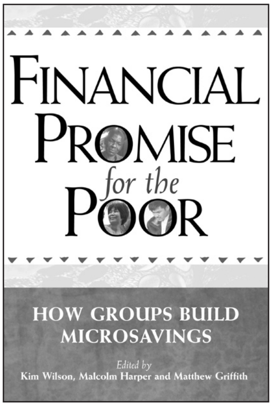
Reviews and resources



Financial Promise for the Poor: How Groups Build Microsavings
Edited by Kim Wilson, Malcolm Harper and Matthew Griffith
2010, Kumarian Press,
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Experience has shown that microfinance organizations and microfinance banks are reaching only a few per cent of the population in most poor countries and especially fail to provide basic financial services to poorer clients and clients living in remoter rural areas. This has generated new interest to find models of financial service delivery that can offer basic services. This book reviews a range of approaches that have been gathering in pace and prominence in the field in the last few years which essentially operate on the model of the accumulating savings and credit association (ASCA) to reach poorer clients that other organizations are not reaching and doing this by lowering costs.

Using indigenous ASCA models to promote microfinance is not new. Indeed, lending to ASCAs was one of the first strategies used in the 1980s. However, the assumption that these groups would have the governance and management skills to administer and distribute the loans to the group members and finally to enforce repayment to the organization was idealized. In many cases the groups did not repay the loans that they had received and the approach was discontinued. In 1995 Fritz Bouman cautioned against intervention in these groups concluding that:

> After 40 years of development aid, we must finally accept that indigenous self-help societies (ROSCAs and ASCAs) have their own ways of helping themselves and their own ideas of what Utopia looks like and at what tempo to get there.

The writers of this book are more optimistic and believe that external intervention can play an important role in improving indigenous ASCAs or promoting them in regions where they do not currently exist. Additionally, many lessons have been learned from past mistakes. While in the 1980s groups borrowed external funds and were supposed to repay them, in the Village Savings and Loan Association model (VSLA) and Managed ASCA model (see Johnson et al., 2002) there is no external funding and loans are generated solely from members' own savings.

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Further, the current models do not expect that the informal groups can undertake the financial management themselves; instead a simple system is proposed and groups trained on it. The promoters of the VSLA and SHG models believe that the training and introduction of new rules that simplify the group operations make them more transparent, lower transaction costs and better ensure that members' savings are safe.

The first part of the book provides background chapters on how indigenous saving and lending operates successfully in indigenous ASCAs without any external intervention. The book then goes on to review a range of experiences of intervention in supporting and training ASCAs. The second part therefore reviews two of the most well-known externally promoted ASCA models, the Villages Savings and Credit Associations and the Indian Self-Help Group model. The third part then presents examples of where the savings group approach has been linked, for example, to mobile-money services (M-Pesa), banks and farmers groups.

Part four presents evaluations of savings group programmes carried out by the organizations supporting them and includes one on WORTH's programme in Nepal that was largely successful, another on Aga Khan groups in Pakistan that was less successful and one from El Salvador which lacked a baseline and therefore, unfortunately, has little basis for assessment. The final part of the book discusses the key questions for this field of microfinance as to whether groups can be trained and managed more cost effectively; whether the savings groups should be linked to other financial service providers and what other functions and wider importance do the groups have to their members.

The programmes reviewed range from a few groups served by an individual to programmes serving 75 million Indians and cover cases from Asia (8), Africa (5) and the Americas (3). Twenty-six authors have contributed and hence, as is to be expected, the chapters vary in quality. The editors retain a balanced view of different experiences and have selected cases that show both the strengths but also many of the challenges that working with these types of group entail.

In particular Kim Wilson has an interesting article on how the savings groups use the M-Pesa mobile money service to improve and strengthen the group operations. The interview with Moira Kristin Eknes, one of the initial developers of the VSLA model, clearly shows how the VSLA methodology was largely developed by experimenting and adapting the model to local conditions. However, from some of the chapters in the book the reader gets the feel that authors believe there is already a universal model of how to promote these groups that can be applied everywhere and the only thing that is lacking is funding. However Zollman, Vanmeenen and Rippey claim that the current ASCA promotion model has to be substantially improved in order to reduce the costs of setting up the groups and increasing outreach. In order to achieve this Zollman and Vanmeenen suggest new business models and Rippey gives ideas of how to reduce the costs of training new groups. But it is disappointing that especially Zollman's and Vanmeenen's article forms a proposal with no evidence as yet as to whether these new business models actually work.

Overall, there are two main weaknesses of the book. First, is the rather surprising lack of detailed financial or other detailed data on group performance (e.g. survival rate of the groups, increase/decrease of savings and loans over time, group income). If these models are a bid to provide basic financial services to those who are not being reached, it is necessary to document clearly both who is being reached and what types of service the groups are actually offering, and whether ultimately those services are indeed keeping members' savings safer than was previously the case.

Second, while comparing the 'indigenous' and externally promoted ASCAs, the editors write:

> these [external intervention] methods are usually better than those of customary systems. Steel boxes with triple lock, formal procedures, simple recording systems that illiterate people can use, total transparency – all these features save time and help to reduce loss and theft.

In several cases these improvements have without doubt improved the performance of the groups. However, this approach is a technocratic one which suggests that it is the technology of locked boxes and book-keeping systems that can overcome what are understood by outsiders as the accountability and transparency failings born of illiteracy. But this is too narrow an understanding as there are a host of other variables besides the number of locks on a metal box that have an impact on the performance of these groups such as education levels of the clients, their wealth and social status, their remoteness and agro-ecological context, the age of the group and its internal social dynamics and whether the groups are still visited by an outside agent. But most of the authors do not discuss the wider dynamics of such factors and only one or two chapters really embed the savings groups into the local conditions – notably Griffith's chapter on the role of savings groups in the livelihoods of East African pastoralists.

This book therefore provides a useful overview of the current state of practice in an expanding field of approaches that is promoting the savings-led model. It usefully highlights the key questions and issues that this field is currently discussing – in particular business models and costs.

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Reference

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