

# Listening To Our Clients & Innovation

## Opportunities and challenges for MFIs



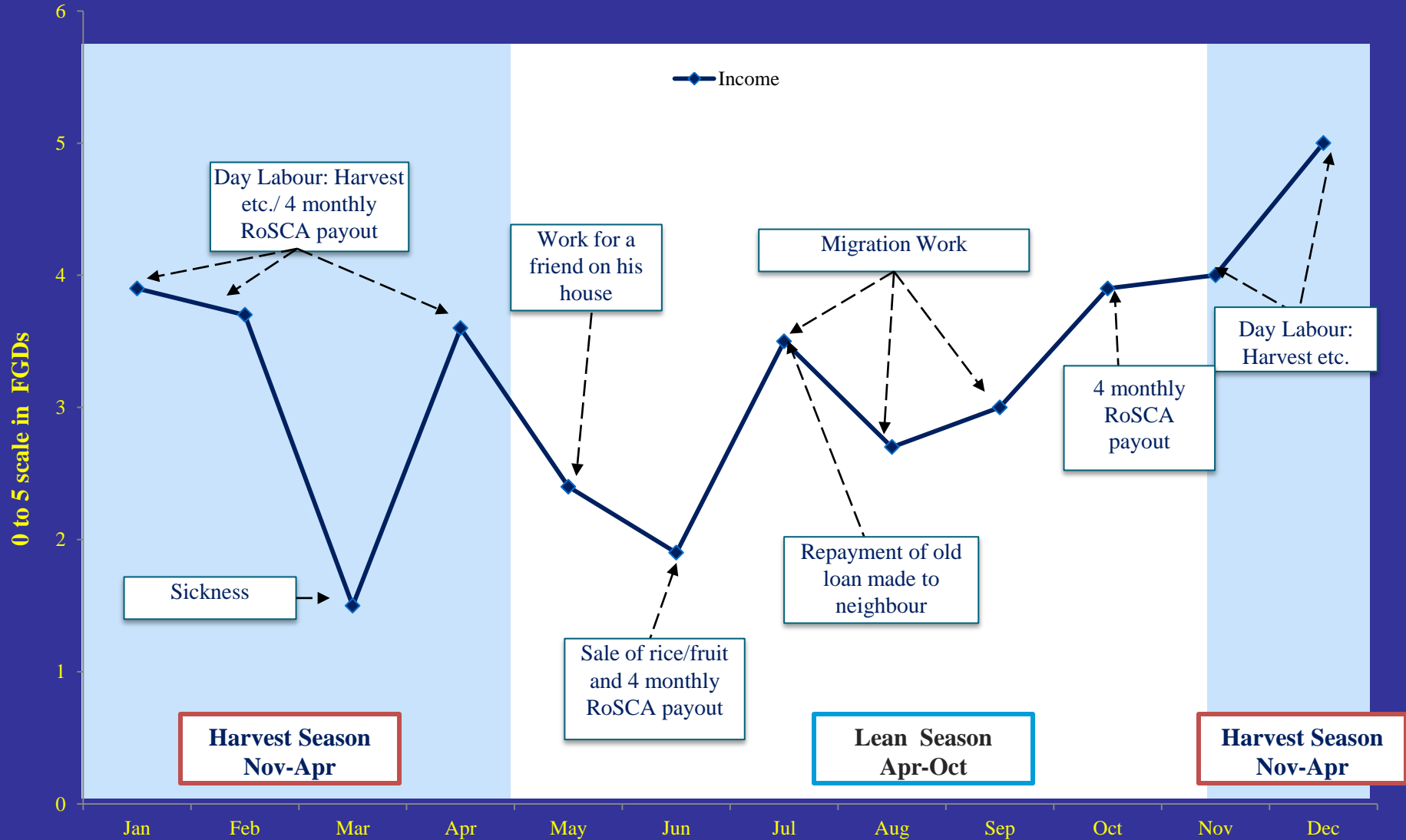
# A Year In The Life ....

