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Savings And The Poor: The Methods, Use And Impact Of Savings By The Poor Of East Africa

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Introduction

MicroSave is a newcomer to the fast-growing microfinance scene in Africa. It set up shop in Kampala in the latter part of 1998 under the banner "promoting secure, high-quality savings services for poor people". Sensibly, one of its first acts was to commission research into 'microsavings' – savings made in relatively small amounts by poor people in the continent. It needed to know *whether* the poor of Africa save, and if they do, *why* and *how* they do it – how frequently, in what volumes, and by means of what services or devices. Are the poor satisfied with these methods, and if not, why? How important *are* savings in their lives and livelihoods, and what difference does it make to their fortunes and those of their families if they have, or lack, access to satisfactory savings systems? It was believed that if these questions – and others like them - could be answered, ***MicroSave***'s role as a promoter of good savings services for the poor would be strengthened.

This Report begins to answer some of these questions by describing what nine researchers observed during a few short weeks in the field in three countries – the East African trio of Kenya, Uganda and Tanzania – in early 1999. At the same time, the researchers worked on a second study, which examined the reasons that lie behind the rapid[1] turnover of clients in East Africa's burgeoning micro-credit institutions. That study is published alongside this one[2]. Doing the two studies together had a healthy effect. It ensured that the researchers kept in touch with the 'practitioner's perspective', and that they constantly engaged with the practical problems that the poor face in finding a safe place for their savings, and the practical problems that would-be service providers face in making those places widely available to the poor.

Published documents were consulted, but few were found to embrace the full range of savings opportunities pursued by the poor. Because we needed to explore for hitherto little known or poorly understood behaviour in relation to savings, in-depth interviews and participatory methods of enquiry were preferred to more quantitative or questionnaire-based surveys. ***MicroSave*** wanted insights that may prove useful to the design of savings products, so our researchers spent more time on the *why* and *how* questions than on counting heads or counting shillings. Details of the methods used can be found in appendix 1 and the Terms of Reference for the study are reproduced in appendix 2. References are given in appendix 5.

The Report is organised as follows. After an Executive Summary comes a section called 'Preliminaries' which summarises the objectives and the execution of the study.

Next comes 'Managing Money', which offers a conceptual framework for understanding the role that savings play in the lives of the poor. This is followed by a short section on 'Defining the Poor'. The framework is then used to analyse the material presented in the next section, the main one, called 'How the Poor Save', in which the services and devices used by poor savers are described, and their merits discussed. The section is divided into sub-sections covering informal devices and services, formal institutions such as banks and insurance companies, and the new semi-formal ones comprising the microfinance institutions (MFIs). Finally, a section called 'Opportunities' discusses the paths that appear to be open to East African microfinance institutions that wish to improve their savings products.

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[1] Rapid, that is, relative to turnover rates in, say, South Asian microcredit and microfinance institutions

[2] *Drop-Outs among East African MFIs,* ***MicroSave,*** Kampala, 1999

Executive Summary

Background

This Report is about how the East African poor manage their money, and how microfinance institutions (MFIs) might help them do it better. It was written for ***MicroSave***, an agency set up by two donors interested in promoting improved savings services for the poor of Africa. They are UNDP and DfID (official British development aid). The specific opportunity arose when ***MicroSave*** commissioned a three-country study covering Kenya, Uganda and Tanzania, which was carried out in April and May 1999. Nine researchers were deployed, for varying amounts of time, and they combined their work on the study with work on a companion study on 'drop-outs' from East African MFIs. This study draws together and summarises the very large mass of material gathered by these researchers[3].

Review of services and devices

The bulk of the report is taken up with descriptions of the money management devices and services used by the poor, and with a discussion of the extent to which the poor and very poor have access to them. Altogether fifteen distinct types of device or service were examined. They were categorised into three groups. The first group comprised informal (unregistered, 'indigenous') types. They were: saving at home, savings clubs, money-guards, deposit collectors, reciprocal lending, informal insurance schemes, ROSCAs, ASCAs, moneylenders, pawnbrokers, and supplier credit. Three formal sector services were looked at: savings and credit co-operatives (SACCOSs), formal banks, and insurance companies. Finally, the MFIs, which comprise the 'semi-formal' sector, were reviewed.

From this analysis it emerges that the poor and very poor have extremely limited access to the formal sector institutions. This comes as no surprise, but somewhat more unexpectedly it emerged that they have only limited access to the new breed of micro-enterprise financing MFIs. Most poor people rely on the informal sector to manage their money. More or less everyone saves some cash at home or about their person though the poorest may experience periods when they can't do so. Among informal group-based devices ROSCAs (savings clubs whose members agree to make a set cash deposit at set intervals, and pass the whole of the sum collected on each occasion to one of their members in rotation) are especially popular in the region. Despite a widely expressed need for safe opportunities to save small amounts of cash, it emerged that there are not many deposit collectors and those that there are lack the degree of standardisation and professionalism found among them in West Africa. The poor and not-so-poor have almost no access to moneylenders of any sort (informal or formal), a fact that contributes to the widespread popularity of the MFIs, though some belong to socially-defined unorganised informal groups that lend cash to each other on a 'reciprocal' basis.

None of this will come as a surprise to those readers familiar with the microfinance scene in the region, but it is hoped that many of them may find the detail discussion interesting.

The framework

The study attempts to digest this mass of information by offering a conceptual framework for analysing the role of savings in the money management systems of the poor[4]. This framework is laid out in an early section of the Report. In essence, it suggests that the overwhelmingly important problem facing the poor when they manage their money is that of building usefully large sums of cash out of their uncertain capacity to save. This results from a simple fact of life for the poor: income comes in small amounts, and most of it goes out again immediately in day-to-day expenditure. But there are, surprisingly often, many occasions when the poor need lump sums of cash that are large in relation to the sums they hold in their homes or about their persons. These needs arise from common life-cycle events, from emergencies, and from the appearance of opportunities to buy assets or invest in businesses. Three 'archetypal' ways of

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[3] Much of this basic material is available to serious researchers and practitioners from ***MicroSave***'s Kampala offices, from where the 'drop-out' study may also be obtained.

[4] A full description of the arguments can be found in Stuart Rutherford, *The Poor and Their Money*, IDPM Manchester 1999, and forthcoming, Oxford University Press, Delhi.

converting savings into lump sums are proposed: saving up (which is self-explanatory), saving down (taking a loan as an advance against future capacity to save), and saving through (making a continuous set of deposits which are converted into a lump sum at some point in time during the flow: insurance cover does this, and it is also the basis of ROSCAs).

In the main section of the Report, therefore, the devices and services are looked at in relation to which of these three types of saving-to-lump-sum 'swap' are involved. The perspective has the advantage of emphasising the fundamental role of savings mobilisation in all three swap types. It is noted, for example, that the most common form of saving-to-lump-sum swap varies between geographic regions. In West Africa the deposit collector (with his 'saving up' service) is a very commonly used swap, whereas in many parts of Asia the moneylender (who offers a 'saving down' service) is much more common. In East Africa, as our study found, a saving-through device is the most often encountered – the ROSCA.

The MFIs

Armed with the review of services and devices, and of the poor's participation in them, the Report turns to the MFIs. It is pointed out that MFIs have chosen a very small corner of the microfinance world to work in. They offer, almost exclusively, a 'saving down' service of a very restricted and inflexible kind (in terms of swap term, and swap size, for example) to a very narrow range of clients – the owners of small and micro businesses in urban areas or rural markets. Many of these clients are not poor, and virtually none are the very poor.

Conclusions and recommendations

The Report concludes that MFIs would do well to explore how to broaden their work – to a much wider range of clients, including the poor and even the very poor, using a much broader mix of 'swap' services with a variety of term lengths and volumes.

The demand for such services can be demonstrated from the material gathered and presented in the main section of the Report. A few paragraphs demonstrate the difference that can be made to poor people's lives and aspirations by the presence or absence of opportunities to mobilise savings and turn them into usefully large sums.

Several MFIs are already moving fast in the direction favoured by this Report. However, the difficulties facing them in offering such services are formidable, and Report considers some of them, including the regulatory environment (currently hostile to deposit taking by MFIs and in at least two of the countries apparently set to become even more so). The cost issue is also addressed, since it is widely believed that non-credit approaches are impossibly costly to offer, and MFIs are under pressure (internally and from their backers, the donors) to become profitable. The report therefore examines the three key issues in sustainable pro-poor banking: attractive product design, prioritising cost effectiveness, and charging realistic prices. It finds some hope in all of these. Finally, it refers to initiatives already successfully under way in other parts of the world that show how a wide-ranging form of pro-poor banking and insurance *can* be offered on a sustainable basis.

If the East African MFIs can move into a similar position they may achieve the two main goals of their mission statements: poverty reduction and institutional sustainability.
This Report is dedicated to them and to these efforts.

Stuart Rutherford,
Kampala, Uganda,
May 1999

Preliminaries

MicroSave is an agency founded and funded by UNDP (the United Nations Development Fund) and DfID (official British development aid) following a Conference on 'Savings in the Context of Microfinance' held in Kampala, Uganda, in early 1998. Its aim is to promote savings services for poor people in Africa. Its programme is designed around five key activities, one of which is research into the savings behaviour and preferences of the poor and into the design of savings products for the poor that can be offered by microfinance institutes (MFIs).
The present study is the first it has commissioned, although it has already carried out other research using its own resources[5]. The study's purpose is to 'improve knowledge and understanding of how poor people in East Africa save, how they use different savings services/systems, and the impact of those facilities on their household budgets and lives' (Terms of Reference, December 1998). In addition, the study is to pay particular attention to examining the place of savings in MFIs, and 'to draw lessons for MFIs seeking to develop savings products for their clients'. The full TORs are reproduced as appendix one.

The TORs suggested a ***methodology for the study*** based primarily on 'qualitative and participatory research methods, in particular in-depth interviews…', and set the ***geographic scope*** of the study as two locations each in the three East African states of Kenya, Uganda, and Tanzania. A note on the range of research approaches actually used can be found in appendix two.
The study ran from mid-April 1999 (when it began in Uganda) to the end of May 1999. This coincided with a second study commissioned by ***MicroSave*** which examined the causes of drop-outs among East African MFIs. Altogether, a team of nine researchers worked jointly on the two studies. For the present study, Stuart Rutherford, a consultant from Britain who has worked as a writer, teacher and practitioner in South Asia for many years, took the responsibility for drafting the final report, after doing fieldwork in Uganda and Tanzania. Country-specific Reports were prepared for Uganda by Leonard Mutesasira and Graham A.N. Wright (of ***MicroSave***), for Kenya by Harry Mugwanga, and for Tanzania by Christopher Lwoga. They worked alongside Henry Sampangi and Graham Wright (both of ***MicroSave***) in Uganda, John Kashangaki in Kenya, and Florence Maximambali in Tanzania. David Hulme, of the Institute of Development Policy and Management at the University of Manchester, wrote the final Report for the drop-out study, after doing fieldwork for both studies in Uganda and Kenya. Details of the fieldwork locations and personnel can be found in appendix three.

On many occasions our hosts and guides were the ***microfinance institutions*** in the three countries. They were welcoming and helpful, and the team is grateful for their co-operation. We also benefited from help given by DFID and UNDP offices in the three capitals. As usual, the people to whom we are most indebted and on whose time we encroached most heavily are those least likely to read our thanks – the men and women whom we met and questioned in the course of our work.

Managing Money

The purpose of financial services is to help people manage money, and *microfinance* – financial services for the poor – is no exception. An enquiry into any microfinancial service, such as savings, is essentially an enquiry into how the service helps poor people manage money.

One consequence is that this Report will not dwell in any detail on *savings in kind*. Savings in kind – non-monetized savings - are treated here as an alternative to financial savings, and as such their merits and shortcomings are briefly examined, but are not elaborated on. The subject is not without interest, but is not the focus of our study, which looks at how and why poor people save *money*.

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[5] Most notably, a review of the Ugandan Women's Finance Trust (UWFT), March 1999

A framework for the analysis of financial services for the poor
Most poor people have very little money, so managing well whatever money they have is a matter of considerable importance to them. Managing money can mean things such as being able to move it safely from place to place, or to convert it without too much loss from one currency to another. Poor migrant labourers, for example, often face such problems. However, the *transmission* and *conversion* of money will not feature in this Report.

Instead, we shall concentrate on the most serious, most common and most pressing of money management problems faced by the poor – *building large lump sums* out of small and often irregular and fluctuating incomes scarcely big enough to cover their most basic needs. The following paragraphs show why this is so, and demonstrate the fundamental role of savings in solving the problem. In so doing, the section provides a framework – used throughout the remainder of this Report – for the analysis of financial services for the poor.

The main money management problem: assembling large sums of money
Despite their small incomes, the poor are faced, surprisingly often, with expenditure needs which are large in relation to the sums of money that are immediately available to them. Although day-to-day household expenditure – food is often an example – can be roughly matched with income, there are many other expenditure needs which call for sums of money much larger than they normally have in their purse or pocket.
There are three main categories of such occasions:

- ***Life cycle needs***. The poor need usefully large sums of money to deal with life cycle events such as birth, death and marriage, education and home-making, widowhood, old age and death, and the need to leave something behind for one's heirs, and for seasonal variations in consumption.
- ***Emergencies***. In order to cope with impersonal emergencies such as floods, cyclones, and fires, and with personal emergencies such as illness, accident, bereavement, desertion and divorce, large sums of money are again required.
- ***Opportunities***. As well as needs there are opportunities that require large sums of money, such as starting or running businesses, acquiring productive assets, or buying life enhancing consumer durables such as fans, televisions and refrigerators.

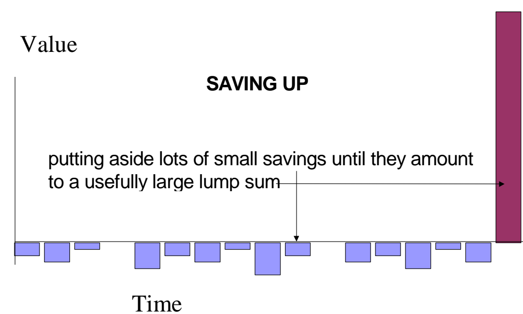
Finding these large lump sums of money is the main money management problem for poor people.

The role of savings in money management
How then are these 'usefully large lump sums' to be found? The only reliable and sustainable way open to the poor is to *build them from their savings*.
Saving – making the choice not to consume cash – is thus the fundamental and unavoidable first step in money management, without which financial services cannot operate.
Occasionally, of course, the poor may be on the receiving end of charity. They may also sell or pawn assets. However neither of these methods is reliable nor sustainable. Charity may cease at any time, and asset disposals are limited to the meagre number of assets that the poor hold. To replace assets sold or to redeem pawned goods the poor will have once again to turn to savings.

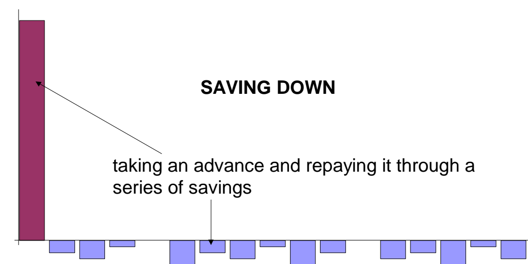
The poor themselves recognise the need to build savings into lump sums and contrary to popular belief the poor ***want*** to save and ***try*** to save, and all poor people except those who are entirely outside the cash economy ***can*** save something, no matter how small. When poor people do not save it is for lack of opportunity rather than for lack of understanding or of will.
The predicament of the poor can be expressed in the phrase "too poor to be able to save much; too poor to do without saving".

Three ways to convert savings to lump sums
There are several ways in which savings can be built into usefully large sums of money, but they fall into three main classes, as follows:

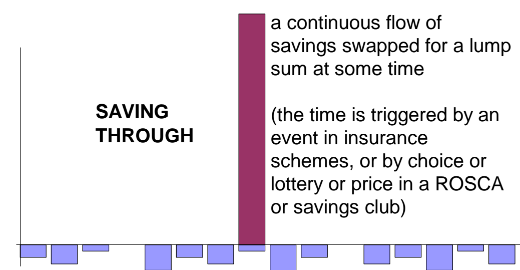
1. ***Saving up***. This is the most obvious way. Savings are accumulated in some safe place until they have grown into a usefully large sum. Many poor people lack a safe and reliable opportunity to save up. As a result, they may be willing to accept a negative rate of interest on savings, in order to be able to make deposits safely. We see this in the case of the deposit collectors that work in the slums of Asia and Africa.



2. ***Saving down***. In 'saving down', the poor are lucky enough to have somebody give them an *advance* against future savings. The savings then take the form of loan repayments. Many urban moneylenders offer this service at high cost. MFIs, like Grameen Bank in Bangladesh or PRIDE in East Africa, offer a similar service but do so at a lower cost and with greater reliability. The recipient of a PRIDE or Grameen Bank loan makes a large number of repayments at short intervals and these repayments can be sourced from the borrower's capacity to save. The advance can therefore be spent on any of the uses in the three classes listed above[6].



