UMM Workshop Report

by the e-MFP Action Group
University Meets Microfinance

Rural Finance & Savings

6th University Meets Microfinance Workshop
University of Groningen, 17-18 June 2011

ABOUT UNIVERSITY MEETS MICROFINANCE

University Meets Microfinance (UMM) is a programme which fosters cooperation between university students in Europe and microfinance practitioners. UMM was launched by PlaNet Finance and the Freie Universität Berlin and is co-funded by the European Commission within the framework of its Education for Development Programme until 2011.

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ABOUT PLANET FINANCE

PlaNet Finance‘s mission is to help poor people develop income generating activities, in order to sustainably improve their living conditions. PlaNet Finance has a worldwide network of 122 experts and is active in about 50 countries. It offers advisory services and technical assistance to microfinance actors so as to improve their financial and social performance as well as supporting microentrepreneurs in their endeavours. PlaNet Finance also contributes to the improvement of knowledge and spreading of good practices in microfinance. PlaNet Finance is member of the PlaNet Finance Group.

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ABOUT EUROPEAN MICROFINANCE PLATFORM

The European Microfinance Platform [e-MFP] was founded formally in 2006. e-MFP is a growing network of over 130 organisations and individuals active in the area of microfinance. Its principal objective is to promote co-operation amongst European microfinance bodies working in developing countries, by facilitating communication and the exchange of information. It is a multi-stakeholder organisation representative of the European microfinance community. e-MFP members include banks, financial institutions, government agencies, NGOs, consultancy firms, researchers and universities. e-MFP’s vision is to become the microfinance focal point in Europe linking with the South through its members.

www.e-mfp.eu

The sixth University Meets Microfinance workshop on “Rural Finance” and “Savings” took place at University of Groningen on June 17th to 18th 2011. This workshop was organized in close cooperation with:

university of groningen

Thanks to the participation of:
Prof. (em.) Dr. Hans Dieter Seibel, University of Cologne; Prof. Dr. Paul Mosley, University of Sheffield; Philippe Guichandut, Grameen Crédit Agricole Microfinance Foundation; Dott. Davide Castelliani, State University of Bergamo; Prof. Marek Hudon, Université Libre de Bruxelles; Marie-Anne de Villepin, BNP Paribas

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GRAND DUCHY OF LUXEMBOURG
Ministry of Foreign Affairs
Cooperation and Development Department

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Foreword from the European Microfinance Platform (e-MFP)

The European Microfinance Platform (e-MFP) is pleased to present the latest workshop report in the "University Meets Microfinance (UMM) Action Group Series". This issue focuses on the output of the UMM Workshop on rural finance and savings, two of microfinance's current key issues. The workshop was held in June 2011 in the framework of the "Second European Research Conference on Microfinance", co-organised by the e-MFP and hosted by the University of Groningen.

e-MFP is a growing network of over 130 organisations and individuals active in the area of microfinance and its members include banks, financial institutions, government agencies, NGOs, consultancy firms, researchers and universities. Our principal objective is to promote co-operation amongst European microfinance bodies working in developing countries, by facilitating communication and the exchange of information.

e-MFP's Action Groups promote joint initiatives and cooperation between European actors on specific topics. The main objective is to improve and multiply coordinated activities between microfinance actors which in turn contributes to the development of the whole microfinance sector.

Since its inception, the European Microfinance Platform has prioritized the role of research as an essential component for the development of good and sustainable microfinance practices. The UMM Action Group was established to enhance exchange and cooperation between microfinance practitioners and talented students from universities across Europe.

UMM workshops provide students with the opportunity to present the outcome of their research, discuss their ideas with academics and practitioners and contribute to current debates. Practitioners get exposure to cutting-edge research and meet talented, future young professionals, academics and other microfinance experts.

We thank all the experts involved in this project for their valuable contributions to the publication and invite you to explore the latest findings to stimulate further reflection and encourage additional research in microfinance.

Best wishes,

Christoph Pausch, e-MFP Executive Secretary

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Prof. (em.) Dr. Hans Dieter Seibel, University of Cologne, Development Research Center
Katja Kirchstein, Freie Universität Berlin/PlaNet Finance Deutschland e.V.

Savings is (still) the forgotten half of rural finance.

Robert Vogel noted in a 1984 article that savings mobilization was the forgotten half of rural finance; little has changed in that respect. Savings matter, not exclusively, but perhaps more urgently in rural and marginal areas. Credit granting institutions successfully reached ever larger parts of unbanked populations. Yet, critics point out that "microdebt" often failed to promote self-sustainable economic development and poverty reduction. A sole focus on the provision of microcredit can lead to vicious dependencies for both microfinance institutions and their clients. For example, small-scale farmers who cannot deposit their income from harvests may be forced to take a credit in the next agricultural production cycle in order to finance seeds and fertilizers. Furthermore, farmers might be severely restricted to cope with risks arising from irregular income flows. Microcredit institutions, on the other hand, mostly not authorized to collect savings, cannot mobilize own resources and therefore remain dependent on governmental and international funds.

36 participants from 13 universities and 11 practitioners' organizations participated at the 6th UMM Workshop.

The 6th "University Meets Microfinance" (UMM) workshop addressed the interrelated topics of "Rural Finance" and "Savings". It was organized in cooperation with the European Microfinance Platform (e-MFP) as parallel sessions at the "Second European Research Conference on Microfinance" from June 17 to June 18, 2011. The workshop gathered 36 participants from 13 universities and 11 practitioners' organizations. The following workshop publication contains four articles written by students who presented their research findings about savings mobilization and the financial needs of rural low-income populations. Kristina Czura raises the question whether migration and microcredit serve as a coping strategy to deal with adverse income shocks as a result of natural disasters. By studying the financial behavior of poor households in the Northern Indian state of Bihar after it was hit by a flood, she finds that informal credits primarily served as means to smoothen consumption pointing towards the potential of adapted formal financial services (like emergency loans) to supplement risk mitigation strategies of the rural poor. The article is commented on by Dott. Davide Castilliani from the State University of Bergamo who further addresses the potential challenges microfinance institutions may face when their clients are hit by idiosyncratic shocks. The focus of the research conducted by Matteo Marinangeli in the Dhaka Slums in Bangladesh lies in analyzing the savings patterns of poor women. He finds that the majority of women interviewed had a strong propensity to save, primarily in order to dispose of the necessary cash in situations of emergency but also to build up lump sums. They do so by providing a wide range of savings devices, traditional piggy banks being the most common instrument. Dr. Christiane Ströh de Martínez commented on the article focusing on the financial needs of poor microfinance clients and the advantages of deposit taking for MFIs. Jacqueline Stenga also addresses the savings behavior of low-income households. Furthermore, studying the case of Tajikistan, she discusses the challenges microfinance institutions face when offering savings accounts. Finally, Ngoc Anh Nguyen provides insights into the value chain financing approach with the example of Vietnamese poultry production. She stresses the importance of considering whole value chains in designing adapted financial services in order to foster sustainable development of the agricultural sector. Philippe Guichandut from Grameen Crédit Agricole Microfinance Foundation, who commented on Ngoc's contribution, found it particularly interesting that services to cope with risks in the production cycle rather than access to markets, was considered important by small-scale hatchery households and slaughterhouses. He stresses the immediate practical relevance for microfinance service providers in creating adapted financial products. This workshop publication sheds light on the topic of rural finance and savings from different angles, yet, having a common goal: the satisfaction of financial needs beyond the classical entrepreneurial credit.

Low-income households and entrepreneurs need adapted financial services to cope with shocks.

We hope you will enjoy reading it!

2. Informal Finance as Coping Mechanisms in Dealing with Floods – Evidence from North India

Kristina Czura
(Goethe Universität Frankfurt)

1. Introduction and Related Literature

Over the last two decades a body of research on the vulnerability of the poor has accumulated in development economics. Policy makers and researchers alike increasingly recognize that in addition to the level of household income at a given point in time, the ability or inability to cope with income shocks, matters for the welfare of the poor.

