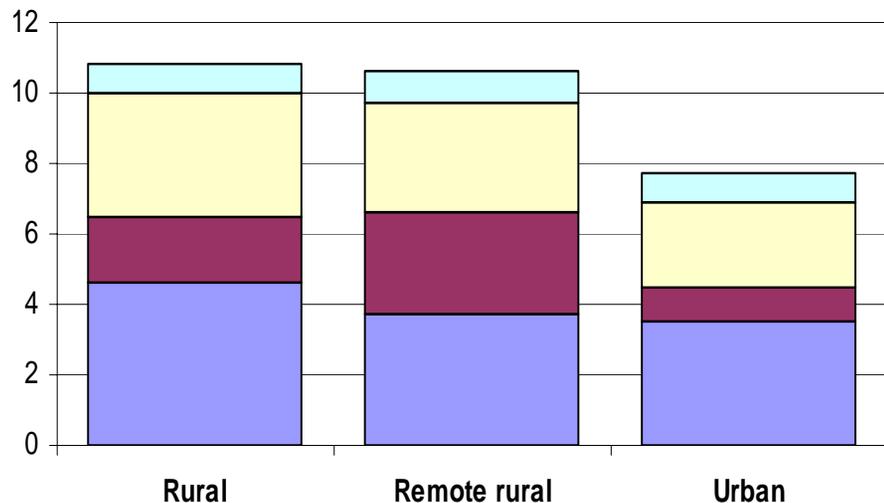
some services and devices were used many times by many diarists in the year...



'Diaries' from India and from South Africa tell similar stories

The South African Diaries 2004
(number of households in sample: 160)
Average Number of Instruments Used per
Household in the Year

■ Formal ■ Informal group ■ Informal bilateral ■ Informal personal



- even in sparsely populated remote rural area poor households use many instruments
- many of the informal 'group' instruments are a form of insurance used for funeral expenses in a country ravaged by HIV/AIDS
- many of the formal instruments are bank savings accounts originally opened to receive state welfare payments, or remittances from family working away from home

The Bangladesh diaries showed big flows of money through financial services and devices: *even the very poor are active users of financial services*

Flows: average total transaction flows through financial services and devices per household in the year (\$)

Class	Rural	Urban	Rural and Urban
Very Poor	433	402	\$420
Upper poor	2,019	988	\$1,384
Near poor	1,307	1,222	\$1,265
All	935	742	<u>\$839</u>

- households are pushing or pulling about 60% of their annual income through financial instruments
- at this rate, the microfinancial market for the poor in Bangladesh may have an annual turnover exceeding \$10 billion

If you're very poor...

- you don't have much money
- what you have goes mostly on food and fuel
- when you need something else you may not have the cash at hand

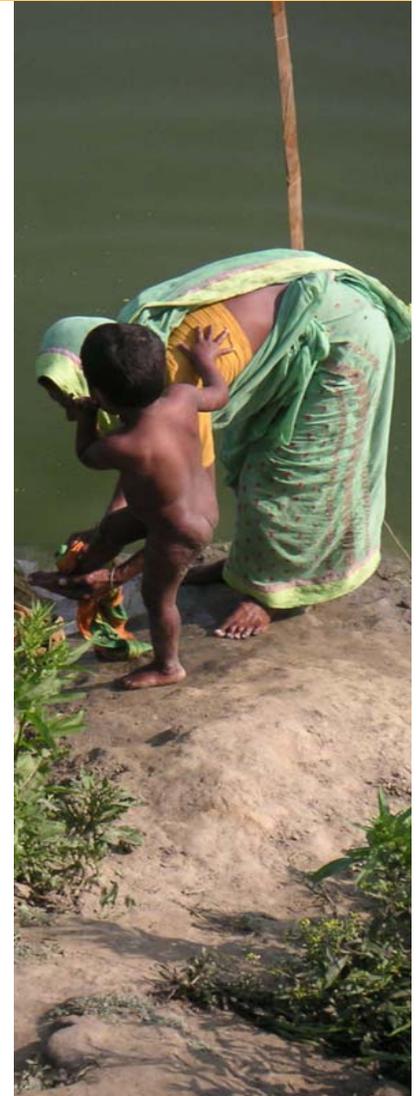
You can:

- go without
- sell hard-to-replace assets

or:

- draw on past income or future income

...that's what financial services are for



Arguably, the very poor need financial services even more intensely than the non-poor

It follows that financial services and devices that the poorest find useful...

- **Are nearby**

like neighbours, family, employers, landlords, local shopkeepers, local savings and loan clubs (ASCAs and ROSCAs,) itinerant deposits collectors, and itinerant money lenders

- **Provide a frequent opportunity to transact**

Deposits collectors and money lenders may call daily or weekly; clubs may collect daily or weekly; neighbours, family, landlords, employers, and shopkeepers are contacted frequently; the piggy-bank calls out for a few coins each day

- **Help you save up, save down, or save through**

Deposits collectors and moneyguards hold cash until you need it ('saving up'); moneylenders, shopkeepers and other creditors advance you cash against future savings ('saving down'); clubs like ASCAs and ROSCAs help you match frequent pay-ins with occasional take-outs ('saving through')



useful services and devices also...