3. ***Saving through***. In this third case savings are made on a continuous and regular basis, and a matching lump sum is made available at some point in time during this flow of savings deposits. The services offered by insurance (in which case the savings take the form of premium payments) are of this type, though the poor are very rarely offered formal insurance services. "Saving through" is also offered by many forms of savings club, including, notably, rotating savings and credit associations, or ROSCAs (known in East Africa as merry-go-rounds or cash-rounds). 'Saving through' therefore constitutes the most common class of device that the poor are able to provide for themselves.



Definitions of financial services for the poor:
These insights allow us to build some definitions, as follows.
Financial services for the poor are services that help the poor ***turn savings into lump sums.***
Good financial services for the poor are a matter of doing this:

- In as many ***different ways*** as possible (saving up, saving down and saving through)
- Over as many ***different periods*** (varying from very short term for quick needs, to very long term for old age or widowhood, for example) as possible
- In ways that are ***convenient, quick, appropriate, flexible*** and ***affordable***

[6] That is, it is not necessary to spend the advance on 'income generating activities' that produce an immediate stream of additional income. Of course, the source of the savings that are used to make the repayments may or may not be a business.

A study done in six West African countries by a sister organisation to MSA came to similar conclusions regarding the essential role of financial services for the poor[7].

Using the framework
In the main section of this Report, 'How the Poor Save', the framework and definitions are used to compare the different devices and services found by our researchers in East Africa. This allows us to map out the range of devices and services that exist in the region, and to show with some precision the differences between them. It helps us to see which type of device or service is most used – and least used – by the poor, and to generate theories about why this should be. It also helps us to identify opportunities for MFIs to develop new poor-friendly products: these are explored in the final section of the Report.
The main variables that are explored and compared are:

- The '***swap type***': does the device or service swap savings into lump sums through a 'savings up', a 'savings down', or a 'savings through' approach?
- The ***term*** of the swap: does the device or service swap savings for lump sums over the short term (a few days or weeks), the medium term (a few months), or the long term (many years)? Closely related to the swap term are
- The ***main uses*** of the swap: is the device or service used in one particular way (as for example in life assurance or in MFI loans for micro-enterprises), or are there many ways to use the swap (as in Uganda's ROSCAs which may be dedicated to uses as varied as stocking businesses, paying school fees, or having a hair-do)?
- The ***volumes*** commonly involved in the swap: does this device handle modest sums of money (as in many 'piggy banks' held in the homes of the poor) or large sums (such as in the bigger ROSCAs used by traders in Kenya and Tanzania)?
- The type of ***user***: is this device or service most commonly used by the very poor, the poor, the not-so-poor, or the rich? Closely related to this question is that of:
- ***Transaction costs***: how easy is it to use this device or service? Is it available at the home or does it need a special journey? Can it be accessed quickly (like a visit to a pawnbroker) or does it require some investment of time (like a weekly meeting at an MFI)? As well as transactions costs there is:
- The ***price*** of the swap: is this a high-priced swap, like those of moneylenders, or is it free-of-cost, such as using a trusted money-guard like a grandparent? Note that some devices, such as ROSCAs, have a zero price but medium-expensive transaction costs caused by the need to invest time and social energy into keeping the group together.
- The ***risk*** involved in the swap: there are various types of risk associated with microfinancial devices and services, but they can be compared on a spectrum from very low to very high risk

Where possible, these variables are plotted in a simple table which is designed to provide a quick summary of the characteristics of each device or service.

Defining and knowing the Poor

There are two main problems confronting any field research that uses the concept of 'the poor'. The first is finding an adequate definition of the poor, and the second is using that definition in the field. Our researchers took a pragmatic and participatory approach to these two problems.

Defining the poor
Governments have established definitions of poverty, often based on proxies for income levels, such as per capita daily nutritional consumption. This kind of national level data was reviewed to provide information about the *geographic* and *occupational* distribution of poverty. An example of using geographic data is the following table from the Kenya study, which examined the presence of MFI

[7] *The role and impact of savings mobilization in West Africa: a study of the informal and intermediary financial sectors,* Gilles Goldstein and Issa Barro, with Dominique Gentil, for the Special Unit for Microfinance (SUM), at UNDP/UNCDF, February-March 1999; especially paragraph 3.3, pages 8 - 11

branches in the fifteen least poor and the fifteen poorest administrative Districts of the country, as ranked in government publications:

Table One: distribution of Kenyan MFI branches

Microfinance Institution	**Total branches analysed**	**Presence in the 15 least poor Districts**		**Presence in the poorest 15 Districts**	
		Number	**% of total**	**Number**	**% of total**
KREP	11	7	64%	4	36%
KWFT	9	8	89%	1	11%
PRIDE	9	8	89%	1	11%
NCCK	8	7	87%	1	13%
WEDCO	2	2	100%	0	0%
FAULU	6	6	100%	0	0%
Total:	**45**	**38**	**84%**	**7**	**16%**

Source: Kenya study

This analysis enables this Report to conclude that 'Kenya's MFIs have yet to build up much of a presence in the poorer Districts of the country'. Similar reviews were made of regional data in Uganda and Tanzania.

At a more local level, maps were prepared of areas where the researchers worked, and the locations and catchment areas of branches of formal and semi-formal institutions marked. Local key informants were then asked to provide opinions on the relative wealth of the areas. At Arusha in Tanzania, for example, this kind of analysis revealed – not at all surprisingly – that banks were not located in poor rural areas, and that MFI outreach into the countryside was restricted to a few sites along the main road where there were busy markets. The same was true of the area round Nyeri in Kenya.

Focus group discussions were used to obtain local definitions and characterisations of poverty. The Ugandan team, for example, rapidly obtained the following thumbnail sketches in a local market, and these were immediately useful in analysing which of the four categories used the devices and services discussed in the subsequent interview:

The rich…	Have cars, houses and 'excess' money: but they fear being attacked
The not-so-poor…	Have sources of money but these are 'unstable': they have just enough money to buy essential things. They work for the government, or are fishmongers, etc
The poor…	Have very small stalls selling small stocks of vegetables
And the *very* poor…	Have very small stalls with stocks worth less than $2. They lack self-confidence. They do not own any land.

Such exercises could sometimes be supplemented and reinforced by reference to existing literature. In Tanzania, for example, we were able to use two papers. The first was the World Bank publication *Voices of the Poor: Poverty and Social Capital in Tanzania* (Deepa Narayan, World Bank, 1997, especially chapter 2, *What is Poverty*). The second was a recent study by the Bank of Tanzania, *Participatory Appraisal of Demand for Financial Services in Rural Tanzania* (led by Janet Mbene and Michael Ndanshau, Dar es Salaam, 1999). This consists of a narrative report on a large number of focus group discussions held in both urban and rural areas of Tanzania in which questions to do with financial services and their use by the poor were raised.

Knowing the poor

The mix of methods described above provided the team with a reasonable guide to who the poor are in the region, and where they are to be found. However, in each specific field visit we had to face the problem of identifying the poor in that particular location. In this, the participatory exercise known as wealth-ranking proved useful. Field staff of MFIs (generally known as Credit Officers) usually proved

very articulate and co-operative when asked to rank their various groups by wealth and to explain their reasons for the rankings. In the context of a successful 'focus group discussion' examples of people who fell into categories of wealth defined for us by the participants could be identified and interviewed. This worked particularly well in Uganda. Elsewhere, simpler methods sufficed. In Tanzania, for example, a 45-kilometre drive out of the capital brought the team to a road-side village occupied both by long-term 'original' residents and by newcomers who had come to take up government or other formal sector jobs in offices and factories strung out along the highway. Asking small groups of members gathered for an MFI meeting about what kind (and what numbers) of people in their village were 'richer' and 'poorer' than themselves enabled us to identify one of the MFI groups as clearly poorer than the other. It also enabled us to visit the village to seek out the poorer residents and interview them.

How the Poor Save

Organisation of this section

The microfinancial devices and services described in this section have been organised into three main categories, and ordered according to their antiquity. Thus:
The informal sector, many aspects of which have an historic presence of unknown antiquity in the region, comes first
The formal sector, largely banks, insurance companies and registered co-operatives which developed in colonial times but have undergone many transformations since, come next, and
The semi-formal sector, comprising the microfinance institutions, or MFIs, come last. They appeared on the scene in Kenya in the 1980s, and in Uganda and Tanzania in the 1990s (for the most part)

This categorisation has the merit of leading us naturally on to the exploration of new opportunities for the semi-formal sector given in the last section.
Within each of these categories, individual devices and services are given, where possible, according to the type of swap employed, in the following order: saving up, saving through, and saving down. This somewhat arbitrary ordering system allows us to start with the most common device – saving at home – and end with the sophisticated 'savings down' products of the MFIs.

The full list is as follows:

1. **The informal sector**
   - i. saving at home
   - ii. savings clubs
   - iii. money-guards
   - iv. deposit collectors
   - v. reciprocal lending
   - vi. informal insurance schemes
   - vii. ROSCAs
   - viii. ASCAs
   - ix. moneylenders and pawnbrokers
   - x. supplier credit
2. **The formal sector**
   - xi. savings and credit co-operatives (SACCOSs) (savings, loan and insurance products)
   - xii. formal banks (savings and loan products)
   - xiii. insurance companies
3. **The semi-formal sector**
   - xiv. MFIs (loan, savings, and insurance products)

1 The informal sector

1.i Saving at home

Virtually every respondent reported that they save some cash at home, or about their person. However, the richer you are the smaller the sums are in relation to your overall cash-flow, to the point where some richer respondents reported that they didn't save in this way, meaning that they stored their cash in the bank and regarded the amounts of cash they carried with them as trivial. At the other end of the scale,

poor respondents told us that saving at home is extremely difficult, because such sums are easily eroded by many kinds of risk and pressure: they can be stolen or lost, or used up in trivial expenditure, or claimed by family and neighbours falling on hard times. Women are particularly aware of this risk, and some women were coy about disclosing the existence or volume of home savings, since the sum represented a 'secret' hoard that she alone controlled, without interference or capture by her men-folk. Some very poor respondents reported that they were entirely unable to save in this way, at least during certain seasons or during high-cost periods in their life-cycle, such as parenthood.

In most cases, therefore, sums saved in this way are small relative to expenditure needs and to sums passing through other devices. Velocity of turn-over is high (or, to put it another way, the term of the savings is short): home-banks get raided quickly. This is despite the ingenious ways in which people curb the temptation to spend home savings, which range from buying cash boxes and throwing away the key, or sewing banknotes into clothing, to 'making a strict rule for myself'. People save at home because of all savings devices it has the smallest transaction costs and is zero-priced, but these virtues are not enough to satisfy many home-savers. This emerged clearly when many respondents told us that they would much prefer alternative savings arrangements. Among these, a formal bank account was probably the most frequently expressed, especially in Tanzania, where banks used to be more friendly to the poor than they now are[8]. Where better devices are not available, many people, especially from poor and middle households, and above all in the countryside, resort to saving in kind, turning spare cash as soon as possible into a succession of lumpy livestock assets (chickens, then goats, then cows) or into grains or other divisible commodities.

The Home Based "Bank"

The research team asked a *boda boda* bicycle boy how he was able to buy the bicycle – was it through taking a loan or by saving? He said he had saved. "Initially I worked riding someone's bicycle. I had to take back 500 shillings (US 35 cents) per day to the owner and saved 1,500 shillings each day. I kept the money in a secret place inside my parents' house until I had enough to buy a bicycle. We were many in the house and sometimes I feared someone could get to my money. I was lucky no one got to it. When I accumulated the required 68,000 shillings ($47), I immediately went to the shop and bought my own bicycle".

Source: Uganda study

Saving at home: summary

Swap type: saving up

	Range found	Norm	Notes
Frequency	High to very high	Very high	Virtually everyone holds some cash at home: a Tanzanian study reported 96% doing so
Term	Short to medium	Short	Several exceptional cases reported of long-term or high-value savings at home
Volumes	Low to medium	Low	
Users	Poor to rich	Poor and lower-middle; especially women	Some very poor report zero savings at home at some seasons and life-stages: some rich report no holding of cash at home
Uses	Any	Short term consumption	Some reports of dedicated saving – for example for school fees or business assets
Costs	Low	Low	
Price	Zero to very low	Zero	Some people spend money on cash-boxes

[8] The West African savings study (see footnote 6) notes that the 1986 money exchange operation in Ghana brought a large hoard of bank notes out into the open: presumably much of this was home-savings. The report believes that 'there is a great potential for mobilizing this kind of savings…' (page 6)

Risk	Medium to high	Medium	Many risks: trivial spending, fire, theft, and loss; claims by others
Satisfaction	Low to medium	Low	Although almost everyone needs to keep small sums at home, most respondents would turn to another device for larger sums if it were available. People worry about security.

1.ii Savings clubs

Savings clubs – groups of people who save together (but not jointly) and thus monitor each others savings discipline – were reported from Uganda. They can be understood as ways of controlling the disadvantages and risks inherent in other forms of home savings, particularly the problem of maintaining regular deposits (the discipline problem) and the risk of trivial spending (satisfying what has been called the 'illiquidity preference' Shipton, 1994). Two such clubs found in Uganda involved a discipline of regular daily savings and an 'agreement' not to break the bank before a certain date. In one case the club members had given the key of their cash box to a trusted non-member. They also used a neat accounting device: as well as keeping a note of the savings made, savers wrote their names on the bank-notes as they deposited them. While these clubs reduce the risk of trivial spending compared to home-saving, they introduce the fresh risk of fraud by a cashier or cash-box holder. It is possible that some good managers of savings clubs develop into deposit collectors – see the Owino Market case reported below under 'deposit collectors'.

Savings clubs: summary

Swap type: saving up

	Range found	**Norm**	**Notes**
Frequency	Low	Not known	No examples reported from Kenya or Tanzania
Term	Short to medium	Probably medium	Generally, longer than the home-savings that they displace
Volumes	Low to medium	Probably medium	
Users	Upper poor, middle	Not known: examples found were upper-poor women	No examples found among the very poor
Uses	Any	Medium term consumption	Some reports of dedicated saving
Costs	Low	Low	
Price	Low	Low	A cash box or similar is needed
Risk	Low to medium t	Probably low	Less risky than the home-savings it displaces
Satisfaction	Medium to high	Medium	Users seemed pleased with their club because it is much better than saving at home

1.iii Money guards

A 'money guard' does just that: guards your money for you, usually for free, though of course money guards have the use of the money while it is with them. The dangers that have to be guarded against include, once again, the temptation to indulge in trivial spending as well as the risks of loss or theft. So like savings clubs they can be seen as a way of getting round the problems of home saving. Various money guards were reported by the researchers. Some were senior family members: there is a nice story about a country lad in Mbale, Uganda, who managed to get his grandmother to take care of the money that he saved up to buy a bicycle and start running a 'boda boda' business[9]. 'Not only did my

[9] A bicycle taxi. The name seems to stem from their habit of running goods (some perhaps smuggled) across the Kenyan border.

grandmother look after the money', he says, 'she was good at getting me to deposit it with her'. With the myopia of youth, he saw his granny as someone who no longer needed money, and therefore absolutely trustworthy. Other family members doing the job included parents and older brothers and sisters. Outside the family, shopkeepers were used as money-guards, but several respondents – above all in Tanzania - said that 'you can't trust shopkeepers to look after your money any more'. Similarly, richer patrons, who commonly used to be money guards, are now viewed with suspicion. A canny villager outside Mbale told us 'no, no – don't put your money with richer men: for one thing they'll probably eat it, and for another if you ever go to them for a loan they'll just lend you your own money back at high cost' (the going rate for loans there is 10% for a two or three month term). For some, like the boda boda boy, a money guard is the savings instrument of choice, but for many others they are second-best to regular, private, safe, reliable savings service – if ever such a thing were to become available.
A special case of money guarding is described by the Ugandan researchers who found that the owners of small businesses often deposit their savings with their trade suppliers. The practice is common among those small business folk who do not hold bank accounts of their own – the supplier acts as their 'overnight banker'. Often, the deposits can also be viewed as down-payments on future supplies. The dual role of money-guarding and advance payment is shown clearly in this quotation from a used-clothes dealer in a Kampala market:

"A lot of us do this because we do not want to go home with working capital – just in case we lose it to thieves or problems. When we want to restock we do not have to give money. He [the supplier] just looks at his book and gives us the goods. This is very convenient and works well for a lot of us".
See also the paragraph on supplier credit, 1.x below.