(the simplified version)

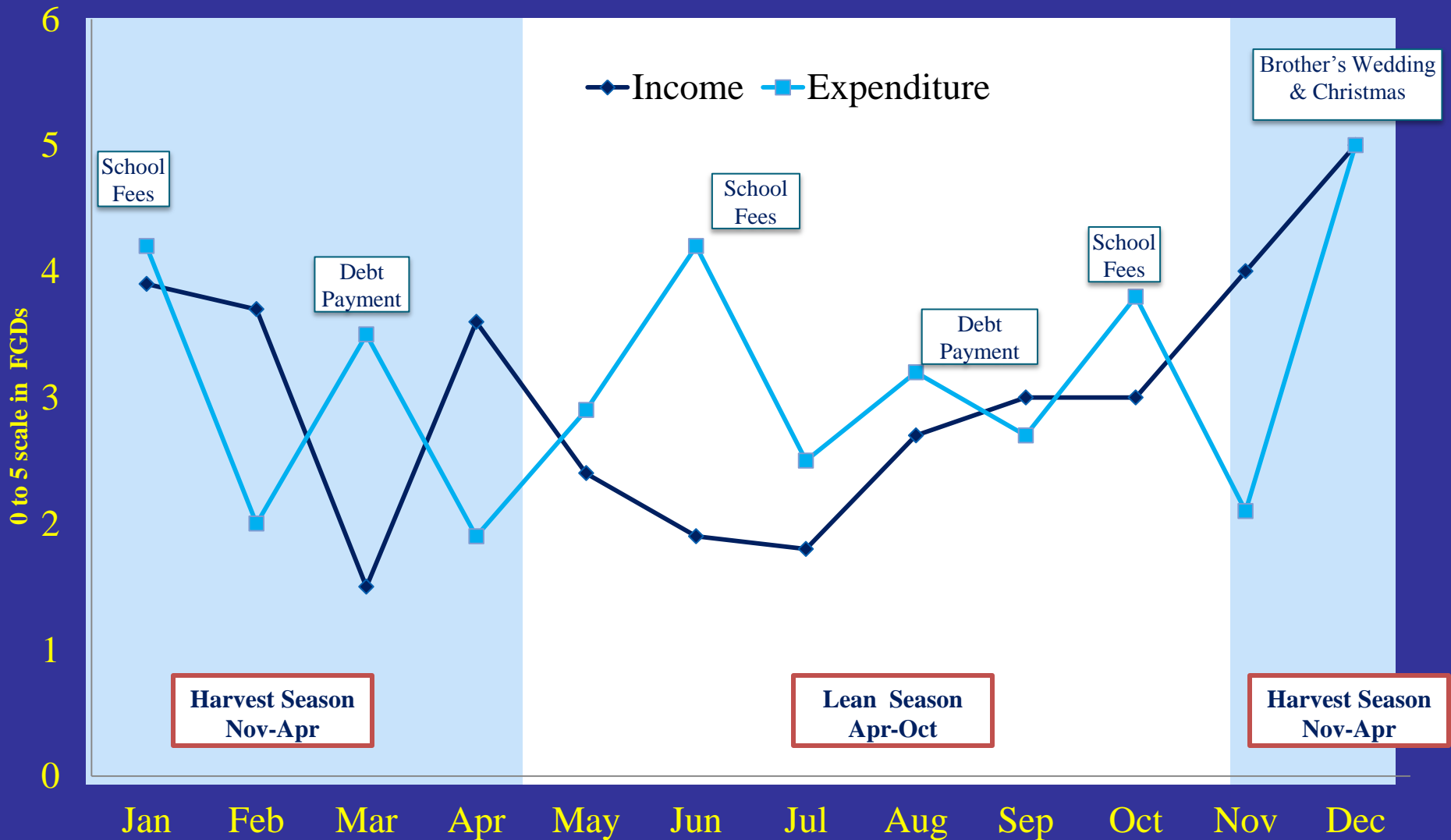
- Lets take a case of Pon and Melodia
- Illustrated using *MicroSave*'s MR4MF seasonality analysis, which traces households'
  - Income
  - Expenditure
  - Loans and
  - Savings over each month of the year.
- Using Participatory Rapid Appraisal tools set in a focus group discussion, thus allowing participants to:
  - ✓ Develop a clear, visual matrix of the different income flows through their households over the year
  - ✓ Rank the amounts on a simple 0-5 scale and move the counters around the matrix as they discuss and refine the financial flows
  - ✓ Discuss extensively, in a well moderated open and enabling environment