Since Morduch (1995) identified consumption smoothing by insurance and credit as a coping mechanism for risk, there has been plenty of research on insurance and consumption smoothing in response to shocks. Townsend's (1994) seminal study on mutual insurance and consumption smoothing in response to income shocks using household survey data has led to further work on particular mechanisms through which households insure or smooth consumption. Both formal and informal credit have been identified as important mechanisms in dealing with idiosyncratic shocks. (e.g. Eswaran & Kotwal (1989), Udry (1990), Udry (1994), Gertler et.al. (2002), Skoufias (2003)). Further, access to credit has been identified to reduce the use of other coping mechanisms like child labor and reduction of educational attainment in face of negative income shocks (e.g. Jacoby & Skoufias (1997), Beegle et.al. (2006), Guarcello et.al. (2009)).

There is, however, little research on how households cope with large aggregate shocks, like natural disasters, and what role credit plays in this context. A few studies elicit a substitution effect of other coping mechanisms like child labor or educational attainment and credit in the face of aggregate shocks for credit constrained households (e.g. Jacoby & Skoufias (1997), Gitter & Barham (2007)). Sawada & Shimizutani (2007) and Sawada (2008) find direct evidence for consumption smoothing after the Kobe earthquake for households having access to credit compared to credit constrained households. Nevertheless, there is little evidence on the direct use of credit as insurance against aggregate shocks in the literature. Notable contributions of Del Ninno et.al. (2003) and Khandker (2007) are based on the 1998 flood in Bangladesh, and find that household borrowing, especially informal credit and micro credit, played a major role for consumption smoothing in the face of this shock. Also studying floods in Bangladesh, Shoji (2010) analyzes how households manage to maintain nutritional intake levels after being affected by floods and he shows that households with access to credit can keep their pre-flood consumption level and level of nutritional intake. Czura & Klonner (2011) analyze the effects of the Indian Ocean Tsunami on Roscas (Rotating Savings and Credit Associations), an important segment of the South Indian financial sector, in Tamil Nadu, South India. They show that the demand for funds provided by Roscas increased after the Tsunami and they conclude that those funds were actually used to cope with the consequences of the Tsunami.

2. Research project and its contribution

This research project contributes to the literature by investigating how people cope with natural disasters, floods in particular, in the Northern Indian state of Bihar. We look in detail into adverse income shocks that households face, in particular following floods that are very common in the state of Bihar. Specifically, we study migration and credit as coping strategies applied presently and what role micro credit can potentially take on in dealing with consequences of such natural disasters.

Empirical Strategy

The river Koshi coming from the Himalaya in Nepal flows through Supaul district and causes yearly flooding after the monsoon season. In order to prevent damage from the regular recurring floods, in the 1950s the Indian government constructed an embankment around the course of the river to restrict the flooding. For empirical identification in this cross-section setting we study households from three different locations within Supaul district of Bihar that are differently affected by floods. The first two groups are located close to the embankment of the Koshi river. The first group consists of urban, semi-urban and rural microfinance clients who live close to, but outside the embankment borders. They are not directly affected by the floods. However, a substantial part of the households own land inside the embankment that is used for agricultural activities. Additionally, they are affected by rising ground water levels in times of flooding. The second group is composed of people living inside the embankment. When the embankment was established villages were locked inside the embankment. Some households received small land parcels outside the embankment as government compensation. Those villages inside the embankment face yearly recurring flooding. The third group studied constitutes households that have been affected by the severe flood in 2008 during which land strips were flooded after a breach in the embankment. This flood zone of the 2008 flood has not been affected by floods ever since the establishment of the embankment in the 1950s.

Data Collection

Household data of 400 households was collected in April 2011 in Supaul district in Bihar, North India. The three distinct groups will allow for empirical identification in the cross-section data. Data is collected on household members and social characteristics, consumption, income generating activities, health and shock events, migration and credit. Information collected on shock events is very detailed, with information on type and severity of shock, recovery period, applied coping mechanisms and financing sources. The credit section elicits detailed information from funds borrowed from various formal and informal sources. This detailed information will allow us to match household information on shocks, credit and migration. Additionally, we will combine this in later analyses with geophysical information on flood levels during the severe flood in 2008.

The data will show the different adverse shocks households across the three different groups face, coping mechanisms they employ in dealing with those shocks, and financial constraints present. It is of special interest how households that regularly face floods cope with them compared to households that were unexpectedly affected by a flood and whether households that regularly face floods have incorporated income diversification strategies or ex ante coping strategies.

The study is conducted in cooperation with Gramyasheel Microfinance. Gramyasheel Microfinance is a start-up microfinance institution that evolved from the NGO Gramyasheel which has been active in flood and disaster management in Supaul district for over 20 years.

3. Preliminary Findings

Household Income and Financing Sources

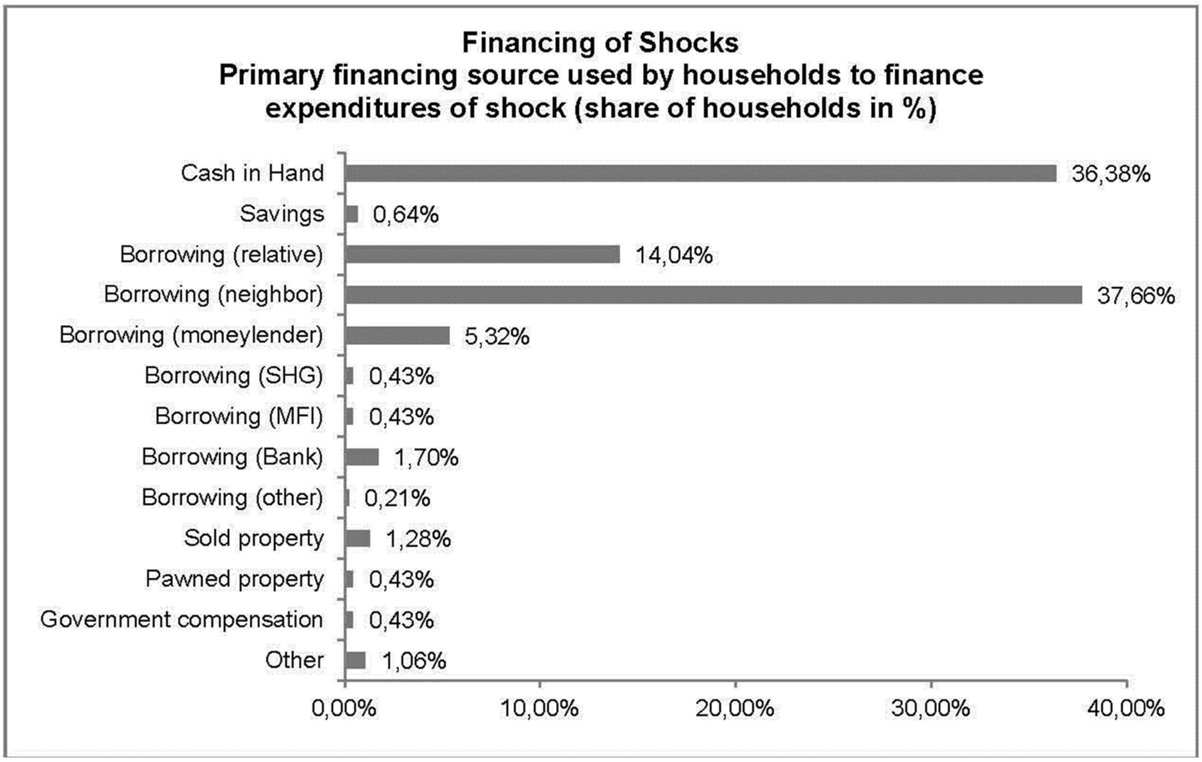
Households obtain income from various different sources. Agriculture is a main income source for households in the embankment area (61.64%). The majority of households in the flood zone earn income from wages and salaries (72.22%). The majority of the urban MFI clients earn income from a household business (84.32%). Most households earn income from two or three different income sources. The average household income for all households is 40.888 INR (around 650€) per year. The average annual household income of the microfinance clients with 51.787 INR is the highest, whereas households in the flood zone earn the lowest annual income of 25.216 INR on average. However, this income calculation only considers in-cash income and disregards any self-subsistence activities or in-kind earning. Later analyses will take different income measures into consideration.

