

CrediCapaz Proposal by Team Esperanza

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By Esperanza

Introduction

In this document, we propose a modified ROSCA that combines the administrative ease and efficiency of a ROSCA with greater flexibility and stronger financial incentives for participation. Though our surveys have helped explain the environment for financial intermediation, and hopefully what many people may want for a solution, many case studies reveal that the “actuarial analysis” that will help us structure the incentives in the future is best found through experimentation and experience. Many important findings will come from these trials, and thus our model is flexible to accommodate new information. What follows is a hypothetical structure that we think is easily applicable, and more importantly, easily adaptable, to fit the specific needs of a savings group. This document does not focus on a rigid framework, but instead illustrates a logical progression from day one to the an undecided future, offering options for everything from structuring the payouts to increasing flexibility as the bank moves forward.

Incremental Implementation

The first implementation of our system will start within a group of SolCom employees. The SolCom employees will go through an entire savings cycle, learning the ins and outs along the way, until hopefully gaining a deeper understanding of the system and its benefits. After successfully completing the intra-SolCom cuchubal, we identify a couple of Asesoras who we seem to really understand the system, and whom we can trust to start pilot programs in their communities. These Asesoras will take the time to talk to people and identify solidarity groups, with the aim of eventually starting new cuchubals. We could also advertise in the SolCom Boletín in order to attract solidarity groups to our program. Regardless, once she/he has found a group, they will discuss in greater length the structure of the group and eventually—we hope—get on board for a cycle. It would be great if we could have a few different pilot programs that use slightly different (or perhaps vastly different) models so that we can identify what people like. The other element that must remain undecided is the final structure, for the needs of our clients should be a driving force in how the final structure is crafted.

One last clarification is that the length of the cycle and frequency of payments is subject to change, but our ideas are best represented through us creating some sort of scenario. This is hypothetical, and we estimate that the loan/savings cycle will be much shorter. Many people have said that three or six months is more convenient for them, and so we will leave final decisions on this for a later time.

Incentives and Structure for the First Cycle

This model assumes a ten-month cycle with ten community participants and one Asesora. The Asesora is there to subsidize the savings of the others by paying in money, but never taking any out (or as we discuss in our later ideas, possibly taking some/more out as a penalty for mismanagement).¹ For the first ten months, each person contributes Q50/month, with their payout as Q550. The 10% return is subject to change to whatever we find an appropriate rate is, either through our surveys or eventually through experimentation. This is, as others have mentioned, a modified ROSCA. The worst aspects of the ROSCA, such as the lottery system and the lack of interest accrued, are not used in our system, which is an important distinction. This system allows people to plan their investments by calling on individuals to schedule when they receive their payout. It is important to note that in this plan, no one holds the money, because there is none to be held. At the monthly meeting, everyone brings their money; the person whose month it is leaves with all of the money. The administrative simplicity of such an endeavor compared to an ASCA, in our view, far outweighs the flexibility that the ASCA does offer. It does not require any bookkeeping and is essentially a time-bound system. This will help limit SolCom’s exposure to risk and avoid a lot of the problems of long-term savings operations. Just as important as the administrative process is the structure that we help craft for timing the actual distributing the money paid in.

¹ We understand that SolCom will be taking a short-term loss in the infant phase of these ROSCAs, but we feel that this is not only a worthwhile loss to take, but it could potentially benefit us greatly. This is discussed in the section entitled “SolCom’s Benefit.” We also have some ideas for restructuring the participation of the SolCom employee in the “Penalties” section.

The Payout Arrangement

In our view there are a few possible ways to arrange the payouts to participants within the ROSCA sphere of options:

1. The first and most irrelevant is the pure lottery system which we will not discuss as it allows no one to plan an appropriate time to receive their money. We could run this in one or more of the pilots if it is a really popular style, but there are so many economic shortcomings to this system that we find it unworthy of further discussion.
2. The second and most market-oriented is through a bidding process that will either be done monthly or in the first formal meeting. By bidding on months, we can allow a sort of market to form where months are tradable and people can allocate most efficiently when they will receive their respective payouts.

