NOTE

A SAVINGS-LED ALTERNATIVE TO FINANCIAL INSTITUTION BUILDING

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The cost of reaching the rural poor with microfinance can be prohibitive for microfinance institutions (MFIs), credit unions, and banks. But small, savings-led, often informal Member-Owned Financial Institutions (MFIs) have shown promise in reaching clients living in areas with poor infrastructure, low population density, and low levels of economic activity, especially in Africa and Asia.

For the entrepreneurial poor and people in densely populated areas, a good part of the unmet demand for financial services can be met by simply extending the reach of microfinance institutions, banks, and credit unions. Technological advances and two decades of on-the-ground experience show that this market can be reached efficiently and even profitably by well-managed financial institutions.

An entirely different approach is called for to reach the much larger number of people whose savings and borrowing capacity is on the order of tens rather than hundreds of dollars, who often need a safe place to save rather than take on debt, and who live far from towns and cities. The key is to train many thousands of small groups to deliver basic savings and lending services by building on what villagers already understand—their *tontines, susus, chit funds, money-go-rounds*, and *tandas*.

These "modernized ROSCAs" (revolving savings and credit associations) add lending at interest and simple record keeping to traditional systems, with interest from loans building the group fund. Since savings are pooled rather than given to members in turn, several group members can take out a loan at the same time; clients see this as a major advantage. Adjusting savings to the highly variable cash flow in villages adds flexibility to the model, and charging an interest rate of between 2 and 10 percent per month quickly builds the group's fund along with the trust that ensures compliance in their ROSCA and creates demand for a high level of accountability. After all, it is their own money that they are managing. Villagers quickly grasp the idea that it is better to pay interest to themselves and reap the benefits than to pay an external credit provider, be it a money lender, a bank, or an MFI.

Self-Management Crucial

"Savings-led" programs rely on the capacity of groups to manage their own accounts. Groups typically receive three months of weekly training through local (NGOs), and then progressively less frequent monitoring until they can operate on their own. Graduating trained groups quickly, and encouraging "spontaneous replication" where group leaders train new groups, are the keys to this highly decentralized model.

Groups are trained through [nongovernmental organizations] NGOs carrying out a range of projects in poor rural villages, rather than specialized MFIs. Since there is no external loan fund to administer, the NGO "animators" focus their entire effort on training groups and on education. The limited scope of the intervention keeps the costs low.

Whereas mainstream microfinance defines sustainability as covering operational and financial costs, this savings-led model defines sustainability as savings and lending groups being able to operate successfully on their own and self-replicating as group leaders train new groups on their own. Minimizing the training and support costs per group is an important measuring rod. Periodic monitoring and training after graduation ensures portfolio quality.

Challenges Remain

Notwithstanding the promise behind these programs, there are several challenges:

- *Maintaining group quality.* Group quality suffers if the "animators" are not well trained and supervised.
- *Graduating quality groups quickly to keep costs in check.* Animators tend to visit groups long after they can operate on their own, unless there is a clear, time-limited, training protocol and good early supervision.
- *Introducing simple record keeping to guarantee transparency.* These programs bog down if the record keeping system is complicated and animators keep the records rather than teaching the groups to keep records themselves.

- *Ensuring equal access to loans for all members.* Unless there is good training and monitoring, the better-off within an MFI tend to monopolize the group fund.
- *Avoiding the takeover of the groups by local elites.* Here, too, good training is required, to enable groups to stand up to local leaders who ask for a loan and never pay it back.

Showing how quickly these programs can reach scale, Oxfam America and Freedom from Hunger trained twenty-one “animators” through two Malian NGOs in February 2005 as they launched Oxfam’s “Saving for Change” initiative. One year later the animators had organized 340 all-women groups and the group leaders had trained an additional 176 groups on their own. Altogether, these groups had more than eleven thousand members. At last count, 74 percent of group members had received loans, none of the groups had failed, and late payment on the nearly five thousand outstanding loans that averaged $10 each was one half of one percent. The women were also trained in malaria prevention and treatment, through a curriculum developed by Freedom from Hunger. Based on this experience, the Community Finance unit at Oxfam America has developed a simple formula for financing the mass expansion of Saving for Change in the poorest African countries. One million dollars will finance the expansion of Saving for Change to fifty thousand women organized into 2,500 groups in more than six hundred villages in less than four years. The expected outcomes are increased income, greater solidarity, more social capital, and increased knowledge, at a cost of $20 per group member (or $3.50 per family member), including Oxfam’s costs for recruiting, training, and supervising the local partners and for systems development, evaluation, and advocacy. Ten million dollars would cover the majority of the unmet need for improved financial services in a country the size of Mali.

Demonstrated Growth Is Impressive

Showing the impressive potential for these saving and lending group initiatives to achieve scale, in just three years Pact’s Women’s Empowerment Program (WEP) in Nepal trained 6,500 groups using 225 local organizations for village-level organizing and follow-up. Eighteen months after all financial and technical support was withdrawn, the net number of groups had actually increased as the group leaders trained more groups than the small percentage that disbanded, while the size of the average group fund doubled. In Africa the local (CARE) staff in eighteen countries trained "Village Saving and Lending" groups with 437,000 women members, with the largest programs achieving most of their growth in five years. In India, the partners of Catholic Relief Service trained groups with more than 785,000 members, adding disaster preparedness, micro watershed management, and literacy to the basic saving and lending package, with most of this growth occurring over four years. In India, since the late 1980s at least three million self-help groups trained by thousands of NGOs and government programs have been providing basic savings and lending services. A total of 1.4 million of these groups topped off their internally managed savings with loans from local banks facilitated by the National Bank for Agriculture and Rural Development (NABARD). By acting as a facilitator of a vast, decentralized network of NGOs and rural banks, NABARD has become the largest and fastest-growing microfinance initiative in the world.

Among U.S.-based institutions, CARE, Catholic Relief Services, Pact, and Oxfam America have embraced the "savings-led" approach and have launched locally adapted versions of the model in multiple countries. They recognize that while their local partners are unlikely to become the next Grameen Bank, ASA, or Banco Sol, they can become the trailblazers for a highly effective approach to microfinance that builds on what they are good at—grassroots organizing and training. An important part of the hardest-to-reach market for savings and lending services may be best met through the savings-led model. This is truly "microfinance for the rest of us."