Households borrow money from various, mostly informal sources. In total, the majority of households borrowed from family and friends (55.03%). Borrowing from credit cooperatives, SHG, NGOs or MFIs is nearly exclusively driven by the microfinance clients of group 1. Households in the embankment area and the flood zone particularly rely extensively on borrowing from informal sources such as family and friends (66% for embankment group and 83.17% for flood zone group) and employer and landlord (4.04% embankment group and 10.89% flood zone group). These differences are likely to be due to different supply of borrowing sources across the three groups. To our knowledge there is for example no MFI that is offering microfinancial services in the embankment area or in the flood zone.

Shocks, Coping Mechanisms and Financing Sources

Since we are interested in the ways households are coping with adverse income shocks, how they finance the expenditures of income shocks and what role microfinance could potentially play, we look at the adverse income shocks households in our sample face. The most important adverse income shocks households in the total sample faced in the last five years are flooding (50.99%), death of a household member (14.68%), heavy rain fall (14.48%) and drought (12.30%). Microfinance clients in urban Supaul area are mostly confronted with death of a household member (51.95%) whereas for households in the embankment and the flood zone flooding is the major shock (80.43% for embankment area and 43.70%

for flood zone).
Given the high share of households earning income from agricultural activities those weather shocks will likely have a high impact on the households' income and wealth. On average households lost 31.945 INR due to shock events. Comparing this number to the average household income of 40.888 INR stresses the alarming vulnerability households face due to adverse income shocks. Households stated that houses (45.24%), assets (46.63%), crops (56.94%) and grains (37.90%) were damaged or destroyed in the shock events. 73.04% of households also stated that they had to reduce their consumption in response to the shock.
Households were asked for various possible coping mechanisms they applied in order to deal with the shock they have faced. Most households stated that they increased labor in their existing job (62.32%) or used own labor to rebuild destroyed assets (41.14%). Also a big share (44.81%) stated to have used savings, cash in hand or borrowing in order to cope with the consequences of the shock event. The following figure shows the first financing source household stated to have used to finance coping with the shock. 37.66% borrowed from neighbors, 36.38% used cash in hand, and 14.04% borrowed from relatives to finance their coping strategies.



But not all households had the possibility to borrow from formal or semi-formal sources. 18.72% of households even stated that they tried to borrow to cope with the event and were refused. Additionally, 68.12% stated that they would have borrowed if they had the possibility to borrow.

4. Conclusion

Formal and informal credit have been identified as coping mechanisms for adverse income shocks. In our research project we looked into adverse income shocks, especially flooding, and which coping mechanisms households in North India apply to deal with the consequences. We found that households are exposed to severe negative income shocks with average amounts lost due to shocks comparable to average annual income of households. Additionally, we also observed that most households only relied on informal financing sources such as family, friends, neighbors and other relatives. Those findings already indicate the lack of access to financing sources especially after adverse income shocks.
This is just the very first step of the analysis. In the next steps of the analysis, we will take a closer look at differences in shocks and coping mechanisms applied across the three distinct groups of households interviewed. There seems to be a lack of financing sources especially in face of shocks and consequently a potential for microfinance to close this gap.

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Comment by Dott. Davide Castelliani – State University of Bergamo

Floods are recurring disasters that hit many developing countries. A flood is a high-intensity disaster that affects both the economic activities and the physical assets and infrastructure of a country. By being a systemic shock, indigenous financial and non-financial organizations barely offer effective management and coping strategies. Also the traditional self coping strategy of selling personal assets, such as livestock, is difficult to carry out in a market where many households want to sell but few are willing to buy. Most of the local clients of microfinance institutions come from the affected population. Those clients are characterized by a reduced level of assets that implies a lower ability to repay outstanding and new loans. Besides wealth effects, a systemic shock can spark opportunistic behaviors. As many clients are affected and therefore the cost of monitoring and assessment for the MFI is significantly higher than before, some clients may avail themselves of the opportunity and default despite their ability to repay. This problem is more prominent and evident within loan groups. Within this framework, how can MFIs survive and continue to be able to provide financial services to clients hit by a flood? Which financial products would be more appropriate for clients to weather a natural systemic shock? From the client's perspective, several strategies can be promoted but they can imply a cost for the MFI or any external or government organizations. These strategies can comprise the setting up of a flood alert system, the carrying out of awareness campaigns, the promotion and subsidization of flood resistant shelters, and many other activities and projects. Balancing costs and future benefits is a necessary task. From the MFI's perspective, other strategies can be implemented. Being a financial institution, an MFI is, by default, an aggregator of idiosyncratic risks but where defaults are highly correlated, that is when a systemic shock occurs, the MFI's capacity to diversify fails to work. It follows that a systemic risk in the loan portfolio is to be diversified in markets located outside the local economy, either in markets within the same country or in international markets. Access to many advanced financial innovations that allow the efficient transfer of risk is however a privilege of high-income and some few medium-income countries. Nonetheless, some advances also in the microfinance sector have been made over the last years but most of them have remained pilot projects. These advances include index-based insurance schemes or reinsurance agreements. A more common strategy is geographical diversification of portfolio, across several rural areas, or between urban and rural areas. Yet for many small MFIs, with branches located in circumscribed areas, geographical diversification strategies are not feasible. Finally, other strategies can be the mobilization of savings and remittances or the rescheduling of defaulting loans. Kristina's work is going in this direction - looking in particular into financial products. She is wondering if it would be possible to set up an emergency loans scheme in one region of Northern India. The idea is to provide loans contingent on the occurrence of floods, a strategy that has seemed to work out well in Bangladesh. Emergency loans should theoretically provide funding to clients to help recover their repayment capacity and ultimately to also be able to repay previous loans. Kristina started out with a wide survey of households that live in three different areas of the region with respect to where the river is located: outside the embankment, within the embankment and households badly effected by 2008 flood. The survey allowed the collection of financial and social-economic data. Her work is still preliminary. However, she tried to draw some preliminary conclusions from an analysis of households' financial behaviors. She suggests that most households seem to resort only to informal financing sources such as family, friends, neighbors and other relatives. She considers that those findings point to an existing shortage of financing sources especially after adverse income shocks.

Natural disasters often affect the repayment capacity of small-scale borrowers, yet, they also might induce moral hazard.

System shocks present a serious challenge for Microfinance Institutions' sustainability.

3. Can the Poor Save More? Evidence from Dhaka Slums

Matteo Marinangeli
(Marche Polytechnic University)

Savings: Hardest Option for a Better Future

If you live in a Dhaka slum with less than $2 per day, your income is not just small, it is irregular and unreliable as well. Most of it is quickly spent in essentials, and for anything other than essentials you just do not have cash. Thus when you cannot buy the course of antibiotics for your daughter's illness or repair your roof after heavy rainfall, you must find a way to use money from past income or future income: in other words, you need financial services (Rutherford 2001). Using past income means withdrawing savings; while accessing future income is taking a loan.

Based on the assumption that the poor cannot save, microfinance institutions originally offered only microloans - a way to use money from future income. Microcredit has worked as a "visible hand" promoting self-employment and income generating activities (Stallings 1999). Alternatively, since the early days of microcredit, an influential group of rural financial specialists has argued that the priority should go to help poor households save (Adams 1978). Nevertheless, for many years, savings has been always considered as a mere collateral activity linked to outstanding microloans. Only recently, the lack of savings devices came into the limelight thanks to relevant field experiments (Dupas, Robinson 2009).

