A Note on Providing Access to Savings of VO members

By

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EXECUTIVE SUMMARY

BACKGROUND

After joining a Village Organisation (VO) BRAC members are required to deposit weekly savings. Members have access to their savings any time after discontinuation of membership. Two recent studies carried out by the Research and Evaluation Division of BRAC indicates that this restrictive savings withdrawal practice has caused a number of dropouts. A concern for reducing and or preventing dropouts by meeting cash needs during times of hardship and protecting members rights to access their own savings are the two premises upon which this study is based.

We argue that limiting members' access to their own savings (accounts) is counter to the fundamental objectives of BRAC. By providing members access to savings, BRAC can furnish them with a means of coping during their crisis and help to increase their sense of ownership over the VO. It is also hypothesized that access to savings will help make the members more responsible.

We developed a scheme that would give members access to their savings under certain emergency conditions. The scheme is as follows:
20% of the previous years savings of each Village Organization will be set aside for savings loan. Members are allowed to withdraw savings as loans either in case of death/severe illness in the household or for post-disaster rebuilding. Savings loans must be repaid in monthly installments, within six months, with interest at a fixed rate of 6% per annum. The interest will be credited to individual loanee's savings account. BRAC will pay interest on the savings amount that remains after having disbursed the loan amount, in the individual loanee's account, while the loanee herself/himself will pay interest on the amount disbursed to her/him as savings loan. No member will be allowed to withdraw his/her entire savings amount. A member will be allowed to withdraw only 50% of the amount in excess of the matching savings percentage for an on-going general or program loan that the loanee may have taken. Overdue loanees will be ineligible to apply for the savings loan. Unless the savings loan has been repaid fully with interest, the loanee will not be qualified to apply for any other loans.

OBJECTIVES:

This study aims to:

A. Explore the experiences of other development oriented rural financial institutions with regards to their savings return policies.
B. Appraise whether VO members feel the need for an open savings account or not.
C. Assess members' response to the conditionally open savings scheme (mentioned later) that would offer partial withdrawal access to own savings accounts.
D. Discuss with BRAC staff at the field level, the practical sides of implementing and monitoring such a scheme with respect to procedures and personnel involved.

METHODOLOGY

This study methodology consists of qualitative semi-structured discussions with focus groups and selected key informants. The study was carried out in 16 VOs under four area offices, two of which were under the pilot scheme for open savings. We interviewed group members, PAs, POs, area managers and accountants.

FINDINGS

Findings From Other NGOs

Interviews with employees from other rural financial institutions revealed that, among the three institutions reviewed, two (ASA and Grameen Bank), have conditional savings return policies.

Group Members' Perceptions of Emergency Circumstances

Through group discussions we learned that members consider emergency circumstance to be the following: illness in the family, migration of a female member due to divorce, daughter's wedding, purchase of land/house adjacent to ones own homestead if it is being sold at a very low price, rebuilding of homes after a natural disaster and children's education-related expenses (e.g. examination/admission fees). A few members also wanted to withdraw part of their savings to supplement their respective businesses during the lean seasons. At present, their ways of coping during emergency situations includes working harder for longer hours, interest free borrowing from relatives and friends, depletion of own resources, borrowing from village money lender at a very high rate of interest.

Group Members' Reactions To The Proposed Scheme

When we introduced to them the proposed savings loan scheme, at first there were mixed reactions. There were two VOs that were in favor of the savings loan from the beginning while the others (14 VOs in number) were vehemently against it. The opposition was mostly due to the proposed condition that they would have to pay interest on their own money that they withdraw as savings loan. Once it was clarified that the interest paid on the savings loan will be deposited in their names and that will not charge additional fees for the service, then the majority supported the scheme. No matter how split the group members were on issues such as what would constitute as an emergency or whether anyone would actually withdraw their savings, there was a consensus among them that it would be collectively beneficial to have the option of withdrawing savings in the case of unforeseen emergencies.

Interest Repayment and Repayment Period

In total two groups were very reluctant about having to pay interest on the savings loan, hence they did not support the suggested scheme. Some members welcomed the idea of payment of interest on savings loan. Their rationale was that the system of paying interest will ensure that the loanee's savings grows at the same rate as the others who have not withdrawn their savings. It will serve as a deterrent from withdrawing savings for non-emergencies since the loanee will have to shoulder the burden of an additional interest paying loan however small the rate of interest is.

With respect to the repayment period of the savings loan, most members seemed to agree upon the time period of 6-months in weekly installments with the exception of one VO.

Discussions with Area Office Staff

With the exception of the employees at one branch, most of the staff from the Area Offices relented by saying that on humanitarian grounds some sort of provision should be present in order to help members overcome difficult situations in their lives. For this reason a conditional system of savings withdrawal seemed appropriate to them.

The **advantages** of the proposed scheme as indicated by the RDP staff are: the rate of savings will increase , BRAC's goodwill will improve which in turn will help increase BRAC membership. The members will not have to incur losses by selling of property, live-stock, borrowing from village money lenders during emergencies and it will also reduce misuse of money from general loans for consumption purposes.

The potential **disadvantages** relate to increased work volume and possible mismanagement for example: use this as an opportunity for realizing loan installments with money withdrawn from savings. In addition, the proposed scheme may create will create problems in reaching both general and program loan disbursement target

RECOMMENDATIONS

In light of our findings we recommend that BRAC members be provided with conditional access to their own savings to help them cope with unforeseen situations.

