From the Editor

Last November at the Global Microcredit Summit, Nova Scotia, Nobel Prize winner Mohammed Yunus announced two new goals to be reached by 2015: reaching 175 million of the poorest families with microcredit, and ensuring 100 million families rise above the US$1 a day threshold.

Given this renewed emphasis on reaching the poorest, people's financial institutions surely have an important role to play. These member-owned small-scale savings and loans membership organizations typically operate in rural areas and among the poor – both of which are difficult conditions for banks or MFIs to provide cost-covering financial services. By comparison, member-owned institutions rely largely on the volunteer labour of office holders, which reduces their transaction costs, and in many models the actual loan fund is built entirely from regular weekly savings of very small amounts. These savings-led institutions often suit poorer members, many of whom have no investment opportunities and are reluctant to take on loans. These members may not find a fast track out of poverty, but the group fund is often vital as a cushion against economic shock: examples from recent articles in *SED* include the usefulness of member-owned institutions in situations of hyperinflation in Zimbabwe and the loss of an income-earner to AIDS.

These member-owned institutions are of course very similar to the merry-go-rounds, *tontines* or ROSCAs that operate in many countries, and this explains some of their popularity and the ease with which they have spread. For example, in Zanzibar, member-owned organizations have continued to replicate following the departure of CARE, as described by Anyango et al. in their article. So, what is the difference between these and the indigenous organizations that they are modelled upon? Is there any value added that external organizations are contributing?

Safety is one thing people may expect more of from externally promoted member-owned institutions than ROSCAS, and the popularity of these member-owned organizations is based to a great extent on their safety record. The 'action-audit' when the group fund is divided up provides a clean break and enables participants to decide whether it is worth participating in a subsequent round. Training in simple, effective, record keeping, and the purchase of a strong box with a triple lock to store the fund, are also important elements. Some form of continued supervision, albeit at a lower level than the initial stages, seems also to be essential.

How this supervision can be arranged and paid for is, of course, a continuing problem. In Zanzibar an umbrella organization is funded by the groups, but its organization and training services were reportedly quite weak. Mersland describes a new member-owned savings and loan organization in Kenya, and here the innovation is that the groups are based on churches and rely on relatively educated church members to run the groups, communicating with a small training team by mobile phone. Time will tell whether these structures are strong enough to maintain members' confidence in the organization.

Another aspect of member-owned organizations that their users appreciate is the sense of ownership of the savings fund, and the empowerment that this conveys. In the case of Indian self-help groups (SHGs) linked to local cooperatives, described by Misra and Lee, this sense of ownership is what motivates the women to build up their SHG savings fund in order to gain access to larger loans. Interestingly, the significance of the fact that

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their SHG was linked to a cooperative had passed them by – they valued the cooperative for its being local and offering low-cost loans, but they felt that they had no more say in its governance than if it had been a bank.

Bateman describes a rather different kind of member-owned financial institution. Co-operative enterprises now dominate the business scene of two regions of Europe – the Basque region of Spain and Emilia-Romagna in Italy – regions that can boast prosperity and a quality of life worlds away from West Bengal. But these European co-operatives were born in much more straitened times: in the post-war reconstruction period in the village of Mondragon in northern Spain villagers scraped together their savings to create a fund to invest in manufacturing enterprises owned by worker cooperatives that would provide future livelihoods. The original cooperative savings and credit funds have grown and evolved to fund larger ventures, but local government has continued to support funds that invest in new, local cooperatives. Bateman argues that the economic dynamism of these two regions can be credited to the decisions of the fund owners to invest in cooperatives which had long-term growth and employment potential, rather than to seek the quickest return. This, he says, should be emulated by the microfinance movement in developing countries, which can be criticised for putting financial sustainability before long-term impact.

A recent CGAP focus note *Financial Inclusion 2015: Four Scenarios for the Future of Microfinance* does not mention the role of member-owned financial organizations in its predictions. Perhaps this is not surprising given this institution's emphasis on financial systems. Certainly the growth of successful microfinance institutions, their conversion into regulated banks, and the growth in interest of commercial banks in reaching the huge microfinance market are great achievements of the financial systems approach. These organizations have contributed to the achievement of the first Microcredit summit goal – 100 million families gaining access to microcredit by 2006 – albeit a year late. But will the second goal, with its poverty focus, be achieved without a greater recognition of the important role of people's financial institutions?

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