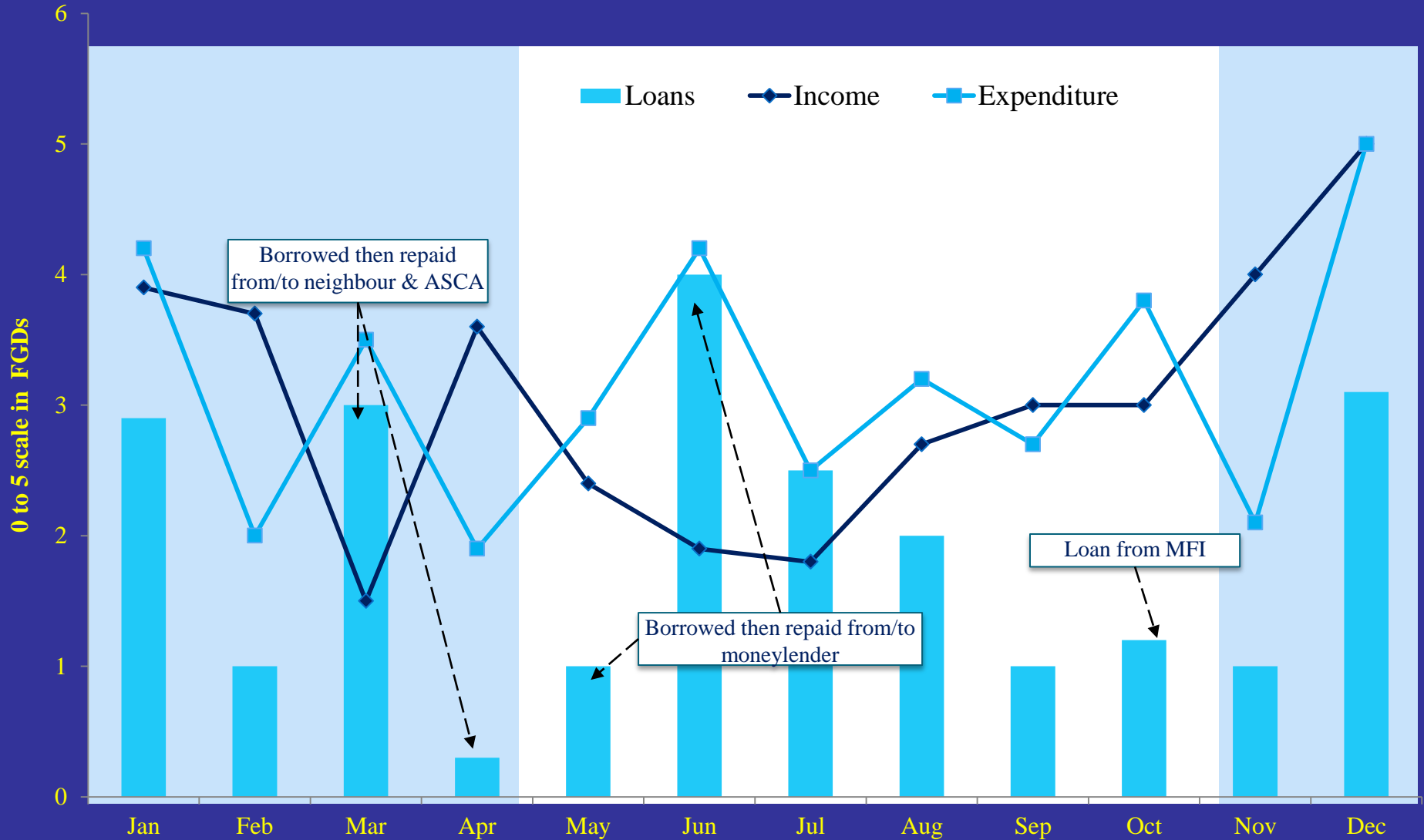
# Income: Low & Unpredictable



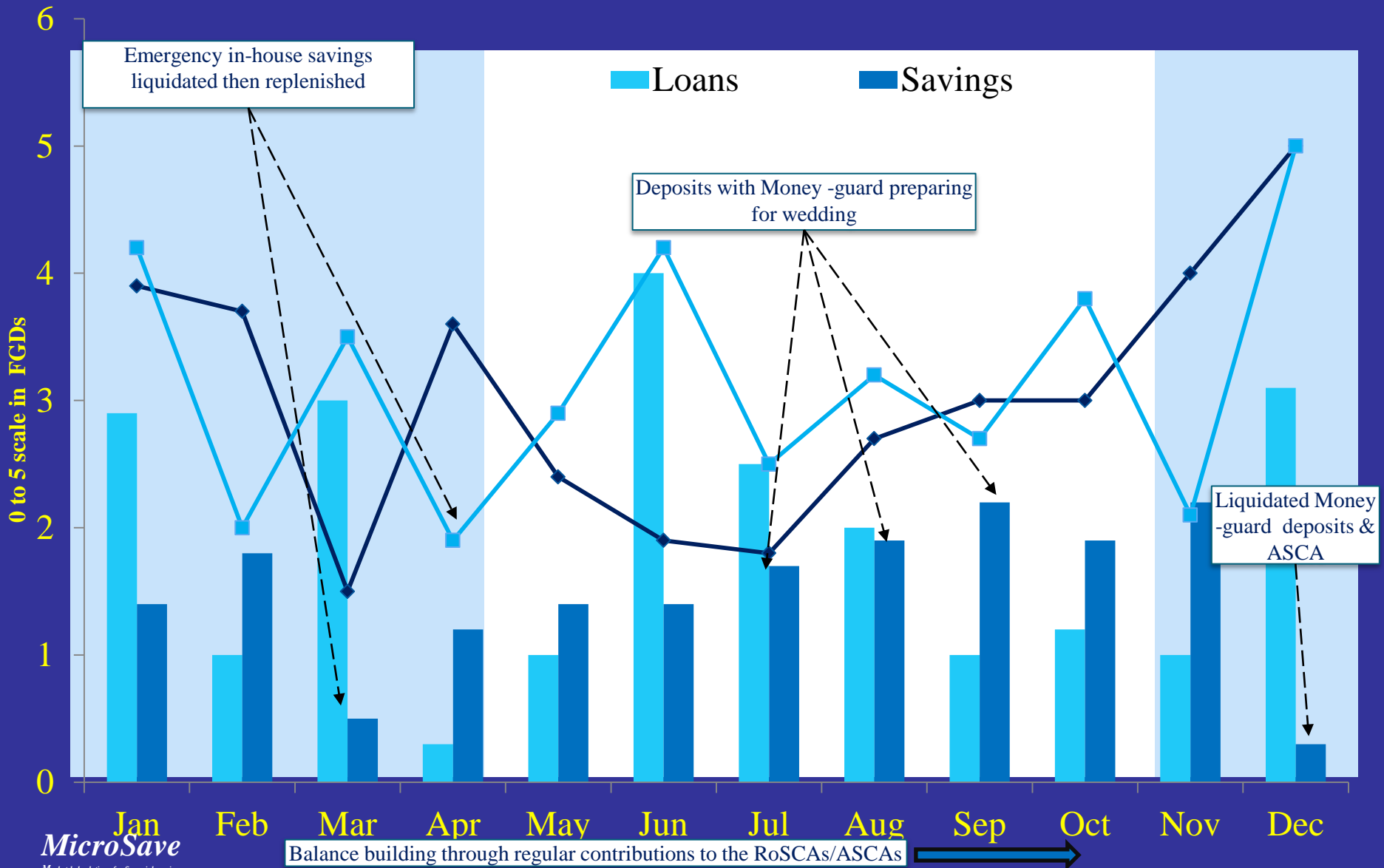
# Expenditure: Some Predictable, Some Not ...



# Loans Outstanding: Smoothing & Managing ...



# Savings Outstanding: More than just Residual ... a Key Strategy



# The Poor Use a Variety of Financial Tools

Financial Tools	How Does the Tool Work?
ROSCAs	Members contribute towards a pool Pool is distributed every 4 months Used by Melodia to pay school fees.
“Christmas Club” ASCA	Members contribute towards a pool Members can borrow from the pool to meet emergencies Melodia borrowed when Pon was ill Pool gets liquidated a week before Christmas every year
Loans to Neighbours	Reciprocal lending – to save by lending To set up obligations for the neighbours to repay/lend in crisis
At Home	Hidden by Melodia in a bamboo pole Kept secret from Pon for emergencies
Money Guard	Regular deposits with a trusted friend Used for brother’s wedding
Advance payments	Advance payment to the caterer for the wedding of Pon’s brother - to keep money out of the house

## Key Findings

- A wide variety of savings and even loan instruments to save
- Each financial tool is linked to a specific need - and has specific sources of income too
- Mostly informal in nature
- Mostly subject to the risk of loss