Not all the poor need credit (Karlan 2011), because not all the poor are "budding entrepreneurs" (Johnson, Kidder 1999). If you live in a Dhaka slum, it is more probable that you are a salaried worker with an unstable job or a daily wheeler dealer with no fixed business. Thus, Dhaka slums offer few opportunities to change your life for better with a microloan, and many more unexpected perils that may change your life for the worst. Evidences from Dhaka's slums (Rutherford 2001 – Collins, Morduch, Rutherford 2009) confirm that the urban poor need further financial tools to move excess liquidity from the present to the future. Savings are essential because the poor need to spend large sums to face life-cycle needs, emergencies and investment opportunities. The huge demand of savings devices in Dhaka is still unsatisfied. There are esentially two reasons: first, most of Dhaka's MFIs are not allowed to collect public savings and they are still using the classic groups lending's methodology; second, collecting savings means paying interest and paying interest damages the economic sustainability of non-profit institutions. Not by accident, the most important experience in innovative microfinance that offers voluntary and flexible savings devices is SafeSave[1], a private cooperative founded by Stuart Rutherford.

Research at a Glance

The aim of the research is analysing savings behaviours and financial profiles of borrowers who joined a traditional microcredit program promoted by Hitaishi Bangladesh[2]. Hitaishi is one of the hundreds of NGOs in Dhaka's slums that during the nineties, replicated the Grameen Bank's methodology to enrich their multi-proposal social development tools. Starting from an original survey[3] and taking face-to-face interviews to one hundred women randomly selected, the research captured not only their active status of Hitaishi's savers, but even formal and informal savings devices currently used. The survey also includes an experimental set of questions[4] that checks the presence of hyperbolic time discounting preferences, supposing that "present-biased" women are more likely to join microcredit institutions and to save less than "time-consistent" women (Bauer, Chytilovà, Morduch 2009).

Attitute to Save (beyond Compulsory Savings)

Hitaishi borrowers save weekly small required amounts, but they are not allowed to withdraw their savings accounts during an outstanding loan. Thus, their savings have been designed just to help their long-term savings accumulation. In consequence, money deposited with Hitaishi is practically useless for emergencies and short-term use. The most critical point is that the sample shows a sophisticated savings demand that exceeds a too simple savings devices supply. The research analysed all other voluntarily savings sources currently used by the selected women, using informal devices - as Home Savings and ROSCAs - or formal ones as extra deposits with Hitaishi, other MFIs[5] or bank accounts. In total, 70 women of the sample decide to save more than the deposits required by respective MFIs, and more than half of them are using a multiple combination of savings tools. Of the "voluntarily" savers, one third prefer traditional piggy banks as the sole way to save, while other single solutions are used by very few women: Extra Hitaishi (9), ROSCAs[6] (3), MFIs (1) or Banks (2). Important evidence comes from some savings decisions. The most common combination is probably even the easiest one: 17 women use jointly Extra Hitaishi and Home Savings. But, if we consider more sophisticated clients, 6 women have found the best combination in terms of flexibility (Home Savings), safety (Extra Hitaishi) and remuneration (banks).

Extra Liquidity, Extra Deposits

As mentioned, Hitaishi is not authorised to collect voluntary savings, but face-to-face interviews explained a common and surprising phenomenon that we considered as voluntary. It regularly happens that 36 women – that probably have excess liquidity, demand to deposit more than the weekly amounts required by Hitaishi. Weekly meetings are pretty informal, and usually the staff accepts these extra deposits. On average, extra deposits in Hitaishi are 40% of original weekly amounts required, and in some cases women save in extra up to double of compulsory deposits. This result is unequivocally indicative for an unsatisfied savings demand. Women with excess liquidity persuade Hitaishi's staff to accept extra deposits, in addition to compulsory ones. This means that they want to save more with formal devices instead of using extra liquidity for present consumption or home savings. Finding reasons that explain the phenomenon, 25 women out of 36 declared they saved extra amounts in Hitaishi because it is safer than informal ways to save[7]. However only ten of these 25 women have completely renounced saving at home. Notwithstanding their complaint about the lack of safety of piggy-banks, the remaining 15 women are still using home saving.

Home Savings and Mental Accounting

The survey shows how home savings are fundamental in savings decisions, even in more sophisticated women. The reason could be strongly linked to the need for an instant source of disposable savings when an emergency comes. Looking back at the example of the antibiotics for the daughter's illness, households involved in this emergency need money quickly. If there are no savings, any formal loan requires at least one week for processing. Thus, facing an emergency with no savings means informal borrowing, from friends or money-lenders. The poor know that there is a much better solution: saving in advance to face any emergencies in the future. Clearly, it is not so easy. Formal savings devices offered by MFIs and banks are both "untouchable" (you cannot withdraw). Thereby, home savings and piggy-banks are definitely the easiest savings devices to face emergencies in Dhaka's slums, due to their instant accessibility. It does not matter that home savings are less safe and less remunerative than other formal ones.

Analysing future proposals of the 50 women that save at home with the type of money-box[8], we found behavioural foundations behind savings decisions. Half of them admitted their need for a ever-ready source of money to face emergencies, while another group of 15 women use piggy-banks to build large sums once per year to spend during the Muslim festival of Eid Mubarak. Furthermore, women chose different types of money-boxes for different savings goals. More than half of home savings' women prefer closed piggy-banks, and this preference is particularly strong for women that are saving for specific goals or long-term proposals. Thus, we can suppose that when savings goals are really important (e.g. wedding) or linked to a fixed occasion (e.g. holy festivals), these women use closed money-boxes as commitment devices (Ashraf, Karlan 2010). In other words, they use mental accounting[9] (Thaler 1980), fighting their weak self-control and temptation to consume.

Empirical Model

Apparently, the decision to save or not to save voluntarily is not correlated just with the disposable income[10] of households. It is curious how one fourth of households (18 women out of 66) decide to save only compulsorily even with a positive disposable income. Probably, households' income impacts on the total amount of savings, but not on the probability to save.

Investigating on determinants of total savings, we used Heckman selection model[11] (Table 1). The explanatory variables are going to be years of membership in Hitaishi, age, weekly income, number of children enrolled in school and education[12]. The further regressor included only in the selection equation is patience[13]. Not surprisingly, level of income does not influence the probability to save voluntarily. Patience, number of children enrolled in school and secondary education are the most statistically significant variables in determining the probability. Differently, the most statistically significant variables for asset accumulation are years of membership in Hitaishi, level of income and the age of the women.

More Formal Savings Devices for the Poor

The whole research, including survey's curiosities and empirical evidences, confirms the will to save of the women randomly selected among Hitaishi's clients. Realising that there are hundreds of other traditional microcredit programs similar to Hitaishi, we can simply generalize that there is a lack of formal savings devices in Dhaka slums. Surprisingly, the women of the sample want to save more than compulsory savings. They try to save more at home to face future emergencies or certain future expenditures. Some of them are so sophisticated to reduce their temptation to consume using closed piggy-banks. Despite that, they are still not self-sufficient to build large sums for the future.

In fact educated women, patient women and mothers of children enrolled in school decide to save more than compulsory deposits, increasing the chance to improve their asset accumulation. The amount of total savings is largely determined by households' income and years of membership in Hitaishi. This means that, even if some of them try to save more, they are just saving with unsafe and unreliable devices. In this contest, only richer households that joined microcredit institutions can get real chances to improve their asset accumulation.

Evidence from Hitaishi's field research suggests that selected women are looking for safer formal ways to save that could promptly help them to face life-cycle needs, emergencies and investment opportunities. And, this unsatisfied demand of savings devices suggests a new challenge to microfinance practitioners and local governments.

