



General-purpose Microfinance - in theory and practice

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ADBI, MFTOT Course
July 2009

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Microfinance's
traditional
keywords:

women
joint liability groups
loans
microenterprise



*and there's no doubt that this approach
has spelt success for many poor women*

But other microfinancial services are also proving important:

women	<i>and</i> for men & children
groups & joint liability	<i>and</i> for individuals responsible to themselves
loans	<i>and</i> savings & insurance
microenterprise	<i>and</i> for <i>general purposes</i>

Today we focus on *general-purpose* microfinance

We looked at 239 microfinance loans, worth a total of \$39,000, taken by borrowers whom we tracked week-by-week for three years

We found that:

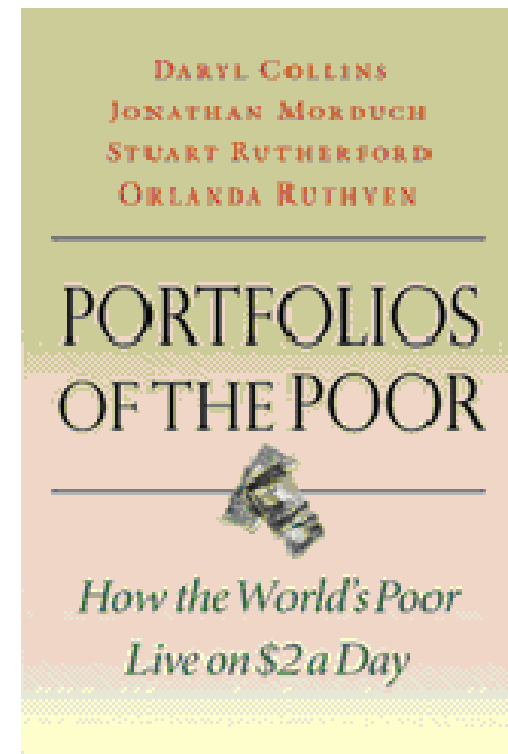
More than half of the money went into stocking retail shops or buying assets of one sort or another

But:

Those loans were used by a small minority of borrowers. *Most borrowers used most of their loans* for other purposes: consumption, life-cycle needs like education or homemaking, for health, for emergencies, and for repaying other debt

The repayment performance of both types of borrower was similar

'Financial diaries' from Bangladesh, India and South Africa show that poor people



- ❖ have active financial lives
- ❖ intermediate a large part of their income
- ❖ seek ways to save, borrow and insure
- ❖ focus first on day-to-day needs

6

Microfinance loan

Microfinance savings account

Life insurance

Interest free loan from neighbor

Shopkeeper credit

Remittance to home village

Savings held for neighbors

Home savings

Rent arrears

Loans to others

Wage advance

Saving with a moneyguard

Cash in hand

Razia says: unless you manage your money you can't manage your life"



If you're very poor...

- you spend most of your small income on food and fuel
- when you need to buy something else you may not have the cash at hand

in that situation, you can:

- go without or sell hard-to-replace assets

or, much better:

- draw on past income or future income

...that's what financial services are for



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

SafeSave Bangladesh

(www.safesave.org)



- ❖ savings and loans for general money-management (not just for microenterprise investment)
- ❖ no groups, no joint liability, no meetings: staff go door-to-door visiting each client daily, 6 days a week
- ❖ save and withdraw what you like when you like
- ❖ repay loans when you like (but you *must* pay loan interest each month)
- ❖ now has about 14,000 clients: men, women and children (children under 16 may not take loans)

SafeSave clients

- ❖ display a wide range of behaviours: some save but don't borrow, some borrow but don't save; most do both
- ❖ intermediate over any period, from a few days to many years
- ❖ save or borrow for the widest range of uses: consumption, life-cycle needs, emergencies....
- ❖ many try to save or repay a fixed sum each day, others pay as cash becomes available

- ❖ **SafeSave is profitable ('sustainable') suggesting that**
- ❖ **there is effective demand for general-purpose microfinance**



But '*general purpose microfinance*' is not restricted to small experiments like *SafeSave*

Grameen Bank bounced back from a crisis brought on by too much lending, with 'Grameen II'



Grameen II offers:

- ❖ more flexible loans - to make borrowing easier to use for general purposes
- ❖ 'passbook savings' - for short term money management
- ❖ commitment savings - to save up bigger sums for longer-term or larger-scale needs

SafeSave's latest pilot product

The problem: Many poor people would like to save but find that spending needs push savings aside, no matter how well-intentioned they are

The solution: Offer poor people liquidity in the form of interest-free loans, providing that they save one-third of each loan

The results after two years:
425 of the world's poorest people have borrowed and paid back \$100,000, and saved and kept \$23,000

(SafeSave is on track to fully recover the low cost of this pilot)

For more details please visit

www.thepoorandtheirmoney.com