Money guards: summary
Swap type: saving up

	Range found	Norm	Notes
Frequency	Lowish : Some reports from all three countries.	Not known	Not enough examples to say how frequent: frequency varies in other cultures studied by the author: not reported in the West African study.
Term	Short to medium	Probably medium	Generally, longer than the home-savings that they displace
Volumes	Low to medium	Probably medium	Can be used to save up for goods which seem expensive to the poor saver
Users	Poor, middle		No examples reported among the very poor
Uses	Any		Often dedicated saving for a specific use
Costs	Low	Low	
Price	Low	Low	
Risk	Low to medium	Probably low	Less risky than the home-savings it displaces, but there is the risk of capture or at least delay
Satisfaction	Medium to high	Probably medium	Better than saving at home, but not as good as a regular reliable savings service

1.iv Deposit collectors
Both money guards and savings club managers shade into deposit collectors, who earn a fee for doing what guards and clubs do for free, and in return are supposed to do it in a more regular and more reliable fashion. In some parts of the world – notably West Africa – deposit collectors (or 'mobile bankers') are the most common money-swap management device available. They have become an institutionalised part of their cultures, so that their working norms and fee rates have become standardised – a phenomenon which we observe in other parts of the world with high densities of informal sector financial services, such as southern India. Thus, West African deposit collectors usually collect an agreed sum on a daily basis, and charge one day's deposit per month. If the saver saves thirty times a month she therefore pays a fee of about 3% of her deposits (calculated as an annual interest percentage rate on savings this works

out at minus 80% a year[10]). A saver who saves less often than thirty times a month pays more in proportion to her lapses – a strong incentive to be a disciplined saver. In West Africa, accounts are normally cleared after each month, a device which enables users to check regularly on the reliability of their collector (what elsewhere I have called the principle of the 'action audit'[11]). Some collectors also lend to selected clients, in which case the savings may be carried over as security from month to month[12].

One aim of this study was to see if this West African tradition is alive in East Africa – but the answer looks like 'no'. We did find deposit collectors (in Uganda at least) but they were rare, exceptional, not at all 'institutionalised' – their working practices were individual and ad hoc – and they were amateurs, while in West Africa they are full time professional operators.

The Deposit Collector

For seven years he kept poor people's money and at the peak of his business "Mukwano" had 2,200 clients. Then local political and administrative complications forced the closure of his popular deposit collection service. In exchange for the service he deducted 1,000 shillings per month from each client grossing 2.2 million shillings per month in addition to his interest income on loans.

His real name is Charles Ochwo and in 1986 he established a bicycle and spare parts shop in Tororo which is about 120 miles east of Kampala. He saw a need and soon added a hire purchase service for *boda boda* boys (bike boys) who lacked the lump sums of money to buy their bicycles. Small daily repayments were made for 2 to 3 months, and a 20,000 shillings premium (interest) was added to the loan principle, which was typically 60,000 shillings. After they paid off the loan most *boda boda* boys would continue to make small daily savings deposits with him. He maintained a ledger book and invested the excess money. Savers sometimes would give loans at interest rates between 10 – 25% depending on the terms negotiated. The maximum loan size was 100,000 shillings. To encourage savings there was a savings promotion for which the best 3 savers of the month got such prizes as radio cassette, bicycles, bicycle tires etc. The average savings account was 20,000 - 30,000 shillings. Most of his clients were the very poor including bike (*boda boda*) boys, wheel barrow pushers, market women and others that needed to store money long after the banks was closed.

Asked why his scheme was so popular he offered an explanation, "Customers got their money any time without delay from 8:00 am to 8:00 p.m. without any excuses common with formal banks. Secondly, I helped a lot of people to save the money at the end of each day before they had wasted it on booze. Thirdly I was the only alternative for poor people because they were invisible to the banks. This is why people wanted my service".

Another scheme found in a busy Kampala market involved a hybrid between a savings club and a deposit collector. There, 170 men and women were making daily savings with a young man who presented the scheme to us as a savings club that had grown large because people had realised its virtues. To my eye it looked more like a deposit collection service, since the young man charged a fee and made himself responsible for the collections and the banking that went with it. He did not (so he said) lend out any of the cash, but stored it in a bank- which had recently gone bankrupt. He is also a member of a local MFI.

[10] $29 dollars saved (a dollar a day less the one you lose as a fee) costs $1. The *average* savings held by the deposit collector over the month is obviously half of the total saved, or $15. On that $15 the saver loses $1, or 6.66%. 6.66% a month is 80% a year. This calculation is done not to 'prove' how expensive deposit collectors are, but to demonstrate the meaninglessness of annual percentage rates if they are quoted without an understanding of the mechanism and periodicity involved. Economists please note.

[11] Stuart Rutherford, *The Poor and Their Money*, IDPM Manchester, UK, 1999, and forthcoming, OUP India.

[12] See also the West African study referred to earlier, section 3.2.4 pages 7 - 8

Deposit collectors: summary
Swap type: saving up

	Range found	Norm	Notes
Frequency	Low	Low	Very high in other cultures
Term	Short to medium		
Volumes	Low to medium	Probably medium	The strong discipline encourages higher volumes than saving at home or money guards
Users	Poor, middle, some very poor		
Uses	Any		Often dedicated saving for a specific use, or simply a way of managing day-to-day liquidity
Costs	Low	Low	A very convenient frequent door-step service
Price	Low to medium	Medium (in other cultures)	About 3% of the sums transactions: low in relation to moneylenders or MFI credit
Risk	Low to medium	Low	Ironically, one scheme we found was in trouble because of failure by a formal bank
Satisfaction	Medium to high	Medium to high (in other cultures)	Offers a good easy discipline

1.v Reciprocal lending

Saving at home is the single most common system of money management for the individual. It is also the basis of 'reciprocal lending', where the home-savings are consumed by a neighbour or relative, and as such is the most common system that involves transactions *between* individuals. In both cases the vast majority of transactions are tiny. Households borrow and lend small quantities of rice or kerosene or cash on an everyday basis.

In terms of our classification system, such lending can best be described as a 'savings through' device, since it depends on the constant and repeated building up of small quantities of household savings with lump sums arriving as loans *from* the neighbour when the home savings is low, and departing again as a lump sum loan *to* the neighbour when the home savings have built up again.

Most of these transactions are too trivial to command much attention from our respondents. Some, however, are big enough to compete with more organised devices such as ROSCAs:

Reciprocal lending in a village outside Mbale, Uganda

A farmer told us about the group of half a dozen people with whom he frequently exchanges loans. At present he has three loans out. One is to his brother in the sum of 20,000 shillings ($140), and another of half that value to a friend. A third much smaller loan was given in kind – about $7 worth of carrots – to a poorer relative. On other occasions he takes loans from them. He charges interest of 10% (per loan) for these loans, which are of an indeterminate term rarely exceeding three months. He told us that interest of this kind is quite normal for anything except very small loans, and acts as a safeguard against lazy people abusing the system. He does not lend out of desire to make money from the interest charges, but from obligations which arise from his relationship (both personal and financial) with his partners in his very informal reciprocal lending group. He told us that poorer people are rarely accepted into such networks: they get by on much smaller loans that are given (probably grudgingly) without interest. A young married woman from a somewhat poorer household later told us that she had taken a loan of 20,000 shillings ($14) from her father-in-law and had repaid it three months later along with interest of 25% of that sum. She has since become a borrower at the Centenary Bank, and hopes to escape from the reciprocal lending process.

Not many such tales were collected by our researchers, and the general impression in Tanzania, for example, was that people are reluctant to extent loans to each other for anything more than trivial sums. This is a difficult area to research, partly because people are reluctant to admit to charging interest on loans to friends and relations, and therefore disguise or trivialise such lending.

Reciprocal lending: summary
Swap type: saving through (a succession of savings-up and savings-down)

	Range found	**Norm**	**Notes**
Frequency	Low	Unknown	High in some cultures, and possibly higher in East Africa than we were able to ascertain
Term	Short to medium	Unknown	Terms ranged from a few days to three months
Volumes	Low to medium	Probably medium	
Users	Mainly upper poor, middle	Probably upper poor, middle	The poor, especially the very poor, may be excluded from anything except very small loans
Uses	Any		
Costs	Unknown	Unknown	The main transactions costs will be social costs involved in cultivating relationships
Price	zero to medium	Unknown	Small loans and some larger ones interest free: otherwise 10% per loan for a 3-month loan: we hard one report of collateral being taken
Risk	Low to medium	Unknown	The repayment risk probably rises with the value of the loan
Satisfaction	Low to medium	Unknown	Unreliability undermines the usefulness of this device for both borrower and lender

1.vi Informal insurance schemes
The most reported type of informal 'insurance' is another example of the principle of reciprocity found in the reciprocal lending system. Other systems are extensions of the ASCA (see below).

The '*munno makabi'* of Uganda are loose groupings of neighbours who start off their relationship by pooling cash to buy sets of equipment used for social occasions – pots and pans, lanterns, canvas and so on. Organisers of weddings, baptismal parties, funerals and so on can save money by making use of this equipment. At the same time, more or less regular meetings are held to obtain further small cash donations from members to build up a fund that can be tapped in case of emergencies. In some places it was said that 'virtually everyone' belongs to a *munno makabi*. In Tanzania we recorded examples of cash and kind contributions to ceremonial expenses, given on the understanding that the favour will be reciprocated on another occasion. In Kenya, similar groups have regular contributions of a fixed sum per member, and pre-determined pay-outs for given contingencies – one sum for the funeral expenses of a member, a smaller sum for a member's relative, and so on.

Such institutions are on the margins of being true financial devices or services, but related systems which are newer and less embedded in social relationships are clearly true money management devices. In Uganda, Pepsi Cola vendors have learnt recently how to run a primitive 'business insurance scheme'. In the example we researched, fifteen of them had got together and were putting in 75 cents each per day for a three-month period. If any member suffered loss through fire or theft in that period, it was made good from the fund. If not, the fund was redistributed to the members, and a new cycle begun (note again that the limited life span ensures an 'action audit' and helps the scheme to retain the confidence of its members).

Informal insurance: summary

Swap type: saving through (mainly)

	Range found	Norm	Notes
Frequency	Low to high	Varies with type	We found a high frequency of loose social-support clubs but a low frequency of more structured systems
Term	Short to long	Varies with type	Funeral clubs are long-term; the business insurance scheme was a succession of repeated short-term cycles
Volumes	Low to medium	Unknown	
Users	All	All but the rich	The very poor may be excluded to the extent that they are often enjoy limited participation in social events
Uses	Funeral, other ceremonial costs; business losses	Funeral and other ceremonial costs	
Costs	Low	Low	Risks – that others will move away or not conform to the unwritten rules - are absorbed *munno makabi* as costs arising from the social setting
Price	Low to medium	Low to medium	
Risk	Unknown	Unknown	
Satisfaction	Medium to high	Medium to high	

1.vii Rotating Savings and Credit Association (ROSCA)

With ROSCAs we move on to true savings-through devices. ROSCAs (merry-go-rounds or cash-rounds, or a variety of local names[13]) are to East Africa what deposit collectors are to West Africa - the single most common organised money-swap management device[14]. Saving at home (see above) and reciprocal lending (see below) are probably used by more people than use ROSCAs (or deposit collectors in West Africa, for that matter), but they are unorganised (usually).

The regional preference for the ROSCA over the deposit collector has not been well explained, nor shall we try to do so here. But the issue is worth raising because in another part of the world - Asia, especially South Asia - the role is played by moneylenders. We thus have, in the three regions, a savings-up device (the deposit collector of West Africa), a savings-through device (the ROSCA of East Africa) and a savings-down device (the moneylender of South Asia) all playing the role of chief regional money-swapper. Noticing this fact emphasises once again that the essential task of financial services is the conversion of savings into lump sums, a fact that has been obscured by our traditional sense that a loan is somehow a very different thing from a savings account. It is, of course - but not in the role it plays in the money management of the poor.

The box that follows describes the workings of a ROSCA for readers not yet familiar with the device.

[13] Upatu in Tanzania, Itega in Kenya, for example

[14] Nevertheless ROSCAs are also very common in West Africa

The ROSCA

A group of people wishing to build up a lump sum from regular savings agree to save a set sum per person at a set interval. On each occasion (which may be daily, weekly, or monthly, or any other suitable interval) the full amount of all the deposits is given to one member. The meetings continue until everyone has received this 'prize'. At the end, everyone has contributed equally and received equally.
Thus a ten-person ROSCA meeting weekly and saving $10 each on each occasion will form a weekly 'prize' of $100. After ten weeks everyone will have put in ten savings of $10 and taken out one lump sum of $100.

A wide variety of ROSCAs was found in all three countries. In Uganda they were remarkable for being often 'dedicated' to a particular use, such as paying school fees or paying annual taxes (some tax-paying ROSCAs are registered with tax inspectors to make it clear that the inspector must expect to receive tax payments serially).

The Musolo (Graduated Tax) Group ROSCA

This ROSCA is found in Mooni, Mbale and is made up of 45 members, all of whom are men. The weekly contribution of 1,000 shillings (70 cents US) per sitting are given to the chairman who physically buys the graduated tax ticket and hands it to the member. The group has reached an informal agreement with the municipal authorities not to arrest any of its members for graduated tax non-payment. Since taxes are only about 10,000 shillings ($70) and the collection is 45,000 shillings ($30) some of balance is given to the "prize winner" which he is encouraged to use for domestic purposes like buying his wife a good dress. The members are encouraged to maintain some savings with the tax group as an emergency savings fund. This tax group has died and resurrected several times over the last years. No one lost money in the process.

Our favourite 'dedicated' ROSCA was one used by five women in Jinja, Uganda, who used it to save up for a hair-do.

In Tanzania everyone knew about the ROSCA, even if they weren't participating in one themselves at the time. The Arusha area was rich in ROSCAs handling quite large volumes. One group of MFI clients told us that their ROSCA commitments could be larger than those to the MFI: one was putting $28 a day into a twenty-member ROSCA that yielded him $570 every twenty days. Another was putting $71 a month into his ROSCA. Several of them were in more than one ROSCA as well as the MFI group. The Tanzanian ROSCAs we found were mostly single-sex affairs, often (but not always) with women using smaller-volume ROSCAs for domestic consumption purposes and men using bigger ones for businesses.

In Kenya, too, simultaneous multiple membership of several ROSCAs is common, and many people buy more than one share - or 'name' - in a ROSCA, a device which keeps the basic level of deposit low enough to allow poorer people to join. The highest-volume ROSCA reported in Kenya is run by a group of eight rather prosperous people (men and women) who are also MFI members but who are dissatisfied with the size of the MFI loans. In Tanzania our researcher report that the poor there also take part in ROSCAs - but not the very poor. A focus groups discussion in a Dar es Salaam slum indicated that large numbers of the very poor (the 'kapuku') couldn't take part because they did not have the necessary regularity of income that would allow them to make the fixed deposits. The very rich, too, declined to take part in ROSCAs. Similar stories were told elsewhere, and yet in Arusha, Tanzania, we found the biggest volume ROSCA of the entire study being run by market traders (see summary table below for details of the sums involved).

A curiosity of Ugandan ROSCAs is that some of them are very small: I even found one ROSCA with a membership of just two women! This may reflect some unease about the risks involved in ROSCAs. In both Tanzania and Uganda there were reports of frequent failures of ROSCAs. Although some of these were told by people who were not taking part in ROSCAs (and whose stories may therefore have reflected their own unsympathetic views on ROSCAs) others were told from personal experience. It is clear that not every ROSCA is successful, and Tanzanian respondents told us that the poor fail more

often than the other groups – because they find it hardest of all to maintain the set regularity of payments that ROSCAs require (a problem that MFI staff are familiar with in their own schemes). The Ugandan researcher reports:

Money Talks – But Some Goes Without Saying

Jane was a business woman who was persuaded by another entrepreneur to make a weekly contribution of 200,000 shillings ($135) to a ROSCA being run amongst her friends. Since she occasionally needs large amount of money to re-stock her business she saw this as a good opportunity and so agreed to participate. Everybody got her "prize" promptly until her turn came. She was number nine. Then suddenly, the group disbanded and that was the last she saw of the people involved. Her loss: 1.6million shillings ($1,080).

In Tanzania, we found a woman member of an MFI who had compared the cost of her MFI loan in terms of total inputs per month (capital repayments, interest payments, and compulsory savings) with monthly payments made into her ROSCA, of which she was a long-term member. For a similar output, the MFI required almost twice as much inputs a month. Although they have not yet done so, she believes that her ROSCA members could 'safely' commit 10,000 shillings ($14) each per month to the ROSCA, in which case each of the ten of them would receive a 100,000 prize every ten months, comparable to the sum she was borrowing from the MFI. So why hadn't they done it? Her answer was 'if something goes wrong in our ROSCA, there is no legal redress: with this MFI, we at least have the hope that they can put pressure on the local authorities to make any defaulters pay up'.

