

Market Place on Innovative Finance,

Interview Daryl Collins

“Portfolios of the Poor – How the World’s Poor Live on \$2 a Day” is a book written by Daryl Collins, Jonathan Morduch, Stuart Rutherford and Orlanda Ruthven and published with the help of the Bill&Melinda Gates Foundation. It promotes the groundbreaking vision that poor people can save money and very often put proportionally more aside than the better-off. And to do that, they display a sophisticated array of techniques. One of the authors, Daryl Collins, participated at a workshop organised by WSBI at the Marketplace for Innovative Finance in Paris and Weselina Angelow took the opportunity to interview her.



Poor people deploy a wide array of tactics to put money aside. You say that the products and services banks offer are not focused on the specific needs of the poor, such as loans for very short periods, for low amounts, or savings products for also short periods. Do you think that banks would be able to find a profitable solution to this problem?

Lately we have seen a lot of interest in alternative funding solutions for low income groups also by the commercial banking sector. I see a lot of banks engaged in finding alternative product solutions and innovative ways to provide financial services also for poor people. It seems that branchless banking is part of this solution finding process and providing financial services through banking agents is an excellent (intermediary) step. The case studies of providing financial services through postal or non-postal agents as presented by WSBI members KPOSB and Southafrica Postbank at today’s workshop are superb examples for innovative solutions for low income customers in particular in remote areas of the countries.

Don’t you think that the lack of financial education of many poor people is a major setback for increasing the number of banked people?

This is indeed a very interesting question as I am particular interested in financial education. You will observe in poor communities that people are quite savvy about financial instruments which are for instance being offered to them through informal systems such as savings clubs of their local community. I could observe quite a profound financial literacy and knowledge sharing at community savings clubs. Where the financial knowledge then gets lost is in the translation/ transition of these services from the informal system to the formal banking system. Formal financial products are complex and very often not easy to understand and people in many cases don’t dare to ask in order to understand them. In the light of that, the formal financial sector is challenged to bring simple but useful financial services to the unbanked rather than focusing on budgetary and liquidity issues only.

Are you sure that the poor would be better off at banks than at the informal system that you describe? A bank will probably never be able to create such a close relationship with customers.

Interestingly, this question was also picked up during this morning’s workshop session. I personally don’t see an issue with formal

services bailing out informal services in the future but rather new innovative formal services complementing existing informal services. Poor people will continue using informal financial services provided by their community and add formal services to their portfolio if they get a chance to do so. In general, poor people sign up quickly for formal services but this does not necessarily mean that they will be saving higher amounts. We have observed that poor people pool out money quite often and rather quickly from their accounts.

In the various savings or loan systems that you describe, such as the Susus in West Africa, I never see a representative of a bank as a member. Is this because nobody is interested in the poor people as customers?

I wouldn’t agree that banks are not being interested in poor customers. We have observed that for instance the savings clubs are keeping their money in banks. In general banks are very good in obtaining new customers, however they are not good in keeping them. I presume this is due to a lack of knowledge in what it needs to keep poor customers. The financial diaries we have been setting up for ‘Portfolios of the Poor’ are very useful in that sense as they show the history of poor people’s savings behavior and how people accumulate money over time. In fact it takes a long time to see patterns resulting from studying this behavior which banks usually do not have access to.

Related to the previous question: you cite Pralahad saying that “there is value at the bottom of the pyramid”. However, you also describe Yunus’ indignation at the stock offering of the Mexican MFI Compartamos. Do you think that the possible relationship between banks and poor should be based on profit? Or should it be based on helping lift people out of poverty first, and create a profitable banking relationship with them later?

This again is an interesting question. I believe we need to see it in a different way. There is no doubt that banks need to operate profitable and it takes along time to get people out of poverty. Therefore a model which primarily is focusing in bringing people out of poverty would be very discouraging for banks. Nevertheless banks could play a pivotal role in helping poor people to sustain their livelihood. Innovative financial services therefore imply a coherent approach where both the poor unbanked population and the formal financial sector are benefiting from.