Reaching the underbanked and unbanked in subsistence markets at the nexus of the formal and informal economy

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Abstract

It is estimated that globally over 2 billion people do not have a bank account, with many more in the developed and developing worlds 'under-banked', meaning they have limited access to financial services. Reaching the unbanked and underbanked with appropriate financial services is widely recognised as critical for future global economic growth and prosperity. Drawing upon multidimensional understandings of poverty, and framed by literature on poverty pools, traps and cycles, this paper explores the use of financial products and services in the developing world and critically reflects on their potential role in poverty alleviation and wider sustainable development. Discussions are illustrated with reference to qualitative empirical research undertaken in East and Southern Africa, and a sense-making of the lived financial experiences of low income individuals, households and communities.

Track: Sustainable and Responsible Business

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Reaching the underbanked and unbanked in subsistence markets at the nexus of the formal and informal economy

"Inadequate, inaccessible financial services is undoubtedly one of the reasons why the poor are trapped in poverty" (World Bank, 2014c)

Introduction

This paper explores the use of financial products and services by the poor in the developing world, and the role such instruments may play in poverty upliftment and sustainable development. Those living on low incomes in both the developing and developed world will often lack access to formal financial services such as bank accounts, loans and savings opportunities (Barr and Blank, 2009). Referred to as 'unbanked' and 'underbanked' these individuals are excluded from, or have limited access to, mainstream financial services available to wealthier customers (e.g. bill payment, overdrafts and loans at reasonable interest rates) (after Blank and Barr, 2009). In the developing world, education and health services are also often underdeveloped or absent, and low-income households often receive little or no formal state support or welfare payments. Within developing world communities, especially rural villages, this has resulted in the development of a creative, often 'ritualistic', network of financial products and services emerging in the informal sector and more recently at the interface of the formal and informal economy; including burial societies, money guards, savings clubs, reciprocal lending, microfinance and mobile banking services. Examining the management of money by low-income households and exploring associated financial services emerging in subsistence markets offers important insights into the practice and development of sustainable and responsible business models aimed at lifting the extremely poor out of absolutely poverty.

To access financial services (insurance, money transfer, savings, credit, loans) the poor in the developing world rely heavily on 'informal' mechanisms facilitated by social networks such as communities, family support or village-based savings schemes. The emergence of 'base of the pyramid' (BoP) discourses (after Prahalad and Hart, 2002; Prahalad, 2004; London and Hart, 2010) and discussions around subsistence livelihoods (e.g. Kandachar and Halme, 2008; Sridharan and Viswanathan, 2008), has focussed attention on the poor as a source not only of labour and materials, but also as customers. Porteous and Hazelhurst (2004) note how the consumer finance industry in South Africa is aggressively filling voids in traditional banking provision and reaching such low income potential customers. Increasingly the formal banking sector but also non-bank actors are developing financial products aimed at the poor, which in some instances mimic the more informal village-based schemes they aim to replace and with the aim of filling institutional voids (Mair et al., 2012). Some of these emerging financial products are the result of hybrid partnerships between public, private and civil society actors, for example the electronic mobile phone money transfer system M-Pesa.

In this paper the poor are considered to be those individuals characterised by deprivation, vulnerability and powerlessness (Lipton and Ravallion, 1995; Sen, 1999), and whose income level or consumption falls below a certain threshold/poverty line sufficient to meet their basic needs. The World Bank uses poverty lines based on the concept of purchasing power parity, with the figure of $2 often used to delimitate extreme poverty outside the 15 poorest nations in the world, where the poverty line of $1.25/day is used instead to define absolute extreme poverty (see Chen and Ravallion, 2008).

This paper explores the world of financial services for the poor, the unbanked (those with no access to formal financial products and services) or underbanked (those with constrained access), from the perspective of those in developing countries. It draws upon extant literature from both developing and developed world perspectives exploring mechanisms by which the poor access financial services. We consider financial service provision for the poor framed through the lens of multidimensional understandings of poverty (after Alkire and Foster, 2011). We also draw upon the framing of poverty presented by Krishna (2010) as a 'pool of extreme poverty' out of which the poor climb through stages of progress, as well as Martinussen's (1997) cycles of vicious poverty, and the accounting of how the poor utilise their money as presented in the financial diaries from Collins et al. (2009).

The paper is informed by our observations and qualitative data collected during fieldwork undertaken in South Africa, Kenya, and Zambia during 2011/12. In Kenya we draw upon interviews and observations with a community based hybrid social enterprise/ NGO, a women's savings group near Lake Victoria, and interviews with 60 Kenyan roadside sellers operating as microenterprises, and including refugees who had been displaced by tribal violence. We also draw upon interviews with a network of social entrepreneurs in South Africa and Kenya operating training programmes, alongside those engaged in financial and life skills training amongst their own employees .

In our discussions many of the respondents mentioned the formal and informal financial instruments they used to manage daily cash flow. These interviewees came from across a wide range of socio-demographic backgrounds, from wealthier 'elites' to marginalised extreme poor within communities. We were also able to observe in practice how some formal institutions such as the banking sector are attempting to tap into this BoP market, as well as social protection initiatives and asset transfers (aid, skills development, education) undertaken by non-governmental organisations and charities as alternatives to risky, sometimes abusive or exploitative, products and services provided informally by alternative financial services providers.

These observations and our discussions provide the rationale for this paper; which is to critically reflect upon how financial services are utilised by the poor in the developing world, and explore the types of instruments that are emerging. This paper presents our findings from the perspective of 'sensemaking' of the lived experience of the individuals, enterprises and communities we interacted with during our fieldwork. In particular this paper explores the informal/formal economy nexus where different kinds of products and services are utilised by not just the extreme poor but by many households in financially constrained circumstances.

We present a framing of the use of financial services provided by formal institutions, informal actors and the hybrid models emerging at the interface of these and we explore a number of the emergent financial products that are targeting the poor in the developing world. We present small case study vignettes to illustrate our discussions, namely:

- The partnership between Equity Bank, CARE Kenya and a community based NGO in Lake Kisumu aimed at providing group saving and loan products to community groups;
- M-Pesa as a form of money transfer and money deposit facility;
- Faulu Kenya a Deposit Taking Micro-Finance Company, offering both savings and credit services to millions of Kenyans; and
- Loans provided through organizations such as Kiva as a source of crowd funding.