- Offer a variety of values, terms and schedules

Fixed periodic pay-ins over fixed terms help discipline and maximise pay-ins and are often used by deposit collectors, moneylenders, and many clubs (such as ROSCAs). But the irregular, seasonal, or unreliable income of the very poor means that they also value variable terms and schedules

- Recognise that people have many needs for money

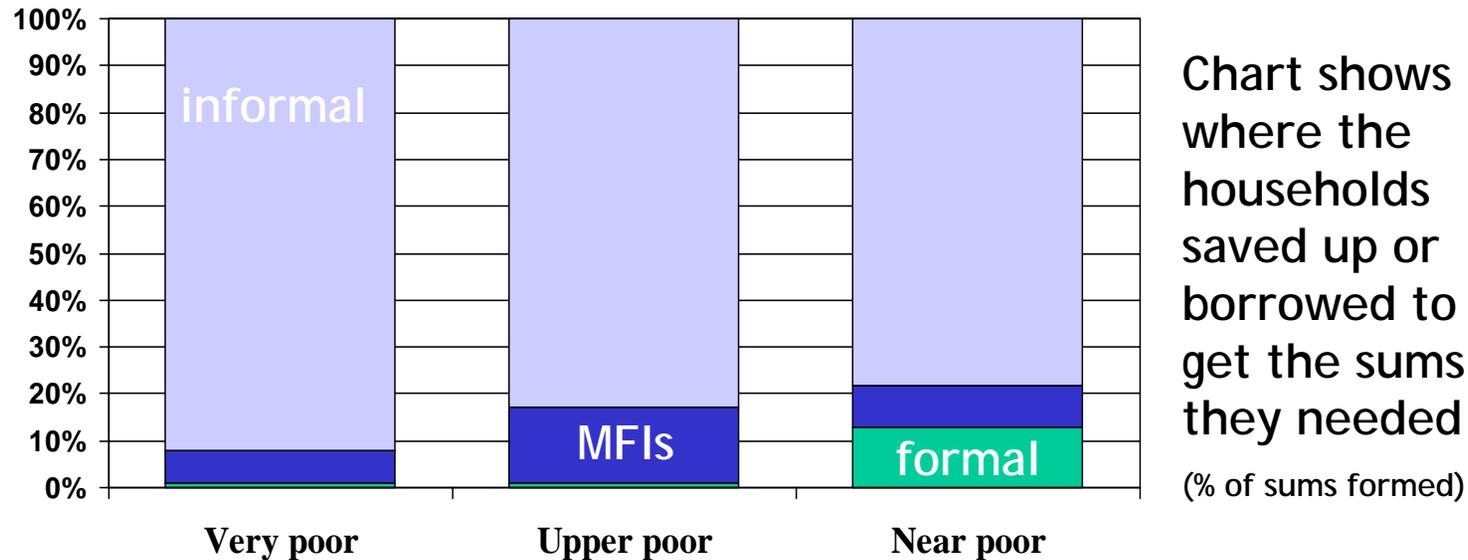
The poor may need to intermediate for everything: to buy a shirt, to run a business, to treat an illness, to marry, to bury grandfather, to pay the rent, to recover from a disaster, to buy assets, to look after themselves in old age, and to bequeath something to their successors

- Are, above all, *reliable*

The poor's most common complaint against moneylenders is not their price but their reluctance to lend: informal providers and devices are often unreliable: reliability is at a premium and the poor will seek it out

reliability is the value-adding ingredient that will help the formal and semi-formal sector market their services massively to Asia's poorest

The Bangladesh diaries showed that in 2000 most sums were formed in the informal sector



- 16 MFIs reached as many as 33 of our 42 households, *but*
- there were five times as many interest-free loans reported in our study than there were MFI loans
- the MFIs took only a 15% share of total turnover reported
- the MFIs had only a 10% share of the 'lump sums'
- the MFIs held only 14% of the year-end (financial) assets of the 42 households, and 21% of their (financial) debt

How can the formal and semi-formal (NGO/MFI) sectors gain a bigger share?

How to get Sultana's business....

- See her as a customer: a person with her own aspirations
- Find a way to serve her needs locally, frequently, flexibly, conveniently, affordably and reliably

There's no single formula....

- **No single institutional type:** banks, 'MFIs', Credit Unions, even Building Societies can reach the very poor
- **No single approach:** You don't *have* to be a 'microenterprise developer', or serve *only* women, or work *only* through groups, or *only* with individuals, or *only* in the cities or *only* in the countryside
- **No single source of capital:** equity, depositors, banks, social investors, donors, governments, venture capitalists - all can invest

Remember our history....

