COMPILATION OF EMAIL CORRESPONDENCE AND COMMENTS ON THE MICROFINANCE FROM BELOW CONFERENCE. TUFTS UNIVERSITY-MARCH 26TH TO 28TH 2009.

INITIAL THOUGHT PIECE, APRIL 17, CIRCULATED TO CONFERENCE PARTICIPANTS

Microfinance from Below:
Accomplishments and Some Concerns

Authored by Jeffrey Ashe, Oxfam America, with comments by Hugh Allen VSL Associates and Kim Wilson, Tufts University.

It was exciting to see so many of us at a conference focused exclusively on savings-led microfinance. *Microfinance from Below* was the first, "micro-savings summit". Our programs are growing rapidly as our methodologies are improving, with a growing number of new International and local NGOs starting savings-led projects. We have shown that it is possible to provide basic savings and lending services to the rural poor at impressive scale as they generate substantial profits for members and grow their leadership skills and personal empowerment. Social capital, including solidarity and mutual assistance, is commonly seen by members as more important than the savings and lending even though the financial transactions are the glue that keep the groups meeting. And once the groups are in place, they serve as platforms for services ranging from malaria education to literacy to ecological rice production. You may have heard of some of the names we call our groups: Self Help Groups (India), Village Savings and Lending Associations (CARE), Savings and Internal Lending Committees (CRS) and Worth (Pact). At Oxfam America where Freedom from Hunger is our partner we call our program "Saving for Change".

Our programs are sustainable even though we define sustainability in an entirely different way than MFIs. The groups, once trained, operate without outside instruction or support within a year or so. The training costs for creating sustainable groups are a fraction of the upfront costs for starting an MFI reaching a similar number of clients. Total costs of a savings-led program typically range from less than $20 to $40 per member; the start-up costs for an MFI per client are often several times that amount. Furthermore, while the interest charged on loans by the MFI sustains the operations of this institution, the interested charged in the groups builds the savings account of each member. This is an advantage that the group members are very aware of and mention constantly. More than two million villagers now have access to group-managed financial services, most in regions and with populations scarcely touched by financial institutions. In India at least 50,000,000 villagers are part of Self Help Groups trained by many thousands of NGOs and government institutions. The success of Self Help Groups in India provides us a glimpse of what we might expect to see in Africa, South Asia and even Latin America in the next decade or so.

In rural regions where microfinance institutions are common, savings-led programs reach deep into the community; while 20% of villagers might need a loan of the scale MFIs provide, all need a safe convenient place to save and access to loans under $100--and often much less. The rural poor once considered "too poor to save" have invested their depreciating "under the mattress savings" into a growing group loan fund that earns a solid return. It is not that the poor are "too poor to save." What is revolutionary about this approach is that it is based on savings that would have been spent, lost or stolen, or would have otherwise lost value. After a year or so, the fund is distributed to members who often use it for longer term agricultural investments and then start saving and lending again.

The key to the success and low cost of savings-led microfinance is that it “facilitates” rather than “provides” financial services. In other words, most of what makes institutional microfinance so difficult – issuing loans, tracking payments, collecting and mobilizing saving through regulated financial institutions – is done away with. The task of a savings-led program is to “facilitate” the training of thousands self-managed groups, a task that competent local NGOs can accomplish with proper support and a well defined training methodology. The role of the NGO staff is transitory.

We are often asked what happens when the NGO is no longer working with these groups. Do the groups disband? Pact’s experience in Nepal with savings-led groups is indicative. Six and a half years ago Pact’s Women’s Empowerment Program in Nepal[1] withdrew all support from the groups when its funding for the program was abruptly ended. A recently completed study showed that two thirds of the groups survived while leaders trained a number of groups of equivalent quality to those that had disbanded. Over these six and a half years, the size of the loan fund quadrupled. To the surprise of many, the quality of the replicated and the NGO trained groups was virtually identical. The experience of other programs in other settings may be different, but Pact’s Nepal experience may be indicative of what we might expect. On reflection, why should we think otherwise? ROSCAS have existed in these same villages for decades, perhaps even centuries; in essence our groups are improved ROSCAS and are equally capable of operating on their own.

With that said, why was I more concerned about the direction of savings-led microfinance than elated by the end of the conference? For me, our priority should be on the mechanisms to train stronger groups, build their savings potential and deliver services more cost effectively. To my liking, the conference placed too much emphasis on linkages to financial institutions, institutionalization, and even regulation—none of which play to the strengths of savings-led models. Our groups work so well because they operate below the regulatory radarscope and our highly decentralized, group controlled methodology – with the model varying slightly between practitioners – ensures transparency since transactions are witnessed by all the members.

The following are some of the issues I wish we could have spent more time discussing. Others, doubtlessly, may think otherwise and I look forward to a spirited debate.

Reaching the Poorest:

The best way to reach the poorest, I believe, is to involve virtually every eligible person in a community, be it a rural village or an urban slum. We know that the middle poor join groups first, but are we doing all we can to include the rest without running up costs? What stands between reaching the early adapters and everyone else in the village? The issue of reaching the poorest was not mentioned much during our conference. We need to remember (as shown by several FINSCOPE studies) that more than 50% of poor people in Africa have absolutely no financial services at all, not even ROSCAS. Should these people not have priority when looking at trade-offs between outreach and sophistication?

Reaching Scale and Reducing Costs:

At least half a billion households lack access to basic saving and lending services with most of these living in the world’s poorest and hardest to access places. Among all of us, we are reaching two million or so villagers, a major accomplishment. But what are the strategic and methodological breakthroughs necessary to reach tens of millions and even hundreds of millions of villagers? As we expand, can we decrease our training costs per group member by a factor of two or even four? Bob Christen in his keynote speech said that $5 per group member was reasonable. Is that achievable? Maybe yes, maybe no, but we need to move in this direction as we push the frontiers of scale. Some thoughts: perhaps we could build more directly on ROSCAs and traditions of mutual assistance; or we could encourage more villager-to-villager replication; or we could involve institutions with a lower cost structure; or perhaps we could use technology more creatively. The mass rollout of what we are already doing under the same cost structure is not going to achieve the level of scale that we want.

Linking groups to financial institutions:

We spent more time talking about linking groups to financial institutions than any other topic and the debate was often heated. Some suggested that if we weren't actively linking groups to external funds we were depriving the poor of their opportunity to build their enterprises and leave poverty behind. This is puzzling to me. I believe that while everyone needs very small loans for petty trading, agriculture, emergencies, and consumer needs, few in the villages I am familiar with need loans of the many hundreds of dollars that MFIs typically provide. When they receive loans this large they all too often have a hard time repaying them. And if a group wants bigger loans, why not focus on finding ways to increase the savings rate rather than taking on an external loan? That way access to a larger loan may only take another year of savings. And why do we immediately assume that the group should receive an external loan? At Saving for Change we say that a member who wants a larger loan should go an MFI as an individual. Why put the group at risk? In Cambodia, to our surprise, many of the 10% to 20% who were once receiving MFI loans are now using the groups for their smaller loan needs and the MFIs for their larger loan needs. A natural segmentation of the market is occurring. Now that there is a savings-led alternative, perhaps MFIs should stop trying to reach the poorest. It's too costly to serve scattered villages, the loans are too small to make a profit for the MFI, and villagers need a safe place to save more than credit. Savings-led microfinance might be able to take the lead in fulfilling an important part of this unmet demand.