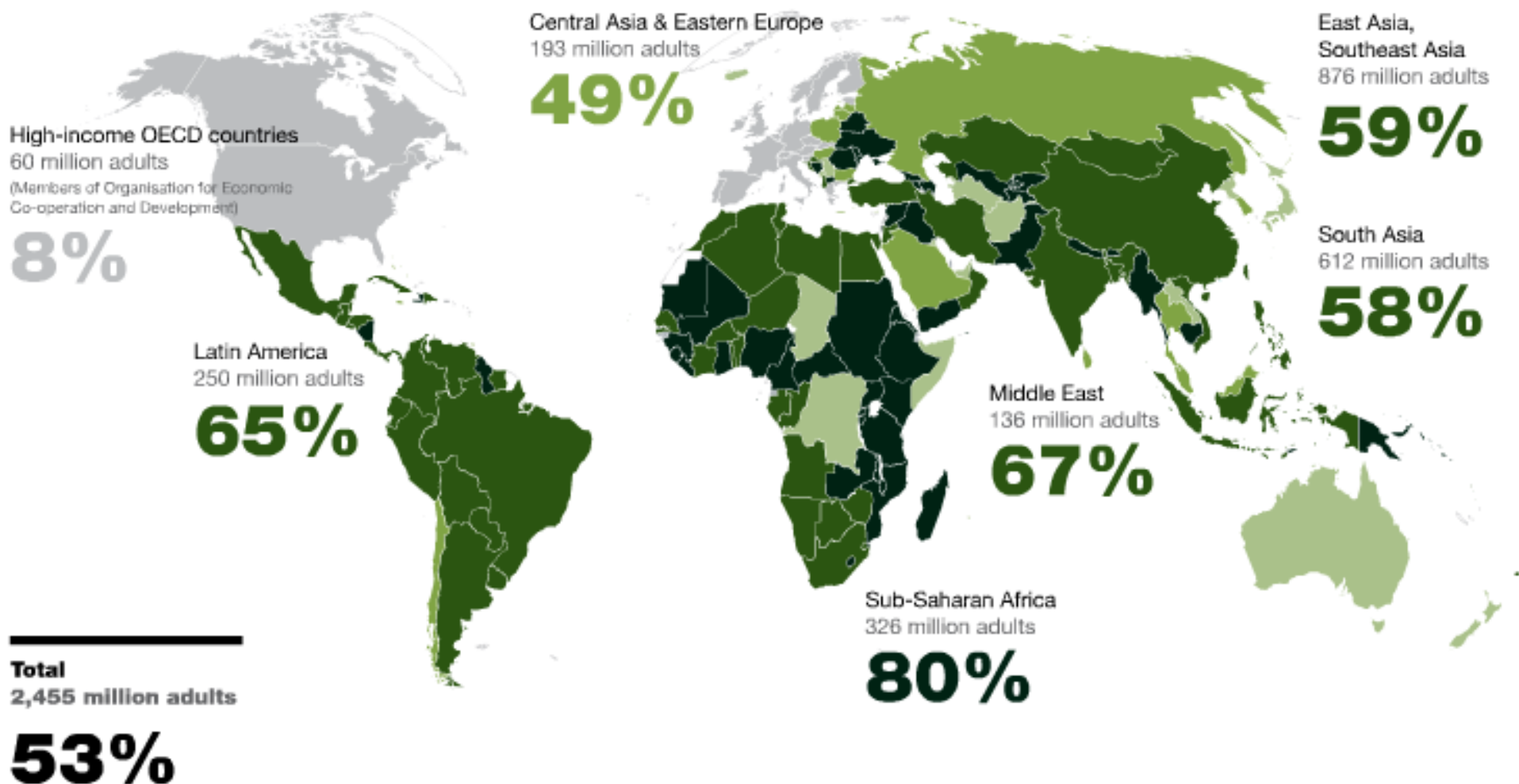


# Melondia & Pon Are Not Alone ...

Percentage of total adult population who do not use formal or semiformal financial services

0-25% 26-50% 51-75% 76-100%

Estimates used to calculate regional averages





# 3 Needs That Drive Financial Activity of Poor

1. **Managing basics:** Cash-flow management to transform irregular income flows into a dependable resource to meet daily needs.
2. **Coping with risk:** Dealing with the emergencies that can derail families with little in reserve.
3. **Raising lump sums:** Seizing opportunities and paying for big-ticket expenses by accumulating usefully large sums of money.