The bidding option is our personal favorite though we realize that it may not be the Guatemalan participants'. Nonetheless, there are two ways that we think this could potentially be structured:

a) The participants agree that the monthly payout will be decided at each meeting and not in advance. For this arrangement, people will bid each month in order to receive the payout. People who want a certain month will bid according to how much they really want it, and they will pay that in. The bid money is subtracted from the normal payout, and the "winner" receives the difference. The rest of the members get an equal share of the bid money returned to them (discounting the winner).

Assume a hypothetical 10-month cycle, with 10 members and the 1 Asesora pitching in Q50/month. The highest bid for the first month, January, is Q50.00. This winner then does not take out the full amount that would normally be awarded to her/him, but instead takes out Q500 (550 – her bid of 50). This winner would end up paying in a total of Q550 in the end, but would have had the non-monetary value of receiving her money earlier. This could be looked at as a 10% interest loan. This system still required the person to be disciplined in putting the money away, but she chooses that for herself the Q50 is worth an earlier month. The winner of the bid is excluded from the rest of the bids in the cycle.

The money offered for the bid is split amongst the group so that each member ends up with Q5.56 back after originally paying in Q50. These people who were not the winning bidder get the added bonus of a small sum back that month. In past studies of this structure, the bidding would get progressively smaller until no one wanted to bid for the final few months. Those who stayed disciplined and did not need to take the money out will end up earning interest on the amount they paid in due to others' loans. If four people make a winning bid of Q50 for four respective months, two spend Q10 on their respective months, and the other four bid nothing, then those who waited will have received a hefty amount of interest thanks to those who wanted to loans sooner. This model further promotes savings and financial discipline as members see that those who waited made more.

b) The second bidding model is exactly the same economically, but the timing is different. We propose a system in which all of the bidding is done at the first month, so that families could plan their investments according to their needs. We see much of the savings in these ROSCAs as going for smaller amounts of capital or more commonly, for the consumption of durable goods. This is a big question that we need to think about: will these savings be savings/loans for production or loans for consumption.

3. The final idea is for months to be allocated via a pure lottery before any money is exchanged. After randomly receiving their month, members are permitted to trade months amongst themselves. Payments for trades are not permitted, as to allow compensation would simply revert the process into the exact same bidding scenario outlined in #2. Plus, if we did allow bidding the process of who the bid money goes to creates more unnecessary difficulties.

Perhaps the best system combines elements of some, or even all, of these systems to fit different needs for what different groups want. Much of this will eventually even be left up to what the group is comfortable doing. We certainly believe that creating the bidding process will be the most efficient and least controversial way that we can allow individuals to plan their investment. It also allows us accounts for other forms of value besides money. If a person really needs their money up-front, and bids for it, it is because the individual places extra value on money received at that time. Lump sums of money are certainly valuable to participants, but there is also value in timing the payouts in accordance with the members' desires. If the cycle is shorter, then we predict the necessity for bidding will probably be less because people may not have much preference between such short intervals.

Penalties

Considering penalties for late payments and other problems is important for an effective incentive structure, but this is the area where we feel are beyond the scope of what we can put down on paper right now. It could be necessary for a penalty but we are not sure what is an appropriate amount, or what these penalties could unintentionally encourage. For instance, we do not want to say that there is a financial penalty for late payment and thus give people the option of not paying in on time. Perhaps if there were no penalty option, and thus no option for late payment, people would be more

reliable due to the power of the group pressure. We do not know, but we plan on discussing the penalty option in greater length in group sessions during week five, and also through discussions with the SolCom employees.

One option for disincentivizing late payments is through adjusting the Asesora's role in her monthly contributions and potential payout. We could structure the Asesora's role so that she will only forgoe a payout *given that no one makes a late payment* (or a number of late payments). With one late payment, the Asesora could be entitled to a percentage of the money she paid in throughout the cycle. With two late payments, a little more will be paid out to the Asesora. This will complicate the interest process, but it may prove to be a worthwhile idea. Depending on the length of the cycle, some system of benchmarks with financial incentives attached to them could encourage greater responsibility and dependability. The idea of restructuring the Asesora's role is simply one of these options for encouraging timely payment (and one that potentially captures monies that SolCom would be paying to an irresponsible group).