To my knowledge only NABARD in India provides a sensible model for safely linking a group to an external loan fund. The formula: 1) do not take the group fund as collateral; 2) charge a low interest rate so that the group can relend the fund at a profit; 3) do not push too much money on the group – start with a 1 to 1 or 2 to 1 savings to loan ratio; 4) train the bankers to properly assess the group. Is it a good candidate for a loan? Does it even need one? But conditions in India are fundamentally different than where most of us are working. In India there is a bank in every four villages, linked to a first world baking system. (And even these rules are being stretched now that banks learned how profitable these loans are.) In addition, the government requires that 40% of bank lending go to pro-poor sectors, and there is a hefty subsidy provided by national level refinancing institutions. For these reasons the NABARD experience may be hard to transfer to other places, particularly in Africa, where the above rarely applies.

Cell phone banking:

Will cell phone banking obviate the need for the savings and lending groups? I, for one, have never seen social capital coming out of a cell phone. We imagine that as cell phone banking spreads, group members will adopt it as another money management tool along with their group, but this is pure speculation at this point. A more productive use of cell phones (and one that we should spend some of our time and resources to perfect) is to use cell phones to communicate between village replicators and staff and to share information on crop prices and weather conditions. Cell phones, perhaps with a larger video screen, could also be used for group training. In this respect, cell phone technology could strengthen the spread of the groups and improve their quality as it lowers costs. Cell phones may well end up providing people with access to regulated deposit-taking institutions, but they may just as likely become a means by which money is transferred from urban wage-earners into a community-managed micro-finance group. We just don't know because it will be users and private institutions, not NGOs, who decide how best to use it.

A related issue is that "groupiness" was defined by some as second rate microfinance. This was based on the questionable assumption that services provided through institutions are inherently superior to services provided by savings groups. The very things for which groups are criticized (too much time taken in meetings and a lack of privacy) may be just what the poor in Africa and villagers elsewhere value (since they reinforce a social bond and offer a window on a broader experience), especially when combined with access flexibility, simplicity and speed. From what I have been able to observe – and I have in mind an illiterate woman with five children who has likely had malaria the last year and who rations her meals several months a year – group meetings are seen as a major social benefit, a chance to get savings out of the reach of one's husband, and children and to socialize and build solidarity and bonds of mutual assistance to help in time of crisis. Maybe at some time financial transactions will be carried out through formal institutions in total privacy. For our group members such an option is neither feasible nor sought out. It has certainly not come up in the conversations I have had with hundreds of savings and lending groups over the past years.

Matching Funds:

Matching the group's saving with a grant is often mentioned as a way to jump-start the group. From what I have heard from many of you, such matches are almost always counterproductive. Groups organize to get the match—not to save—and they usually fail as soon as the match is no longer available. And how can we encourage spontaneous replication if the first groups received a match? In Cambodia the weakest Saving for Change groups (those with the lowest rate of savings) are those that received matches before Oxfam retrained them. CARE's Kupfuma Ishungu program in Zimbabwe, which has grown to over 100,000 members almost foundered at its inception in 2000 when external capital was provided as a match to the first few groups.

The advantages and pitfalls of associations:

There are good reasons to associate, including sharing knowledge between groups, increased political clout, access to larger loans than can be secured from the groups, and benefits from the government. But there are also risks. When money from many groups is pooled, elite capture and loans benefiting the better off are more likely. If financial systems are weak (consider the many years of technical assistance WOCCU provides to its credit union federations), malfeasance is a strong possibility. Our systems work so well because all the financial transactions are made in the presence of the members. Transparency breaks down in federations because transactions are not witnessed by members unless there is close training and auditing.

Saving for Change members came up with a brilliant solution to the association question. Associations are run like ROSCAs. All the groups contribute an equal amount to a common pot every month and, by lot, one to four groups (depending on the size of the association) are selected to receive the payout. (Those who received their payout earlier in the cycle are not eligible.) The result – no elite capture, complete transparency (two representatives from each group are present) and greater communication on common issues. Furthermore, some of the associations have secured legal recognition so they are eligible for government assistance.

The potential of non financial linkages:

If linkage to external loan funds, matching funds and associations are often problematic, groups are serving as useful platforms for other development inputs. Pact's WORTH program links groups to literacy training. Saving for Change introduces a malaria prevention and treatment using a curriculum developed by Freedom from Hunger in Mali and Senegal as well as organic rice production in Cambodia through our partner organization CEDAC. In India self help groups have been used as platforms for interventions ranging from disaster risk prevention, health and micro water shed management. CARE's Simba project in Zimbabwe has combined HIV/AIDS mitigation services with microfinance.

Currently Oxfam America is developing its "sustainable prosperity" package to build he group platform and introduce water harvesting and improved agricultural techniques. This will help ensure the survival of these villages in the face of increasing population and declining resources per capita exacerbated by climate change. Each intervention reflects the large scale, low cost, villager replicated approach embedded in the Saving for Change methodology. Integrated rural development schemes are worthy of further study and experimentation.

The rush to formalize and regulate:

Our groups spread and replicate so quickly because they are informal. Their best protection is good training and building on village traditions of mutual accountability. The small size of the loans and the fact that the groups manage a modest amount of money makes them less likely to become targets for the unscrupulous. I believe that fast, low cost expansion is predicated on informality and because of the emphasis on procedure and transparent operation every meeting is, in effect, an internal audit. Furthermore, the common emphasis on procedures has largely eliminated the risk of fraud (and commonly provided returns of between 15-30% and even more on investment). Regulation at the group level is unnecessary. If the groups are well trained – and even if training is not of the highest caliber – by the end of a cycle, loan repayment is virtually never a problem. If loan repayments are late during the cycle, the borrower just pays another interest installment just like we do for our credit cards. (This is another example of the flexibility that the members build into their groups, one more factor that makes these groups desirable in the eyes of the members.) It may be that in India in some groups 40% of the loan portfolio is late – but in the groups I am familiar with, loan repayment is virtually 100% by the end of the cycle

In Conclusion:

What I have written here is intended to be provocative. But in essence it is a plea for us to "stick to our knitting" and focus on the task at hand, exponentially increasing the number of sustainable quality groups at decreasing cost. (I also believe that a major effort should be made to add other training components to our groups – health, water harvesting agriculture, literacy – so that our programs have more impact at the village level.) At the same time, we need to document our experiences, learn from each other and report our findings. Some of our programs are already some of the largest microfinance initiatives, especially in Africa, in terms of numbers of participants. It is time that the microfinance world becomes aware of these successes.