Table 1: **Heckman Selection Model (with marginal effect)**

	Coeff.	*Std.Err.*	*P-Value*			
Log of Total Savings						
membership years	**0.0985**	0.0363	***			
log of age	**-0.7531**	0.4124	***			
log of income	**0.6509**	0.1211				
children at school	-0.0247	0.1211				
primary	0.1291	0.2487				
secondary	0.2709	0.3271				
constant	6.4581	2.5472	**			
				dy/dx	*Std.Err.*	*P-Value*
Save Voluntarily						
patience°	0.8229	0.4324	*	**0.2195**	0.0914	**
membership years	0.0661	0.0363		0.0213	0.0171	
log of age	0.7465	0.6029		0.2408	0.1864	
log of income	0.3574	0.3279		0.1153	0.0970	
children at school	0.3041	0.1721	*	**0.0980**	0.0499	**
primary°	0.3084	0.3851		0.0935	0.1055	
secondary°	0.8717	0.4380	**	**0.2261**	0.0907	**
constant	-5.7961	2.9476	*			
Mills						
Lamda	-0.6522	0.5871				

° *dy/dx is the marginal effect for discrete change of dummy variable [0 to 1]*

Footnotes

1 SafeSave is a private cooperative that provides basic banking services –profitably- to the poor in Dhaka, Bangladesh. They promote innovative door-to-door daily visits to clients using smartphones. Every day, clients can save, withdraw, repay their loan or apply for a new one.

2 Clients: 2,492 – Borrowers: 2,275 – Employees: 16 – Loan Outstanding: 12,604,087 BDT – Net Savings: 6,785,787 BDT (June, 2009)

3 I would like to thank Mr. Matteucci and Mrs. Bastin for their valuable support in designing the survey. Hitaishi's survey is pretty similar -in the part dedicated to borrowing- to their survey used in Bastin, Matteucci 2007.

4 A first experiment proposed them to choose between 300 BDT tomorrow or higher amounts in three months. The switch point (from present to future amount) indicates the approximated discount rate. Lower discount rates indicate more patience about present decisions: a kind of current discount rate.

A second experiment replicated the first set of questions, but –this time- offering the choice between 300 BDT in three months or higher amounts in one year and three months. This time, the switch point becomes the future discount rate. Comparing current and future discount rates, women that suffer of "hyperbolic discounting" (current rate > future rate) are "present-biased" women: they prefer consume more today, than save for future consumption.

5 Theoretically, Hitaishi's rules do not allow its client to be members in another MFI's, but the staff cannot check properly their clients. Comparing with Grameen Bank's methodology in rural areas, Hitaishi replicated the same methodology in urban areas that show higher asymmetric information. Clients are

neighbors and even members of the same group, but they do not know each other. Usually, the slum is only a temporary residential solution. The sense of community and membership to microcredit institution is much higher in rural areas than urban ones. Even adverse selection and moral hazard risks are higher in urban areas.

[6] The result is coherent with the weak diffusion of savings clubs in Dhaka. Anyway, the unique choice of ROSCA could suggest that the mechanism works and successfully satisfies savings goals of participants.

[7] Home savings are unsafe not only because of the perils of losing money through burglary. Often the main problem is the presence of husbands and sons that try to "steal" the pot from women-savings-keepers.

[8] There are two ways to save at home. One is using an open plastic-boxes which is always available and very often hidden inside furniture or under the bed. The second one concerns closed money boxes, metal-boxes or ceramic piggy-banks which have to be broken in order to get at the money inside. We consider the second type a kind of commitment device to reduce their temptation to use savings for present consumption (Ashraf, Karlan 2006).

[9] Mental Accounting is a concept established by Richard Thaler, which contends that individuals divide their current and future assets into separate, non-transferable portions. The theory assumes that individuals assign different levels of utility to each asset group, which affects their consumption decisions and other behaviors.

[10] We consider disposable income, the remaining weekly income after basic weekly expenditures (food, transportation, education, housing, religious obligations, loan repayments).

[11] For our purposes, the OLS estimation suffers from a sample selection bias, given that we observe total savings only for a selected sample not representative of the population. Heckman's two-step procedure corrects for this. The voluntary savings process is estimated with a Probit model in with additional regressor (level of patience) influencing the selection but not the amount of total savings is included. (Presbitero 2010)

[12] Education is a categorical variable with 1=none, 2=primary, 3=secondary. none will be omitted, primary and secondary will be considered as dummy variables.

[13] Patience is a dummy variable, 1= women with time consistency preferences and lowest discount rates.

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Comment by Christiane Ströh de Martínez – Microfinance Consultant

Since the 1980s savings have been identified as the "missing half" in microfinance (Vogel 1984). In the 1990s, the discussions in the microfinance community turned their interest to insurance (Churchill 2006), which is currently also seen as one of the main financial products of microfinance. Savings enable people to cope with expected and unexpected "lean moments" in their life, and their families'. Savings can be used for short-term consumption smoothing needs, for old age, larger acquisitions or other specific goals, like important festivals. One of the main savings goals by Dhaka clients of the microfinance institution (MFI) Hitashi, are religious festivals as the research by Matteo Marinangeli shows. Another one is provision for sudden and un-expected cash needs. The 100 female clients interviewed clearly see savings as a superior option to deal with these cash needs compared to the only other option for satisfying them rapidly: taking a loan from a local moneylender, which can take as little as ten minutes.

Unexpected and sudden cash needs are mostly related to emergencies which lead to expenditure needs which cannot be met out of the regular income. Poverty research has shown that poor populations often live in risky environments (e.g. Narayan et al. 1999). Given their exposure to risk, access to risk coping mechanisms can often be key for preventing people to fall into (deeper) poverty (Krishna 2010). For poor populations coping with risk is also one of their main financial management needs, in addition to consumption smoothing and the accumulation of lump sums. Savings are one financial product to lead with all these key financial management needs, as has been shown by Financial Diary research (Collins et al. 2009). This is also confirmed by the Hitachi clients: Savings as a preventive measure for emergencies is the single most important savings motive reported. The women also report the ample usage of informal savings mechanisms, which is also coherent with the results of Financial Diary research. These informal savings mechanisms are often used in combination with formal savings and other financial management arrangements. The study by Matteo Marinangeli points not only to wide-spread, but also very sophisticated usage of informal and semi-formal savings mechanism by the interviewed women. For instance, different types of piggy banks are used, some being physically "untouchable" metal boxes. Searching for safe savings opportunities, the interviewees also reported convincing the Hitachi staff to take additional savings, even though the institution is not entitled to do so. Accordingly, the study points not only to the need for microsavings, but also to the awareness of the interviewed MFI clients to save and their active pursuit to find adequate solutions. Safety is reported as the most important characteristic of the savings needs.

Financial diary research shows that key financial management needs of the poor can be satisfied with adapted savings products.

From the MFIs point of view it can also be interesting to serve the savings needs of their clients. Firstly, it complements the range of services offered. This is highly relevant considering the differentiated financial management needs of the clients. From the perspective of the institutional development, MFIs can refinance themselves (partly) based on their own funds, and perhaps spare themselves from expensive or risky lending in foreign currency or similar options. The provision of small and adequate savings products to the poor is however a challenge itself. Here, the research by Matteo Marinangeli can help to gain additional insights into local savings patterns and needs, and provides information which can help the MFI to adapt its products or introduce new ones.

Credits are a stressful and expensive ex-post mechanism to deal with shocks.