We primarily draw upon Kenyan examples within our vignettes; however this paper offers insights applicable in a wider African context, as well as other developing and developing countries.

The poor and financial services

With the exception of uncontacted peoples, and the most isolated low income subsistence communities operating a barter only exchange system, we all use some form of financial services. We spend money, some borrow and some also save. From the wealthy to the very poorest, individuals and households manage a flow of income and expenditure. Often we utilise formal financial services, from bank loans to overdrafts. Yet even those that are relatively wealthy in a society may interact with informal or non-bank financial services (e.g. Collins and Morduch, 2009) for instance borrowing money from a family member or using a savings club. Households that suffer severe financial constraints will by necessity tend to use both formal and informal mechanisms to manage their money, or lack of it. Those living on low incomes, in both the developing and developed world, will often lack the ability to access formal financial services such as bank accounts, loans and easily utilised savings opportunities (Barr and Blank 2009), forcing a turn towards the informal (Collins et al., 2009), and often incurring disproportionate excess costs (Krishna, 2010). In the UK recent estimates suggest over 5 million individuals have used controversial payday loan lenders, often at highly inflated levels of interest or with high services fees (Barr and Blank, 2009).

We first consider the boundary definitions used to identify those on low incomes and in poverty by agencies such as the World Bank and by the poor themselves. Low income households occur in every country, though proportionally more are found in the developing world per head of population where the absolute level of poverty is also greater. There are parallels between the exclusion from financial services experienced by low-income families in developed and developing worlds[i]. The World Bank classifies countries according to their average Gross National Income (GNI) per capita, calculated using the World Bank Atlas method. All nations with a GNI of up to $12,615 are considered as developing countries[ii]. Twenty six of the 36 lowest income countries in the World (GNI of $1,035 or less/annum) are located in sub-Saharan Africa (World Bank, 2014b).

Whilst global rates of extreme poverty have improved over the last three decades the World Bank estimates still suggest that 1.2 billion people live in extreme poverty (Olinto and Uematsu n.d.). Regionally 21% of the population of the developing world exist in extreme poverty, with 2010 figures suggesting that 48% of the population of sub-Saharan African (414 million) exist on less than $1.25/day. These absolute poverty lines of income per person per day reflect what households need to meet basic food needs (i.e. the cost a nutritional basket considered minimal for the healthy survival of a typical family), to which a provision is added for non-food needs (see World Bank 2014a). These dollar figures are all average amounts, obscuring the impact of the variability of income flows for those in unsecure employment, unwaged or self-employment.

Poverty is not only defined by income but as a multidimensional construct (Alkire and Foster, 2011; Philip and Rayhan, 2004) across dimensions that include income but also aspects such as education and health. Waibel (2012, p.12) suggests that the poor *"define their poverty in terms of lack of opportunity, empowerment and security"*. Krishna (2010) explores how the poor define their own poverty, identifying context specific 'stages of progress' that the poor use to self-define if they or others in their community are in poverty. Upliftment out of poverty can then be described to some extent by progression through these stages, subject to the different perceived boundaries within different communities of what specific assets might be incorporated at each stage. Arguably the perception of movement through stages of progress out of poverty is true in the developed world also; it is merely the nature of the individual items within the stages of progress that differ.

The items listed in the 'poor stage' in Figure 1, illustrated by Krishna's fieldwork in Kenya, reflect basic needs that are not provided by the State in developing nations when an individual is in extremis. From a developed world context within nations with a robust social security system these may be provided, even if only at a very basic level, by the State. Food and shelter remain the basic need of every individual whether you are homeless on the streets of Nairobi or New York; in both instances individuals are most likely unbanked or underbanked and considered poor in their own national contexts.

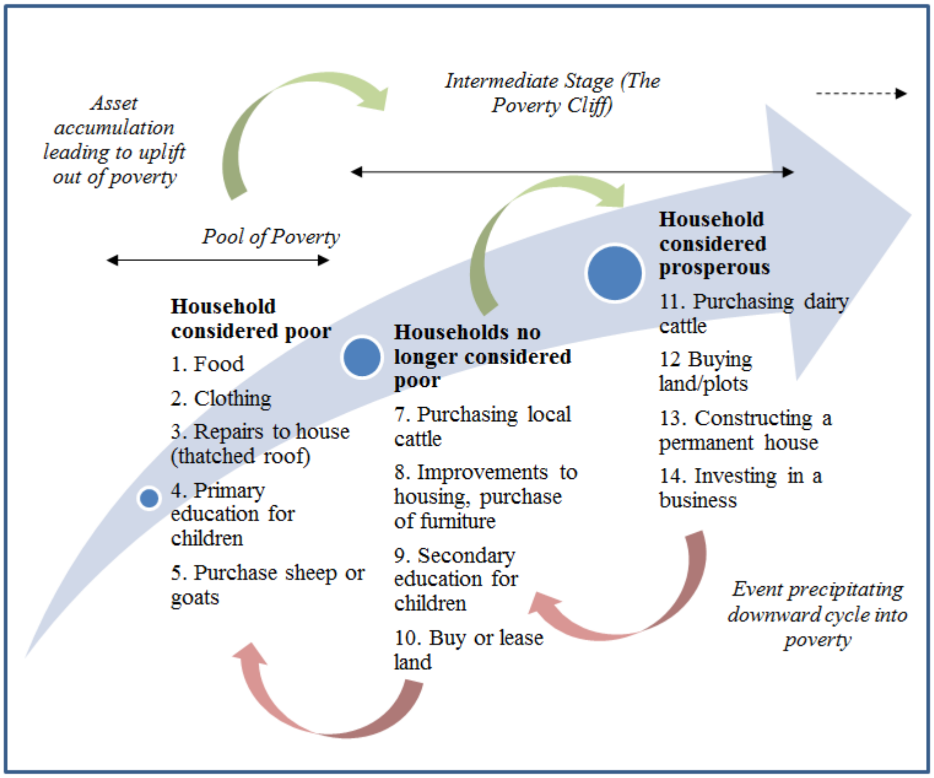

Figure 1. Stages of progress in Western Kenya (adapted from Krishna 2010)

