# Training for the Women's Union & Local Management Board

## Objectives

Have staff **critically think** about microfinance.

**Inform** them about the broader microfinance movement.

**Motivate** staff to do their best job.

Provide additional **technical skills** including

- Excel training
- Money administration training

Inform them about H4H's microfinance policies and client protection procedures.

# Part One – General Microfinance Knowledge

Purpose of Microfinance

Let's start with a story. The story might be true, or it might not be, but it is now part of microfinance folklore, so we should all hear it.

One day, in 1974, an economics teacher in Bangladesh was walking home from work. He passed a group of women who were making baskets out of bamboo (or bamboo chairs, depends on which version of the story you read). He stopped and began to talk with them.

They told him that they did not have enough money to buy the bamboo themselves, so each morning, they had to borrow money from a local money lender. They would make the bamboo baskets and in the evening, they would give the bamboo baskets to the money lender. The money lender was then able to sell them at a very high price.

The economics teacher thought: if only these women had a little bit more capital, they could buy the bamboo for themselves, sell it for themselves for a high price, and keep the profit for themselves.

So he lent them some money, at a zero interest rate. The next month, he went back. They repaid his money and because they had been able to sell the bamboo baskets by themselves, they had made a big profit.



**Question: What is the purpose of microfinance?**

*Encourage general discussion, thank all participants for their contributions. Conclude by making sure that the following point is made*

At Hearts for Hue, we believe that the point of microfinance is **financial inclusion**.

- Financial inclusion of very poor people is their **right** in a modern economy.
- Financial inclusion can give them many **opportunities**.
- Financial inclusion can **protect** people from unfair practices.

## A Short History of Microfinance

Microfinance has a long history. For centuries, people have been giving loans to very poor people. However, modern microfinance is generally thought to have begun with an economist called Muhammad Yunus, in Bangladesh, in 1974…

From 1974, microfinance has grown very quickly, today there are about 125 million microfinance clients around the world, and about 10 million microfinance clients in Viet Nam (so you're part of a very big global movement!).

Muhammad Yunus started what was one of the world's first, and is now one of the world's biggest microfinance organization. It is called the *Grameen Bank*. For their contribution to reducing poverty, the Grameen Bank and Muhammad Yunus were jointly awarded the Nobel Peace Prize in 2006.

Even in the beginning, ***The Grameen Bank*** was very big and had offices all across Bangladesh (it had and still has a lot of government support). The Grameen Bank initially offered very basic group loans. Each loan had a duration of 12 months, interest rates were fixed, and they were group, joint liability loans. All borrowers had to come together once a week, to the Grameen Bank to repay their loan (together). This was the primary (of only a few) financial product offered by Grameen at this time.

Initially this formula was very successful. **As a group, discuss the benefits of the original Grameen style.**

- **Very reliable**. Never before had borrowers found someone that was so reliable. That they could count on to be there every week, and never make a mistake.
- **Weekly repayment**. This means that as soon as you save the money, you can deposit it. The weekly repayments were very small. Many borrowers appreciated this.
- **Weekly meeting**. You know very early if there is a problem.
- **Social connections**. With the weekly meetings, you get to know the other borrowers, they put pressure on you if they think you will default, but can also support you.

However, over time, there was pressure on Grameen to change. **As a group, discuss the drawbacks to the original Grameen formula.**

- Too **inflexible**. Maybe I want a bigger loan, or a different loan duration.
- **Joint liability**. If someone else defaults, I have to repay... Is that fair?
- **Weekly meeting**. Have to go to the branch every week.
- **Public repayment**. Lack of privacy; I don't want everyone in the village to know about my finances.
- **Savings. Savings. Savings.** Many people use microfinance because saving money is difficult. If you leave the money in the house, there is a big temptation to spend it, pressure from other family members to access the money, and risk of it being stolen. So members were taking a loan as a way of saving money. They would be forced to put a little bit of money aside each week to make the repayment. The only problem, is that they were earning a negative interest rate on their savings by doing this!

**Grameen I to Grameen II**

In 2000, Grameen made some significant changes, we will focus on the changes made to the products they offer. Essentially we can sum up the following by saying that there was a shift towards more flexible loans, and a greater focus on savings. Note that we're focusing on Grameen here, because the lessons they learnt are a good example of the lessons a lot of other microfinance providers were learning at the same time.