In terms of relevant savings product classes, Financial Diary research points to the need of two different kinds of savings products: on the one hand flexible mechanisms for deposit and withdrawal with low transaction cost; and on the other hand more rigid savings mechanisms which support the savers to meet larger long-term savings objectives. Accessibility is especially important in the case of emergencies, as it can spare poor populations from the necessity to take out emergency loans. These loans constitute mostly stressful and more expensive ex-post strategies to lead with a negative shock. Thereby it is important to consider that different types of financial services can be used for the same financial management purpose, such as coping with risk. The advantages of different types of financial services, (for example between a savings product and an insurance to deal with a specific type of risk) depend on the specific product characteristics, the type of risk and the preference of the client. With a broader and more diversified service and product range, MFIs can provide their clients with a better choice of how to solve their financial management needs. In the case of services where the risk lays with the client (like savings and insurance) it is then fundamental to ensure that the assets of the poor clients are well-managed and secure.

On this basis, many innovative savings products have been, are and still have to be developed – with the final aim to provide the clients with additional options which are valuable to them.

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4. Provision of MFI Services to Poor Households: Summary of Case Study on Demand and Challenges Facing Saving Products in Tajikistan Microfinance institutions

Jacqueline Evelinus Stenga
(Université Libre de Bruxelles)

Despite the fact that the local population of Tajikistan has substantial demand for saving products, the majority of potential clients are unaware of the existence of a number of Microfinance Institutions (MFIs) and their services due to the weak financial system. As a result potential clients for these MFIs prefer to either invest their money in their businesses, save in hard currencies or spend it on household durable items. In June 2010, research was conducted with the special support of the Microfinance Centre (MFC), Warsaw Poland, to explore the demand and challenges of access to saving products for poor households in Tajikistan.

Microfinance services in Tajikistan are carried out by non-bank providers, primarily Microloan Organization (MLOs) and Microloan Funds (MLF). Micro-Deposits Organization (MDO) is a form of MFs that is allowed to mobilize savings from clients according to the National Bank of Tajikistan regulation. Deposit taking in these institutions is very limited as most micro-deposits services are offered by banks which indicates that these services do not reach down market.

Therefore the focus of this article tackles three research questions: First, what do the MFIs in Tajikistan offer as savings products for the poor households? Second, what are the factors that constrain poor households (or micro and small entrepreneurs) to access savings services from MFIs in Tajikistan? And third, what are the challenges encountered by MFIs in Tajikistan when offering savings products? All the research data and information is extracted from a general survey, interviews and focus group discussion.

Typical microfinance services in Tajikistan

MFIs in Tajikistan offer voluntary savings to poor households while the common saving products are term deposits, classic deposits, and special purposes deposits. Term deposit is basically a time bounded saving facility where clients are allowed to select the duration, ranging from one week to twelve months. On the other hand classic deposit is a normal saving product like in any financial institution. Special purpose deposits are purely cumulative deposits. These are popular among many women and young people from eighteen to twenty seven because there is the possibility to save money for life-cycle needs such as children's education, weddings and any associated festivals. Similarities between term deposit and special purpose deposits are that in both cases withdrawals are limited before maturity. Classic deposits are the most popular among microfinance institutions' clients. It is connected with the fact that unlike other deposits, they are offered without withdrawal restriction.

Factors that influence poor households in access saving service in Tajikistan

Based on the experience with MFIs/MDOs the study revealed that household income, proximity to financial institutions, transaction costs, nature of employment, household social intervention, and level of education are keys factors that influence financial inclusion in Tajikistan.

Household income is the predominant factor for a poor household to have a savings account. Individuals or households with stable income are likely to have savings accounts while those without stable income are likely not to have savings accounts. Stability of income makes the projection of future consumption possible and thus the ability for a person to save. Households with unstable income focus on consumption rather than saving money.

Proximity to a financial institution is another factor influencing poor households to save with MFIs in Tajikistan. It appears that micro-entrepreneurs who live or operate close to financial institutions are utilizing savings services from those institutions, while those who live or operate far from the institutions are enjoying less savings services from the institution.

Transaction costs are another attributing factor influencing low income households' savings patterns with MFIs in Tajikistan. Opening and minimum balance, monthly fee, withdrawal fees, fees to the financial institution and lost time due to queuing de-motivates low income earners to save in these institutions. These costs vary from one institution to another.

The nature of employment is an important factor in enabling person to seek savings services from financial institutions. Micro-entrepreneurs are self-employed individuals, owner-operators of their enterprises. Distinction between business income and household income is hard establish among micro-entrepreneurs. In formal employment, especially in the public and private sector, people are obliged to have savings accounts for official use like the payment of salaries. Hence people who are employed are more likely to have savings accounts than the self-employed micro-entrepreneurs.
Household social intervention is among the factors influencing low income earners to access saving services from MFIs. Households with extended families do not have enough disposable income to save up. Households with family members abroad (Russia, Ukraine, and Kazakhstan) are likely to seek savings accounts for remittances.
The level of education is also an important factor influencing low income earners to access savings services from financial institutions. Automatically, poor households with educated family members will be influenced by them to access saving services from these institutions.

Through focus group discussion other factors were also noted in affecting peoples' saving behavior with MFIs/ MDOs, namely the devaluation of local currency. In Tajikistan poor households prefer to be liquid but not by maintaining cash. Accordingly, they keep a large proportion of their lifetime earnings in-kind such as jewelry, cattle, and houses/flats. In some parts, people are still even using black cash boxes as a savings instrument – this is especially popular among women who work in the same place.
It was further revealed that the main source of income was from a wage or salary from being employed in the informal sector in Tajikistan or remittance sent home by those who migrated abroad. Borrowing from relatives is also among the sources of income. A last resort is to sell households' equipments/ furniture if other possibilities fail. The size of regular income depends on the season of the year. For instance, during spring, summer and autumn people mainly work in the agricultural sector, plantations, constructions and industries.. The majority of the people migrate from spring to autumn and move to Russia, Kazakhstan and Ukraine. The findings revealed that during the winter it was difficult to find a lucrative job.
Furthermore, it was found that consumption and obligatory payments constitute the largest percentage of household expenditure among the majority of Tajikistanis. During spring and autumn households incur larger expenses due to the fact that in this period they are supposed to buy tickets for family members who will go abroad to work as migrants and to prepare the farms/field for the coming season. Also poor households save money for celebrations like weddings, child birth and religious festivals. An increase in obligatory payments to utilities such as water and electricity have a negative effect on saving abilities for poor households.

Challenges faced by MFIs when offering saving products

Directors of five different MFIs/MDOs were interviewed via telephone. The responses covered both the institutional perspective and the perspective of low-income clients.
At the institution level, Management Information Systems (MIS) was rated as the major challenge MFIs are facing as they need to have better systems that can accommodate changes easily such as setting different deposits terms, interest rate and flexibility in frequent withdrawals of deposits. They need to be able to disburse big volumes of savings all at once without affecting the existing operations. Equally, competition from formal banks was rated as the second major challenge. Banks have been offering savings products for a couple of years, so that they have experience and expertise in offering different types of savings products. The nature of small transactions of low income households while depositing and withdrawing their savings is very costly for MFIs/MDOs.
In the case of low income households the main challenges were: Low income households in Tajikistan have no habit of saving financial assets in cash but they rather prefer to save in non-cash forms like purchasing gold/jewels, home assets/furniture. In rural areas they prefer to buy livestock such as cows and goats. Likewise, a lack of trust in the microfinance sector is another challenge since the majority of people would rather trust in big commercial banks because MFIs/MDOs are supposed to lack the necessary experience.

Conclusion

In conclusion, it is recommended that in order for MFIs/MDOs to attract deposits and make poor households benefit from their savings products, the focus should be to understand the relationship between clients' pattern of expenses, sources of income, size of the regular income and savings pattern.

The way people save or choose to keep money with financial institutions depends on the amount of money they have after consumption and other obligatory payments.
Above all, stakeholders including practitioners, governments and donors at large should make an effort to raise awareness about the importance for poor households to save with microfinance institutions so they can enjoy the expected benefits.