ROSCAs: summary

Swap type: saving through

	Range found	Norm	Notes
Frequency	Very high	Very high	Very high in some other cultures, too
Term	Short to medium	Short to medium	We found daily ROSCAs with weekly prizes, and monthly ROSCAs with annual prizes
Volumes	Low to high	Medium	The range was from $3 a week among poor people in Dar es Salaam slum to $28 a day among businessmen in Arusha
Users	Poor, middle, not-so-poor: maybe more women than men	Poor and middle	The requirement for fixed equal periodic deposits makes it hard for the very poor to participate
Uses	Any	Business, consumption, consumer durables, school fees, taxes	Often dedicated saving for a specific use, or simply a way of managing day-to-day liquidity
Costs	Low	Low	The main costs are 'social' ones: maintaining the discipline of the group
Price	Zero to Low	Low	Perhaps the lowest price as a proportion of values transacted of all the organised devices and services reported
Risk	Low to medium	Low to medium	Many reports of past failures despite many ongoing (multi-cycle) success stories: the main risk of course is that the already-prized will cease depositing
Satisfaction	Low to high	Medium to high	Offers good discipline, flexibility, immediacy, certainty and low cost: can also be good fun and be mixed with social activities

1.viii ASCAs

The ASCA, or Accumulating Savings and Credit Association, is the second of the two big families of savings-and-credit clubs, the other being the ROSCA. As the name suggests, the cash that flows through an ASCA can accumulate, rather than be liquidated at each meeting as in a ROSCA. That is because the principle of the ASCA is that every member makes deposits regularly (though in some ASCAs they are allowed to vary those deposits both across time and between members), and some members borrow from the fund thus built up, while others choose not to. If the fund is too small to attract a borrower, it must be stored temporarily.

These characteristics make the ASCA more flexible, more complex and more risky than the ROSCA, and there is some evidence that, internationally, ROSCAs are overhauling ASCAs in popularity. Certainly our team found far fewer ASCAs than ROSCAs. ASCAs that work well offer a very full menu of swap options to the user, and ASCAs are the root format for the sophisticated Credit Union (see the notes on SACCOs, below).

All three countries reported ASCAs, of varying types. In Kenya we are told that annual ASCAs are the norm. This is a healthy sign, since ASCAs with a fixed pre-determined life tend to do better than ones with an undetermined life, mainly because in the latter lacks the mechanism of the ‘action audit’ – the day when the cashier and all other members have to produce the cash. In Tanzania we have a report of a an ASCA that is run by members of groups belonging to a certain MFI, and known as a *kibindo* (‘last resort’). The *kibindo* takes in weekly deposits from members and these are stored with the cashier. When an emergency strikes – now most often when a member of the MFI can’t pay her loan instalment – a very short-term loan (up to three weeks) is given at a high interest rate (5% a week). In Uganda we came across one case of an ‘initial investment ASCA’. This is an ASCA where member deposits are made once only, at the beginning, to form a fund which is lent out at high interest to members. Subsequent loans are made largely from retained profits, not from fresh flows of incoming savings. From the saver’s point of view, such a variant represents a low investment in a high-risk scheme: he might lose his money altogether but if it works well his return will be very high. This formula suits certain conditions.

From Uganda comes a case-history of how an ASCA can go wrong:

The “Burial” of Poverty … and the Poor

The “burial” ASCA scheme is known in almost every part of Uganda because many poor unsuspecting individuals lost their life savings through this system. The story is varied. Some say it was an indigenous franchise MFI which was replicated by unscrupulous copycats, others say it was a scam to strip the poor of their money. Some say BURIAL is an acronym, while others say it was a figurative expression of what happens to household poverty when one joins – it gets buried. The truth may be hard to ascertain save the fact that lots of poor people lost lots of money.

One club the research team heard of in a village in Jinja district provides a typical illustration. The membership fee of 10,000 shillings ($7) was used as compensation for “the instructor” – some sort of a technical advisor from central office. Each group could not have more than 30 members, and each member was supposed to contribute 40,000 shillings ($28) which was deposited with the treasurer as a loan fund. To access the loan fund, one had to meet strict public health standards which (amongst other hygienic requirements) included having a decent pit latrine. In addition to the loan, the selected “bride” (one who had been selected to receive the loan and “bury poverty”) was given household gifts like flasks, mattresses etc. by the other members. These gifts they were supposed to reciprocate as each member to his/her turn to “bury poverty”. Sometimes instead of a cash loan the bride was given corrugated iron sheets for constructing a house since this was everybody’s dream – to move from grass thatch. The “bridal” occasion involved much celebration and merry-making. This together with the shear volume and beauty of house wares attracted many to join in a hurry.

The problem was that the group, according to the teacher’s instruction was not to exceed 30. Since demand was high and the teachers were not forming new groups quickly, shrewd and opportunistic people quickly seized the opportunity and formed additional groups. The new groups had their own variation each promising a heavenly return for a small investment. Many people joined more than one group in search of a dream – the burial of poverty.

"It is these variants that resulted in massive losses and gave the BURIAL such a bad reputation," said one informant, "One could not tell the real thing from the fake". The unscrupulous leaders lent the money to their friends and or took the loans themselves, and eventually defaulted. Soon there was no money for the poverty funerals. It was at this point that people realised they had been buried in a big scam. The leaders escaped from the village, and irate villagers destroyed some of their houses. Some savers lost as much as 500,000 shillings ($340) and many have not recovered from this crisis.

This review of ASCAs has been by no means exhaustive. There are for example many cases of hybrids between ROSCAs and ASCAs. An ASCA that also has a ROSCA running within it is quite common, and we had several reports of this kind of thing from all three countries.

ASCAs: summary
Swap type: saving up (all members) and saving-down (some members)

	Range found	**Norm**	**Notes**
Frequency	Low	Low	Not many reports in all three countries
Term	Short to medium	Short to medium	In Kenya one year is reported as common for the saving-up term: some ASCAs have very short terms of a week or two for the loan term
Volumes	Low to high	Unknown	Ugandan 'burial funds' can grow very big in terms of numbers of members and total liabilities
Users	Poor, middle, not-so-poor	Poor and middle	The requirement for fixed equal periodic deposits makes it hard for the very poor to participate, and the need for careful book-keeping make it unsuitable for the illiterate
Uses	Any	Life-cycle events such as burials, business, consumption	
Costs	Low	Low	The main costs are 'social' ones: maintaining the discipline of the group
Price	Low (savings up) to high (savings down)	Low (savings up) to high (savings down)	ASCA saving-down rates can be high: as high as 10% a week for short term loans: savers are rewarded with real interest rates
Risk	Medium to high	Medium to high	The complexities of the ASCA make it prone to failure unless the book-keeping is thorough: the need to store cash adds to the risks
Satisfaction	Medium	Medium	

1.ix Moneylenders and pawnbrokers

For many countries, moneylenders and pawnbrokers would each require long sections in a report such as this. Our East African research, however, discovered few examples of either, so this short section will deal with these two together.

We have seen loans being given for interest in the paragraphs on reciprocal lending. The use of the separate heading 'moneylenders' is to describe people who lend money in a systematic way as a financial service, rather than as part of normal social life. For the poor of East Africa, however, getting a loan from a private moneylender appears to be rare. The Uganda researchers heard reports of a few market-based moneylenders who lent very short-term at high prices to wealthier business people. However these reports were not followed up and may have been cases of supplier credit (see below). In Kenya and Tanzania, no examples of moneylenders were reported at all.

Pawnbroking is reported in all three countries. The Tanzanian examples are not well described. The Ugandan examples were from two Kampala slums, and describe advances given not against precious metals (as is usual with pawnbroking in Asia) but against electrical and electronic household goods such as refrigerators and music systems. They are an important part of our story because they are the only service which is said to be used mainly by the very poor. Our Uganda researchers write "The users of pawnbrokers do not have access to an MFI or any other formal financial services providers because they are too poor…. [and] under extreme financial pressure because of a crisis or an emergency". This illustrates the two typical virtues of pawning: it does not require any prior social relationship between the two parties and is anonymous, and it can be accessed very quickly. Nonetheless, the Kenyan team found that, as in Uganda, pawnbroking is not well developed: it appears to exist only in large cities and to be used by the middle classes, whose favourite pledges appear to be cars and TVs.

Moneylenders: summary
Swap type: saving down
Analytical table not prepared for lack of substantial information: moneylending appears to be rare in East Africa

Pawnbroking: summary
Swap type: saving down
Analytical table not prepared for lack of substantial information: pawnbroking appears to be rare in East Africa

1.x Supplier credit
For those among the poor who run businesses – above all retail businesses – and who maintain a regular relationship with their wholesaler, supplier credit can be important source of finance. We have already noted (1.iii, Money Guards, above) that retailers often develop a relationship of trust with their suppliers strong enough to enable them to use their suppliers as money guards. In return, suppliers will provide goods on credit, or even cash advances, to retailers who deal in their goods. In case of need, the retailer can take her cash back. Some very small retailers – even daily hawkers – can enjoy this form of business credit, taking goods as the day starts and returning cash and unsold goods at the end of the day. Kampala's streets are full of youths selling goods to motorists in this way. Our Uganda researchers note that a premium is usually paid for this credit, though they don't say how much[15]. Other hawkers told us that suppliers are only too happy to have their sales outreach extended by hawking and do not charge a premium.
There are many variations in supplier credit. Some have a co-operative character akin to reciprocal lending. In a used-clothes market in Jinja, Uganda, for example, we found that bigger stall-holders, who could afford to a full 'bale' of used-clothes, would on-lend to other operators. This is because in any bale there is always a number of high-quality clothes that sell very quickly. As a result, the trader soon accumulates cash, which she then on-lends in the short-term to another trader to buy her own bale. Interest is not charged because the favour is expected to be returned on another day. This illustrates how conscious small retailers are of the need to keep money working full-time. As several Kenyan respondents told our researchers there, "money should never rest".

Supplier credit: summary
Swap type: saving down

	Range found	**Norm**	**Notes**
Frequency	Medium	Unknown	All our reports came from Uganda: the Kenyan and Tanzanian situation was not researched in detail
Term	Short	Short	Daily deals are common

[15] In many regions – in Asia for example – cash advances are made to petty traders on a daily basis and interest is taken. A 'nine-ten' system, for example, would imply a small trader taking $9 at the start of the day, buying his goods in the wholesale market, selling them, and returning $10 to the lender at the day's end.

Volumes	Low to medium	Unknown	Lager value deals are of course commonly practised by bigger businesses
Users	Poor, middle, not-so-poor	Unexplored	Small deals on a daily basis are available even to the very poor
Uses	To finance retail businesses including hawking	Retail finance	
Costs	Low	Low	The retailer accesses the credit with little or no paperwork as part of his or her normal working routine
Price	Low to medium	Unexplored	Suppliers may offer credit free in order to extend sales outreach in a competitive market, or may charge a premium
Risk	Low (to the user)	Unexplored	
Satisfaction	Medium to high	Unexplored	For many small retailers this is the only way they can run their business

2 The formal sector

2.xi Savings and Credit Co-operatives (SACCOs)

A Savings and Credit Co-operative, or a Credit Union, is essentially a turbo-charged ASCA (see above, 1.viii). The principle of the two devices is the same: people come together to pool their savings, and from that pool they take loans on which they pay interest which is in turn used to reward the savers. Credit Unions have developed this idea in three main ways:

1. They have made their institution a *permanent* one (most good ASCAs are time-bound, for the very good reasons explored in the section on ASCAs above[16])
2. They accept some of the savings in the form of non-returnable shares: this gives them a permanent legal ownership structure in which the users are the owners
3. They have accepted injections of capital from outside (sometimes more as result of the wishes of the outsiders than of the members)

Where these developments work well Credit Unions have prospered and grown. Unions based on the work place and operating among educated employees have become strong and popular. Our Kenya researchers report examples of this, for example in the teaching and nursing professions, and for Uganda is was noted that such schemes are appreciated for their ability to provide low-cost loans, often at short notice and for consumption needs, and a safe and convenient home for savings (sometimes deducted from the payroll, a device which ensures disciplined and regular deposits).

But that has not always been the case, especially in rural areas and among less educated groups. Making an ASCA permanent requires good book-keeping, which both adds costs and makes the device less friendly to the illiterate (who are often the poor). It also requires some superior body to set and enforce rules, and there is commonly a problem about who is to control and run these superior bodies (‘apex bodies’, or ‘secondary co-operatives’, or ‘leagues’). Only too often, governments or well-intentioned outsiders (such as donors) have taken a *de facto* controlling interest in these superior bodies. As a result, they have often been politicised, with disastrous results for the probity of the base-level Unions. Unable to resist the temptation to push large amounts of cash through the systems, governments and donors have wholly undermined the original savings-based character of the groups. They have turned Credit Unions from user-owned institutions set up to carry out the fundamental financial service task (turning savings

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[16] See also Rutherford, op cit

into lump sums) into conduits for anonymous subsidised credit. Unsurprisingly, this has corrupted many co-operative movements.

From the reports of our researchers, and from existing literature, it appears that East Africa has not escaped this fate. Our Tanzanian researchers were down-beat about their SACCOs, noting that "…reports on the functioning of SACCOs portrayed a generally gloomy picture of their operations". The Uganda team has written extensively about the risks of SACCOs, which they rate as "quite high… they often have significant problems realising their loans – whether collateralised or not". They also reported the problems with book-keeping,

In Kenya our researcher took a more optimistic view. Although he notes that he met few SACCO members among the poor groups that he interviewed (most good SACCOs are work-place based institutions for salaried employees), he remains optimistic about their potential. The basic law on Co-operatives has been changed in Kenya, and interest in SACCOs by people with fresh ideas is growing. He writes:

"The carrying capacity of a SACCOS is much higher than that of a solidarity group, ROSCA or any other informal financial service association. This makes it possible to federate such groups into SACCOS as in the case of Union Regionale des Casses Populaires du Sud Ouest in Bukina Faso. Similar arrangements have been implemented by in Kenya by ActionAid sponsored savings and credit groups in the Kibwezi area of Makueni District and in Bondo where saga-save groups have been federated into community based SACCOS. Such arrangements enable SACCOS to reach poorer people and more women than is generally observed. Membership of the SACCOS remains individual but through the village bank, group or associations. The [Kenyan] Cooperatives Act of 1997 gave cooperatives greater autonomy with the main responsibility for regulation and supervision vested in the members. The absence of a competent regulatory and supervisory framework and authority leaves SACCOS highly vulnerable to mismanagement and corruption. In the Lake Victoria region districts of Kenya, a new private sector organization [Saga Thrift and Enterprise Promotion Limited] is attempting to fill this gap by supplying technical and supervisory services to client Societies at a fee. The services which also include access to financial resources during peak demand for loans to members are intended to enhance the image of client SACCOS as trustworthy financial institutions. This is the greatest challenge facing SACCOS."

SACCOs: summary
Swap type: all three (in a well-run SACCO)

	Range found	**Norm**	**Notes**
Frequency	See note	See note	SACCOs are common in all three countries, but were not often encountered among the groups we were interviewing
Term	Short to long	Short to long	A well-run SACCO offers everything from short-term savings to pension plans, a variety of loan types, and insurance (at least for debt relief on death)
Volumes	Low to high	Low to high	
Users	Salaried employees, farmers of certain crops; a few others	Salaried employees, other groups linked by some 'common bond'	The poor, the illiterate and the unorganised are rarely members of SACCOs
Uses	Many	Many	See above
Costs	Low to medium	Low to medium	Once a member has qualified for membership by virtue of his or her employment status (for example) the transaction costs of using a SACCO are generally low
Price	Low to	Low to medium	Sometimes loan prices are set *too* low, with the

	medium		result that SACCOs favour borrowers over savers and their growth and management capacity is stunted
Risk	Low to high	Unexplored in detail	Weak governance (often because of domination by small groups of insiders, or by outsiders), and poor book-keeping, can undermine probity and lead to capture or loss of assets
Satisfaction	Medium to high	Unexplored	Users of well-run SACCOs find them better, cheaper and more convenient than a full-service bank: well-run examples in Kenya were much praised by their users. Victims of corrupted SACCOs detest them

2.xii Formal banks (savings and loan products)

East Africa's formal banks have had a mixed record in working with the poor. The Tanzanian case is a good example. Our researcher there notes that at one time the outreach of the bank and Postal Bank branch network was extensive, and became so as a result of government policy. These branches offered a variety of services friendly to poor and rural groups, including mobile banking units and daily deposit collection. Following restructuring, most of these services have been withdrawn, although most small towns still have a bank and Postal Bank branch. A residue of this history is that many people of quite modest means still hold bank savings accounts, though some of them have fallen dormant (we found that very many MFI clients – over 30% of PRIDE's for example – had bank accounts *before* they joined the MFI). Perhaps for this reason, a bank savings account was very frequently mentioned as a preferred form of saving by many Tanzanian respondents complaining about their lack of access to good savings services. These days, relatively high requirements for opening deposits and for minimum balances combined with fee charges that discourage small savings accounts have driven away the poor. Even the National Microfinance Bank (a renamed and part-privatised public bank that has yet to start operating as a true microfinance bank) requires an opening (and minimum) deposit of $70[17]. Opening and minimum balances have also risen recently in Kenya.