# What Poor People Need

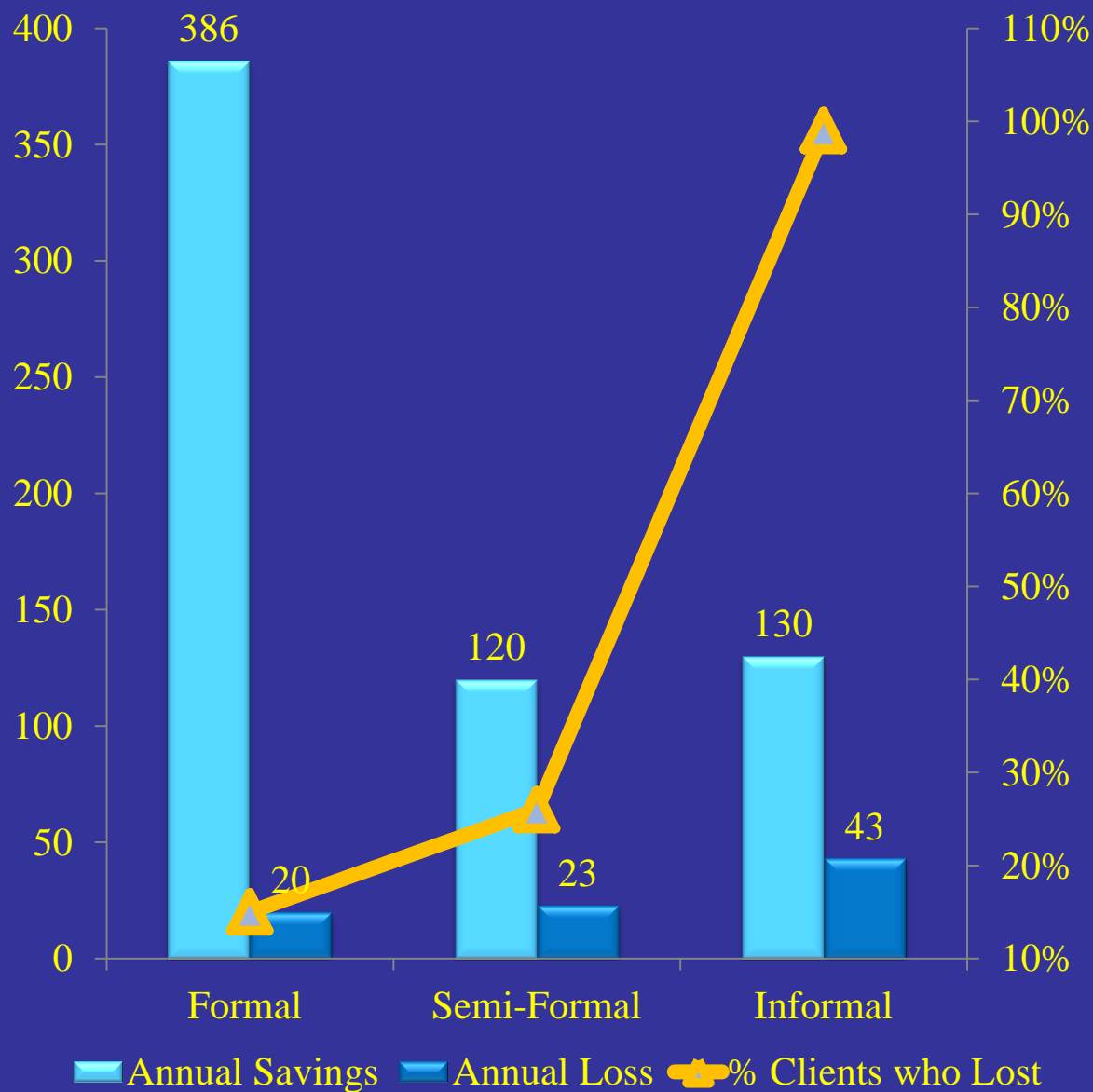
- 1. *Managing basics*:** cash-flow management to transform irregular income flows into a dependable resource to meet daily needs – **in the case of Pon's family to manage school fees and the lean season.**
- 2. *Coping with risk*:** dealing with the emergencies that can derail families with little in reserve – **in the case of Pon's family to manage Pon's sickness.**
- 3. *Raising lump sums*:** seizing opportunities and paying for big-ticket expenses by accumulating usefully large sums of money – **in the case of Pon's family to manage his brother's wedding.**



# Four Factors

1. **Reliability**: promised amount is delivered at the promised time, at the promised place and at the promised price
2. **Convenience**: opportunity to access and repay loans close to home, without having to pay bribes ... and ideally without the requirement to sit in time-consuming groups that enforce obligations to pay defaulters' instalments and savings services that are close to home, quick, unobtrusive and private
3. **Flexibility**: emergency or general purpose loans that are disbursed rapidly are immensely popular
4. **Structure**: becomes important as values rise and term lengths grow, above all in commitment savings plans and longer-term and higher-value loans