We look forward to another conference, one that focuses principally on methodology and also what we have learned through our research. Between this conference and the next, the SEEP Saving Led Financial Services Working Group will become our annual meeting space for knowledge sharing. Oxfam will sponsor another savings-led conference in two years.

I look forward to your comments.

---

[1] Donnelly, Stephen. *Underinvestment in Savings-led Microfinance: A Costly Market Failure.* (Harvard Kennedy School, 2008).
Mayoux, Linda. Women *Ending Poverty. The WORTH Program in Nepal. Empowerment through Literacy, Banking and Business: 1999-2007*. (Nepal, 2008).

RESPONSES AND COMMENTS FROM CONFERENCE PARTICIPANTS TO THOUGHT PIECE: MICROFINANCE FROM BELOW: *ACCOMPLISHEMENTS AND SOME CONCERNS*

PAUL RIPPEY—RESPONSE TO JEFF ASHE

Thanks very much for this. Jeff, the list of issues is excellent and exhaustive, and the document is timely. Not surprisingly, I have very little disagreement with anything you say.
I do have a couple of comments on the conference, and a couple of comments on the paper. I read the paper by flipping back and forth between Kim's annotated version and Hugh's, and I think it might be easier for me to add my comments here in this mail, rather than creating a third doc, or adding my comments to just one of the existing ones.

Conference: The conference was fascinating and useful, and it was wonderful to share ideas with people that I know but don't see enough, as well as meeting other people I knew only by reputation or through email. It is also leaving behind a rich set of papers that will be good reading and a useful resource for years. I think the conference might have been even better with a clearer definition of its objective, subject matter, and audience.

My personal expectation coming in was it would consist of technical discussions among practitioners primarily of promoted un-linked time-bound distributing ASCAs, and that there would be some reference to linked ASCAs (India) and to non-distributing ASCAs also. Like Jeff, I thought that we would be discussing the technical issues so ably listed in his paper. It would have been good to have early in the conference, perhaps right after Bob's intro, a scholarly - not evangelical - address to the plenary, presenting what groups are, and talking about their recent growth and interest, and laying out the themes of the conference. Perhaps that would have been a good time for Kim to present the paper that she has on the website, with a clear definition of the conference goals.

As for whom we were talking to, the conference was marked by the presence of a number of eminent speakers, people I like and admire, but whose remarks showed that in some cases they were ignorant of the details of the remarkable things that are actually happening thanks to CARE and Oxfam and CRS and AKF and others. I would have loved it if we could have somehow transported a half dozen of the attendees to visit a couple of group meetings in Africa, and failing that, we needed to do that early on, through words and slides and videos. Some of the energy that we expected would be used by interested practitioners working together to make the informal groups better, went into explaining and defending groups to people with incomplete understandings of them.

Jeff's Paper: Now, these remarks are not intended to criticize the excellent conference at Tufts as much as to raise the question of the intended audience for Jeff's paper. Who are you writing to? You might want to recast the paper as a follow-up to the conference, listing areas for further research and discussion.

I share your evangelical objectives, but the best way to be evangelical is not to sound like it.

The list of topics to get more deeply into is a great resource, and I expect to come back to it repeatedly. But as for the tone of the piece, I'm of two minds on this: On the one hand, I see nothing wrong with sounding enthusiastic when one IS enthusiastic, and since you are, you sound like it. I do too. On the other hand, I think the micro-saving enthusiasts, myself included, are making some people defensive and irritated. It was interesting that feedback from the conference got to some people in Washington with microcredit backgrounds interests, who were not present, and it drew quite a reaction, including some negative reactions. I think it is probably good politics to avoid any unnecessary provocation and adopt a somewhat bland and academic style.

I remember that even when I was doing microcredit for a living, I was turned off by the tone of the microcredit summit. Although I was getting both my job satisfaction and my paycheck from lending to the poor, I still thought the tone of the microcredit summit was off-putting, and after going to the first one, I never went back. There seemed to be no debate around things, microcredit was the *sendero luminoso* of financial services, any other approach was beneath our notice, and reservations and criticism had no place. Please understand that I don't think that *you* have no place for reservations and criticism, and I know that you CAME to Boston looking for technical discussions. I am simply concerned about a tone that will alienate some people, and make the good work that we are doing look like a club or a movement. It's neither - to me it's simply a promising approach to bringing financial services to people which has some clear advantages over other approaches in terms of efficiency and outreach; with time, we will discover that it too has warts and blemishes, and eventually it will be replaced by something even better. I hope so, anyway!

N. SRINIVASAN, FORMERLY NABARD—RESPONSE TO JEFF ASHE

Jeff has captured the essence of the conference and the agenda for future brilliantly. I am unable to resist the temptation to add my views to the discussion.

1. With the large numbers that are yet to be served, I have no doubt that Group is the way to go - in view of the lower costs and risks. The costs of building groups and handholding them, if done in significant numbers so as to intensively cover every chosen location , would be low. If we hesitantly enter this space and confine ourselves to a few pilots, then we would find the costs to be excessive (per group). The same goes for training costs.

2. In India even MFIs provide loans to SHGs. (more than 35% of clientele of MFIs were SHGs) Whatever considerations that banks have for providing loans to groups are valid for MFIs as well - low transaction costs, risk costs. So practitioners should push MFIs also to lend to groups in their own interest.

3. Linkages are important - to expand the opportunities available to the groups and enable the members to scale up their economic activities. Financial linkages with banks and financial institutions should be a clear focus - if volumes are built up, banks would find ways of providing services even if they have limitations of branch network. In India banks had to be cajoled, pushed and persuaded to finance informal groups in the beginning, but when the volumes built up, banks have voluntarily made group financing a part of their portfolio. At policy level, incentives for banks 'entering' group financing would be helpful. The incentives could be in the form of training of bank personnel in appriasal of groups, brownie points for new branch licenses, new lines of business, awards and recognition for good performance, etc.

4. A lot has been written about India in some of the responses. The government sponsored programmes run in about 10% of the 4.1 million groups as at the end of March 2008. Interest subsidies are on offer in a few states, but without subsidies the linkage programme is performing well in other states. In fact in Andhra Pradesh where the interest subsidy is in operation, the growth rate was negative in terms of new groups last year - in other states where there was no subsidy, growth rates were positive and higher. People will avail subsidies and freebies whether they are in groups or individuals - that should not be held against the programme. Practitioners should

guide the groups in to taking advantage of the benefits available from anywhere and still continue to function effectively for their livelihood development, instead of dogmatically opposing subsidies at the group level. The battle against subsidies lies elsewhere - at policy level. If we are capable, let us fight it there with governments instead of stepping back from programmes that benefit poor. When a programme has such a large outreach, who is jury? People (65 millioon of them in India) have decided that it works well for them (and it does).