Such policies reflect the conventional banker's view that dealing with small savings accounts is unprofitable, and the conventional economist's view that savings are financial assets that people hold primarily to earn income. Neither view is sympathetic to the microfinance realities: that the task of financial services is to turn savings into lump sums, and that poor people will pay for any way that this can be done providing it is reliable and accessible. Our earlier notes on deposit collectors demonstrate that people will pay high prices for even a second-rate deposit collection service.
On the 'saving down' side, most banks in the region are required by law to register collateral for all loans, normally land titles, and for the most part our respondents regarded a bank loan as something quite outside their range of experience or expectation.

With similar stories coming from Kenya it is clear that formal banks have a very limited role in microfinance. Our Kenya researcher's analysis of the risks and difficulties facing the poor who wish to save with banks is particularly lucid and is reproduced in appendix 4. The products are unsuitable to the poor and the delivery system unfriendly. Listen to some 'bike boys' in a rural Ugandan town talking about why they are scared to enter the local bank:

[17] Current accounts (with cheque-book facilities) are everywhere expensive to open and maintain and have not been reviewed here because they have almost no outreach to the poor

Why We Prefer Not To Use Banks

Asked why they used deposit collectors and money guards instead of the banks that stand right across from where they wait for fares, the bike boys (*boda boda*) said "Banks are for people who have "learnt properly" – who can speak good English and look smart and well-dressed. The manager does not allow us into that bank. Also the policeman might want to know why we have come to the bank with small money. You see we do not have much money to deposit. The banks are for "serious" people who have bundles of money, not for people who have only 1,000 or 2,000 ($1 or so). That is why we prefer to place our money with the shopkeeper for safe-keeping. He keeps money for many bike boys and for a lot of the market women. You see, you can put money in the bank and fail to get it out when you need it. They can make you wait for a long time and later ask you to come back the next day. You cannot complain because you do not know how to complain in English, which is what the people in the banks speak. You cannot speak Japadhola[18] in the bank. That is why we prefer the shopkeeper because he gives you your money any time you need it and very quickly. He also speaks Japadhola or something else you understand".

Taking their view from the other side of the bank counter, bank officials believe – have told us – that it is bad for the image of their bank to have the banking hall littered with the ragged poor, who may crowd out high-value customers.

It is time therefore to turn to the promising exceptions. The Centenary Bank in Uganda, a private entity with a large shareholding by the Catholic Church, is developing a market among poor savers and upper-poor borrowers. It has chosen a methodology borrowed in part from well-established precedents in Indonesia[19]. Low opening and minimum savings balances, and an advertising campaign, brings savings accounts holders into the bank. Any saver can immediately apply for a loan, though he or she has to pay the transport costs for the initial loan appraisal visit by a bank officer. If that appraisal establishes that the client has a stable established business (is, therefore, likely to be among the upper poor or middle income strata rather than the poor or very poor) a small initial loan bearing a relatively high price and saddled with an additional expensive 'monitoring fee' is issued. It is repaid in three or four instalments over six or eight months. Successful repayment leads to a second and then a third loan on similar terms. Any client who passes through that initiation can then expect to access a much cheaper line of credit. The product remains in a pilot stage, and our visit to a rural version of it near Mbale made us wonder whether, as the number of loan clients who fail to qualify for repeat loans rises in any one location, the very evident popularity of the loan officer will begin to decline. Since no outreach savings mobilisation takes place and all deposits have to be made at the bank in the town, few villagers were signing up for the savings service alone[20].
The Co-operative bank in Kenya is looking to introduce similar products, perhaps with donor support.

Formal banks savings services: summary
Swap type: saving-up

	Range found	**Norm**	**Notes**
Frequency	Common in towns	Common in towns	In Tanzania branch networks have shrunk; in Uganda bank failures have had the same effect but newer banks are growing
Term	Unlimited	Unlimited	The poor use open-access savings accounts: almost no poor use current or fixed deposit accounts
Volumes	Low to medium	Unexplored	Many accounts owned by poor people have *balances* that are low, but frequent withdrawals (where they are allowed) mean that *flows* can be medium

[18] The local dialect.

[19] References available from ***MicroSave***

[20] MEDA (Mennonite Economic Development Assistance, an initiative of a Mennonite NGO in Tanzania, is experimenting with a similar technology.

Users	In Tanzania, many of the upper poor: elsewhere, mainly non-poor	Educated upper or non-poor	Experience in Uganda shows that friendly service, low opening and minimum balances, and long opening hours can attract poor clients, if not the very poor
Uses	All	All	We found many MFI members who held accounts primarily to operate their MFI transactions
Costs	Medium to high	Medium to high	Transactions have to be made at bank premises at set times, involving transport costs and interruption of work
Price	Low to very low	Low	Bank accounts are interest bearing
Risk	Low to high	Normally low, with disastrous exceptions	Bank failures in Uganda have once again highlighted the risks of using banks for poor savers
Satisfaction	Medium to high	Medium	Poor users like to have a bank savings account and then complain about its transactions costs: nevertheless, a bank savings account was often the service of preference for many poor would-be poor savers

Formal banks loan services: summary
Swap type: saving-down
Table not prepared because of limited relevance to poor users. For the exceptional Centenary Bank in Uganda, see the narrative above.

2.xiii Insurance Companies
Our consideration of this major industry will be necessarily brief. All three countries have formally regulated insurance companies in both public and private ownership. Nevertheless, their outreach to the poor, except to those in formal employment, appears very low. The Uganda team reports flatly "the insurance industry does not provide services responsive to micro-savers" and speculates that this is because of a very low image of the industry in the minds of the poor, who believe that claims will be delayed or refused. We have no material from Tanzania on the formal insurance industry, but this reflects the fact (in Tanzania at least) that questions to poor people about formal insurance policies almost always revealed that they were not holding policies and hadn't been approached. In Kenya our researchers reported a few cases of poor people with formal insurance cover: in one case a vegetable seller from Nyeri was insuring her own life as a 'means to defend my children since I'm not married'. A grain trader from Thika was bitter about the losses that arose from a policy he had bought from a company that failed (Kenya National Assurance): our Kenyan colleague reports that many poor people suffered a loss in this collapse.

One MFI in Uganda, FINCA, has developed a partnership with a private insurance company, American International Group (AIG). FINCA borrowers pay 1% of their loan value as a premium for cover for a term equal to that of the loan. Cover offered is a $825 life insurance on which FINCA has first call to cover debts to it by its borrowers. There is also partial disability and hospitalisation cover.
Insurance Companies: summary
Swap type: saving-through
Table not prepared because of limited relevance to poor users.

3 The semi-formal sector
3.xiv Microfinance Institutions (MFIs)
A companion study on 'Drop-outs among East African MFIs' has a section which deals with the extent to which the poor and very poor become and remain clients of MFIs. In summary, the study found that most

MFI clients are drawn from a rather narrow fraction of the population: mainly urban 'upper-poor' or 'not-so-poor' business-owners. There are also 'poor' clients but no 'very poor' ones. There are a few 'rich' clients[21].
The MFIs are our special case. The TORs for this study commit us 'to draw lessons for MFIs seeking to develop savings products for their clients'. The first step is to understand their goals and products.

MFI goals
The East African MFIs that we looked at form an homogeneous group with respect to their goals. They all see themselves essentially as suppliers of *credit to micro-enterprises*. Their public or 'developmental' role (the role that entitles them to seek the donor grants that all of them depend on) is to provide credit to *existing* micro-enterprises (not start-ups) such that these enterprises grow and add value to their owners, their employees and to the national economy in general. Their commercial role as financial institutions is to become profitable ('economically self-sufficient' as the microfinance jargon has it) so that the MFI can grow using internally-generated or commercial resources and thereby end its dependence on donors. None has yet achieved that goal, and even the oldest and biggest are still a long way from it. Since it can be shown that this goal is being continually pushed into the future as a result of rapid growth requiring high levels of new investment, the MFI managers and their donors are so far content to be patient.

MFI products
They are also rather homogeneous with respect to their credit delivery models and products. All the MFIs studied form and train groups of clients who meet regularly (mostly weekly) and agree to cross-guarantee each other's loans. Loans are repaid in a series of small, regular, frequent (usually weekly) repayments. Successful repayment of one loan leads to the immediate disbursement of the next, and clients are required or expected to borrow continually, and are expected to invest their loans in businesses, the cash flows of which are expected to provide the repayments. Loan values rise with each 'cycle'. The details depend on whether the MFI has taken its model from the Grameen Bank (a long-established model from Bangladesh) or the Village Bank (a younger model first pioneered in Latin America)[22]. All require their clients to make compulsory savings which act as additional security for the loans, and most MFIs store those savings in their own bank accounts[23]. A few accept voluntary savings in addition. In the terms of the discussion in this study, they practice a 'savings-down' approach that is buttressed by a long-term 'savings-up' product that doubles as a loan guarantee fund.

MFIs as service providers
These characteristics make the MFI unusual among all the other devices and services reviewed in this study. One[24] of these curiosities is that MFIs are the only *service provider* which forms groups (a service provider is an organisation which provides financial services to others in return for payment). All other service providers (deposit collectors, moneylenders, pawnbrokers, and banks) deal with individuals, and conversely, all other group-based devices are user-owned (ROSCAs, ASCAs, informal insurance groups, and Credit Unions[25]). MFIs thus – uniquely – have to manage two sets of relationships: that between the creditor and the debtor, and that between members of the group.

Many of the East African MFIs have managed this double set of relationships in a very forthright manner – more rigorously than is now common in Bangladesh, for example. PRIDE Tanzania and PRIDE Uganda are good examples. They distinguish absolutely between the two different contracts. They

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[21] Very approximately, these terms mean: very poor – the bottom 20% of the population by income; upper-poor – the top 10% below the poverty line; the poor – those falling between the very poor and the upper poor; the rich – the top 20 to 30% by income (depending on the country); and finally, the not-so-poor – those falling between the upper poor and the rich.

[22] For descriptions of these systems see Stuart Rutherford, op cit

[23] Some merely require clients to hold compulsory savings in client group-owned bank accounts.

[24] Another is that MFIs are the only service provider which deliberately restricts its clientele to a narrow occupational group (the owners of existing micro-enterprises).

[25] Note that is when this user-ownership is disrupted (usually by injections of cash from outsiders) that things often start to go wrong for Credit Unions.

enforce the contract between the group and the MFI with extreme discipline, to the extent that PRIDE Tanzania is willing in some branches literally to lock group members in its premises until the last repayment shilling is paid, in cash. The other contract, between the group and its members, they leave entirely to the membership. They make this absolutely plain in the body language and attitudes of their workers, who learn to respond to the most ardent pleas from members with the words 'that's nothing to do with us – please work it out with your group leaders'.

The two most obvious apparent outcomes of this strategy are very low arrears rates (zero in the case of PRIDE Tanzania) and very high drop-out rates (as many of 40% of those who join and start saving with PRIDE Tanzania drop out before they take a loan, and its oldest branch has seen, since 1994, 5,000 clients enter and 3,400 leave).
A detailed discussion of the drop-outs issue can be found in the companion study Report[26]. Here, we shall continue with our discussion of the products on offer, starting with the savings.

MFI savings
The most common kind of savings in MFIs are compulsory, and their function is to act as security (collateral) for loans. Some organisations acknowledge this in the name they give to the fund thus created: it may be called a 'Loan Insurance Fund' for example. The security thus built up plays a very large part in securing good repayment rates: in some cases fourth or fifth cycle borrowers can be holding loans with face values only half as large again as their savings balances[27].

Nevertheless, in principle clients should welcome any chance to save, if the arguments that support our 'framework' are true. After all, they have an opportunity to use a savings regime with discipline comparable to that found in a ROSCA or good deposit collector. As in those cases, a set sum has to be deposited at a set interval, and there are penalties for failing to do so. The savings are locked in for a given period, or succession of periods: this is because savings cannot normally be drawn down until a loan cycle is complete (loan cycles vary in length from 16 to 52 weeks), and if the saver intends to take another loan, until that loan cycle too is complete. The savings are relatively safe in the hands of the MFI: no serious MFI has collapsed in a way that has caused losses to its net depositors. Most (not all) MFIs pay some interest or 'bonus' on savings.

In principle, then, MFI savings satisfy many preferences of poor savers. Accordingly, we found MFI clients who told us that their chief objective in joining the MFI was to save up for a major expenditure – plots of land, buildings and wedding ceremonies were mentioned. These clients saw the loans on offer by the MFIs as a secondary but nevertheless very important service, since by investing the loans carefully they could enhance their capacity to save. Such clients welcomed the fact that their savings were locked in for the long term, since by keeping their savings illiquid they could safeguard them from trivial expenditure. Clients expressing these views were mainly owners of well-established businesses.

Despite this, MFI staff sometimes exhibited an almost 'anti-savings' attitude. Aware that their organisations are primarily credit driven, the felt they should strongly persuade clients to borrow and strongly dissuade them from staying in the scheme just to save. Our researchers in Kenya witnessed a man who had been a good group member - a Chairman, in fact – but was now reaching the end of his active life as a businessman and wanted to stay in the group as a saver-only. He was refused. On another occasion three women who had decided to 'rest' from one loan cycle were required to stand up in front of the meeting and justify why they should be given this irregular favour. They were told by the Credit Officer that they should "at least take a small loan".

Thus in practice many MFI clients expressed dissatisfaction with the savings services. Most of these complaints arise from the inadequate control that clients have over their savings:

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[26] *Drop-outs from MFIs in East Africa,* ***MicroSave,*** May 1999

[27] And therefore (because they are repaid in many small instalments) with average loan outstanding balances less than their savings balances

- Clients exercise no control over the *volume* of savings. In most MFIs the weekly deposit is either fixed (as in PRIDE) or is a fixed fraction of the current loan. See below for remarks on voluntary savings in this context.
- Clients have no control over the *frequency* of savings deposits: deposits must be made, invariably, in the weekly rhythm of the MFI meeting schedule.
- There is uncertainty over the *term* of the savings: if other clients in the group are overdue in their loan repayments, release of savings can be held up for an unpredictable period.

  Note: Post-cycle adjustments to the volume, frequency, and term of savings, of the sort possible in ROSCAs, is not available at MFIs.
- The mechanism for *releasing* savings is unsatisfactory, since in most cases clients have to forgo the right to make future savings (and the right to take loans) by leaving the MFI in order to access their savings. In some MFIs, re-entry is either forbidden or troublesome (since the client has to go through the training and waiting period again). In a case in Tanzania, for technical reasons even clients in groups who have cleared all their loans cannot easily get access to their savings.
- Savings are at *risk*. Although there is little danger of the MFI failing, all compulsory savings (and in most cases even voluntary savings, where they are allowed) are at risk of being confiscated by the group (or the MFI) to make up arrears (of both loan capital and interest) of defaulting fellow-members.
- *Voluntary* savings are not always allowed, and where they are they are generally at risk of confiscation (see above). Even at one MFI whose HQ told us that voluntary savings were not vulnerable to confiscation, branch staff took a different view.
- *Transaction* costs are high. For those whose primary interest in the MFI is saving, attendance at the weekly meeting (which can last from one to three hours and is normally held during working hours) is costly. Carrying out MFI rules, like recruiting new members when other members exit, or inspecting the businesses of prospective members, can be very time consuming, especially for group officers.
- Rewards are seen as inadequate, largely because of the *relationship between savings and loan balances*. Although we have seen that the poor are willing to pay fees for secure savings facilities, many MFI clients find themselves in a situation where they are paying a relatively high rate of interest (an APR of 60% or more, without taking into account disbursement fees) on a loan which is scarcely larger than their savings balances. For those mainly interested in saving, this looks like a very expensive way to save.

MFI loans

MFI loans are a ‘saving down’ mechanism, or an advance against future savings. As we have seen, this system – offered either by informal moneylenders or, more recently, by MFIs - is the most commonly practised money management device for poor people in many parts of Asia. That this is not true of East Africa (where ROSCAs, a savings-through device, plays that role) or in parts of West Africa (where deposit collectors, a savings-up service, does the same thing) may help to explain its slow growth here. In Bangladesh, by contrast, ASA, a local MFI, grew from zero to half a million clients in six years, and the biggest players – BRAC and Grameen Bank – have 2.3 and 2.1 million clients respectively.

MFIs in East Africa are being extremely cautious about whom they offer this service to. They insist on accepting only clients with existing quick-turnover businesses. While this is partly because of a belief – shared by many donors and many in the microfinance industry – that financing micro-enterprises might prove a quick way to accelerate GDP, it is also because MFIs hope that client-owned businesses offer some kind of guarantee of capacity to repay loans. Indeed, the more sophisticated MFI managers, who are well aware that only a fraction of MFI loans are invested directly in client-owned businesses, argue that a business must exist, or else the clients will not be able to repay.