In Figure 2 we present Krishna's vision of a 'pool of poverty' out of which the poor aspire to climb towards the aspirational heights of the 'city on the hill', alongside the reality found in their research from real-life financial diaries of an intermediary position (a 'ledge' or a 'poverty cliff') that represents the bounded reality for most poor who manage to uplift out of or fall back into extreme poverty (after Krishna, 2010). This 'city on the hill' may be equally unachievable for the majority of the poor in a developed nation, in many respects due to similar restrictions in upward mobility related to lack of education, poor health, social status and limited expectations. The concept of a 'ledge' hovering above the pool of poverty is important for this paper, as we argue that appropriate financial services designed with the poor in mind, and offered in a non-exploitative manner, may provide the helping hand needed to climb to the intermediate stages within Figure 1 or indeed to the ledge above the pool of extreme poverty as envisioned in Figure 2.

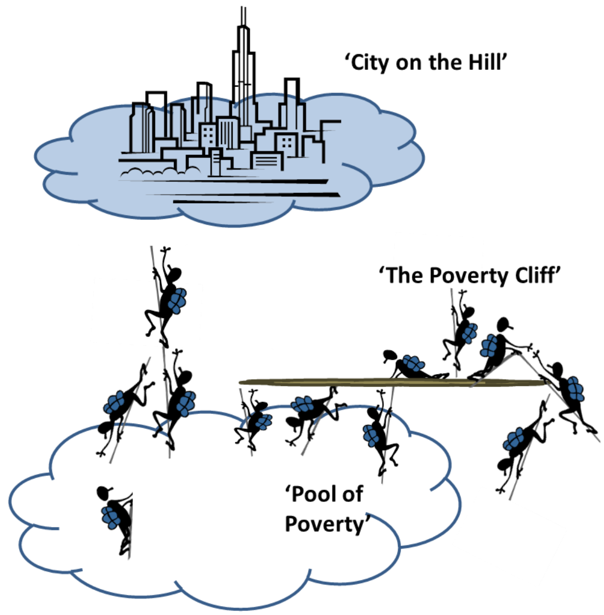

Figure 2. Envisioning Krishna's pool of poverty (adapted from Krishna 2010)

Having savings can smooth short-run income fluctuations caused by single disruptive events such as illness or job loss (Barr and Blank, 2009), preventing these events precipitating a fall back into extreme poverty. Savings are often needed to access credit which is needed for asset accumulation and investments in order to facilitate income upliftment. The unbanked or underbanked with no access to formal credit or savings may turn towards the alternative financial services market (AFS) for costly replacement options offered by informal actors and 'fringe banks' such as pawnshops, payday loans or cheque cashing services (Caskey, 1996).

The banked, unbanked and underbanked exist in every country regardless of GNI, suggesting that parallels may be drawn between the experiences of the poor in the developed world and the developing. Homelessness, hunger, lack of access to high quality medical services and sub-standard education are also all present in the wealthiest nations. Products and services developed to serve these marginalized and excluded segments of the population may have similar underlying themes across nations. Therefore the narrative we built here with respect to mainstream and alternative financial services for the poor in developing nations also potentially offer insights relevant to developed nations.

The poor in the developed world

Whilst natural disasters and civil disturbances do throw thousands into crisis events that cause poverty, Krishna (2010) provides compelling evidence that it is mostly small ordinary events, chains of small events that have a ripple effect tugging a household further down a poverty spiral, that may precipitate a downward spiral into extreme poverty, for example, the lingering illness that saps family savings, followed by a death with the expected slaughter of cattle and throwing of a feast for the community – all leading to an erosion of a household's asset base. The poor may need to spend relatively large sums of money for a range of reasons. These events include: a life cycle event (weddings, childbirth, home building, old age, festivals); an emergency need (personal ones linked to illness, death and impersonal ones for instance a flood or civil war); or to take advantage of opportunities (to invest in a business or buy a plot of land) (after Rutherford and Arora, 2009).

Krishna (2010) describes how some of their tracked households climbed out of the pool of poverty, whilst others fell into it. Low-income families often teeter on the edge of the boundaries of poverty, at risk due to their lack of access to capital, limited assets and vulnerabilities to trigger events such as illness linked to malnutrition and unsanitary living conditions (Waibel, 2010). They may be defined as permanently or temporarily poor, based in the main on the interaction of the 'vicious cycles' of economic and political poverty (Martinussen, 1997, p.299; Waibel, 2010, p.12), where low income is one of several factors that interact to push individuals into a downward spiral. When a sudden need emerges for a large sum of money, and no disposable income is present, then individuals may draw down on their available pool of assets. Assets, such as savings and thus access to credit, spent down or borrowed to cover extreme emergencies or social commitments such as dowries (Collins et al., 2009; Krishna, 2010) may act as a buffer to extreme poverty. However, if this asset pools shrinks significantly then the economic factors illustrated in Figure 3 may tug them further down into the poverty pool.