5. Matching savings is not a hot idea. It can produce temporary benefits - but lead to capture. Tying up with external credit is a better idea as it provides long term and sustainable access based on good financial behaviour. It keeps groups habituated to regular savings and reapyment of loans which enables higher loan sizes - the Indian experience shows that groups are able to increase their loan size from banks by even 10 times within 3 years. Without external funding, the groups will remain small (of course within the control of NGO - but with limited livelihood opportunities). If internal capital is a solution to the problems of the poor, we should have seen a massive reduction of poverty which has not happened. External capital is needed (along with other enablers) to improve income generating enterprises and activities for poor. We as practitioners should target the linkage with external capital. The financial linkage will keep groups toghether for long than other social and welfare agends. In fact the bon ding and longevity induced by financial linkage could be used to deliver other public goods relating to health, sanitation, environmental sensitivity, education, literacy, etc.

6. Associations and federations of groups, should not be imposed from above. If groups feel that they need a higher tier institution, then they should be helped to form one. The role of such a higher tier institution should be determined b y the groups and members.

7. As Jeff says, let the groups be informal and "be under the radar". It is a mutual benefit clud of members and no third party interests involved - hence there is little need for regulation from a customer protection point of view. If the groups get linked with a bank, as clients the groups become part of the regulated financial services framework.

While there is more to write, I stop here as this mail has become too long.

Thanks Jeff for a good discussion provoking summary.

JEFF ASHE, OXFAM AMERICA--RESPONSE TO N. SRINIVASAN

At lasts a response to your thoughtful communication. I am all for linkages but when they serve the needs of the groups. The examples of linkages I have seen - using the group's savings as collateral (thereby making it a credit group), charging excessive interest rates, pushing too much money on the group, poor selection and monitoring, poor repayment, using the loan provided externally by the two or three members that need larger loans tell me that linkages are not a panacea. To repeat myself, individuals should go to the MFIs for loans.

Then there are the many savings groups that have mobilized more money than the can use in two or three years and have delinked from MFIs when they find they can take their loan from the group so links to external sources even if everything is right is not always necessary.

Your comments on matching savings also reflect our experience that matching savings is not a good option.

HUGH ALLEN, VSL ASSOCIATES—RESPONSE TO N. SRINIVASAN

I really must challenge Srinivasan about the notion that groups can only expect to handle very small amounts of capital if they depend on internal savings. In Africa, we typically see groups handling between $2,000 and $10,000 after 4-5 years, probably averaging $3,500-4,000. These are absolutely huge sums in places where per capital income is less than $200 a year, and it is done by time-bound groups that have rolled over a significant (but minority) percentage of their equity, year on year.

One thing I have heard said about SHGs is that they capture relatively small amounts of savings because savings are often seen as subscriptions, for access to a system that provides a window on external financing. My contention is that there is a definite trade-off between the emerging African models and what we know of SHGs (while acknowledging that SHGs is a generic term that covers a wide variety of approaches).

Most SHG programmes start out with the assumption that bank linkage is a probable outcome. To meet the requirements of many banks, SHGs need complex written systems that take a long time to be understood and internalized by groups whose levels of literacy are very low (typically, I am informed, between 3 and 5 years) and, because they usually don't share out their equity after a year, SHGs tend to attract quite small amounts of savings - often far less than are mobilized by ROSCAs (a quite telling indicator). But, at the end of the day the linkage is forged and the groups do quite well.

By contrast, most African models have never started out assuming that linkage is even on the cards, because banking facilities or MFI programmes usually stops a few Km from town. So, because they don't start out with this presumption, they don't feel obliged to set up written systems that meet the needs of a potential future bank partner. The result is that groups are independent after only one year, at very low cost and, because people get their money back including interest earnings, people are willing very quickly to increase their contributions (which, with some models can vary between members and vary per member from meeting to meeting). The amounts of capital thus mobilized can then become very substantial and far in excess what most MFIs would be willing to allocate.

Once these groups become mature they are often (not always, mind you) reluctant to consider bank linkage because they realize that a) their interest earnings will have to be shared b) that the opportunity cost of security deposits is huge and c) that their independence may be compromised.
While we may ultimately be headed in this direction (if only because there's just too much interest) let's not assume that the models that are working very well in Africa are necessarily inadequate and that we, in our wisdom, are necessarily the ones to 'improve' them.

JEFF ASHE, OXFAM AMERICA—RESPONSE TO HUGH ALLEN

Thanks for this. The big breakthrough of savings led microfinance is that if these groups capture savings that is losing substantially in value into an institution where savings is gaining substantially in value the poor are already substantially ahead. Although our groups in Mali are fairly new - the oldest is just four years old now - I will have our finance person do an analysis of the size of the group fund and identify the number of those that have already mobilized more than $1,000 in savings. The average is around $350 put the program is growing so fast that the average is pulled down by the newer groups.

In this regard it would be useful to take another look at the MMD groups in Niger to not only see if they have survived - I believe you said that most have - but to check to see how many are now managing substantial amounts of funds. We could look at those groups to see if any issues of their capacity of manage these funds have emerged and if so how they have dealt with this.

I have heard that there are many Self Help Groups in India that have so much money after three or four years of savings that they distribute the funds to the members.

As I mentioned what we should be focusing on more is to build effective ways of reflecting on increasing the savings rate or building in more flexibility into how they save - shares, etc. - seasonality etc. at the end of the cycle in our manuals. If we find through the analysis of the MIS data that there are still many groups where the savings rate has not increased this shows that the groups are not effectively reassessing their savings rate and how they save and we will adjust our animator and replicating agent training accordingly.

If after that, and with all the caveats mentioned earlier there is still a need for external capital then this should be considered as one possible option but certainly not the first option which works against what we have been trying to accomplish. This is "savings led microfinance" after all, not doing the initial organizing work for MFIs.

BRETT MATTHEWS, MATHWOOD CONSULTANTS—RESPONSE TO HUGH ALLEN

As Graham Wright and others have pointed out, there is not shortage of potential money in the form of primarily non-monetized savings in poor households. Your insight that the primary source of capital for village finance is not external credit is critical. The primary source of capital must be compounded profit from the operation of groups. Microfinance has almost completely ignored compounded profit as a source of funds -- except by encouraging it for urban, centralized MFIs who are in effect, channeling it out of the villages.