In fact what we found in the field was a four-fold relationship between client-owned businesses and MFI loans. This can be expressed diagrammatically:

The loan is invested in the business and the business is the source of the repayments	The loan is invested in the business but the repayments come from some other source
The loan is *not* invested in the business but the business is the source of the repayments	The loan is *not* invested in the business and the business is *not* the source of repayments

Discussions with Credit Officers at several MFIs revealed that their estimates of the proportion of loan cash that gets invested directly in client businesses are on the low side. One thought that overall not more than 40% went into businesses. Others said that smaller loans went into businesses but any loan of more than $250 was almost certain to be spent, in part at least, on other uses, unless the client was a substantial businessman with a thriving business. Yet others suggested that first loans often went into cash-starved businesses but that subsequent loans could not be absorbed by the small businesses that many clients run. Clients are often frank about this with Credit Officers. I watched as one client complained bitterly to a Credit Officer about a delay in loan disbursement. She needed the money for her daughter's wedding, an event that couldn't wait while the arrears of someone else in the group were being made up.

Use of loan money for purposes other than the business named on the client's application form is by no means a bad thing. Poor people are rarely wastrels, and large sums of capital are so valuable that they nearly always find their way into some sensible use. For the poor, protecting or extending their personal, human and social capital through investments in education, health and social interactions, often prove very wise ways of spending money. Conversely, being badgered into spending valuable resources on a business that is *not* a key part of the household's survival strategy may even lead to being driven into even deeper poverty. Good MFI Credit Officers I spoke to understand this, and choose to turn a sensibly blind eye to such 'unapproved' uses of loans. In any case, some loan cash is 'diverted' into other *business* uses as well as non-business ones. ***MicroSave***'s excellent study of the Ugandan MFI UWFT[28] has several illustration of successful loan use of this type.

Estimates of business growth also varied but were generally on the low side. In Tanzania one manager told me he thought more than half of all client-owned businesses were growing, whereas a Credit Officer said in his view only about one in twenty were growing. He showed me his patch, a suburban vegetable market, and pointed out that most stall-holders had no room to grow: to grow would require a major up-grade into a new style of business and a change in the life-style of the stall-holder. Besides, he said, many of these businesses are seasonal: they may 'grow' during the season, but they close down while the owner moves into other work during the down season.

Client behaviour of this sort is consistent with the themes explored in this Report. The poor need lump sums for a wide variety of reasons and with surprising frequency. But they have few means to access them. The poorer you are, the more this is likely to be the case. Thus, MFI clients with substantial businesses may take loans and invest them in businesses that prosper and grow, because they have means to satisfy their remaining needs for lump sums of cash. But for the majority of poor and upper-poor clients, it *makes sense* to use a borrowed lump sum for whatever is the most pressing need at the time, and to repay it out of whatever capacity they have to save out of their normal cash flow.
Client attitudes to the MFI loan product varied, and many were appreciative. Where capital is scarce, people will willingly pay a high price for it. Client *preferences*, however, can be summed up as follows:

- Clients dislike the group guarantee system. It is unnerving to have to take into account the behaviour of others, whom you may scarcely know, when planning your finances, and embarrassing to have to harass your friends about their businesses

[28] ***MicroSave*** & Uganda Women's Finance Trust: "Vulnerability, Risks, Assets And Empowerment – The Impact Of Microfinance On Poverty Alleviation", Final Report March 1999, Graham A.N. Wright, Deborah Kasente, Germina Ssemogerere and Leonard Mutesasira

- Some (not all[29]) clients dislike the weekly meeting: most dislike the time it absorbs, older clients dislike being told what to do by young Credit Officers, and no-one likes it when there are repayment difficulties that have to be resolved
- Most would like more control over the *size*, *timing* and *term* of the loans
- Some find the price of the loans high in relation to other devices, such as ROSCAs: as we noted above, this is particularly true of those who hold substantial savings in the MFIs

Strong demand for the second best

The extent to which these preferences contribute to the generally high drop-out rate is explored in the companion study. Nonetheless, many clients struggle to stay in the scheme, and drop out only reluctantly, or are pushed out against their will. Moreover, MFIs have so far found no shortage of fresh clients to replace drop-outs or to expand operations.

Strong demand for a service or device that many users find less than ideal is not unique to MFI loans, as this Report has made clear. We have already seen that many poor people save at home or convert savings into livestock or commodities because they have no better way to save. Others sign up for ROSCAs knowing that they can be risky, or leave cash with money guards who may or may not abuse the trust put in them. It is not surprising that people flock to try out the MFI products, especially as the problems they encounter in using the product usually emerge *after* the user has obtained at least one lump sum. These cases all point in the same direction: poor people lack satisfactory means to convert their capacity to save into much needed lump sums, and the risks they take merely indicate how important the task is.
We explore the consequences of this in the next and final section.

Opportunities

In prioritising micro-enterprise credit, East African MFIs pursue 'sustainability' (profitability), and are encouraged to do both by their supporters, the donors. But as David Hulme writes in the companion study to this one[30], those donors have missions that prioritise the reduction of poverty.

Our TOR requires us to 'draw lessons for MFIs seeking to develop savings products for their clients', but MFI policy-makers are not likely to take much notice of such pedagogy until they are persuaded that by doing so they can further the twin objectives of **profitability** and **poverty-reduction**. There are other stakeholders who will have to commit themselves to improved financial services for the poor before the MFIs go on to research products and test them out. One is of course the donors, but there are signs that many of them are already persuaded. One such sign is the very existence of ***MicroSave***. Another is that CGAP, the club of donors interested in microfinance, has recently lent support to the kind of ideas expressed in this Report.

A more serious challenge will be to persuade governments, particular their regulatory arms in the Ministries of Finance and the Central Banks. In at least two of the three East African states the current mood in government with regard to improved deposit mobilisation seems to favour strategies that prohibit rather than ones that enable. A full discussion of this complex topic is beyond the scope of this Report, but it may be that with recent failures in formal banks (and in bank regulation), serious MFIs could emerge as strong candidates for the role of licensed deposit-takers to the poor.

The findings contained in the previous section of this Report provide ample evidence that *opportunities* exist for MFIs that wish to extend the range and depth of their financial products: opportunities for *profitable banking*, and opportunities for *poverty reduction*. This section will elaborate these two claims.

Opportunities for poverty reduction

Access to improved financial services – access to more and better ways of turning savings into lump sums – helps poor people from sliding deeper into poverty and helps them lay foundations for their

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[29] Some clients, especially among women, said they rather enjoyed the meetings.

[30] Op cit

ambitions to better themselves and their families. This is not a matter of demonstrating a tortuous route through which loans lead to increased investment in poor-owned businesses, which lead to increased incomes. Indeed, most poor people, in East Africa as elsewhere, don't own permanent year-round businesses – and some that do would rather not.
The link between being able to build lump sums from savings, and poverty reduction, is much more straightforward and mundane. It takes such forms as the following, all based on stories told us by our respondents:

- Belonging to a ROSCA meant that I could quickly get hold of cash to pay for hospital fees when my husband met his accident. Some of my neighbours are not so lucky. We have seen people buying second-hand medicines to try to treat family illnesses. People die that way.
- If I had some kind of insurance or pension plan I could be saving for my old age. As it is, I give money to my brother in the village to buy goats and cows. Whether he'll look after them for me, and whether he'll pay me in the end, only God knows.
- You ask us 'what do we do when we are too old to work? I'll tell you what the answer is – we pray to die. Quarrymen like us have no savings or pension schemes'.
- Depositing a few shillings with the cycle shopkeeper after each day's work meant that after a few months I could buy my own bike. Kids these days aren't so lucky: that shopkeeper isn't operating any longer. Today's bike-boys still hire their bikes and waste their earnings on trivial expenditure.
- In the old days you could always get the shopkeeper to let you have food on credit. We used to pay him whenever we could. What with the economic downturn and so on, they don't do it any more. Lots of families round here often go without a proper meal.
- When my mother was still alive I used to give her a few shillings every day, kept back from the housekeeping money. She looked after it for me really well, and every January there was always enough for the school fees. Now she's dead I just haven't got anyone I can trust like that. It's much harder to make sure I've enough for the fees. We may not be able to send our youngest to school this year.
- I'm really grateful to my MFI. Without that loan last month we would never have been able to fix up the wedding. We'd have lost a really suitable son-in-law.
- I depend on the group of us traders in the market for running my business. We pool our savings and take short-term loans of a few days. That way we can usually manage to maintain stocks even when we have to take money out of the business for family emergencies, and we can grab bargains when they come along.

These examples suggest that opportunities for poverty reduction will come from extending the range of MFI activity. This can be achieved by moving away from the current narrow range of a single product for a single type of user – the micro-entrepreneur – to a broader range of product types (saving-up, saving-down and saving through) with a much broader range of timings, terms and frequencies for a much broader range of users – including people much poorer than the typical MFI client of today.

There will also be opportunities to modify the current product. Some MFIs have already started this process. PRIDE Tanzania have begun to take this task very seriously indeed, employing professional market researchers to gather client opinions, and holding staff workshops to put forward a wide range of suggested modifications[31]. KREP, in Kenya, has a long history of product change and development, and has recently begun to explore a new form of pro-poor device, the Financial Service Association, which accepts voluntary savings rather in the way a Credit Union does. We came across other MFIs who have reached the stage of discovering and understanding the limitations of the models they have (largely) taken from abroad, and have begun to consider adaptations. The most immediate modification that almost all MFI clients would welcome is to make a very clear distinction between compulsory and voluntary savings. They should be given different names to make clear that they have very different functions (loan security and personal savings) and be separately accounted, so that personal savings are not at risk (i.e. cannot be confiscated to make up repayment shortfalls by others).

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[31] Many of these are designed to reduce the level of 'drop-outs' and are further discussed in the companion study on that subject.

Opportunities for profitable pro-poor banking
The evidence given in this Report shows that there is plenty of scope for new entrants in pro-poor banking. Levels of dissatisfaction with the inadequacies of home-saving, concerns about the risks of ROSCAs, the absence (in any numbers) of devices and services that have proved popular with the poor elsewhere in the world, all indicate a strong demand for good financial services. This is particularly the case with the 'lower' poor and the very poor, who enjoy a very small share of what services do exist, often for trivial reasons such as an inability to pay fixed deposits at regular intervals – obstacles that can be overcome with sensitive product design.

But is that demand an effective demand? Can a broad range of products be offered to the poor of East Africa and still recover their costs? That remains to be discovered, but it is by no means certain that the answer is 'no'. The three keys to sustainable pro-poor banking are:

1. Offer attractive products that retain clients
2. Prioritise cost-control
3. Charge a realistic price

Below, we look at each of these.

Attractive products
While specific products will have to be researched and developed locally, broad guidelines have already been given in the section on 'Managing Money'. They are:
Financial services for the poor are services that help the poor ***turn savings into lump sums.***
Good financial services for the poor are a matter of doing this:

- In as many ***different ways*** as possible (saving up, saving down and saving through)
- Over as many ***different periods*** (varying from very short term for quick needs, to very long term for old age or widowhood, for example) as possible
- In ways that are ***convenient, quick, appropriate, flexible*** and ***affordable***

Prioritising cost-control
One MFI visited by the team had a ratio of four-wheel vehicles to clients of around 1 to 2,000 - and one field motorbike for every 650 clients[32]. Needless to say, the organisation was planning to expand, and could argue that it was investing in future growth and that its donors were happy to see that by using these forms of transport the MFI good reach 'really poor' clients in remote locations.

That is an obvious case of poor cost control. But cost effectiveness is not just a matter of cutting out conspicuous consumption. The organisation in question was offering a product that (it appeared to us) was very unlikely to attract remote marginal farming women (it only serves women). The volume of business that could be conducted with these products would remain inadequate to cover the costs of these expensive vehicles no matter how many hours a day they spent ferrying credit officers from village to village.

By offering one inflexible product to a narrow target group East African MFIs make it hard for themselves to go to scale and cover their costs rapidly. There is much to be said for offering only a very small number of products, since administration and book-keeping thereby remain simple, the organisation is more likely to be transparent and comprehensible to its staff and users, and malfunctions can be more quickly detected. But that small range of products should include at least one of general universal appeal. The East African 'savings-down' product tends to be very narrowly designed with fixed cycles and even in some cases with fixed loan amounts at set intervals. A more 'open' version with a greater variety of loan sizes and terms, would almost certainly appeal to a much larger range of potential clients, and would result in far fewer drop-outs and far more repeat loans.

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[32] ASA, an MFI in Bangladesh, has 1.5 million clients and three four-wheel vehicles.

Existing models can be streamlined, too. The Grameen Bank model can be very much simplified, as ASA has shown. For example, the five-person groups are now proving to be an unnecessary complication – ASA does without them and has fewer arrears than Grameen.
It is easy for MFIs to develop too many layers of authority too quickly – and then make it worse by housing them separately. We saw one tiny MFI that had a separate HQ building and a modern branch office for a few thousand clients. More buildings and more layers of staff tend to create more paper, and more paper tends to lead to more qualified staff being recruited with expectations for higher salaries. Much 'flatter' organograms are much more appropriate to single-function entities like MFIs.

Almost all the MFIs we saw could probably manage with less-well qualified grass-roots staffs. Many have been recruited with the expectation that they will become skilful 'loan appraisers' whereas many end up supervising loans that go for general purpose uses and do not genuinely require sophisticated business analysis. Some Credit Officers I spoke to admitted they were bored with their jobs. An ideal situation is where the maximum delegation is achieved with the maximum standardisation, meaning that grass-roots level staff can take all the important decisions (approving and disbursing loans and savings withdrawals) but can do so against a clear set of guidelines so that so that nothing needs to be referred to seniors for action except reports of transactions completed. Cheaper, more motivated staff can then be used. The less discretion they need to use, the quicker and cheaper will be their work, and the less room will there be for rent-seeking behaviour by them, and for disgruntled clients.

On the other hand, such staff could be well employed doing the book-keeping that some MFIs now get their group leaders to do. FINCA, for example, has now clearly abandoned its old dream of creating autonomous 'independent' community-owned village banks. It is now a quasi-bank, keen to keep its clients, not spin them off into 'self reliance'. So why not give them a full service, including managing the paper work? This would speed things up, allowing a Credit Officer to handle more or bigger groups in a day. Most FINCA clients can read and write, and can monitor the accuracy of the book-keeping without actually having to write the books themselves.

Charging a realistic price
It is sometimes argued that carrying services to poorer groups than those currently served by MFIs, in particular savings services, would be prohibitively expensive. This overlooks a number of facts.

First, the current product is already very expensive, so why should MFIs worry about high prices for more flexible products, which are more attractive to more people?
With the current product and client-set, no East African MFI is covering operational costs from current income. For example, the MFI with the largest number of clients in East Africa is covering 60% of its operational costs. It charges 30% 'flat' interest for its loans, plus a disbursement fee, implying an APR of around 60%. Counting in compulsory savings would raise this substantially. Presumably, in order to move to 'operational self-sufficiency' (the ability to recover all operational costs) it would need to raise its interest rate to 100%. To become 'financially self-sufficient' (to be able to cover the cost of capital at a market rate, as opposed to the zero rate implied in donor grants) it would need to raise its rates by another hefty amount – let us say to 110% per year APR. Thus, the rate with which other products would have to compete is set at an already very high level.

Second, price elasticity in 'saving-up' type products has yet to be tested, and may well prove to be very high.
We saw in the section on deposit collectors that a West African norm is for savers to pay a fee equivalent to 3% per month of their average monthly savings deposits. At that rate, an MFI branch in an urban setting offering to collect, say, $1 a day from 1,000 poor clients, would realise an income of $450 in the first full month, rising. Even if prudential regulations insisted that the whole of this amount was stored in government bonds, it would earn further income and probably would not need to hold any other reserves, effectively releasing more cash for its loans programme.

Third, it overlooks the arithmetic of long-term contractual savings, which are among the most popular products for the poor. A simple example is the 'marriage fund', popular in southern India. Small regular weekly deposits, made from soon after the birth of child, are stored and released only when the child marries, at which time the total deposits are returned with profits equal to total deposits – you 'get your money back doubled'. However, doubling accumulating deposits over – say – fifteen years implies an APR of only 13.3%, and the scheme provides reliable lendable fund. Similar calculations apply to educational endowments and pension schemes.

Fourth, it overlooks a number of encouraging developments elsewhere. Schemes as diverse as the Indian marriage funds, Gono Bima (a rapidly growing popular life insurance scheme for poor people in Bangladesh), educational plans in The Philippines, and *Safe*Save, all offer real examples of such initiatives, and all are at or close to full cost recovery.