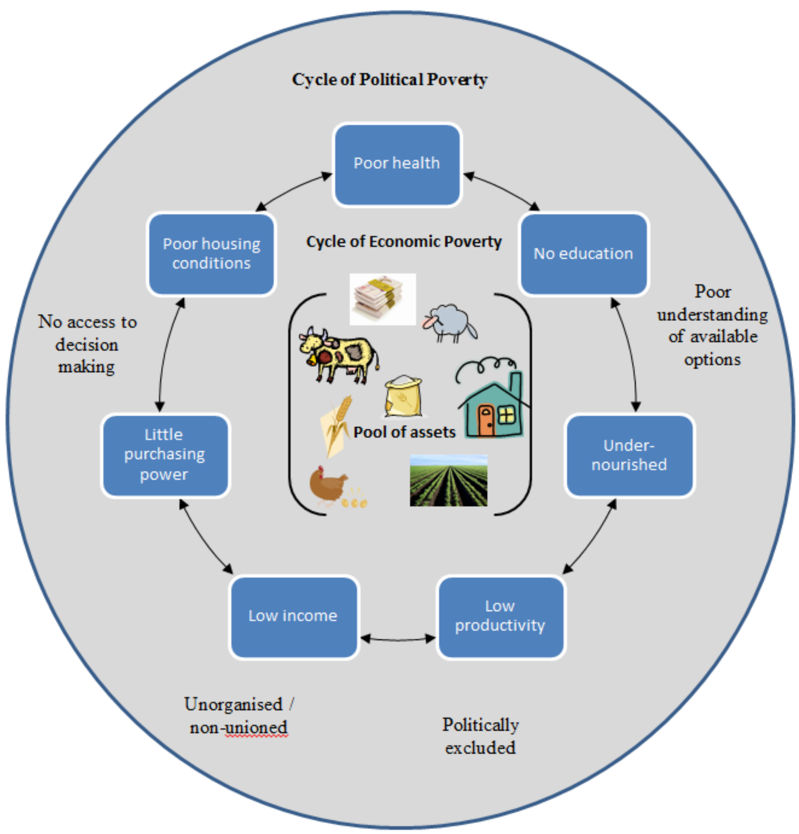

Figure 3. Vicious cycle of economic and political poverty (adapted from Martinussen, 1997)

Without assets, savings or access to reasonable credit terms the underbanked and unbanked in the developing world may have no option but to utilise AFS such as local money lenders, selling future labour, or borrowing from family members to address the need for sudden large sums for weddings, funerals, illness or job loss. Inappropriate use of microfinance may exacerbate this situation, with borrowed monies eaten rather than invested in an income generating activity.

Conversely studies of financial diaries and the lives of the poor in Africa, India and Bangladesh (Collins et al., 2009; Krishna, 2010; Rutherford and Arora, 2009) illustrate examples where 'informal' financial interventions may offer a platform for household or individual to climb to an intermediary stage of progress out of poverty (see Figure 1 and 2; Krishna, 2010). Examples might include a family member offering to host a relative in the city, where they find work and send remittance back home that allows the family to purchase cattle, or someone paying school fees for a child who is then able to gain a better paid job. There are suggestions that giving cash, in a controlled manner rather than aid may result in similar upliftment out of extreme poverty (Lawson et al., 2010); for instance the programme to give cash to ex-soldiers from Mozambique's civil war (Hanlon, 2004)

A key mechanism to help the poor stay out of extreme poverty is the need to stop or at least slow down their descent into the poverty pool (Krishna, 2010). When considering the framing of the multiple discourses on poverty alleviation we must consider the role that both formal and informal financial services might play as mechanism to halt this descent or indeed act as leverage for upward movement, albeit most likely incrementally and to an intermediately stage. In addition, inappropriate financial services may actually accelerate this descent, as assets are eroded and high debt burdens accumulate. Perhaps the potential for poverty alleviation through economic growth and development is moderated by access to appropriate, context specific, financial services. In the next section we explore in more detail the intersection between the poor and the formal or informal financial services on offer and in use in countries in sub-Saharan Africa and other developing nations.

Money management by the poor

How do those in the developing world, especially the poor, manage their money and gain access to credit? Evidence shows that the poor actually have very active financial lives, using a variety of services, tools and techniques to manage their income, expenditure, borrowing and savings (e.g. Collins et al., 2009; Collins and Murdoch, 2009, Krishna, 2010). Many case studies demonstrate how the poor in the developing world are typically hard-working, ingenious and resilient (Waibel, 2012) but restrained by economic barriers (e.g. Martinussen, 1997), institutional voids (Collins and Morduch, 2009; Mair et al., 2012) with limited upward mobility (Krishna, 2010).

In a study of low income households in South Africa loans were used to cope with life event 'shocks', schools fees, to eat when income is short and to participate in community activities such as weddings. Even the wealthier members of society used informal as well as formal sources, primarily due to the flexibility, reliability and discipline these services offered (Collins and Morduch, 2009).

Typically the poor in the developed world have multiple jobs or income sources, and may also manage their own small business (agriculture or non-agriculture). In at least 40% of households in Kenya one or more members operate a micro business, potentially contributing 40% of Kenyan GDP (Liedholm, 2002), but these businesses are often too small to be efficient

(Banerjee and Duflo, 2006). Agricultural areas are dominated by small subsistence farms and enterprises that form poverty traps (Waibel, 2012). Informal economy employment typically dominates in African economies; in Kenya it's estimated at 6 million, in contrast to the estimated 2 million in the formal economy (cited in Kapila, 2006). The informal economy is variably defined, but traditionally viewed as the survivalist *"unregulated non-formal portion of the market economy that produces goods and services for sale or for other forms of remuneration"* (Becker, 2004, p.11). Within this space numerous AFS providers have emerged to fill voids left by the formal economy.

The financial dairies gathered by Collins et al. (2009) from more 250 households in India, Bangladesh and South Africa illustrate the diverse range of transactions taking place in such households utilising services from both formal (regulated) and informal (unregulated) mechanisms. Not only were families saving, borrowing and spending money but they were repeating this process in-kind amongst their communities, loaning commodities such as rice or salt. The close social networks that give access to informal in-kind support illustrates how crucial social capital is, but this also illustrates why community/peer pressure might be so powerful (for example the expectation of a suitable community feast at a burial, or the threat of being ostracised when failing to make a payment in a community saving scheme). Interestingly Collins et al. (2009) also found that the net physical assets of their participants changed little over the study; with livestock born, dying and being eaten and housing stock changing little. The participant variability occurred within their financial diaries in terms of the type and extent of formal and informal financial instruments used; with four the minimum number, and an average of 10 in South Africa and just over 8 in India.