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5. Micro-financing Poultry Value Chains in Vietnam: One of the Solutions to Develop Rural Value Chains

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Presentation

The value chain approach has been widely used to identify potential interventions to improve agriculture and rural development in Vietnam. However, very few academic studies tackle micro-financing of agricultural value chains in this country. This research applies the value chain method to analyze microfinance interventions of poultry value chains in Vietnam. The Vietnamese poultry industry, which is dominated by small and medium scale production systems, is now facing difficult challenges including problems associated with avian influenza, uncontrolled import of poultry products, and food safety. However, it also has many opportunities to prosper as poultry production has not yet satisfied domestic demand and the pork value chain, which dominates domestic meat consumption, has experienced its own problems from the porcine reproductive and respiratory syndrome. The focus of the present article is on micro-credit and related services for poultry stakeholders. All information and data of the research is synthesized from a desk study, a general survey, and participatory rural appraisals of the commercially oriented and mechanized small to medium scale poultry stakeholders (under 1000 poultry heads) in 6 provinces of Vietnam (Hanoi, Hung Yen, Bac Giang, Thai Nguyen, Quang Tri, and Tien Giang provinces). The research was conducted with the special support of the STOP Avian Influenza project and the Avian and Pandemic Influenza Preparedness and Response in Vietnam.

Which microfinance actors are active in financing poultry value chains in Vietnam?

Different actors in the microfinance market for poultry value chains and their market segments

The micro-financing of poultry value chains involves the participation of external financial actors such as the Vietnam Bank for Social Policy; the Vietnam Bank for Agriculture and Rural Development; national and international projects; mass organizations; relatives, neighbors and friends; and interlinked credit arrangements among poultry stakeholders. Each of these microfinance actors has its own market segment, with different target groups and stakeholders. For example, it is found that within poultry value chains, the Vietnam Bank for Social Policy and mass organizations are primarily concerned with small-scale and vulnerable stakeholders (living in difficult conditions), especially poultry breeders (hatchery, nursery, broiler and layer households). Often these target groups are granted favorable interest rates.

In contrast, the Vietnam Bank for Agriculture and Rural Development prefers the segment of medium- to large-scale producers and traders that require bigger loans (> VND 30 million) and can afford to access individual loans as they head towards financial sustainability. Development policies and interventions usually focus on small and medium size poultry stakeholders, which make up between 80 and 90 percent of poultry production in Vietnam. In lending between interlinked actors, both financial service providers and borrowers have a deep understanding of the realities and constraints of the value chain and business activities. Hence, major risks associated with the loans can be mitigated and transaction costs can be lowered.

As for informal lenders such as relatives, friends, and neighbors, although loan amounts provided for poultry are not big (< VND 10 million), they respond to urgent needs of the borrowers. In many cases, this group of lenders provides non-financial, as well as financial support, in terms of experience and information sharing, informal training and advice. As a whole, their micro-financing facilities have made a considerable contribution to the development of poultry value chains in Vietnam. Note that a poultry stakeholder can access different credit sources at the same time. For example, one can take a loan from the Vietnam Bank for Social Policies, and at the same time borrow money from their relatives taking part in the on-credit purchase and selling, etc.

Active microfinance actors

Among these financial actors, the Vietnam Bank for Social Policy is regarded as the leader in financing rural households and small and medium stakeholders of the poultry value chain. With almost all of its borrowers living below or at the poverty line, the bank often delivers loans through the networks of the Women Union and the Farmer Union. Loans amount to a maximum of VND 10 million over 1 to 3 years, with a favorable interest rate of 0.65 to 0.9 percent per month. The specific interest rate is determined by the program and the poverty level of the household. In addition, the Vietnam Bank for Social Policy does not require collateral because, very often, mass organizations serve as guarantors for the borrowers.

The Bank for Agriculture and Rural Development, with the largest operation network in the field, is also an important source of external funding for the stakeholders of the poultry value chain. Stakeholders with access to this source are usually those who have assets to offer as collateral, such as deeds to land. Hence, the loans offered by the Bank for Agriculture and Rural Development are usually larger: up to VND 30 million for poultry producers or more for slaughterers. Market interest rate is applied for such loans, ranging from 1.35 to 1.77 percent per month.

It is necessary to mention another very popular type of microfinance involving the interlinked stakeholders along the poultry value chain: the advancement of products between the buyers and the sellers. Sometimes, advancement even occurs in triangle models: for instance, a feed supplier will sell feed on credit to a broiler, and receive payment from the collectors, who purchase chicken from broilers. For poultry producers, advancement mainly satisfies their current lack of finance for production costs, while loans offered by the banks mentioned above are usually used for infrastructure and equipment. Loans between interlinked stakeholders in a value chain usually occur through vertical linkages in the chain, from input providers, producers, collectors, slaughterhouses, traders, distributors, to retailers and vice versa. The interest rate applied to inter-linked credit arrangements are quite flexible, and depend on the relationship between the sellers and the buyers. It usually ranges from 1.5 to 4 percent per month.

It should be noted that inter-link credit arrangements can be in cash or in-kind. An example of an in-kind contributions could be a broiler helping a slaughterhouse to slaughter their chickens free of charge so that the slaughterhouse can sell their chickens afterward. Or a veterinary and medical agency could provide poultry breeders with veterinary service free of charge, and in return, ask that they purchase medicine at their agency. The advantages of inter-link credit arrangements are that: (i) they can help actors of the chain deal with a shortage of credit at any moment of their production or business cycle; (ii) value chain stakeholders better understand the demand and supply within the chain, which facilitates relevant business or production plans, and (iii) they enhance the relationship among actors.

Microfinance actors have yet to pay any particular attention to the characteristics of the value chain when providing loans. Targeting financial services to different links would greatly improve the business opportunities along the entire chain. However, although microfinance actors may have a specific interest and strategy to invest in certain commodities, such as coffee or cashew, they tend to focus only on a particular part of the chain, such as cultivation. Husbandry, especially poultry breeding, which involves 85 percent of breeders in this agriculture-based country, is not of much concern. Improved targeting of microfinance offers significant potential for increasing productivity of the poultry value chain.

Does micro-credit satisfy poultry value chain stakeholders?

Which loan amount?

The loan amount taken by poultry stakeholders in Vietnam is not big. It usually ranges from VND 1.5 million to VND 10 million (US$80 to US$530). In Vietnam, this loan amount is quite popular for credit distributed through the network of mass organizations under the projects of the government or non-government organizations. It is also common in informal lending because the lenders (friends, relatives and neighbors) can easily afford these relatively small sums. Among poultry stakeholders, this loan size is the most common for poultry breeders of small and medium scale (50-300 poultry heads). It is too small for the collectors and the slaughterhouse. The slaughterhouses are always in need of big loans for quality slaughtering equipment to ensure food safety, buildings, and trucks for transportation. However, private financial actors, especially banks, consider the slaughterhouse business as not so profitable and risky. For this reason, among other poultry stakeholders, slaughterhouses have the lowest access to financial services.

Which interest rate?
Most poultry stakeholders are dependent on subsidies and vulnerable to all kinds of risks, yet they expect loans at favorable interest rates (below 1.2 percent per month). This rate is impossible because each microfinance actor must offer competitive interest rates, that cover its operational costs and allows it to achieve profits. Poultry breeding and trading activities, in particular, are risky activities to provide credit for. They are scattered in all provinces in Vietnam, even in remote and mountainous areas, and are of small and medium scale, so the cost to offer them loans is certainly higher.

Which product features?
For poultry stakeholders in particular, more types of loans should be added to traditional ones (short-term, medium-term, and long-term) in order to satisfy the diversified demand. Loans should be customized to the type of business. Breeders prefer loans that fit poultry breeding cycles (3 months), while hatchery farms may accept short-term loans of just 30 days. Most poultry stakeholders in the surveyed provinces showed a high demand for emergency loans and loan insurance in case they suffered from natural disasters and serious poultry disease. Obviously, in the case of emergency loans, procedures must be simplified to some extent to expedite the process. Some clients wanted loans to be channeled through groups of poultry stakeholders, which better understand their business activities and needs, and might also provide non-financial services related to their business.