# Uganda: Regulation and Relative Risk - 2001



## Key Findings

### *Informal Sector:*

- 99% of clients reportedly lost some of their savings
- On average, they lost 22% of the amount they had saved

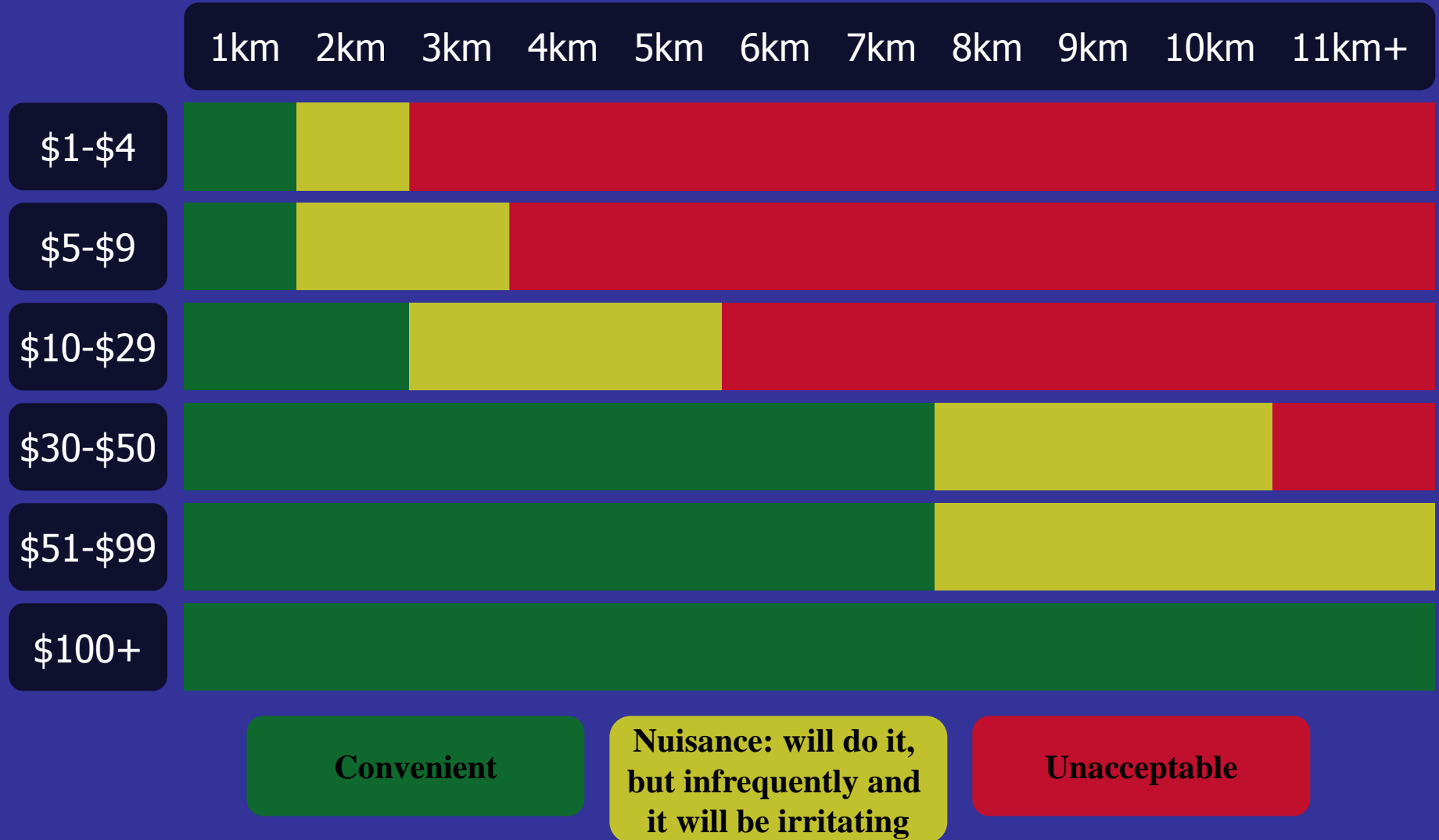
### *Semi-formal Sector:*

- 26% reported that they had lost savings

### *Formal Sector:*

- Unsurprisingly, people reported saving three times as much (\$386) in the last 12 months than semi- and informal sectors
- People reported a lower incidence (15%) of loss and a lower rate (3.5%) of loss in the last year.