The financial portfolios explored by Collins et al. (2009) and Krishna (2010) show that the majority of income earned by the poor is spent. Typically this income is juggled across multiple liabilities e.g. it is used to pay household expenses, repay loans, pay life insurance, rent and a myriad of other everyday demands. Monies saved are often very small given that in the poorest households most of their income is spent on food (Hammond et al., 2007), but with fuel also a significant expense. Banerjee and Duflo (2006, p.5) suggest that the urban poor spend 56-74% of their earned income on food and the rural poor spend 56-78%. The 'stages of progress' (Figure 1) capture items prioritised in the everyday spending portfolio of the poor in a community in western Kenya (after Krishna, 2010). In the financial diaries provided to Collins et al. (2009, p. 32) year-end asset values were very small ranging from $68 in Bangladesh, $115 in India and $472 in South Africa. These relatively minor amounts mask the turbulent activity taking place in poor households. Their push (deposit, lend or repay) and pull (withdraw, borrow, accept deposits) of cash flow through a wide range of financial instruments was far higher (e.g. turnover in rural areas in Bangladesh was $568 and $3447 in South Africa). Most of this turnover activity was typically spent on everyday items and occurred informally outside the purview of regulators and bankers, essentially within the informal economy.

Many of the interviewees we visited during our fieldwork did not have a formal bank account. In the absence of the provision of a formal bank account, informal mechanisms are utilised extensively by the poor. Without a bank account low income households are excluded from associated saving schemes. They are unable to show a credit history to quality for a bank loan at a reasonable interest rate. They are unable to deposit monies and must use expensive cheque cashing services (Barr and Blank, 2009), and alternative informal deposit systems (Rutherford and Arora, 2009). The one-stop shop provision of a formal bank allows the fully banked to access services for paying bills, depositing income, withdrawing cash on demand, run an overdraft, apply for loans, and join specific savings scheme. In the developed world low income household turn to high fee non-bank providers such as cheque cashers, payday loans, and pawnshop loans. The equivalents to these exist in the developing world, often run by local money lenders who also offer these services for a higher fee than the banks. Until recently, the levels of incomes generated by poor households (aptly described in studies by Collins et al., 2009; Rutherford and Arora, 2009; Krishna, 2010) have typically been considered uneconomical markets for banks to target. Added to this, there are complications from lack of literacy and geographical inaccessibility of reaching a bank branch. Even proving identity might be a barrier (OFT, 2010) when births are unregistered. So it is hardly surprising that low income households in the developing world tend to lack formal bank accounts and turn to AFS providers. Although notable successes such as M-Pesa and recognition of the potential market within the BoP (after Prahalad, 2004; London and Hart, 2010) has led to a perceptible shift within the banking sector and an increasing focus on developing products and services targeting the poor.

The equivalent alternatives to the variety of financial services used by the banked are offered by a multitude of AFS providers in the developing world. Examples of these with short descriptors are provided in Table 1. This is not a fully exhaustive list but illustrates the kinds of services we saw during our fieldwork and that other studies have identified (e.g. Collin et al., 2009; Rutherford and Arora, 2009; Krishna, 2010; Ellis et al., 2012).

Table 1. Examples of informal / alternative financial services used in Africa, and elsewhere in developing world

Name	Description	Type
Home bank	The practice of hiding money at home.	savings
Money guard	A trusted individual who guards your money, usually for free	savings
Converting money to an asset	Gold jewellery is often considered to a mobile form of wealth	savings
Deposit collector	Where a third party is paid to store someone's savings. Small sums of money are collected at regular intervals and then paid out in a lump sum	savings
Rotating savings and credit associations (ROSCA's)	Ranging from informal savings clubs to formal societies. Monies paid in at regular intervals by all members and then paid out on a rotating basis. Often called a Merry-go-round in Kenya, or Sou Sous in the West Indies and West Africa	savings
Accumulating credit and savings associations (ACSA's)	Monies paid in on a regular basis and then paid out at the end of the period to all members at same time as a lumps sum. Some groups may offer small loans to a member of the group for an interest fee	savings, loans
SACCO (Credit Unions)	The term credit union is not typically used in Africa. Savings and Credit Co-operative (SACCO) are member owned groups, who save in a club and loan funds internally at reasonable interest rates.	savings, loans
Family money	Sourcing loans from family and friends. Often an expectation that the more prosperous in a family will provide finance for emergencies, or business start-ups.	loans
Harambee	A community self-help funding event typical to Kenya. Sometime used to gain funds from the community after a disaster or to raise monies for	loan

	children's tertiary education. Can be considered as a 'loan' as the expectation is that all members contribute to harambee when called	
Sweat equity	Borrowing monies on the basis of promised future labour	loan
Local money lender	Loans given without collateral and repaid at regular intervals over subsequent weeks or months, for a interest charge for examples 15% (see Rutherford and Arora, 2009)	
Reciprocal lending	Community members, often women, lend each other small quantities of money or food with the expectation this is paid back and that if in need they would be offered the same	loans
Converting assets to cash and back again	Pawning - assets such as gold jewellery are given to a pawn broker in exchange for cash. Once redeemed, with interest, the item is return. If the lender defaults the item is kept and sold. Mortgaging land - for those will access to title deeds they may mortgage the land they hold, often in the countryside.	loans
Burial funds	Fixed sum paid each year per share with a fixed sum payment made if someone dies. At end of the year all remaining funds are distributed amongst members	insurance, savings
Marriage fund	Unmarried members or family pay into the fund which pays out when they marry (or reach a nominal age), but can also take out a loan from their fund	loans, savings, insurance
Crowd funding	A platform that offers individuals the opportunity to directly invest in a business for shares, or return of their investment or with little expectation of a return.	investment
Microfinance	Provision of financial services to the poor through NGOs or microfinance institutions – offering microcredit and other financial services such as insurance and payment services ,	loans, insurance
Microcredit	An element of microfinance whereby small loans are provided to the poor	loans

Access to a secure deposit system is a constant challenge for the poor (Rutherford and Arora, 2009). Many people in Africa will hide money in their homes, in holes in the ground; anyplace where they feel it will not be found. They may save their money in livestock, jewellery or other assets (Rutherford and Arora 2009). In the countryside particularly, converting spare cash into 'lumpy assets' (chickens, then goats, then cows) or into grains or other divisible commodities is a long-standing tradition (Rutherford, 1999).We often saw examples of families choosing to buy a few chickens or a goat when cash injections came in. However such items are not easily liquidated in order to access small monetary sums on demand. Equally they are not fully secure as they may be stolen or die. Sometimes funds are placed with a trusted neighbour (often known as a 'money guard') to keep away from claims made by landlords, creditors, beggars and their own families.