With merely credit?
Although formal financial institutions have shown their strength in providing poultry stakeholders with diversified financial products, national and international projects and programs, through the network of mass organizations and non-governmental organizations, have been very good in supporting poultry stakeholders with non-financial products for the purpose of livelihood improvement. The demand for Microfinance Plus in poultry value chain is quite high.

It is found that for poultry stakeholder, credit is not enough. Technical assistance is always demanded to ensure the success of the borrowers' production and business, especially for small and medium scale poultry stakeholders. The reason lies in the fact that it helps them catch up with the most up to date techniques in order to satisfy the demand of the market. The result of such training is that it ensures repayment of the loans.
In addition to technical assistance, there is demand for risk support services such as training on risk associated with poultry markets, loan rescheduling in case of disease or natural disasters, and reduced interest rates in the event of production or business damage. Clients also showed a strong will to buy risk insurance for their poultry related activities.

Is it relevant to finance poultry commodity with the value chain approach?
For both formal and informal financial actors, value chain analysis provides a very useful instrument to identify demand for credit along the chain, and rapidly address the gaps. In regards to the informal financial system, interlinked credit arrangements (in cash or in-kind) within poultry value chains are considered as direct value chain finance, allowing for financial flow among value chain actors to help them rapidly address the shortage of credit for a short time. This just-in-time financing cannot be achieved by formal financial actors. In regards to the formal financial system, value chain analysis can determine concrete credit demand of different actors and assist financial actors in extending their business in other places with similar economic activities. For instance, the loan terms and amounts for broilers and layer farms in Thai Nguyen province can also be applied to other provinces with a similar situation to Thai Nguyen. In addition, the lessons learnt about the poultry value chain in the STOP Avian Influenza project can help financial actors in Vietnam to better satisfy clients' needs. With very good outreach in rural areas, the Vietnam Bank for Agriculture and Rural Development and the Vietnam Bank for Social Policies can better fulfill demand for credit in agriculture and rural areas by lending along the entire length of value chains.
For the value chain stakeholders, the value chain approach offers a way of creating synergies to better access financial resources. Take the case of the Go Cong Livestock and Aquaculture Cooperative in Tien Giang province: the cooperative takes collective action in providing animal feed, veterinary services, chicks, processing chicken, etc. By cooperating, members along the value chain can more easily access bank' credit, because they have stronger voice in the market.
It is necessary to mention that the information flow within the value chain is the best way for the value chain actors to identify and access credit services that satisfy their need. For example, if one actor in value chain recognizes that the loan application and disbursement procedure of the Vietnam Bank for Agriculture and Rural Development is better than the Vietnam Bank for Social Policy, then the message can easily be passed on to other actors in the chain. Eventually, all financial actors that are considered

beneficial to the value chain will be acknowledged and supported.

Conclusion

In conclusion, it is recommended that financial actors should employ value chain methodology to better serve the financial and non-financial demands of their clients in general, specifically in the case of the Vietnamese poultry industry. Such analysis will benefit both the borrowers, by improving business prospects, and the lenders, by ensuring loan repayment while reducing transaction cost. Collaboration with technical agencies or projects and programs on poultry value chains is also an ideal solution for financial actors to mitigate clients' risk.

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Comment by Philippe Guichandut – Grameen Crédit Agricole Microfinance Foundation

The main interest of this study lies in a clear identification of the various actors, the role they can play, their needs for different services and products, as well as the need for a diversified approach with the provision of non financial services in any value chain approach.

The research is interesting in showing the interactions between the different actors in value chain and the fact that the actors require different services and products. It shows the important role played by the informal actors, at which level they intervene and how people are using it. Too often the role of the informal actors is neglected and not recognized properly. In the paper one has a clear vision of their importance and what they bring in the value chain. The importance of internal financial flow is well underlined and described. Such flows usually play an important role and deserve strong attention in any research on value chain.

The variety of the actors in the finance market in Vietnam is an asset in financing the poultry value chain. They offer different services and products that could fit the needs and requirements of the main actors. The link between the various products and the actors could have been analysed in a more systematic way, in order to better understand the specific role played by the small, medium or large scale producers and traders. However the research shows that at least for two of the actors (slaughterhouses and hatchery households) the access to finance remains an issue. In further study it could be very relevant to better understand the reasons why these two actors have more difficulties to get access to proper finance.

Informal financial arrangements play a key role in value chain financing and should be studied carefully.

The study also underlines the need for non-financial services, and surprisingly less for access to market but more for risk management. It's an interesting and surprising finding, that certainly needs further in depth analysis. Such a finding is relevant for designing adapted programmes to strengthen the poultry industry in Vietnam.

The conclusion of the research provides relevant recommendations, especially the need for stronger cooperation between various agencies in order to reduce the overlapping in financing, as well as the strengthening of collaboration with technical assistance operators to reduce risks.

The Author

From 1986 to 2004, Philippe Guichandut worked for various French development NGOs (France Volontaire, Inter-Aide, Enfants et Développement - Save the Children France, CCFD-Terre Solidaire). He spent six of those 17 years in the field: in Rwanda, India and the Philippines. He was in charge of setting up and monitoring development and microfinance projects. He became the first Executive Director of the European Microfinance Network when it was created in 2004. He has been teaching development and microfinance project management for more than 10 years in France and other European countries. In November 2010, he was appointed Head of Development and Technical Assistance at Grameen Crédit Agricole Microfinance Foundation.
Philippe Guichandut has a Master's degree in Urban Social Development from Université d'Evry and an MBA from the European University of San Francisco.

Annex I: Photo Gallery

Annex II: Workshop Programme

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6th "University Meets Microfinance" – Workshop
of the e-MFP Action Group
June 17th - 18th 2011

"Rural Finance" and "Savings"

at the "Second European Research Conference on Microfinance"

Friday, June 17th

Time	**Programme**
2 – 3:30 pm	**Presentation of students' research on "Rural finance"** Chair: Prof. (em.) Dr. Hans Dieter Seibel, University of Cologne Oliver Rogall, graduate of the University Hohenheim in Germany / GfA and UMM Award Winner: "Microfinance and Vulnerability to Poverty. Evidence from Rural Households in Cambodia" Comments by practitioners
3.30 – 4 pm	tea break
4 – 5.30 pm	**Presentation of students' research on "Rural finance"** Chair: Prof. Dr. Paul Mosley, University of Sheffield Ngoc Ahn Nguyen, graduate of the Université Libre de Bruxelles in Belgium: "Better livestock value chain development through microfinance in Vietnam" Kristina Czura, PhD student of the Goethe University Frankfurt: "Coping Mechanism in Dealing with Flooding and the Role of Microfinance in Disaster Management – Evidence from North India" Comments by Philippe Guichandut, Grameen Credit Agricole and Dott. Davide Castelliani, State University of Bergamo

Saturday, June 18th

Time	**Programme**
9 – 11 am	**Presentation of students' research on "Savings"** Chair: Prof. Marek Hudon, Université Libre de Bruxelles Paul Kurgat, graduate of Université Libre de Bruxelles in Belgium: "The role of savings in microfinance institutions; does it foster institutions financial performance and outreach." Matteo Marinangeli, student of Universita' Politecnica delle Marche in Italy: "Behavioral Economics and Microsavings: The Benefits of Member´s Weekly Savings for the Accumulation of Assets" Jacqueline Evelinus Stenga, graduate of the Université Libre de Bruxelles in Belgium: "Demand and Challenges of Saving products in Tajikistan Microfinance institutions" Comments by Marie-Anne de Villepin, BNP Paribas and other practitioners

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Annex III: List of Participants

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