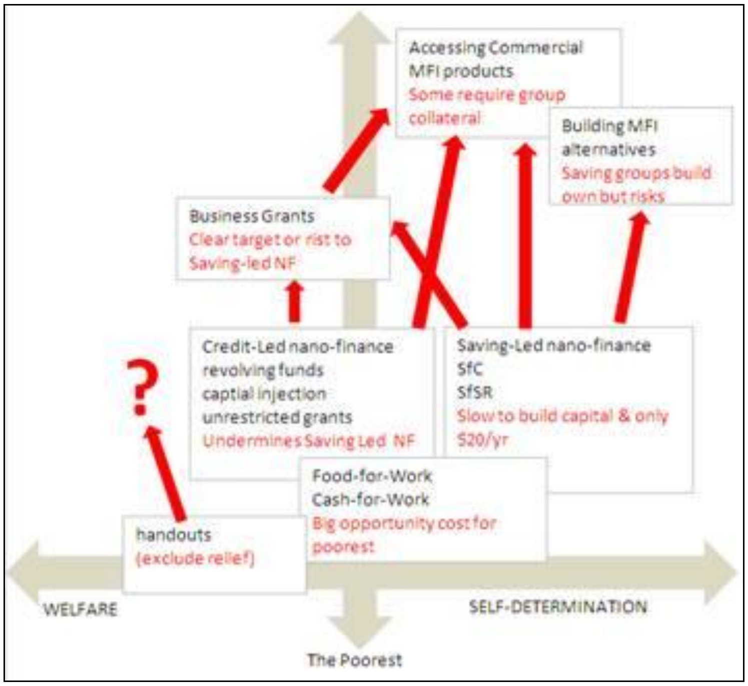
There is an interesting discussion about balancing taking place within the SHG movement in India right now. GTZ recently published a good article showing how it is possible for SHGs to balance using village munshis (accountants). But SHGs are rarely expected to balance. This is ironic, in view of the fact that everyone refers to them as 'savings' groups. And banks lending under the linkage program generally do not prepare or test a balance sheet prior to lending. So in practice members save for a few years, then lose track of exactly how much money they may have. They start getting vertigo, not knowing if the whole roll-over of bank loans has turned into a shell game, if their money has been somehow siphoned out by a group leader, or if everything is fine. They have no way to find out. So they stop increasing their exposure; start pulling back a bit. They are getting credit, but not the benefit of saving.

If we respect poor people's rights to save and plan for the future, surely we can help them to do better than this?

BRIAN LUND, OXFAM AMERICA --RESPONSE TO JEFF ASHE

Nicely written…

I fully appreciate the angles and concerns that Jeff has highlighted. I also appreciate the language that does not suggest savings-led microfinance as the 'either/or' of the MF world. That said, I'm always interested in ideas that would help me work out where each of the MF products fit into the poorest markets of the developing world and how the various MF products interact (or how the don't).



JEFF ASHE, OXFAM AMERICA—RESPONSE TO BRIAN LUND

Thanks for this and thanks for the chart. Savings led and credit led serve different niches in the market. I think we should focus on how the groups can save more rather than link them to external funding. A loan is only savings that you need to pay back. As Paul Rippey no one has ever complained about saving too much or saving in multiple places. The problem is getting into debt.

PAUL AHOUISSOUSSI, OXFAM AMERICA—RESPONSE TO JEFF ASHE

It is very interesting to see how Jeff's reflections and analysis have boosted a very interesting discussion among practitioners and now paved the route for wide thinking and exchange on this innovative methodology.

I greatly appreciated Jeff's reflections that are results from deep field experiences combined with many studies and analysis.
During the conference, Mr. Mamadou Biteye made an interesting remark: What all these are for? That is the question!

We are doing all these efforts for "a just world without poverty". In that perspective the saving-led microfinance with all proved results and impacts up to now should be consider within a wider dynamism as a starting point of many others development initiatives. But groups will remain the keystones for all these initiatives. From my perspective, savings-led microfinance programs should be seeing as a capacity building program than financial services provider. I agree with Jeff when he said that: the key to the success and low cost of savings-led microfinance is that it "facilitates" rather than "provides" financial services. So while facilitating access to financial services, the saving-led microfinance open ways and opportunities for sustainable development. Many studies in Africa showed that what the participant appreciates most is SOLIDARITY and MUTUAL ASSISTANCE.

I'm convinced that we can build and have great achievements based on the saving groups. But this will varies from individual groups to association of groups. We still need to learn a lot from these groups that are very dynamic. In Mali for example 'Saving for Change' groups started themselves the movement of SfC Group Association with the main objective that these Associations will strengthen individual groups like the way individual members reinforce groups and make them capable to undertake many development activities they can't do as micro groups and with little support. The SfC members in Mali think that there is no need for registration at their individual SfC groups level but when they start Association this registration will be useful for official recognition that will be also useful for their support to the individual groups.

I do think that we should continue our assistance in term of capacity building and as soon as the savings groups are capable they will decide for themselves what is best for them be it what kind of linkage or any other development opportunity that fit their needs.

JEFF ASHE, OXFAM AMERICA—RESSPONSE TO PAUL AHOUISSOUSSI

Thank you for your comment. I agree with your point that legal recognition for the associations of groups will evolve when the associations are ready. With legal recognition the associations will have more access to government services. You also make the point that as "facilitators" rather than "providers" of financial services one of our key roles is developing capacity at the group level in addition to creating a locally controlled structure that provides savings and lending services.

ACHYUT HARI ARYAL, CONCERN WORLDWIDE BANGLADESH—RESPONSE TO JEFF ASHE

I really enjoyed your paper and I fully agree all your arguments (you know I also love savings led approach).
Based on my experiences working in Concern Bangladesh I learnt some important lessons in the federation approach. Here we have federated the groups (similar to SHG) which started from savings first and termed them as community based organization (after hearing this organization, Mr. Fernandez from Myrada suggested us to call them community based NGO as it has all NGO flavor but owned and managed by members). Some of the CBOs are located in very remote areas where none of the NGOs are reaching. Due to our support and mentoring to become sustainable organization and become eligible to obtain wholesale credit from commercial bank, now many of the CBOs are enjoying wholesale credit from commercial banks (due to demand of more loans as people's loan absorbing capacities increase) and some of them are even close to obtain license from central bank (mandatory condition to manage microfinance). All CBOs are maintaining 100% repayment rate to the loans they obtained externally. However, savings are being managed by the groups and CBO does not have control over it.
Therefore, my point here is that if the federation does not control and mange the groups savings, I see more benifit to link the federation with external market. As you rightly pointed out some of the people once they graduate need bigger loans but if there is no organization that offer credit they become frustrated. We have also witnessed that being strong CBOs, they can bring more resources from government and others in the form of training, social safety net etc.
Kind regards

JEFF ASHE, OXFAM AMERICA—RESPONSE TO ACHYUT HARI ARYAL

Thank you your comments. In what way is your federations of groups that access loans from commercial banks different from NABARD. Do they share the same characteristics of NABARD - do not use the savings as collateral, low interest rate, not pushing more money than necessary and working with savings groups individually (when all is working as it should? Do the federations has the capacity to manage a fund provided by a commercial bank and distribute the money to the individidual groups? (A similar program in Rwanda was a disaster.)