A variety of 'fringe banks' (after Caskey 1996) exist in the informal sector. These include moneylenders, pawnshops, deposit collectors, money guards, and savings clubs. Rutherford and Arora (2009) view savings schemes as critical to how the poor manage their money. Forming a collection of people to save together is not a new phenomenon, nor one that is restricted to the developing world. Many in the UK save in Christmas clubs, putting money away each month with a club leader which is then distributed in shopping vouchers to cover Christmas expenses. Supermarkets such as the Cooperative offer saving stamp schemes where shoppers buy a small number each time they visit to accumulate small amounts of capital. The accumulating savings and credit associations (ASCA's) found across Africa are very similar in principle.

A variant on the ASCA is the burial society. The poor are typically excluded from insurance products, and the burial society is another form of saving club that in essence operates as an insurance policy. Individuals pay a set sum into the fund each week and a payment is made if someone dies. This provides automatic cash injections for the funeral expenses. Sometimes members might borrow from a relative's burial fund at no interest (see Collins et al. 2009, p.85) to cover shortfalls in funeral expenses. So whilst these funds do not pay all costs they do provide a lump sum that makes raising the rest of the monies to be found less overwhelming. Again there are significant societal expectations underpinning the operating of burial societies. Interviewees described fairly restrictive expected codes of conduct and the pressure that can be exerted on community members who fail to make requisite payments. The success of these types of savings clubs and participatory insurance schemes is linked to the commitment and stability of its members. If members become geographical more mobile these types of schemes may suffer. It will also be interesting to see how the emerging formal insurance products that are being developed, such as paid funeral plans, penetrate into such spaces.

Rotating schemes (ROSCAs) are slightly different as they pay out to one member each week. In Kenya these are often known as *merry-go-rounds*; though they are in widespread use across Africa under a range of names such as *Sou Sous*. These schemes do not offer loans and the social pressure to pay your weekly dues is even more acute. Those that default may feel ostracised by their community and will certainly lose their 'turn in the queue'. Many of our small entrepreneurs were part of multiple merry-go-round schemes, all maturing at different times. Again this is a coping tactic employed by the poor to try and accumulate small lump sums of money in a disciplined manner.

Case vignette: Group saving and loan group in Lake Kisumu

During the fieldwork we were privileged to meet and observe a women's saving group in Kisumu near Lake Victoria in Kenya who were receiving training on their new savings club. This case vignette is an example where individuals can only accumulate small sums of money and would typically be unbanked.

> *"they were not really into saving that much, because the money they get from the papyrus is so little, so you find that if they don't even get 100 shillings, they spend it to household budget, then the only thing remaining is, like, 20 shillings or ten, and that means you cannot only just put it in a tin somewhere. So it's not much saving"* (Interview with representative of EcoFinder Kenya)

We observed a weekly meeting of the savings group who are working with CARE Kenya (a development-focused NGO) in partnership with a local community NGO (Ecofinder Kenya) and the Equity Bank to provide a group savings and loan scheme. Equity would offer a bank account that could host the funds accumulated by the savings club. The local NGO also provided training activities that covered not only the management of the fund but also what members might do with their lump sums for income diversification in the future.

> *"so in future, if they can be able to be trained on other enterprises, so … not just depending on papyrus, because if the seasons are bad like now, they can hardly provide for their family"*

> *"we are also going to do some constitutional development whereby they come up with the constitution [for their group] on what they want to do. And again, we had to identify which constitution is best for them. Then, … we do some … skills training. We … also train them on idea development… we can also help them train on how to …. poultry farm….seedlings… So when the season of rain is there, they can as well join this idea of selling*

seedlings to other people" (Interview with representative of EcoFinder Kenya)

The meeting had 46 members of the community present, mostly widows who harvest papayas grass for a living, who were based across two savings groups. We were able to see their record keeping and speak to the group representing the community as the officers. Every Friday all the members of the club paid 50 Kenya Shillings (£0.35); 30 for the loan fund, and 20 for the social fund. The loan fund is paid back out to members who require a loan, whereas the social funds accumulate, and paid out at the end of 8 months.

The women's group have a vision for their future, with their saving scheme playing a key role in facilitating this vision. Capturing more of the informal value chain (after Holt and Littlewood 2014), delivering straight to market and being able to negotiate prices is a key element of this.

"They are having a vision. They're saying that in five years' time, they will have a storage facility and everybody coming for papyrus will contact them, as a group. Yes. They're also thinking of having their own second hand vehicle pick up, so they can be able to transport and supply their customers with the papyrus, not them coming and then bargaining low prices." (Interview with representative of EcoFinder Kenya)

This case vignette illustrates how mainstream banks are engaging with low-income customers through partnerships with community groups and NGOs. This emerging form of partnership providing financial services to the BoP offers increased security for their deposits. Rather than having a bank account to host the monies, some ACSA's are invested with an individual 'treasurer'. There are stories of that person running off with the accumulated funds prior to the final pay-out, or thefts occurring. Although community groups that form these are often very close knit; it is their social cohesion that builds the trust required to stay together and provides the peer pressure that means individuals feel they must contribute at the weekly meetings. The formalised bank account, offered within an informal economy framework offers these women access to secure deposits, savings and a loan facility, alongside the support of a local and international NGO offering skills and enterprise training, and group facilitation services.

The discipline these offer is one of the factors noted by the sample of low income families in South Africa explored by Collins and Morduch (2009), where even the wealthier members used these schemes as a way to ensure regular savings. SACCO stands for Savings And Credit Co-operative and is an acronym used widely across Africa to describe formalised and regulated Credit Unions . They are typically formed from amongst a specific group, such as an employee pool or labour union rather than a disparate community and can offer savings and loan facilities.