Graduation and Sophistication

At the end of the first cycle, or perhaps sooner, the groups will decide if they want to renew their cycles and start again. In the following cycle(s) we envision a greater level of sophistication, perhaps graduating in a more ASCA type environment. This transfer could be made gradually by integrating ASCA ideas into the program and making the loan structure more flexible. The first cycle(s) is very important because it helps us establish how disciplined the group is and how effective their enforcement mechanisms are. There is a transferring of competencies within the group (to take terminology from the Bosnia document), for we propose that during these meetings members discuss how the bank is progressing, and that we team that with other financial education.

What sophistication would be appropriate as we renew these cycles? One idea that we worked off of was the idea of creating a structure for shares, as Impacto proposed. With the option of buying shares, we could offer a number of improvements in the flexibility of the savings group. We think that the shares could be beneficial because we could set the amount for one share really low, with the hope that most people will buy multiple shares. This will give poorer people more access into this system, as we will set the price to be affordable to anyone. People could save smaller amounts of money as they first try a program, and save some of their earnings to leverage themselves more in the future. We certainly welcome any system that offers greater flexibility to participants to choose what amount may be best for them.² The payout will still be proportional, but the more money you put in, the more you have earning interest or that you have available for a "loan." We could also start instituting options for a "hardship" loan for family emergencies, or start taking some of the curchubal money and start saving it up for longer-term needs. While there are many options, including the savings group operating indefinitely, we feel that a time-bound system will be more streamlined and holds less opportunities for malfeasance than an indefinite ASCA or ROSCA system. The fact that each cycle ends and that consent is required for renewal will remove the possibility of long-term insolvency. However, if the group decides to graduate into a longer-term endeavor, we should be wary of what administrative difficulties this may entail.

SolCom's Benefit

The potential benefits to Soluciones Comunitarias could be very large. We foresee a number of potential opportunities. By having one of our entrepreneurs within the savings group, we gain a lot:

- She can bring SolCom products to the regular savings group meetings. There will be someone that day who now holds a large sum of money, and perhaps they will feel more inclined to buy a water filter, glasses, solar, etc.
- As our employee monitors the curchubal, perhaps she will be able to scout for SolCom. If she sees someone who exhibits the traits of a community leader—someone who is really sharp, motivated, personable, passionate about her community etc.—SolCom could potentially recruit this person (even if just to start more savings-groups).
- Our work in this field could certainly lead to testimonials in the SolCom Boletin that will further promote similar savings associations.
- We may witness new financial innovations within these groups that top our original ideas, and we can then take these ideas and try to popularize them in other regions.
- SolCom will certainly get a good name in these communities where we help initiate successful savings groups.
- If savings groups take hold within a region, and becomes even remotely popular, it stands to reason that if savings and/or income generation takes place, there will be more money to buy our products. People may even pool money into savings groups specifically geared towards buying some of our products. We could eventually offer product-based ROSCAs, perhaps as a lead-in to more complex and less goal-oriented ROSCAs. We could organize a group of 10 or so who are interested in

² A key difference in this proposal for structuring shares is that our share structure does not come with a system of "weighted votes." For those who have more shares, they will not get anymore representation within the democratic processes/group decision-making process. We feel that a system of weighted votes would disrupt the solidarity of the group, distort the effectiveness of the program, and lead to mission drift.

buying a filtro, and help them set up a ROSCA where every month, instead of walking away with cash, the members walk away with filters.

If the group chooses to graduate into a more sophisticated savings/loan arrangement, we can recommend a wealth of options for future financial services. We are trying to promote savings, but they should have the driving force in how they want to do that and what the money goes towards in the end. If they want to establish the sort of cooperative insurance programs that an ASCA can fund, then we can move in that direction. As for now, we think this is an optimal structure and plan for implementation given existing circumstances. It is a plan that we think can work, and can easily be replicated to work again. It is a plan that leaves a great deal of the details up to the Guatemalan savings groups. It is their money, and history reveals that when the participants' creativity is unleashed, they can find more effective solutions for their own financial needs.