ACHYUT HARI ARYAL, CONCERN WORLDWIDE BANGLADESH—RESPONSE TO JEFF ASHE

Jeff, There are some similarity with NABARD approach but not the same. It's not SHG that get access to the bank loan, it is the federation (CBO) which is registered and has legal identity. As CBO (federation) does not have access to group savings, saving is safe with the groups. In terms of collateral currently CDF, a network organization of MFIs is playing a facilitating role between bank and the CBOs for this linkage (indirect paper guarantee) and our intention is that once the CBOs prove their capacity to manage the bank loan effectively (we expect 3 years) then bank will ask corporate guarantee (being a legal organisation) from the CBO itself to extend loans. As it is very new concept, we all are learning. The result so far is encouraging and banks have now started to see it as there niche market.

PAUL RIPPEY—RESPONSE TO JEFF ASHE AND OTHERS

This is a good opportunity to address something that seems fundamental and self evident to me.

In any region, isn't there likely to be an approximate, even very approximate, equilibrium between the total savings that can be collected, and the total demand for credit? And if so, isn't all the talk of linkages unnecessary? That is, as a general rule, poor people can't save much, but also don't have many investment opportunities. Right??

I've seen groups in the West Nile District of Uganda that struggled to save five US cents per member per week, and which made three dollar loans (5000 Ugandan shillings) to their members. I have interviewed two people in depth who borrowed, invested, and repaid three dollar loans. They had no concern for the small amounts, perfectly coherent investment strategies, grasped the cash-flow/profit distinction, and in general, made the sort of investment that any banker would like to see, if he or she could add five or six digits to the amount.

In my experience - mostly limited to a handful of countries in Africa - there is often some desire for more funds for lending, but that typically is voiced by a small number of group members, and likely amplified by the mysterious presence of a foreigner - me.

I've also seen many groups where members had to wait a meeting or two to get all the money they wanted, because there was more demand than savings. But that temporary disequilibrium works itself out as the group builds more assets and possibly puts some pressure on members to save more. I cannot worry over the fact that very poor people who have never had any access to financial services have to wait months or even a year for their own assets to build up, before they can borrow - may all development programs have such problems!

It is for me in weighing the proven demonstrated costs and risks of linkages against the ability of the group to meet most of its credit needs in almost all cases, that makes me come down on the side of strongly resisting linkages. This is a judgement call, but I feel pretty confident about my judgement, at least as it applies in every African program I've seen.

I have heard anecdotes strongly suggesting that the experience of linked SHGs in India is better than the anti-linkage folks like myself want to believe, but also not as successful and loved by the members as the pro-linkage folks would have it. But in any case, SHGs in India profit from a number of factors that simply do not apply in Niger or Rwanda, and we should resist too much extrapolation from India to Africa, or from Africa to India.

As for Niger, where linkages were poorly implemented, in the Zinder region, which had substantial lending from MFIs, about two thirds of groups received at least one loan, and the average group that borrowed had loans from almost two sources. Of the borrowing groups, about one in four is "in difficulty", that is, unable to pay back their loan on time. Overall, there was a strong correlation between external credit and member loss - even if the loan went well, the stress that external borrowing created tended to drive members out of groups. Groups without external credit continue to add members. More study is needed.

BRETT MATTHEWS, MATHWOOD CONSULTING COMPANY—RESPONSE TO JEFF ASHE

If we agree with Jeff and others like Hugh Allen, Hans Dieter Seibel, a century and a half of credit unionists and so on, that poor people can genuinely be trusted to build their own groups, then we should be placing far more emphasis in this forum on the problem of HOW poor people build trust with each other, how they maintain it (often against formidable odds) and what we can do (if anything!) to help them build and maintain mutual trust.

If we have anything to offer them in that department (and this is by no means a foregone conclusion) then we can help them to extend their institutional and individual capacities greatly. They will then, by themselves, resolve the issues that Jeff quite rightly points out are smokescreens (linkage to financial institutions, institutionalization and regulation).

Our main goal in all of this should be to study how poor people have achieved what they have in this area, unrestingly seek ways to help them extend those capacities, and exercise extreme restraint in 'guiding' poor people in directions they have not chosen themselves. From a professional perspective, we should always be asking ourselves 'what value can I add to this group'? If the answer is money, we should stay away! And if the answer is expertise, we should approach our work with modesty, recognizing that MOST of the expertise (but possibly, not all) lies with poor people themselves.

JEFF ASHE, OXFAM AMERICA—RESPONSE TO BRETT MATTHEWS

Thanks for your comments pointing out that we should spend more time understanding before we introduce our programs. The anthropological model of microfinance. I supervised a group of students from Columbia who traveled to the Central African Republic. Since there are virtually no financial services in that country and hardly any NGOs we devised a study of looking at ROSCA traditions in that country without any pretense of introducing a specific program. It turns out (not surprisingly) that within the ROSCAS they visited there was considerable variation and "best practices;" some ROSCAS were a lot better managed than others and had made interesting methodological breakthrough. It also became very clear that what villagers in different parts of the country wanted most was to learn was how ROSCAS in other parts of the country were organized. The team devised a program that consisted basically of creating a forum for villagers to share their insights and best practices with each other and to ask them to come up with suggestions on how to best disseminate what they had learned.

A very low cost methodology and certainly one that was based on finding out what people are doing and having them propose how to share their learning. In the feasibility studies Oxfam will be carrying out in Central and South America we want follow this model of learning and then sharing to develop a program without the assumption of the spreading of a certain methodology.

I will share what we learn over the next year or so but an approach such as this could help break through the cost frontier. It will be a little hard to monitor but an anthropologist could track what happened.

Of course this might not work, but then we are trying to learn above all.

BRETT MATTHEWS, MATHWOOD CONSULTING—RESPONSE TO JEFF ASHE

I agree that we need more anthropology in our microfinance. But if villagers in the developing world knew how to construct the types of institutions that earn and maintain trust they would have done it already. They need us for that, if for no other reason than because we come from a culture that has worked it out, more or less.

Nevertheless, whether us who assembled at Tufts know it or not, most of us do NOT know how to construct institutions that earn and maintain trust. With our degrees in sociology and business, or even with our experience as social entrepreneurs and serial entrepreneurs, we are simply not equipped to provide much of value to poor women who are trying to figure out how to save more together in their groups and solve more of their problems that way. And we are not equipped to provide much value to poor women who want to figure out how to keep their promises to each other more consistently, and how to make and keep increasingly complex ones (e.g., from recurring deposits to demand deposits). That's where our need to observe carefully (anthropologically if you like) comes in.