Transferring remittances 'upcountry' to support extended families is a long-standing tradition, and indeed expected responsibility, of those working in paid employment overseas and in-country in the larger urban towns. Traditionally, transferring this remittance has been fraught with risk or burdened by high charges when accessing formal wire services. Many of our interviewees talked about borrowing funds from families. The safety net provided by family finance is aptly illustrated by the accounting provided by Collins et al (2009) of the funeral expenses for the mother of one of their study participants. Relatives provided 13 goats of which 10 were slaughtered for the funeral feast, and $279 in cash. Funds were also provided from the burial society insurance schemes the mother participated in, alongside monies from the savings clubs, and the funeral parlour. A complex manipulation of different sources of finance and assets was used to cover the costs of the funeral as well as the follow-on ceremony one month later (the *umkhululo*).

However the role of family within the financial services portfolio used by the poor is both a blessing and a curse, in many respects due to the expected ‘contribution’ family members in paid employment are expected to make to the upkeep of the extended family. One interviewee noted she rarely travelled back to her home village anymore as there was an expectation that any spare capital she had would be shared with the rest of family. This was preventing her from accumulating capital to make investments in her future, such as tertiary education and acquiring assets such as land.

Case vignette: M-Pesa

M-Pesa is a joint venture between Vodophone and Safaricom in Kenya, and was originally bankrolled by the UK's Department for International Development (DFID). It provides an electronic mobile phone money transfer system for the traditionally unbanked customer and is now used by two thirds of the adult population of Kenya (over 17 million), transferring monies that equate to approximately 25% of Kenya’s GNP (Economist, 2013).

In East Africa, especially Kenya, the use of mobile phone services has revolutionised savings schemes and money transfers for the poor. Individuals can credit their phone with just a few shillings, with this money held in a personal 'account' so it can be used to send remittances upcountry or make payments. In the major cities there are even ATM machines that allow you to make cash withdrawals. M-Pesa is an excellent example of commercial businesses developing a financial service product for the under and non-banked. It has become a crucial component of many business supply chains for sending and receiving cash in Kenya. Cookswell, a Kenyan small business selling energy efficient cookstoves (Jikos) in Kenya and elsewhere in East Africa, receives payments via M-Pesa and then sends the products to the customer using local transport links or the parcel post for international delivery .

The original premise of M-Pesa before the commercial launch in 2007 was as a facility for customers to repay microloans. Market testing refocused the services as a person to person money transfer system launched with the marketing phrase “send money home” (Mas and Radcliffe, 2010, p. 12). Now it offers a platform for money transfers, atm withdrawals, and accumulating small deposits. Transfers ranging from Ksh 10 - 70,000 (£0.08 - £484.63[iii]) with charges ranging from Ksh 3-330 (Safaricom, 2014). M-Pesa also intersects with the formal economy, allowing organisations to pay salaries as well as collect bill payments (World Bank, 2014c)

Joseph makes baskets from papayas grass selling these along the roadside in Nairobi. He buys the grasses from Kisumu for Ksh 250 per roll. He describes how he no longer has to send a person to pay the supplier, running the risk of them absconding with the monies claiming they had been mugged. He now uses M-Pesa to send the payment and the materials are placed on a local bus and collected from the Nairobi bus station.

Key elements of the successful M-Pesa model include:

- Leveraging the extensive mobile phone network in Kenya to access the unbanked
- Designing usage based revenue models compared to the traditional float-based models
- Providing a low cost transactional platform (Mas and Reynolds, 2010; World Bank, 2014c)

Vodaphone has just announced their intention to launch M-Pesa in South India in March/April 2014 (Business Standard, 2014) as a mobile banking platform offering interest bearing accounts, money transfers, utility payments, bank remittances and other bill payments for unbanked and underbanked poor in the region. The M-Pesa initiative epitomises a successful co-created multinational /BoP business model (after London and Hart, 2010) offering access to financial services for those at the nexus of the formal and informal economy.

Uptake of this innovative mobile phone banking technology has been slower in other parts of Africa, but it is growing. Many banks in South Africa are experimenting in this arena but in a crowded market place no one product has gained widespread acceptance. Barriers include lack of development of mobile phone reception coverage, gaining acceptance for this technology from the often illiterate, and reaching a critical mass of users..

Access to credit is another key service that many low income households are excluded from. Short term shocks, coupled with inconsistent levels of income generated at sporadic intervals, may leave families crippled by short- term debt or with relatively large short-falls to navigate. Another informal mechanism for raising cash is to draw on the resources of a community. At a personal level many households engage in reciprocal lending, mostly in situations where they are part of a trusted network, typically female. The Harambee is a community based fund raising activity, where community members donate to a 'worthy' cause. One of our Maasai interviewees described how a Harambee is called to raise the funds for tuition fees each year for those attending the university in Nairobi. She was worried how she was going to raise her fees this year as it was 'not her turn'. This suggests some form of underlying social contract governing the rules around what they are called for, and for whom. In most instances the recipient does not 'pay back' the funds directly but there is an expectation that they will contribute to any future Harambee for others. This embeds the societal expectation of contributions to the family and community when an individual has reached a particular level of prosperity. The stages of progress described by Krishna (2010) and illustrate in Figure 1 provides indicative examples of at what stage an individual is considered prosperous with an implied social contract to give to the family and wider community.

Loans are also available as previously described from within ASCAs. Within the group saving and loan scheme in Lake Kisumu we observed members were able to access small loans, approved by the group. Loans would not be possible from a bank but the community group who administer the collective scheme are able to decide how much someone can lend based on their payments into the scheme and charge a small interest that is then repaid back into the fund, which is distributed at the end of the savings cycle. Loans may also be acquired from local money lenders, at relatively higher interest levels. Being part of an ASCA therefore not only allows individuals to save but offers them a route to gain credit.

Banking products are increasingly being developed to serve these community savings clubs, for instance the Faulu Chama account designed by the Microfinance Company Faula Kenya profiled in our next vignette. Microfinance is another form of finance that is increasingly offered to the poor. Again this is an example of BoP partnerships developing financial services that mimic the mechanisms traditionally used in these types of communities in the developing world. In conversations the Faulu savings clubs seemed relatively well received. Those that had borrowed monies from microfinance lenders to start businesses had used the capital to buy items such as a container shop.