# Convenience = Distance/Transaction Value



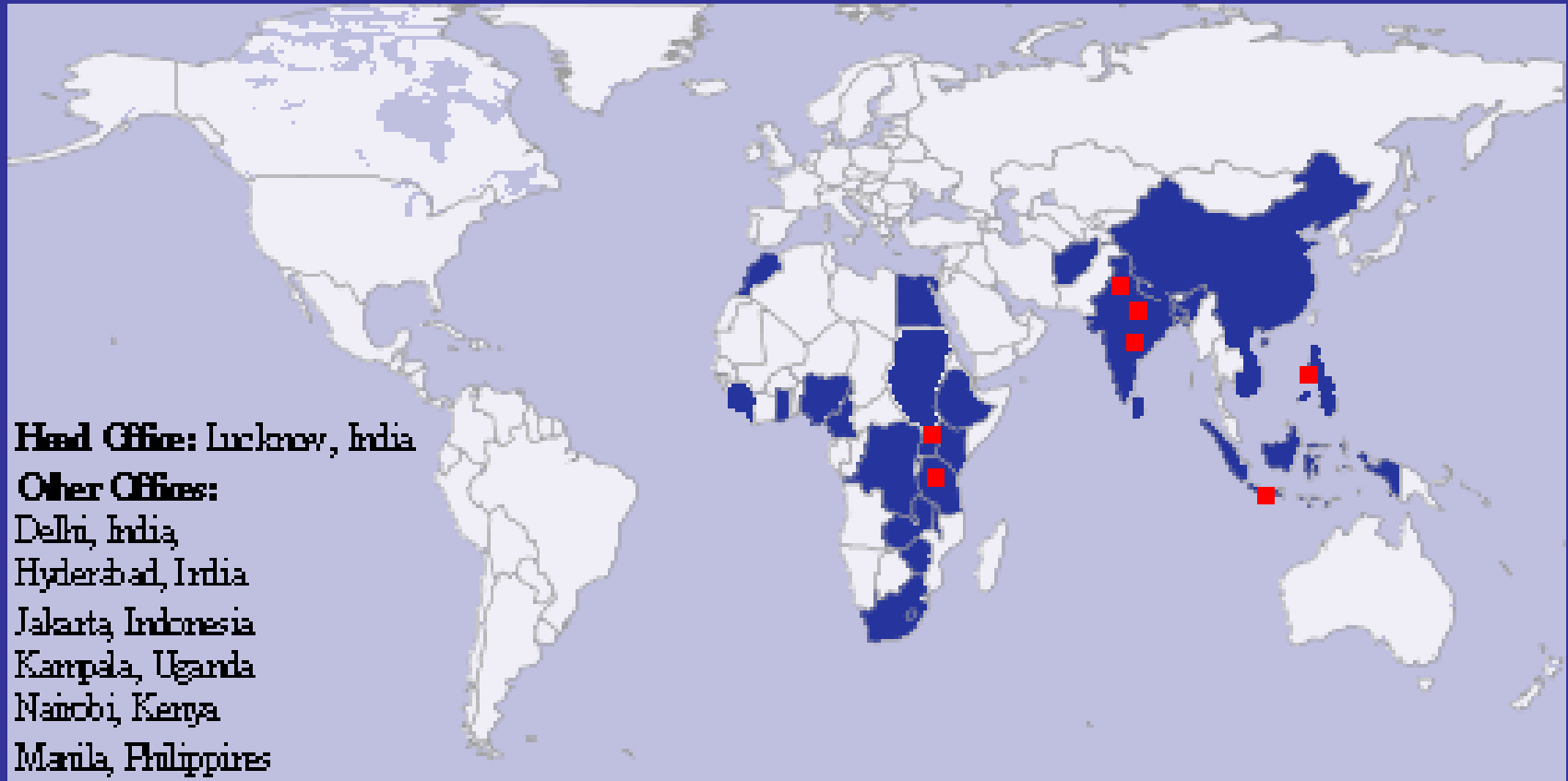
# Poor People Need 3 Basic Types of Services

1. To manage money on a day-to-day basis
  - **Current savings account** into which they can deposit, and from which they can withdraw, conveniently and
  - **Emergency or general loan** that can be taken and repaid quickly
2. To build savings over the longer term
  - **Recurring or commitment savings account** that provides a private, disciplined opportunity to deposit
3. To borrow money for a wide variety purposes
  - Typical **microfinance loan** (without – largely ineffectual - loan utilisation checks ... and ideally without group guarantee)



# *MicroSave*

*Market-led solutions for financial services*



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