- What was **unthinkable** in the 1970s has become **commonplace** in the 2000s
- Now, as then, we need acts of **imagination** to push the boundaries outward

Microfinance is shifting to a *market-led* approach

<i>Target</i>	Men	Women	Poor households
<i>Uses</i>	Farming	Micro-enterprise	Any
<i>Key products</i>	Cash and kind loans	Micro-loan	Current accounts, savings, loans, insurance, pensions, remittance
<i>Delivery</i>	State DFIs and co-operatives	Solidarity groups	Individuals and groups
<i>Financed from</i>	Public subsidy	Grants and soft loans	Deposits, loans and retained earnings
<i>Peaking</i>	1960s-1970s	1980s-1990s	2000-2010

The Development Finance approach

The Micro-credit approach

The Market-led approach

in the background: informal money management

Grameen Bank Responds, with Grameen II

The
Micro-
credit
approach

Grameen I:
1976-2001

A microlender

'Income
generating'
loans for
women in
solidarity
groups

Some
compulsory
savings

Grameen II: from 2001

A true intermediary
*Pass-book savings and 'pension'
savings for group members*
Loans for women in solidarity
groups, but with *variable terms*
and *variable repayment schedules*

*plus: Special purpose loans for true women
entrepreneurs*

*and: Fixed deposit and contractual savings for
the general public*

*(new branches are now funded from local
savings: in December 2004 Grameen's savings
portfolio finally exceeded its loan portfolio)*

The
Market-
led
approach



"I don't need loans
now: I need to
secure my future...
Grameen should
have done this
years ago"

Rahima of Torgaon
with her Grameen
Pension pass-book

Mongolia's Ag Bank: bankrupt in 1999, serving half of all Mongolian households by 2004, and growing

The right products in the Mongolian context in 2004:

Fee-free open access passbooks savings, time deposits, pension and payroll deposits

A broad range of transfer payment mechanisms

Loans designed for herders, farmers and pensioners; loans designed for micro and small businesses; general purpose loans secured against payrolls

270,000 current accounts with average balances of \$8; 125,000 loans with an average balance of \$380

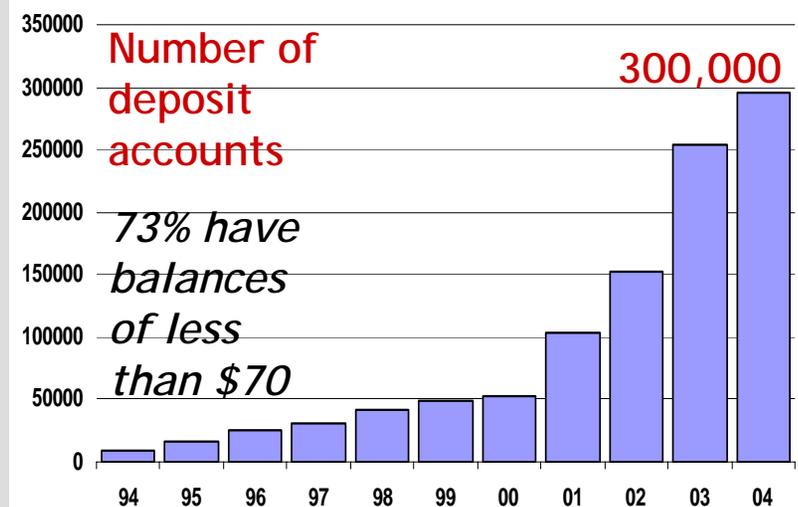


Kenya's Equity Building Society: building new markets

The right products in Kenya's context:

Easy-to-use savings accounts (low starting and minimum balances, contractual accounts, special accounts for children, mobile banks for rural areas)

Flexible loans (borrow for any purpose, borrow against your savings, education and medical loans, low loan values)



SafeSave: frequency and flexibility in the Dhaka slums



- daily collection of savings, and of loan repayments and interest payments
- individual service - no groups, no meetings, no joint liability
- save or repay what you like, when you like
- loans with no fixed terms nor fixed repayment schedules

“So I’m a beggar - that doesn’t mean I don’t need to look after my money. Don’t I have a future too? Don’t I have a daughter I need to marry off? So let me save a few *paisha* a day - it soon builds up in my account”

Joshna, Dhaka



References

- for the **Bangladesh Diaries**: see the CGAP website (www.cgap.org search for Rutherford: *Money Talks: Conversations with Poor Households in Bangladesh about Managing Money*)
- for the **South African Diaries**: see their website (www.uct.ac.za/depts/saldru go to Research Projects, Financial Diaries Project)
- for the book '**Small Customers, Big Market**' edited by Sukhwinder Arora and Malcolm Harper, see the publisher's website at www.itdgpublishing.org.uk
- for **Grameen II**: see their website (www.grameen-info.org/); and see *MicroSave's* reports on the progress of Grameen II, at the *Microsave* website (www.microsave.org)
- for the **Mongolia Agricultural Bank**: see the World Bank review at (www.worldbank.org/wbi/reducingpoverty/case-Mongolia-Agricultural-Bank.html)
- for **Equity Building Society**: see their website (www.ebsafrica.com/)
- for **SafeSave**: see their website (www.safesave.org)