I do believe we can add value. But we have to earn our capabilities the hard way. The Boulder Institute isn't going to teach us. Our NGOs aren't going to teach us. Maybe we need a school for this -- a serious certification program loaded with opportunities for field experience and case studies in building mutual trust in diverse villages.

JEFF ASHE, OXFAM AMERICA—RESPONSE TO BRETT MATTHEWS

Thanks for this. Your sentence "if villagers in the developing world knew how to construct the types of institutions that earn and maintain trust they would have done it already" is key. I am increasingly coming to believe that in liklihood some villagers will have constructued these institutions. Why shouldn't they, they are the ones who are living this reality every day and the range of smartness if pretty well distributed among all 6.5 billion of us. Our role may be little more than to identify the innovators and accelerte the dissemination of their ideas. The issue is that we are all too ready to push our own "bright ideas." I like your idea of building in a curriculum based on spending a lot of time in the field just seeing how things are currently being done, identifying the nano level social entrepreneurs and encouraging them to speak with other likeminded people like themselves.

JEFF ASHE, OXFAM AMERICA—RESPONSE TO GROUP

Thank you. Scale and sustainability is the key. I have often thought that since ROSCA traditions were invented and spread form villager to villager on their own that to the degree our programs mimic that process they will reach scale on their own. Now with roads, radio, TV, cell phones, NGOs and others to ramp up the speed of dissemination should accelerate. An important research question (and one that is addressed only tangentially in our Gates grant) is exploring the dissemination of the ideas embodied in our work and to see how the ideas are modified, stripped down and adapted by villagers as they spread.

We talked about the link to our work with government. In this regard I learned about a very interesting initiative in Vietnam promoted by the Vietnamese Women's Union. While everyone is focusing on the Bank for Social Policy (every heard of them - they are providing credit to close to 5, 000, 0000 villagers), the Women's Union has for years been forming savings groups. Now there are more than 100,000 savings groups with about 2,000,000 members. The amount of money they have mobilized (as I understand it) is greater than all the MIFs and other credit sources added together - except for the Bank for Social Policy. We know virtually nothing about how these 100,000 groups were formed if they replicate on their own, who is included and who is left out, how they are managed, if they keep their own books etc. but it would certainly be interesting to find out. This may be a model that other communist countries - Laos, China, etc. could adopt and adapt. This may be an example of a government doing some good work. I know that in India many Self-Help Groups are trained by the government. Quality is said to be low, but we really don't know much about this. This could be another avenue for increasing outreach at low cost and leveraging off of others. Once gain some good action research is required.

HUGH ALLEN, VSL ASSOCIATES—RESPONSE TO GROUP

I received this from Russell Mask. It's a description from a Kenyan working for the Catholics in a Nairobi slum (Kibera). It is, of course, only a single report, but it tends to support my contention that technology might strengthen community managed microfinance groups rather than eliminate them. This is the sort of thing that might even make Malcolm happy! I would be amazed if Barclays could offer this sort of flexibility.

> *What do these people use MPESA for?*
>
> In one group, the group members are doing daily saving, where a collector has to go round to collect money from members, 10 of the member can be reached easily, 20 cannot be reached until weekend, 20 others until end month this made that groups collections could only be known at end month when all members can meet, this had an impact on daily or weekly expected collections for the group, but when the MPESA service come in, many of them over 40 can be reached on almost weekly collection. They DEPOSIT their daily savings on their phones which is free, and by weekend they SEND to the Treasurer at fee of only 30/=. Even the members that are hardly active and can only be able to give their saving monthly this has enabled them to send their savings.
>
> To minimize the sending cost – members are encouraged to save money onto the Treasurers phone direct at no fee or any cash collected by collector is deposited to the Treasurer's line
>
> - Monitoring and transferring the Groups money is done by the Management committee who meets every Saturday
>
> *What sizes of payments do they make?*
>
> Minimal saver saves 50 per day per person
>
> Where the Management may have been needed to go to Bank and withdraw the cost of withdrawal, Transport fares of four officials needed in is saved and is reduced
>
> *Do they receive payments or remittances via MPESA?*
>
> Loan to members was that a member was to pay Loan Committee Kshs. 25 for form and processing, and with MPESA this has reduced the stationery needed to one book record for loan, unlike where five/four forms where being used. When Members meet on Sundays and agree on who will be getting loans as checked and approved by the Credit and Loan Committee, Resolution is normally passed that Treasurer in the Week to MPESA to all applicants Signed Loan book in the meeting.
>
> Loan Repayment too is accepted in same way, making even a member not to wait until week/month end to repay any available money to them.

HUGH ALLEN, VSL ASSOCIATES—RESPONSE TO JEFF ASHE

Under an upcoming Barclays grant, Plan international, assisted by VSL Associates is working through the Women's Union to implement the VSL model. There has been some scepticsim that a community-based model can compete in the face of the largely subsidised approach of the Bank for Social Policy, so it will be interesting to find out how this works out. Mark Pierce of Plan and David Panetta of VSL Associates spearheaded this effort and may be able to comment on where things are headed right now and how the Women's Union model differs from what we have come to understand as community-managed micro-finance.

HANS DIETER SEIBEL, UNIVERSITY OF COLOGNE—RESPONSE TO HUGH ALLEN

I suggest distinguishing between two types of community-based MFIs (a) community-managed (and perhaps community-owned) and (b) member-managed (and usually member-owned). There may be overlaps between the two "ideal types", as in the case of the caisses villageoises in Mali, which are member-owned and community-governed (though not community-managed). Which type are the groups under the Women's Union in Vietnam?
Dieter

JEFF ASHE, OXFAM AMERICA—RESPONSE TO HUGH ALLEN

Thanks for the update. I look forward to hearing form Mark Pierce and David Panetta about the model Women's Union model. With 100,000 groups in place and many years of experience it would be very useful to understand how the current model and its variants work in detail before proposing a specific intervention. It would also be useful to see if this model works in competition with the Bank for Social Policy which is reaching approximately 5,000,000 borrowers but is highly subsidized with an interest rate at less than 1% per month, most of which is rebated to the mass movement organizations - such as the Vietnamese Women's Union - to cover its administrative costs for sending potential clients to the Bank for Social Policy and to deal with payment issues.

HANS DIETER SEIBEL, UNIVERSITY OF COLOGNE—RESPONSE TO JEFF ASHE

Indeed, let's find out more about "more than 100,000 savings groups with about 2,000,000 members" established by the Vietnamese Women's Union. You write we know virtually nothing about them. We do know that they are unregulated and unsupervised.

(I studied a similar system in Laos in 1998, published by APRACA, and thought it had great potential, but lost track.)

