Micro Finance and non Financial Services for the Poorest

An interesting document substantially backed up by 'real world' data and information. The findings of the study, in general, are similar to what I have observed elsewhere during the past 15 years or so. This is to be expected anyway.

I wish to raise a few comments and some questions based on my experience with micro finance in developing countries, mainly Asia and the Pacific.

The report under "economic barrier" section says that poor's have a high cost of transportation into their small group meetings which acts as a disincentive. In theory, this may be true but the way we have worked through this problem is organizing groups of poorest people within close proximity to where they live. This is not only cost effective for them to attend meetings but also is more comfortable for members in their own environment than outside.

It is almost a theory that the micro finance service for the poorest begins with savings. At the outset, there was a feeling that poor members can't save anything and this may not work. However, within few months, they couldn't believe the amount saved by themselves through working on a range of strategies listed elsewhere in this note. The main strategy has been small scale income generation activities (IGAs). Another principle that we have agreed is NOT to suggest (or rather not practical to suggest!) the poorest to save unless new sources of income is trickling into the community. In fact, the programmes that I'm familiar with developed and used a range of IGAs to begin with. This was done before the idea of savings was suggested to the group. On the same boat, I'm rather surprised that none of the micro finance service providers in the study have explicitly recognized the importance of IGAs to facilitate savings by the poorest. Only 2 providers in the study have mentioned "skills training in IGA" which is just a small component of the IGA. Where I'm coming from is that the poorest need so many other services such as awareness, information, mentoring, identify actual activities, work together with, etc. in addition to training before they adopt IGA.

I agree that micro finance is just one of the packages to reduce poverty. We should not separate it from other components in the poverty reduction package; in fact, the poverty reduction package consists of a range of options and activities closely integrated. It is the entire package which helps reduce poverty rather than any specific activity, say micro finance.

The method of targeting that we have used with the poorest is "participatory poverty assessment". This includes processes such as the poorest define poverty indicators as they perceive, they make an assessment of poverty and make modifications to help the poorest by deviating from 'group norms'. An example is seed capital contribution for IGA which is one-half for the poorest while other poor members contribute the full amount agreed by the group. This is an interesting finding from the initial results of Sri Lanka Australia Natural Resource Management Project, the purpose of which is to reduce poverty through improved natural resource management. I've found this strategy works well with the

poorest. I'm rather surprised none of the micro finance service providers in your sample have explicitly suggested poverty analysis as a strategy.
Mandatory group meetings are a must! The group must meet with each other, share their views and concerns. The practical way forward is to be physically close to each other. The group may not discuss their micro finance arrangements initially but only social, self help, group solidarity and welfare needs which are essential before they embark on micro finance activities.

The range of non financial related services which the groups we have facilitated utilized a several some of which are listed below:

- Make use of the indigenous 'income savings' measures e.g. rice saving, coin a day, etc.
- Convince local government agencies to provide government's relief assistance e.g. emergency drought assistance monetary payments, to the poorest working on group micro finance programmes
- Organising poorest groups to prepare food, refreshments, etc. for village meetings paid for by a sponsor into the group fund
- Encourage savings from government relief work
- Explore opportunities to generate cash from anything available locally after some value addition. E.g. cashew peeling by poorest women for a business outside the community.

We do not give 100% grant funds for any activity! Some contribution from including the poorest is our norm. One hundred percent grants, we have found as an disincentive for micro finance programmes.

In dealing with the micro finance for the poorest, group approach is a must. This is yet another finding of micro finance with the poorest.

Higher transaction cost in lending to the poorest is mentioned in the report. This is a good finding in our programmes as well. In the case of the poorest, the service provider may have to work for longer durations and much closer to than would with non poor. This is definitely a higher cost to service provider who is running a business. We can't expect service provider to offer the service for the poorest at own expense which in any case is much higher than with the poor or the non-poor!. This is an important issue raised under the "organizational features" section of the report. In one of my experiments, two service providers pulled out partly because they could not absorb by themselves the higher transaction costs in providing service to the poorest. What I do not read in the report is suggestions by service providers to reduce high cost! In some of the programmes that I have worked with, part of the service provider's cost in reaching out to the poorest was subsidized.

Working with the poorest on micro finance, I can't think about enterprises (as discussed in the report) at least in the initial phases. What is more practical with this group of people is IGAs which again is not highlighted in the report as compared with ‘enterprises’ is. The micro finance programmes I’ve worked with enter into enterprises only in year four or five, depending on the capacity of the poor people. In the early years, the entire energy is focused on IGA. This finding is corroborated by the Bangalore (in India) based ‘enterprise training initiative’ which is working with some of the poorest.