Case vignette : microfinance from Faulu Kenya

Faulu Kenya is a Deposit Taking Micro-Finance Company, registered in Kenya under the Micro-Finance Act and regulated by the Central Bank of Kenya, it became known as Deposit Taking Microfinance (DTM) in Kenya in 2009 [iv]. Faulu was founded in 1991 as a programme of Food for the Hungry International (FHI), a Christian relief and development organization based in Phoenix Arizona in USA, with the aimed of providing access to savings, credit, micro insurance and mobile banking solutions to millions of unbanked Kenyans.

They currently offer a range of financial services aimed at the unbanked and underbanked including:

- The *Faulu Chana* account aimed at formal and informal groups of five or more members. This account offers loans of up to ten times the account balance, along with interest payments for savings. Individual members of a Chana group can also apply for loans. This account offers a service to the informal ASCAs and savings groups.

- *Kopa Chapaa* is a loan facility offered in association with AirtelMoney customers to provide small cash loans for emergency situations borrowing from Ksh 500 -10,000 paid back within 10 days, mimicking the service typically offered by the informal money lender or family members. Available directly through their mobile phone, customers can access these small loans without needing to visit a bank, and linked to mobile phone transfer services they can subsequently send this money to a required destination or withdraw a cash sum.
- The *Maisha* account offers a low cash savings account depositing a minimum of Ksh 70/ week and a loan facility of up to three times the account balance, as well as life cover
- The *Lengo* account offers a savings plan for larger sums needed for business capital, weddings, school fees and other investments, as well as a loan facility of up to 80% of the savings deposited.
- *Faula Faida* is aimed at the more formalised customer; those in formal employment, organisations such as churches, NGOs, investment groups, or companies. The account earns interest of up to 12% per annum and requires a deposit of between Ksh 5000 and millions.

The challenge with microfinance is when it is sold as products in BoP markets to those for whom it is unsuitable. Horror stories abound, especially in India, of families losing their land because they borrowed from a microfinance provider, ate the monies and then were unable to repay. Sometimes individuals turn to money lenders to pay back the microfinance lenders, spiralling further and further into debt and getting dragged further down into the poverty pool. The pressure of 'exposure' as a defaulter has also led to suicides and people running away from home villages (Biswas, 2010). Roy (2012, p. 139) describes *"bottom billion capitalism"* as an *"ensemble of practices meant to assimilate the world's billion or so extreme poor into global circulations of finance"*- a repositioning of the extremely poor as entrepreneurial subjects in a grand experiment in risk, with the microfinance industry scrambling to retool in the wake of the emerging stories of microfinance suicides in India.

We would argue that it is the community-led, hybrid partnerships offering microfinance products that reflect a consideration of purpose and capacity that truly offer the transformative financial services that meet the 'initial' vision of microfinance as a tool for income creation; rather than the commodification of microfinance as a profitmaking channel for multinational financial institutions and inappropriate 'mis-selling' to the most vulnerable. Schemes such as ASCAs with loan facilities or accounts that reflect savings already accrued such as the Maisha account offer access to credit but potentially minimise risk. However as the poor in places such as sub-Saharan Africa are increasingly 'financialized' (after Roy, 2012) the challenge is avoid the pitfalls reflected by the practices of the payday loan industries of the global North and to truly empower the poor through education about and access to appropriate, context specific financial products and services.

Crowdfunding is receiving increasingly interest in both developed and developing worlds, as a route to access funds to deliver a project or support enterprise creation and development. For instance the West End production 'The Pyjama Game' recently used a crowdfunding platform to reach investors (Trueman, 2014). Depending on the format adopted crowdfunding may include a philanthropic investment, repayment of the original sum, or indeed the taking of profits. Crowdfunding platforms also offer intriguing opportunities for investment amongst the BoP, as viable alternatives to bank loans and family loans, including working in association with microfinance agencies. Again the key is to have a viable business model, rather than accessing the funds for household expenses. Platforms such as Kiva offer the poor in the developing world access to investment and mentors to support enterprise creation.

Case vignette:- crowdfunding through Kiva

Kiva is a non-profit organisation founded in 2005 to offer a platform "*to connect people through lending to alleviate poverty…Leveraging the internet and a worldwide network of microfinance institutions"*. Investors can contribute from $25 to a named project, individual or business profiled on their website. This connects those from a more affluent economic background to those from within the BoP seeking investment. Kiva's website details their impressive statistics:

- 1,050,851 Kiva lenders providing more than $533 million in loans across 73 countries. The loans are sent to one of the 241 field partner microfinance institutions who manage the potential investors. Kiva reports a 98.98% repayment rate to lenders (Kiva, 2014)

Kiva expects field partners to adhere to the principle of the *Smart Campaign Client Protection Principles* [v] designed to ensure that clients are credit worthy and do not borrow more money than they can repay.

Conclusions

This paper provides a framing of the types of financial services that are offered to the poor in developing countries at the interface between the formal banking system and the informal alternative financial services market, alongside illustrative examples. It provides a useful starting point for those interested in considering the interaction between financial services for the poor and their descent into, and exit from, poverty. In particular this paper offers a series of examples that are emerging of financial services products that are mimicking traditional informal forms of money and asset management used within poor communities. The paper presents an adaption of Krishna's (2010) stages of progress and poverty pools and considers whether appropriate financial services tailored specifically for low income consumers can act as the bridge to lift individuals out of poverty or at the very least to help slow their descent into it.

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[i] In the USA low-income refers to an individual whose family's taxable income for the preceding year did not exceed 150 percent of the poverty level amount. For a family of 4 this means a household income of less than $35,325/year ($678/week), or $17,235 ($331/week) for an individual (USDHHS, 2013). In the UK the low income population is defined as people living in households where the household income is in the lowest 20 per cent of all household incomes (OFT, 2010). This represents a disposable income threshold of approximately £172/$258 per week for a single person, and £392 / $588 per week for a couple with two children (DWP, 2013).

[ii] Low income GNI ($1,035 or less per annum), lower middle income ($1,036 - $4,085), and upper middle income ($4,086 - $12,615).

[iii] Currency conversions correct as of 25.2.14

[iv] http://www.faulukenya.com/index.php?option=com_content&view=article&id=47&Itemid=53.

[v] http://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles