

Debating the Future of Savings-Led Microfinance: A Summary Paper of the *Microfinance From Below* Conference

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Imagine living without finance—without a bank, without credit cards, without health insurance, without anything finance-related. What would your lives or your families look like under those circumstances? How would a lack of access to financial services affect your lives?

— Bob Christen, Bill & Melinda Gates Foundation

There is significant hope in development circles as savings-led microfinance gains ground. Savings groups, a subset of savings-led microfinance, can prevent household and community indebtedness and operate according to standards established by the group members themselves.

The zeal with which development actors are approaching savings-led initiatives, seen to empower and enrich the unbanked, recalls the excitement that surrounded microcredit at its introduction. Though microcredit is now viewed with concern, large non-profit organizations and foundations have begun to invest in savings programs with greater frequency and with large sums of money. Despite this new excitement, the benefits of savings-led microfinance are not yet proven.

During a two-day conference at The Fletcher School, Tufts University, over 300 stakeholders from the private, non-profit, and government sectors convened to discuss the future of microfinance. These individuals offered their perspectives on new trends towards savings-led finance, which many saw as a means of introducing financially isolated communities to mainstream banking services. Through multiple conversations - approaching the issue of savings-led microfinance from numerous angles - the conference raised a series of key considerations for practitioners and policymakers working on microfinance in the developing world.

This paper reviews debates concerning the linking of communities to banks and other financial institutions, the continued need to regulate microfinance, and role of technology in savings-led initiatives. Drawing from the arguments made at the conference, *Microfinance from Below: The Power of Savings and Savings Groups in Frontier Economies*, this summary presents opinions and insights from experts in the field of microfinance.

The Promise of Savings: Toward a New Model of Financial Inclusion

Dedication to financially independent development models previously ignited investment in microcredit, which was intended to deliver “sustainable” economic development by connecting individuals with capital through financially self-sufficient microfinance institutions. Through micro-loans, unbanked communities could access the funds needed to start their own business and fuel their own development. Savings programs, meanwhile, were deemed unattractive by private banks seeking to earn interest from loans. **Malcolm Harper, M-CRIL**, pointed out that savings-led microfinance has been long stalled by lack of vested interests: “There is no money to be made with the model, and the sustainability of savings groups without big donors backing them is uncertain.”

However, the infusion of outside funds in the form of loans and credit from NGOs, IGOs and commercial banks has had mixed results. Some positive impacts have occurred, particularly among less poor borrowers with sufficient market access. But, the enthusiastic investment into inadequately tested and under-regulated microcredit programs since the 1970s has also increased indebtedness, disrupted social structures and introduced new forms of financial exclusion and distress into poverty-stricken communities. Disillusioned by the harms caused by the supply of microcredit to communities with varying degrees of financial literacy and subject to high interest rates, development actors began focusing savings-led microfinance with the hope that it could provide many, if not all, of the financial services required in very poor and remote communities.

Throughout the *Microfinance from Below* conference, the issues raised returned to the more profound question concerning the purpose of savings-led microfinance. What is the development community trying to achieve in promoting savings? **Mamadou Bitèye, Oxfam America**, proposed that savings be used as the first step towards global financial inclusion. He noted, “In saving and lending their savings, people are getting used to the idea of credit.”

Practitioners like **Kathleen Stack, Freedom from Hunger**, contended that imaginative uses of savings groups can provide opportunities for raising awareness about health issues and education, far beyond the scope of financial services. However, in reference to the 60-70% of people who remain unbanked, **Madeline Hirschland** introduced the dilemma of encouraging financial inclusion while sustaining quality: “We need cheap services to scale them [savings groups], but in turn, quality may suffer. As soon as we talk about adding financial literacy, AIDS education, community empowerment, etc., we will incur a huge cost. If we want a cheap way to expand the global financial inclusion, we will have to give up some of these more grandiose plans.”

Some development actors, such as **Hugh Allen, VSL Associates**, expressed concern about overburdening savings groups. Allen argued, “Most of the places in which these savings groups are established do not have proper rule of law or infrastructure to enable business opportunities to grow.” In light of lacking regulation, parts of the development community are scaling back expectations for savings-led microfinance, determining that these services might best be used to

only offer families assistance in managing household funds. **Narasimhan Srinivasan** pointed out, “The rural poor will take time to move out of poverty. Savings groups can continue to benefit them until formal institutions and MFIs, which are slower to expand, reach them.”

While stakeholders largely agreed that savings groups have great promise for providing rural unbanked populations with basic financial services, much of the conference debate centered on disagreements over whether those basic services were enough. The extent and method by which practitioners should utilize savings groups’ in development programming proved wrought with controversy.

Linkages: Juxtaposing the Theoretical and the Practical

None of us wants to bank with groups, but we are happy to promote that the poor should use them forever.

– **Malcolm Harper**

Many conference participants viewed the goal of microfinance as integrating the poor into the mainstream economic system. Financial mainstreaming entails connecting isolated groups with other financial institutions in order to enhance their access to financial products. This process can occur through “linkages,” or partnerships, between savings groups and formal financial institutions, mainly government or private banks. In some places, linkages are expanding beyond the financial sphere to include political, social, technological and economic collaboration.

The notion of linking savings groups to the broader financial world is hotly debated. Some practitioners believe that formal services, such as those offered by banks and post office, are the best places for the poor to save with respect to safety and confidentiality. **Marguerite Robinson’s** research showed that most people desire, first and foremost, individual bank accounts above all, as well as other product features provided almost exclusively by banks: security, convenience, liquidity, access to loans, choice of demand driven products, helpful and respectful service, confidentiality, and returns. Most of these services exceed the capacity of savings groups. Linkages are said to provide safer savings options with potentially greater interest earnings, far greater amounts of credit, and formal legal protections for transactions and business dealings.

Yet, some refute the superiority of service provided through linkages. In one of the conference’s Insight Sessions, *Frontiers and Beginnings*, which explored the challenges of extending savings groups and services to illiterate populations, isolated groups, or new population segments, the limits of linkages were revealed. **Sandra Contreras, Population Council**, asserted that development efforts ought to focus on income smoothing, or building mechanisms for communities to access funds during the hard seasons or right before the harvest, when they

undergo the greatest financial strain. Savings-led microfinance, because of its adaptability and purpose, meets needs that other services cannot. Ms. Contreras contended, “There is no way the formal financial sector can provide [income smoothing]. It makes a difference in these remote rural areas simply to help households manage their money.”

Hans Dieter Seibel, University of Cologne, referred to research indicating that only 15-20% of members in small groups are entrepreneurs and need credit for enterprise activities. For most other group members, savings collectives may offer services sufficient for most communities, particularly if they are associated with savings group federations. **Jeffrey Ashe, Oxfam America**, arguing that savings groups’ services are competitive with those that formal financial linkages provide, remarked that some communities, such as the ones Oxfam works with in Cambodia, found that bank linkages were “problematic and intentionally de-linked” ties to formal banks.

Some practitioners also worry that linkages endanger the simplicity of the savings group structure. **Hugh Allen** challenged the way in which development seeks to “perfect” savings groups: “We imagine that groups should be doing more, should be integrated into the formal financial sector, etc. But what are the motivations behind these demands for “perfection” that linkages with banks are expected to bring?” By introducing new partnerships to a community’s self-determined operation, the functions and accountability structure of the group changes.

Multiple participants expressed a fear that the formation of linkages may be driven by practitioners, academics, private sector business people, all aspiring for ends that might not align with those of the community itself. **Mr. Srinivasan** asked, “Who are ‘we’ and what authority to do we have to allow or forbid linkages? The argument whether or not to link is irrelevant. It’s already there. Let us ask how we can make it work. Yes, there are good and bad experiences, but the opportunity [that linkages offer] is better than other alternatives.”

Keeping up with Technology: The Quickening Pace of Mobile Possibilities

Until recently, banks have been limited in serving the poor, in part because of the high cost of establishing formal branches in remote areas. In his keynote speech, **Bob Christen** remarked that each transaction costs a bank about \$1 at the teller window. As he explained, to service a client who can only deposit \$2 at a time, the cost of providing banking products outweighs potential earnings. Further, after factoring in transportation costs and time expended, the transaction costs to a rural client are between \$1 and \$5. A cost-benefit analysis demonstrates that establishing formal banking institutions outside of cities is not financially sound for banks or their clients.

Technology, however, is increasingly expediting the expansion of banking services. As **Tony Gaunt, Goldman Sachs/CARE**, pointed out, “Technologies are available now to expand access to services where the product size and geography no longer have to restrict access.” Mobile

phones in particular have revolutionized the way that banking is done in many parts of the world. Mobile money transfers have emerged as an alternative to formal banking. This technology is changing the purpose and function of savings groups—and the work of the development community. “Mobile phones,” **Marguerite Robinson** asserted, “eliminate the need for the groups, such that social connections are no longer driven by profit. We have a role in ensuring those person-to-person linkages are created because the countervailing force of technology is there and it is strong.”

Some participants encouraged their peers to integrate technology into their programming. During the *Technology Open Space* session, conference participants agreed on the need for both practitioners and savings groups to capitalize on technology’s offerings. Groups can be trained to use technology to reinforce administration and communication. Technology can inspire innovative business models: it connects retailers in small villages with banks to optimize resource allocation and speed. Decreased transaction cost allows money to stay and be spent in villages.

While technology may enable savings in theory, **David Porteous, Bankable Frontier Associates**, pointed out that there has been no actual evidence that technology leads to greater savings. Mobile money transfer technology like M-PESA has not replaced savings groups, nor has it improved savings rates amongst clients. Still, **Mr. Christen** argued that it was “a fundamental mistake not to recognize that the poor need a portfolio of products.” Banking through technology does provide some services the groups cannot provide, but greater focus on promoting savings products is required.

The prospect of ubiquitous mobile banking heightened concerns related to the regulatory environment of microfinance, which many practitioners view as an urgent issue. **Guy Stuart, Harvard Kennedy School**, underscored the need to protect savings groups, since “politicians will want a piece of the pie if savings efforts grow very successful.” Mr. Stuart also referred to areas in which politicians are already attempting to co-opt groups, such as Andhra Pradesh, India. **Mr. Seibel** concurred, “The groups will be destroyed unless they have a federation that can advocate for their well-being.”

April Rinne took a more nuanced tone towards government involvement in savings-led microfinance. She acknowledged that governments play a large role in instituting appropriate regulatory and supervisory structures, but pointed out that these frameworks vary significantly, even within the same region. Policy variance makes setting regulatory principles and monitoring them difficult.

Yet, the importance of establishing standards of operation emerged as a clear necessity. While CGAP and the Center for Financial Inclusion are jointly developing a uniform consumer protection code, **Kate McKee, CGAP**, confirmed that the savings group practitioners are not engaged in this campaign.

Promoting Sustainability in Savings-led Microfinance

Poor people want financial services to provide security, convenience, liquidity, access to loans, choice of demand driven products, helpful respect service, confidentiality, and returns.

—Marguerite Robinson

In implementing programming, whose objectives should the development community pursue? Some group members might participate in saving-led microfinance primarily for social purposes, or in order to gain information and financial education; others need the financial security savings provides. The role of development organizations in facilitating savings-led efforts is unclear.

Listen and Let Groups Decide

In order to ensure that savings-led microfinance upholds the principle of self-determination, or that groups set their own agendas, a number of conference participants argued that development actors need to listen better. “Listening” ought to become the initial and central practice of development to facilitate groups’ initiatives. **Lauren Hendricks, CARE**, sees the use of field staff as an effective feedback mechanism, permitting development agencies to inform programming with observed challenges on the ground. But, she admitted, “We have been listening to clients for years and are still not good at it.”

Vinod Parmeshwar, Oxfam America, agreed that savers themselves should remain central in determining the direction of savings groups. He said, “This is not about donors or implementers!” Yet, he asserted that development organizations should establish standards for savings-led activities. He urged that monitoring must take place to verify that cash balances match savings groups’ records: “If there is no confidence that this will be the case, the other systems’ parts don’t follow.”

Some participants argued that emphasis on listening and discourse could impede action. **Kim Wilson, The Fletcher School**, contended that merely “listening” to clients is not realistic or sufficient: “Someone has to make decisions for the collective group and it is impossible to include everyone in that process.”

Perhaps the development community should become even more proactive. In combating poverty, saving is not enough; development agents must pay similar attention to developing knowledge related to financial management and the marketplace. In a conversation chaired by **Candace Nelson, Global Financial Education Program**, participants argued that thorough analyses of income generation and economic obstacles could help identify existing opportunities for market and social mobility.

Tom Shaw, CRS, asked the audience to refocus on skill-building, saying, “The assumption that each villager can save to make a purposeful investment in something is a false one.” Villages can neither support endless numbers of bakers and tailors, nor will poverty decline without scaling up business opportunities. Programs need to refocus their efforts on skill-building if savings groups are to make a serious impact on poverty reduction.

Where Do We Go from Here?

Microfinance from Below provided a forum for active discussion regarding the direction of savings-led microfinance. Although the conference did not result in much consensus, it unearthed important questions related to the future of savings groups. What is the viability of financial linkages for savings-led microfinance? How will technology impact this development strategy? What is the role development community in improving the efficacy of savings groups, and what should it be? Participants left with a sense of excitement and shared mission: savings groups, despite the need for continued research and better understanding, will continue to gain momentum and play a greater role in the gradual process of poverty alleviation.