In contrast, we do know something about the competition in Vietnam:

1015 People's Credit Funds (= savings and credit cooperatives), regulated and supervised by SBV, the central Bank, evolving since 1993; about 100 (no longer included among the 1015) were non-performing and closed by SBV. Here are some fresh data (31 Dec. 2008):

Members:	1,349,804
Active borrowers:	785,698
Total assets:	US$982.17 million
Loans outstanding:	$833.04 million
Member deposits:	$726.24 million
Borrowings:	$131.83 million
Equity:	$45.88 million
Net profit after tax:	$10.81 million
Overdues >1 day:	0.53%
ROAA (2007):	0.87%
ROAE (2007):	14%

Here is an interesting additional aspect: comparing 2007 and 2008: the PCFs, as savings-based local financial institutions, have been resilient in the face of global crisis and rising inflation. There is also a central fund (CCF), with total assets of $374.16 million, loans to PCFs of $131.83 million to PCFs and $166.56 million to other clients, total deposits of
$234.75 million etc (more upon request).

In my view there are two main factors which explain the strength of the PCF system (in contrast to the collapsed 7200 credit cooperatives of the pre-Doi Moi period): (1) guidance, appropriate regulation and effective supervision by the central bank; (2) federating and the role played by the central fund.

I hope that someone will be able to tell us more about the inner and outer workings of the 100,000 groups - their self- and external regulation and supervision, and who takes charge of the auditing and closes those groups which are non-performing.

JEFF ASHE, OXFAM AMERICA—RESPONSE TO HANS DIETER SEIBEL

Thank you for you informative update on the People's Credit Unions. (It is amazing how much there is out there. We keep hearing about a handful of examples and here you find 1,300,000 members from an initiative that at least I had never heard of. I am sure there are many more examples.) You point out that the strength of this large movement is because the People's Credit Unions are regulated and supervised. The unregulated and unsurpervised niche we are accessing with various forms of saving and lending groups base their strenght on good traiing, very small scale (under 30 members), and building on local traditions of holding each other accountable. Once you move beyond this the regulated and supervised approach is the only sensible alternative.

We at Oxfam America are intersted in Vietnam since with our large scale savings led initiative in Cambodia, Vietnam seems like a reasonable next place to expand. Your knowledge of a similar initiaive in Laos – another possible expansion site would be useful to know more about. I visited three larger savings led grops in Laos - with about 100 members each. Representives of the mass organizations served as advisors and received a small percentage of the interest income of the group. I don't know if a similar mechanism would be reqired if the groups were much smaller.

HANS DIETER SIEBEL, UNIVERSITY OF COLOGNE—RESPONSE TO JEFF ASHE

In 1998 I found no alternative to groups to be formed and guided by the Women's Union, the only organization with complete coverage. UNDP was very active in microfinance in Laos back then. I lost track, but would be interested in recent information.
In Vietnam the situation is different, with the state and the State Bank of Vietnam playing a very active role. But I realize that there still is a vast segment of the population beyond the reach of the PCFs. But I wshuld think a lot could be learned from the experience of the People's Credit Funds and their Central Fund, and there might be room for cooperation and synergy for the two approaches. You might want to contact a very knowledgeable person: Nguyen Thac Tam of the CCF (nguyenthactam@yahoo.com).

N. SRINIVASAN—RESPONSE TO HUGH ALLEN, JEFF ASHE AND OTHERS

Women's union in Vietnam follows more than one model in forming groups as it has more than one project and multiple donor partnerships. In different provinces we might see different practices, based on the donor's influence on project design. Some are savings and credit groups, some are enterprise groups, some are producer groups and some get linked with VBSP while most of their groups are financed by TYM which is the group MFI of women's union.

How the women's union manages these differences would be a good subject of study.
Women's union has strong provincial bases and provincial leaders who could make their own models. The influence of local leaders up to the commune level is strong with attendant positive and not-so-positive consequences. I am marking this mail to Girija Srinivasan who will be in a position to provide more insights.

JEFF ASHE, OXFAM AMERICA—RESPONSE TO N. SRINIVASAN

Thank you for reminding us of the complexity of the Vietnamese Women's Union. I this case we are interested in the 100,000 savings and credit groups. For your information, TYM was launched by Oxfam America.

DAVID PANETTA, VSL ASSOCIATES—RESPONSE TO JEFF ASHE, HUGH ALLEN AND OTHERS

As Srinivasan correctly explains, the Vietnam Women's Union promotes several models and engages in different forms of financial intermediation, under different projects, funded by different donors. As a result, the activities of the VWU differ considerably across districts and over time.

The only legal basis on which to operate microfinance in Vietnam is a partnership with a socio-political mass organization; and the Women's Union, with its far-reaching network of over 7 million members, has been the preferred partner of donors as well as public institutions. Rough estimates suggest that the VWU has intermediated financial transactions between various institutions and over 5 million individuals. Most significantly, the VWU is one of the main retail agents of the state-owned Vietnam Bank for Social Policies (VBSP) and the Vietnam Bank for Agricultural and Rural Development (VBARD), with a combined outreach of over 13 million clients.

The VWU manages a community emergency fund for its members, operates its own small (25,000 members) quasi-MFI (TYM), serves as a retail agent for state-owned banks and has managed revolving loan funds supported by various donor agencies; but the VWU does not have any savings groups of its own and does not appear to promote any veritable savings groups under any programme (at least not at the scale mentioned). The village representatives of the VWU serve as multi-purpose agents for several institutions and sell a wide array of financial products to individuals in loosely-organized groups.

Unfortunately, the "savings groups" that it has promoted under several programmes appear to serve mainly as a platform for the sale of the appalling, politically-motivated loans of the VBSP which serve as a significant impediment to the development of the rural financial sector. While products and outreach strategies may differ across areas, a series of FGDs conducted with the VWU in two provinces suggest that the typical VBSP loan intermediated by the VWU:

- 3-10 times household annual income
- 3 to 5-year term
- Effective annual interest rate of 7 to 8%; equivalent to a real annual interest rate of between -5% and -20% (depending on the inflation rate used)
- Monthly or quarterly interest repayments
- Balloon repayment of the principal amount at maturity
- No savings product; no opportunity to save to repay this relatively large, long-term liability
- Reported repayment rates are over 99% as loans are repaid at maturity with the extension of a larger loan

In short, the Vietnam Women's Union is an impressive and highly-effective social mobilisation network comprised of very capable representatives in every village of the country; and thus represents a highly-attractive mechanism for the promotion of community-managed financial services in Vietnam. Nevertheless, the promotion of autonomous, self-managed, sustainable savings groups by the VWU requires a long-term donor prepared to engage the Women's Union, sincerely and strategically, and offer its village representatives the adequate financial incentives to promote community-managed financial services independently from its relationship with VBSP. The task is large but so are the potential rewards as any suitable model adopted by the VWU could spread quickly and provide millions of women in Vietnam with a safe place to save. The more interesting question is not the study of the various models implemented by the Vietnam Women's Union but rather the institution itself; and the programme design and incentives required for the VWU to implement any suitable model independently.

END OF EMAIL DISCUSSION