In recognition of the varied needs of clients when they borrow money, Grameen begun to offer a wider range of products. They offered varied loan durations and varied (bigger) loan sizes. As an example of the varied needs of clients, we can think of the different financial needs a pomelo farmer might have (who will have a big crop once a year) as opposed to a pho shop owner who will make a small profit every week of the year.

A greater focus on savings was also developed. In particular, passbook savings accounts were offered. Members with a passbook savings account could attend the meetings, and save as much, or as little as they wanted for that meeting. This meant that as soon as borrowers had money to hand that they wanted to put aside in a safe place, they could do so. Importantly, borrowers were allowed to withdraw when they wanted to. Passbook savings accounts became very popular.

A pension savings account was also developed which has many similarities to a conventional term deposit.

Grameen also officially ended joint-liability of repayment.

In addition to the new products offered by Grameen II, there was a push towards increased computerisation of all record keeping and higher client to centre manager ratios.



**Discuss:** To what extent do you think the changes from Grameen I to Grameen II addressed the needs of the clients?

**Concluding Discussion:** Why do H4H Borrowers Borrow? What do H4H Borrowers Want? How can we as a management team best serve H4H borrowers?

Thank the participants for their contributions, make sure that they include the following…

- Borrowers wanting a savings facility
- Consumption smoothing
- Business investment

http://www.microsave.net/files/pdf/GRAMEEN_II_The_First_Five_Years_2001_2005.pdf

http://www.findevgateway.org/sites/default/files/mfg-en-paper-grameen-ii-and-portfolios-of-the-poor-jun-2010.pdf

http://www.findevgateway.org/library/grameen-ii-and-portfolios-poor

http://www.microsave.net/files/pdf/MicroSave_GB_Briefing_Note_1_Overview.pdf

*H4H Principles of Microfinance*

1. Serve the Poorest

**General discussion: Is it best to serve the poorest? Is there some disadvantage in serving the poorest? (eg. Maybe they cannot repay as well as some wealthier borrowers?)**

2. Serve Women

**General discussion: Why serve women?**

*Make sure the following three points are made*

- *From a rights based approach. We want to help empower women.*
- *Women are usually better borrowers, with higher repayment rates.*
- *International evidence suggests that when women control money, the children are benefited (eg. Higher education outcomes)*

3. Practice Participatory Management (build capacity)

Participatory management is the valuing of input from clients and other parts of the community in decision making processes. Group leaders are part of our management team. The Women's Union is part of our management team. If clients come to us to say that they want a different loan size, or a different loan duration, we will listen to their feedback.

**Discussion: Why is it important to practice participatory management?**

The short answer is **Capacity Building**. At H4H, we do not want borrowers to simply borrow money. We want them to learn how to navigate the financial system, to be actively engaged in their own business ventures and to gain confidence through the program.

4. Be financially self-sufficiency

The microfinance programme must not make a loss. That means that the interest payments must be greater than all the costs of the programme.

**Discussion: Why is it important that we do not make a loss?**

If we are making a loss, we will lose sponsorship. We have to be a sustainable programme. Women in Hue will need our assistance for many years. If we are making a loss, we will not be able to help them.

5. Exceed international standards on reporting and transparency

**Discussion: Why is it important that we are transparent in our reporting?**

There are many reason, maybe the top two are:

Make our programme stronger by showing us ways to improve & Increase people's trust in our programme and so help attract donor funding.

## Part Two – Technical Skills

<u>Bank Training</u>

*If needed, H4H will physically go with the management team to the bank and help them to do a transaction into the H4H bank account.*

<u>Excel Training</u>

You may want to do some or all (or none) of the following, depending on the level of ability/interest in the group.

- Creating a money-in sheet

Money in Sheet, Wk 1

| Borrower | Principal | Interest | Savings | Total | GL sign | WU sign |
|---|---|---|---|---|---|---|
| 1 | 100 | 10 | 1 | 111 | | |
| 2 | 100 | 10 | 1 | 111 | | |
| 3 | 100 | 10 | 1 | 111 | | |
| Total | 300 | 30 | 3 | **333** | | |

Learning Points

Adjusting column width

How to layout a simple spreadsheet/table

Sum function