*Safe*Save operates a daily collection service in the slums of Dhaka. It does not form groups, and accepts daily savings and/or repayments as small as US 5 cents. By charging fees for the collection service but offering instant withdrawals and very quick access to small loans, *Safe*Save can cover all the day-to-day costs of a branch within a few months of opening.
ASA and Gono Bima show that contractual savings products can go to scale quickly. After years of believing that 'only credit' is suitable for the rural poor of Bangladesh, ASA, a local MFI, changed its mind and introduced a simple all-purpose contractual savings scheme[33]. In such schemes, users save a fixed sum each month for a number of years (in ASA's case five) and then receive their investment back with profits. Gono Bima, a subsidiary of a private insurance company, offers a version with a ten-year term and includes life insurance – if the policy holder (or a named beneficiary) dies at any time during the ten years, then the full amount as payable at maturity is paid out. Both schemes are popular, and in the case of ASA 200,000 accounts were opened in the first three months of operation.

These examples are certainly not given as blueprints for MFIs in East Africa to copy, since the region will develop its own models. They are given as encouragement, as a way to reassure the region's product designers that their ambitions are not vain. East African MFIs ***will*** soon be offering a full range of saving-up, saving-down and saving-through* products to millions rather than thousands of poor people. Good luck to them.

**……… for example, what about offering managed merry-go-rounds, on the Indian chit-fund model. The users supply the capital while the MFI charges a fee to make sure that more merry-go-rounds work better for more people with either bigger volumes or poorer users, and with fewer failures. Certainly worth trying here, in countries where almost everyone except the over-educated knows how merry-go-rounds work. Oh, and then what about……..*
We promise you, there is no end

[33] Such schemes had been common for the middle-classes in Bangladesh and a few MFIs, notably BURO Tangail, had already been experimenting with it for the poor.

How To Design Better Financial Services Products For The Poor

Recognise the principles laid out in the 'Managing Money' section of this Report, and:

1. accept the **right kind of pay-ins**: (remember, the pay-ins might be savings, repayments, insurance premiums, or contributions to a ROSCA etc.)

- allow *small* sums to be paid in
- allow *variable* sums to be paid in
- allow sums to be paid-in *frequently*

2. allow clients to take out the **right kind of lump sums**:

- provide a *savings bank service* (saving-up)
- provide an *advance-against-future-savings* service (saving-down, or loans)
- allow *short-term, mid-term and long-term* swaps (saving up, down and/or through)
- place no restrictions on how the lump sum is *used*

3. make it **convenient** to pay-in and take-out

- allow sums to be paid in and taken out *locally*
- allow sums to be paid in and taken out *quickly* (on demand and with minimum delay)
- recognise that clients may accept group formation as a price worth paying for a service but will prefer an *individual service*
- make the services open to *all poor* people (not just women, or just adults, or just one person per household)

***EXCHANGE RATES** (May 1999)*

During the study exchange rates fluctuated. The following rates have been used.

K.Sh 62	=	*US $ 1*
T.Sh 700	=	*US $ 1*
Ug. Sh 1450	=	*US $ 1*

Appendix 1: Methods used

The research team used a variety of quantitative and qualitative methods to examine this complex issue.

Quantitative Methods

- The quantitative methods involved analysing the computerised drop-out records of MFIs participating in the study to look for trends, season variations, variations by cycle etc.
- In addition the team used Excel spreadsheets to model compulsory savings: loans ratios, repayment instalments, APR interest etc.

Qualitative Methods

- Key informant interviews were conducted with the managers and front-line staff of the participating MFIs.
- In-depth interviews were conducted with clients, drop-outs and non-clients of the MFIs and in the catchment areas where the participating MFIs were operating.
- The team conducted extensive Focus Group Discussions with clients, drop-outs and non clients of the MFIs and in the catchment areas where the participating MFIs were operating.
- The team also used a variety of Participatory Rapid Appraisal techniques including:
  - ⇒ Seasonality calendars
  - ⇒ Wealth ranking
  - ⇒ Lifecycle-lump sum analysis
  - ⇒ Money management systems matrixes

Appendix 2: Terms of Reference

Terms of Reference
For
Study on the Uses and Impact of Savings Services by Poor People

Background:
As a result of the Africa Conference on "Savings in the Context of Microfinance" held in February 1998 in Kampala, UNDP and DFID have started an initiative to promote savings services for poor people in Africa.

Savings have risen to the top of the MicroFinance community's agenda. Previously MicroFinance Institutions (MFIs) focused primarily on providing loans, and savings remained Vogel's (1984) "forgotten half", typically extracted from clients through MFIs' compulsory systems. There was a prevalent and powerful perception that "the poor cannot save", thus compulsory savings systems often required members to deposit small token amounts each week and levied more substantial amounts at source from loans. These compulsory savings were then often "locked-in" (usually as loan guarantee funds) until members left the organisation.

It is hardly surprising therefore, that poor clients view compulsory, locked-in savings not as a service, but as part of the cost of borrowing and significantly reduce their deposits. But there is increasing evidence (Montgomery, 1995; Wright et al., 1997; Rutherford, 1998, CGAP Working Group, 1998) that offering voluntary and accessible savings facilities may result in the inclusion of the poorest 10-15% of the population, who are averse to risk (and thus to taking credit), and are therefore not being served by most MFIs. For poorer households, savings can serve as invaluable reserves, as insurance, against the crisis factors such as illness, natural disaster and theft that can so easily drive the poor into destitution.

- ***MicroSave*** will conduct action-oriented research on savings products and their use by the poor.
- ***MicroSave*** will enter into partnership with five selected MFIs (comprising a wide-variety of institutional types) and local service providers to work on savings product development as part of a learning-by-doing agenda.
- On the basis of the two activities above ***MicroSave***, will disseminate information on savings-related issues to MFIs in Africa.
- ***MicroSave*** will work to enhance the capacity of local service providers to provide training and technical assistance on market research methods to examine clients' needs for savings products.
- ***MicroSave*** will work with AFCAP to prepare training curricula on savings product design, costing/pricing, pilot testing and evaluation.

Together, these activities will lead to the development of a comprehensive sustainable programme to build the capacity of MFIs seeking to provide secure high-quality savings services for poor people.

Specific Background:
Throughout Africa there is a vibrant, active and diverse informal financial sector (Adams et al., 1992; Ardener and Sandra (eds), 1995; Aredo, 1993; Aryeetey and Gockel, 1991; Aryeetey et al., 1997; Bascom, 1952; Bolnik, 1992; Bouman, 1995; Brundin and Sandstrom, 1992; Cuevas and Schrieder 1991, Delancy, 1977; Dodson, 1997; Geerdes, 1975; Geertz, 1962; Haggblade, 1978; Jerome, 1991; Mauri (Ed.), 1977a; Mauri, 1997b; Mensink, 1995; Miracle et al., 1980; Osuntogun and Adeyemo, 1981; Pal, 1997; Rutherford, 1996; Shipton, 1990; Shipton, 1994; Steel and Aryeetey, 1994; Temu, 1994; Webster and Fidler, 1996; Zeller et al., 1991; Zeller, 1993). Traditional systems exist for both saving and/or borrowing. ***MicroSave*** seeks to learn from these systems, and from the savings services provided by more formal financial institutions both semi-formal (village banks, small credit unions etc) and formal (large credit unions/SACCOs, NGO-MFIs and formal sector banks). Through reviewing these savings

services, how they are used and their impact on poor people's household budgets, ***MicroSave*** hopes learn lessons important to MFIs seeking to introduce secure poor-responsive savings services.

The Study:

The purpose of this study is to improve knowledge and understanding of (if and) how poor people in East Africa save, how they use different savings services/systems and the impact of those savings facilities on their household budgets/lives. The results of the study will play an important part in defining the agenda of ***MicroSave****, and the issues that it raises with MFIs involved/interested in savings mobilisation, local service providers and AFCAP.*

Specifically, the study will:

1. *pay particular attention to looking at a variety of savings services used by poor people (ranging from current accounts to funeral funds, from contractual savings agreements to ROSCAs and even including methods of saving "in-kind");*
2. *examine the perceived advantages and disadvantages of this variety of savings services;*
3. *examine the socio-economic characteristics of the people using the variety of savings services;*
4. *develop an understanding of how savings services are used to manage household income/expenditure flows;*
5. *review the results of the* ***MicroSave***
6. *study of drop-outs among MFIs' clients;*
7. *develop an understanding as to whether the availability of savings products increase or decrease the demand for loans and affect the quality of MFIs' loan portfolios;*
8. *develop an understanding of why some (if any) people do not making monetised savings, and what financial savings services might induce them to start monetised savings; and*
9. *draw lessons for MFIs seeking to develop savings products for their clients.*

Methods:

The study will use some limited quantitative data derived from the MIS of MFIs involved in the study. However, the majority of the research will be undertaken using qualitative and participatory research methods, in particular in-depth interviews with people who are clients of a variety of MFIs (formal sector banks with deepened outreach, NGO-MFIs, Savings and Credit Cooperative Organisations, Village Banks) and informal financial organisations such as ROSCAs, funeral clubs etc. The study will also conduct interviews with poor people who are not members of these organisations to discover why they are not, and how (and if) they save.

Geographic Scope:

The study will be focused on three countries in East Africa: Kenya, Tanzania and Uganda, and will examine savers in both urban and rural settings.

Implementation:

The study will be conducted by one international consultant with extensive experience in conducting client-perspective-based, qualitative research on MicroFinance-related issues. In this work he/she will be assisted by local consultants drawn from the three countries where the study will be conducted. The international consultant will ensure effective transfer of qualitative research skills during the assignment so that ***MicroSave*** can work with and further develop the three local consultants.

Timing

The study will run for a total of 42 working days (including travel) for the international consultant and a total of 43 working days for local consultants. The study should take place in the first half of 1999.

Reporting:

The consultants will be responsible for producing the report. The report should be delivered in draft form to ***MicroSave*** three days before leaving Uganda, and will be read and responded to within 1-2 days, thus allowing the consultant to finalise the report before leaving. The report must include a 3-5 page executive summary and be delivered in both hard copy and on diskette (in Word 7 or 6/95 format).

The report will include:

1. An analysis and description of the variety of savings services/systems examined;
2. An analysis of the socio-economic characteristics of the users of the savings services, and those who do not;
3. An analysis and description of the uses of these savings services/systems and their effects on the quality and quantity of the MFI's loan portfolio;
4. An analysis and description of the impact of these savings services/systems on poor people's household budgets and lives;
5. Recommendations for methods for linking informal savings systems/systems into semi-formal and formal sector financial service operations; and
6. Recommendations for MFIs seeking to introduce or diversify savings products into their portfolio of services

Appendix 3: Extract from the Kenyan Study
Author: Harry Mugwanga
See the section in this report on Formal banks (section 2.xii)
Commercial Banks

Commercial banks including Barclays , Kenya Commercial and Victoria Finance Company [now Victoria Commercial Bank] have attempted to implement special service schemes for their poorer customers. In all cases, the focus of the schemes has been on credit to smaller enterprises whose importance to the economy had captured the national psyche and donor interest from the middle of the 1980s. There has at the same time been a general tendency to withdraw savings services from poorer people and rural areas culminating in the current trend towards higher minimum balances to open and maintain bank accounts. Barclays' market town agencies of 1950s and mobile service units which were part of the major banks' service structures have disappeared. This trend is not entirely regretted. Because of handicaps and obstacles which excluded the provision of credit to poor people and the peasant economy, savings mobilization from poor people and rural areas only aggravated the transfer of resources to wealthier people and to urban areas.

From the users' perspective, there are several issues limiting the use of commercial bank savings services by poor people many of which have been discussed extensively in connection with credit. Issues associated with lack of counter services or reciprocity, products, convenience, access, liquidity, attitudes, transaction costs, returns and risks may be too complex to be discussed in this report exhaustively. But some of the information that has become available as a result of this study, indicating ways in which poorer people deal with their lump sum and financial management problems and throw additional light on some of the issues.

First; reciprocal services. For the enlightened customer, the decision to open a bank account is followed by the choice of the bank. Although peer pressure and social networks play a very significant role in the choice of a bank, only a few people will save with the same bank throughout their lives even if they get no other services from it. Business people in particular go to banks which are likely to support their business in some way. In the past at least, several enterprises, client groups and individuals associated with PRIDE and KWFT had accounts with Barclays Bank. The Bank afforded them special attention, gave them recognition and treated them well on account of the relationship with their sponsoring institutions. But for the poor in general, banks have little to give back hence, the other systems which they have devised to give value to their savings. Regular savings in a MGR earns respect of friends and their financial support when needed.

Banks have in general offered to poor people only the traditional, illiquid savings account. Withdrawals could be effected from such accounts only once a week and only up to a limited amount without prior notice. This is inappropriate for business people however small. Enterprise banking transactions are determined by sales performance and purchase opportunities and requirements and can be extremely unpredictable. Accounts from which withdrawals could be made only at predetermined times were inconvenient to the enterprising poor. Indeed, although collateral has been recognized as an obstacle to bank credit for micro and small enterprises, it should be remembered that a lot of bank credit decisions are influenced by track record and account histories. Service products which kept away micro and small enterprises conducted by poor people from banks denied them credit more.

The location of most banking outlets require poor folk to travel, sometimes long and costly distances from their neighbourhoods to save. The savings services devised by poor people are usually conducted within their neighbourhoods. The focus groups encountered during this survey met in a neighbourhood restaurant, service point and commonly in a member's house. These venues as well as the scheduled times were convenient and accessible to the members, reduced their transaction costs and are free from the anxiety and embarrassment which poor, especially illiterate people encounter in banks.

There are several risks which poor people face in their savings relationship with commercial banks. These may be classified as transaction, value related and loss risks. Transaction risks arise because of

poor information and inadequate familiarity with bank transaction conditions especially when changes have been made say on minimum balances, service or transaction charges. These often result in withdrawal requests being turned down because the balance had fallen below the minimum required. Groups and associations of poor people have broken up because the officials were unable to explain such incidents to their members. Value related risks arise because interest rates paid on savings accounts have remained below the inflation rate for several years in Kenya. Investment in real assets including livestock preserve the value of poor peoples' savings much better than bank accounts. Lastly, poor people risk losing all their savings to a bank. Few individual poor people can afford the minimum balances now demanded by banks. Charges [now at Ksh 300 per month for balances below Ksh10,000 for Barclays Bank] imposed on balances below the minimum required can wipe out all savings. On the other hand, accounts maintained by groups face this and another risk. The majority of group account holders never get such information fast enough and even when they do, they take a lot of time to respond. By the time they do, several months may have elapsed and several charges already debited to their account. But worse, are circumstances which result group accounts being abandoned to banks due to any one or more of the following:

- disagreement in groups
- departure of a key signatory
- loss of interest in group activities
- death of a signatory
- officials are net borrowers and have no interest in the bank balances

These have resulted in savings accounts being dormant for several years before being permanently abandoned ie lost

Appendix 4: MFI details

KENYA	KREP	KWFT	NCCK / SBDO	PRIDE	WEDCO.
Institutional Status	NGO	NGO	NGO	NGO	A project of CARE International.
Target group of clients	Micro, medium and small Enterprises	Female micro and small enterprise owners.			Women with enterprises
Year started	1984	1981	Started micro-lending activities in the 1970s.	1988.	1996 as WEDCO. 1983 as CARE
Institutional model	Juhudi an adaptation of Grameen,. Chikola an extension of ROSCAS and individual loans.	Aim for at least 20; 15 to 25 range. Have watanos of 3 to 7, main is 5; Monthly meetings at KWFT office or rented rooms(Modified grameen bank). Used to be weekly.	Group of 30; watanos of 5 meet weekly (no exceptions) ; any convenient place for members to meet.		Unrestricted groups; aim for average 25 members. Current average closer to 10.
Staff numbers	56 credit officers out of staff of 143. KREP involved in other activities besides credit	51 BDOs			Total 49 Credit Officers 39
Current number of clients (or members)	13,201 clients at the end of March 1999.	523 groups wit 11,621 active clients at the end of March 1999.		6000 clients.	411 groups with 5000-6000 clients.
Current number of borrowers	9,889 borrowers at the end of March 1999.	8,149 borrowers at the end of March 1999.			
Current number of savers	13,201 savers (Collateral savings)	11,621 savers. (Collateral savings)			N.A
Ratio credit officers to clients, to savers, to borrowers	1:236:177	1:227:160			
Value of savings held	86,million	66,million			24 million
Value of loans out-	268 million	94 million			64 million

KENYA	KREP	KWFT	NCCK / SBDO	PRIDE	WEDCO.
standing					
Level of self-sufficiency	100% operational and Financial self-sufficiency.	75 % operational self-sufficiency and 69% financial self-sufficiency.			57.5% operational self sufficiency and 44% financial self sufficiency
Profit/loss last accounts period	Profit Ksh 10.2 million	Loss Ksh I.7 million			
Drop-outs rates with years	1997 - 1208 1998 - 2827	1997/8 - 593 1998/9 - 1712			Unknown at individual level. Have figures at group level but not readily available.
Reported arrears rate	Portfolio at risk from 1 day 10%				
Interest rates on loans	Juhudi 18.85% p.a flat rate; Chikola 20% p.a flat rate; Loan application fee 1%; Loan insurance fund 0.5%; Membership fee Kshs. 150/=; Passbook fee Kshs. 65/=.	22% over the year; Loan application fee 1%; Loan insurance fund 0.5%; Membership fee Kshs.200/= Passbook fee Kshs. 50/=.	22% flat rate per annum		2% p.m. 15 Groups 3% p.m. from Groups to members
Interest rates paid to savers	N.A Savings held in groups bank accounts.	Account is for group with KWFT signatory. Earns interest according to bank rates.			Equity deposit invested in term deposits. Saver gets at 2% above normal savings rate: KCB
Loan application procedures	Letter to group, guarantors advised to vet request. CO and group loans committee review application. Client deposits application fees	Five people apply then after 4 weeks of repaying another 12 apply. Application to group; loan committee visit the business;	Loan application completed; a series of requirements like passport photos, Ids, Spouses Ids etc; attach minutes of group		Raise 20% of required loan; Branch manager may decide to approve loan lower than equity raised by group * 5. • Below Kshs

KENYA	KREP	KWFT	NCCK / SBDO	PRIDE	WEDCO.
	and LIF to bank.	KWFT officer does business assessment; Pledge form (Only first one needs authentication by advocate); attach licence, bank statement, ID, Photos; Officer takes form to KWFT office.	meeting that approved loan; Paper work sent to Nairobi for verification.		500,000/= decided at branch level. • Up Kshs. 800,000/= operations manager • Above Kshs.800,000/= involves CEO.
Loan disbursement procedure	Approved application sent to Accounts (HO), cheque signed and returned to CO to release at meeting.	Approval; Personal cheque issued; Given to client at next meeting	Cheque written (to applicant) at HQ; Sent to area office and delivered at group meeting.		The cheque is issued to the group during their meetings.
Loan repayment procedure	HO signatories. Below 50,000 RM & AM. Above 50,000 FM & MD.	Period can be 3,6,9,12 months; Pay monthly at meeting; Watonos collect and check the money; handed over to treasurer for banking after being checked by KWFT officer; Bring pay in slips to KWFT.	Rural area two weeks grace period; Equal payments over 50 or 26 or less weeks. (For 4th loan 18 months or less). Urban areas equal payments over 50 or 26 or less weeks (For 4th loan 18 months or less)		Members pay their groups. Groups pay WEDCO. Groups use administration to enforce payment.
Restrictions on loan use	Loans for existing business.	Must be for business use	Loans must be invested in existing business not for start-ups.		Loans for existing business.
Restrictions on use of savings withdrawals	N.A.	N.A.	None. Group holds the savings fund in bank accounts. It can withdraw the interest earned on that account (Variable).		20% equity deposit cannot be withdrawn till loan cleared.
Savings account	N.A.	Have to open a savings	Compulsory savings		N.A.

KENYA	KREP	KWFT	NCCK / SBDO	PRIDE	WEDCO.
opening procedures		account at a bank to join KWFT.	required, from Kshs 50 per week on loan 1 to Kshs. 150 per week on loan 5.		
Savings account access conditions	N.A.	Access only possible on exit. Rarely savings on top of guarantee level can be withdrawn if an emergency.	Savings only accessible through exit.		Savings in excess of prescribed weekly rate can be withdrawn.
Main donors and other sources of funds.	DFID, Ford Foundation, USAID	Savings only accessible through exit.			DFID only .
Intermediation.					

UGANDA	Centenary	PRIDE	FOCCAS	Faulu.	FINCA.
Institutional Status	Formal bank	NGO (once tried to become a bank)	NGO	NGO owned by Food for the Hungry. In the process of becoming a limited liability company.	NGO
Target group of clients	Total adult population	Micro and small enterprise owners	Female micro and small enterprise owners	Micro and small enterprise owners	Female micro and small enterprise owners
Year started	1983	1996	1996	1996.	1992
Institutional model	Individual savings and loan accounts; transactions at the bank	Grameen-type solidarity group; weekly meetings at PRIDE premises	Village Bank type solidarity group; weekly meetings near the clients' businesses	Grameen-type solidarity group; weekly meetings near the clients' businesses	Village Bank type solidarity group; weekly meetings near the clients' businesses
Staff numbers	85 credit officers (4/99)	125 (4/99) also 15 trainees	36 growing to 41 (4/99)	30 of which 17 are credit officers	98 staff of which 50 credit officers (4/99)
Current number of clients (or members)	110,000, growing at 200 a day	Approx. 20,000 (up from 5,800 in 1/98)	7,616 members end March 1999.	3,950 End of February.	Approx. 17,000
Current number of borrowers	11,000	Approx. 14000	7,170 end of March 1999.	2,370 which is 60% of the total number of clients.	16,600
Current number of savers	110,00 of which most are savings a/c holders with some fixed deposit a/c holder	Approx. 20,000 (all of them are compulsory savers and some also save voluntarily)	0 (members make compulsory and some voluntary savings held by themselves)	All the 3,950 clients are savers.	0 (members make compulsory and some voluntary savings held by themselves)
Ratio credit officers to clients, to savers, to borrowers	An average of 1294 clients for one credit officer. And 129 borrowers per credit officer.	An average of 160 clients for every one staff.	An average of 211 clients for every staff employed by FOCCAS.	An average of 131 clients for every one staff and 140 borrowers for every credit officer.	An average of 173 clients for each staff employed and a ratio of 340 clients per credit officer.
Value of savings held	22bn-(58% in savings A/C, 30% in current,	1.4 bn in the loan insurance or compulsory	None (89.4 million held in bank accounts	387million as loan security fund held by	None (Group members hold their savings in

UGANDA	Centenary	PRIDE	FOCCAS	Faulu.	FINCA.
	1.5bn in fixed deposit.	insurance funds.	controlled by the communities them selves.) End March 1999	Faulu.	their own group bank accounts; However by arrangement with the bank FINCA attempts to control withdraw from this account).
Value of loans out-standing	13bn	2.2 bn (End 1998)	476million (End Feb 1999).	487 million end of April 1999.	1.5bn(End March 1999)
Level of self-sufficiency	733 million profit in 1998, representing a 27% return on equity after removing subsidies.	***** They aim to be sustainable by the end of 2000.	60% operational self sufficiency end Dec 1998 (Down from 93% because of recent rapid expansion)	61% operational self-sufficiency in 1998.	81% operational self-sufficiency at end March 1999.
Profit/loss last accounts period	See above.	Accts still being audited.	Not obtained.	Not obtained.	A net surplus of $230,000 in 1998.
Drop-outs rates with years	Not calculated: account closures and inactive accounts said to be low.	On average this was 12.4% during 1998.	5% of members are either not using the current cycle or have said they will not use the next cycle.	The dropout rate was 25% in 1997 and reduced to 17% in 1998.	Approximately 5% per month and rising. Note FINCA counts as dropouts members who are merely sitting out during a loan cycle.
Reported arrears rate	Approx. 5%(Was 37.5% in 1994).	Portfolio at risk 0.5% one day past due.	Portfolio at risk, end Feb 1999, 5.8% (one day past due)	10% as at the end of April.	0%, they have 100% on time repayment.
Interest rates on loans	22% APR + 2% disbursement fee + 2% per month (declining balance)- Monitoring fee (declines with repeat loans)	30% per annum.	3% per month flat (i.e. 60-70% APR + compulsory savings).	3% per month flat (i.e. 60-70% APR + compulsory savings).	3% per month flat (i.e. 60-70% APR + compulsory savings).
Interest rates paid to savers	2% APR on savings accounts, 6.5% on fixed	None.	Groups obtain bank interest on their savings	Groups obtain bank interest on their savings	Groups obtain bank interest on their savings

UGANDA	Centenary	PRIDE	FOCCAS	Faulu.	FINCA.
	deposit.		accounts.	accounts.	accounts.
Loan application procedures	Open a savings account: Complete application form: Undergo a loan appraisal: wait for loan committee approval.	Form a five person group: Get nine other groups of five; Under go six weeks training: Register it with the local authority: Register it as part of a PRIDE group: Compulsory savings for several weeks: Complete application form and provide proof of business.	Similar to FINCA.	Form a five person group: Under go two weeks training; Continue saving for the next six weeks; Register it as part of a Faulu group: Compulsory savings for the eight weeks equivalent to 1% of required loan: Complete application form and provide proof of business.	Form a "Village Bank" of at least 30 people comprising sub-groups of 5. Undergo six weeks of training. Compulsory savings for several weeks: Complete application form and provide proof of business.
Loan disbursement procedure	Bank transfer into client loan account.	Solidarity group members receive loans in a set order; maximum loans are sized according to a fixed formula.	All loans are issued at the same time in cycles – size according to a fixed formula: increasing each loan by 50%.	Solidarity group members receive loans in a set order; Loan sizes are flexible up to a maximum amount per given loan cycle.	All loans are issued at the same time in cycles – size according to a fixed formula: savings plus base loan..
Loan repayment procedure	Varies Mostly by two or three instalments over a six to eight months term: Some end of term balloon repayments.	25-50-week cycle of fixed equal weekly instalments depending on cycle and loan size.	Loans term similar to FINCA. FOCCAS field staffs do not handle money- repayments made through bank transfers.	First two loans have a 16 weeks repayment period: third and subsequent loans between six and nine months; field staffs do not handle money- repayments made through bank transfers.	16-week cycle of fixed equal weekly instalments.
Restrictions on loan use	Must be for commercial or agricultural uses.	For existing businesses only.	For existing businesses only.	Loans are given to existing businesses and start-up businesses of up to one member per group	For existing businesses only.

UGANDA	Centenary	PRIDE	FOCCAS	Faulu.	FINCA.
				of five if that subroup agrees to cross guarantee the new start-up business.	
Restrictions on use of savings withdrawals	None.	Savings are held as security against loans.	Savings are held as security against loans. However, clients can withdraw down to 5% of the outstanding loan. (But FOCCAS does not have a strong system for enforcing this)	Savings are held as security against loans. Faulu has now introduced weekly withdrawals of voluntary savings based on performance of the group of five..	Savings are held as security against loans.
Savings account opening procedures	Conventional bank procedures requiring application forms , identification and referees.	Part of membership application procedure.	Part of membership application procedure.	Part of membership application procedure.	Part of membership application procedure.
Savings account access conditions	Unlimited access up to the minimum required balance of Shs. 10,000/= for savings account holders.	Savings can be withdrawn only if all loans of all members of the solidarity group have been completely repaid	Same as FINCA except that FOCCAS has no arrangement with banks to restrict withdraws.	Unlimited access unless group has arrears.	Savings can be withdrawn only if all loans of all members of the solidarity group have been completely repaid
Main donors and other sources of funds.	Savings, Investors (Catholic church owns 70% of shares), retained profits.	**** 95% of funds are from grants.	Grants from UNDP, UNICEF, and USAID via PRESTO and via FFHC, FFHC. Soft loans from social investors in USA. Loans from EDF and a line of credit from the Co-op bank.	USAID, Compassion Canada, CIDA.	USAID, USAID via PRESTO, EDF soft loan, TA from Austrians.
Intermediation.	Full intermediary institution.	Lends out 30% of its loan insurance funds.	None.	None.	None.

TANZANIA	SEDA	PRIDE	PTF
Institutional Status	NGO. Now independent of but linked to World Vision, their founder	Company limited by guarantee (once considered becoming a bank: ties with Pride Africa of Nairobi)	Registered NGO
Target group of clients	Productive poor (and mainly women) micro enterprise owners	Micro and small enterprise owners	Unemployed poor women and youths with existing micro businesses, rural as well as urban
Year started	Registered 1996; operations October 1995	Registered 1993; operations 1994	NGO registration 1988; operations 1989
Institutional model	‘Community Banking’ (modified SHG model similar to Proshika’s)	Grameen-type solidarity group; weekly meetings at PRIDE premises	Grameen-type solidarity group; weekly meetings in the village or peri-urban settlement
Staff numbers	34 (3/99), of whom 12 are Credit Officers	165 (4/99), of whom 80 are credit officers	25 (4/99) of whom 17 are credit officers
Current number of clients (or members)	4,500 (3/99) in 3 branches	28,750 (4/99)	4,700 (3/99)
Current number of borrowers	3,000 approx	21,500	Approx. 4,200 (3/99)
Current number of savers	4,500 (but SEDA doesn’t collect or hold these savings)	28,750 – all compulsory savers	4,700 (3/99)
Ratio loan officers to clients, to savers, to borrowers	1:375 officers to clients and savers 1:250 officers to borrowers	1:359 officers to clients and savers 1:268 officers to borrowers	1:276 officers to clients and savers 1:247 officers to borrowers
Value of savings held	$22,985 (owned and held by members)	1.4 bn shillings (4/99) = $1.97 m (compulsory savings only)	29.4 m shillings (3/99) = $42,000, mostly compulsory
Value of loans out-standing	$415,127 (3/99)	1.5 bn shillings (4/99) = $2.11 m	$340,000
Level of self-sufficiency	45% ‘operational self-sufficiency’	60% of operational coat	81% of costs covered by income in last quarter

TANZANIA	SEDA	PRIDE	PTF
Profit/loss last accounts period	Not available: loss	Loss of $356,750 in six months to June 1998	Loss of $8,400 in quarter ending March 1999
Drop-outs rates with years	Estimated approx 5% cumulative – there are definition problems	Cumulative over 50% over five years	Not tracked; maybe 24% per loan cycle (average 8 months) in urban area, less in villages
Arrears rate	12% at month end	Zero	Less than 1%
Interest rates on loans	30% flat plus 3% disbursement fee	30% p.a. flat plus disbursement fee of 1% of face value (second loan onwards); compulsory savings of $1.40 a week	30% p.a. flat plus disbursement fee of 5% of face value: compulsory savings of 5% of face value paid during loan
Interest rates paid to savers	None: Bank pays bank rates to member-held savings	10% of final value of compulsory savings paid on leaving scheme provided at least 12 months have elapsed and that the exit was voluntary (less than 50% of exits are voluntary) and provided that no compulsory savings were ever used to repay loans	10% of final value of compulsory savings paid on leaving scheme provided at least 12 months have elapsed and provided that no compulsory savings were ever used to repay loans of others
Loan application procedures	Group must be running a ROSCA and have completed training. Each member's loan application must be approved by group. Group then makes a bulk application to SEDA.	Form a five person group: undergo eight weeks training: fill up form: undergo inspection of business by MEC (a group of groups): appear before MEC committee and obtain approval	Form a five person group: undergo seven days training (2 hrs a day): fill up form: get acceptance by Centre (a group of groups):
Loan disbursement procedure	By cheque as a bulk loan to group., first loan not more than equivalent of 150,000 shillings per member, rising by 50,000 steps to 600,000.	Solidarity group members receive loans in a set order; loans are sized according to a fixed formula: loans issued by cheque from HQ within one week of MEC approval being granted (cheque can be open if there are problems with banking)	Where possible, by cheque to bank, other by cash at meeting: members get simultaneous loans at start of cycle (but pre-payment mean cycles get out of sync after a while)
Loan repayment procedure	By cheque each month or each week from group to SEDA bank account: COs don't touch money.	Weekly, with interest and compulsory savings, at Pride premises: no arrears allowed (all payments cleared in cash before members can leave the premises): number of weeks rises from 25 (first loan)	Weekly, with interest and compulsory savings, at the village or peri urban settlement: no arrears allowed (all payments cleared in cash before members can leave the meeting): number of weeks

TANZANIA	SEDA	PRIDE	PTF
		to 40 (second) to 50 (subsequent)	rises from 26 (first loan) to 32 (second) to 52 (subsequent)
Restrictions on loan use	For existing businesses only (but it's hard to check and there is much diversion)	For existing businesses only. Businesses are checked but loan use isn't: management is aware of much diversion	For existing businesses only. Businesses are checked but loan use isn't: management is aware of much diversion
Restrictions on use of savings withdrawals	None	None (but see below)	None
Savings account opening procedures	Groups open it at a bank after making a Constitution and bye-laws	Part of membership application procedure.	Part of membership application procedure.
Savings account access conditions	On exit only, after all SEDA loans are cleared (SEDA is a signatory to group-owned bank accounts)	Savings are held as security against loans and no withdrawals are allowed until exit.	Savings are held as security against loans and no withdrawals are allowed until exit. Some voluntary savings as well.
Main donors and other sources of funds.	Grants from World Vision; USAID; Ford; DFID (for Mwanza branch)	Grants from NORAD for operations and for lending (some USAID grants go via Pride Africa)	Grants from Ford, ADF, Tanzanian-Swiss Trust Fund; loans from NIGP, Gatsby, Grameen Trust
Intermediation.	None (SEDA doesn't hold member savings). Some groups may intermediate their own savings.	Unlimited lending of the compulsory savings.	In past yes; now prefers to bank the savings and will negotiate for loans against these savings

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