To facilitate this we propose a pilot project to test the feasibility of the savings withdrawal scheme outlined earlier with several modifications (based on our findings). These modifications are: incorporate all the emergency situations mentioned by the members except for daughter's wedding (as this is against the organizational policy). As members are not very willing to pay interest on their savings loan, this loan can be interest-free and BRAC will not pay interest on their savings until their loan is fully repaid. We suggest that the pilot be implemented in at least 30 branches for three years. This should be inclusive of both well and poor-performing branches.

All relevant information referring the scheme should be clearly explained to the participants. In order to reduce the use of savings to repay loan, the frequency of monitoring must increase. Although it was not among one of the objectives of this study, we also recommend that BRAC gives consideration to raising the 3% and 5% ceiling for AOs in order to return the savings of discontinued members.

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Background:

BRAC through its savings and loan program provides banking facilities to the rural poor who would otherwise be excluded from access to such services. After having joined a Village Organization (VO), BRAC members are required to deposit weekly savings with BRAC in a long-term deposit account refundable upon discontinuation of membership. The savings account has two components:

1. Compulsory savings which is a 5% deduction from loan disbursement and
2. Minimum weekly own savings of Tk. 5.

BRAC offers interest at 6% per annum rate on the group savings. At present branches that are 1-4 years old can return 3% of total savings to its members (provided they can attain their monthly target). While the corresponding amount for branches aged 5 years and above is 5% of their respective group savings. The decisions are usually made on the spot by Area Office Managers, invariably for refunding discontinued members. However, if a branch needs to return more than the maximum allowable amount then prior approval is required from the Director of Field Operations. Full withdrawal of savings is allowed only when a member decides to leave the VO, and only if he/she has money left over in the savings account after having made adjustments for outstanding loans. These savings accounts provide long-term social security and act as a de facto insurance mechanism guarding against loan default since BRAC does not ask for collateral against the credit offered to the members.

This restrictive savings withdrawal practice has gained for the organization a number of discontented members. According to the Impact Assessment Study of the Rural Development Program of BRAC (Mustafa et al., 1995), one major reason for membership discontinuation among the relatively poor is the "absence of provision for direct protection against hardship". (about 19% of dropouts that are relatively poor responded as such). This hardship may entail illness in the family or difficulties in securing basic needs. There are more dropouts among the poorest VO members, as they are less able to cope in difficult circumstances. A separate study conducted on the cause of VO dropout revealed that nearly 57% of membership discontinuation is attributed to the lack of access to group savings during emergencies. (Khan and Chowdhury, 1995).

Reducing and / or preventing dropouts by meeting cash needs during times of hardship. coupled with the need to secure the rights of rural people to access their own savings are the two premises upon which the present study is based. Some within the organization feel that during the next couple of years, the lack of easy access to credit/own funds during pressure of hardship will take center stage as a catalyst for membership discontinuation. This is of particular concern as it is financially optimal for the savings and loan program to retain old/existing members rather than induct new ones. For example, if two RCP members, each having Tk. 1,500 left over in their savings accounts after adjusting for outstanding loans, decide to leave the program for some reason BRAC has to pay Tk. 3,000 on their withdrawal. In so doing BRAC loses that amount of money as a potential fund for investment. On the other hand, after recruiting a new member, at the current rate of Tk. five weekly savings, it will take more than ten years for that person to save an equivalent amount. Therefore, it is imperative to retain existing members for the RCP's own financial well-being through a system of providing support during emergencies. Having established that the current situation is neither preferable to BRAC members nor beneficial for the institution, it is reasonable to advocate for a system of a fully open savings account.

A savings scheme that includes a fully open savings account will bring banking services to the poor. Since such a scheme will operate on the same principles as that of a regular current account service offered by a bank, VO members can both deposit and withdraw money from their BRAC accounts whenever they need to without any restrictions. Not only will they be able to save their extra income, and earn interest on it, but also they can draw on their savings account and avoid burdening themselves with additional loans. The scheme will also build members' confidence in BRAC as a safe, and dependable organization where they can put their money.

The following part of this section elaborates the experiences on open savings account by some other countries and an elaboration of the proposed savings loan scheme for BRAC. Section two elaborates the study objectives which is then followed by methodology and limitations. Section five describes the experiences of a few other Bangladeshi Rural Financial Institutions with regards to their savings return policies. The study findings is presented in section six which is then followed by recommendations and conclusions in chapters seven and eight respectively.

Among the growing number of development-focused financial institutions in existence, SANASA in Sri Lanka and Bank Rakyat Indonesia (BRI) in Indonesia are particularly entrepreneurial in their approach. Hulme/Montgomery's study on the rural credit cooperative movement in Sri Lanka (SANASA) note that its "varied customer oriented savings schemes (that) has allowed SANASA to extend its resource mobilization activities by introducing non-member deposits, fixed deposits and children's savings schemes" (Hulme and Montgomery, 1993). There is a wide margin between the rate SANASA pays on deposits and what it earns from loans. Additionally, it charges varied interest rates depending on the loan scheme; lower rates for ordinary loans and six or seven times more than that for instant/very short term loans. Because of these provisions, as well as better overall socio-economic conditions in Sri Lanka, SANASA is able to offer both short-term and long-term savings accounts that allow withdrawal access to its clients. BRI on the other hand (Alam, Roy, Nath and Islam, 1995) offers differentiated savings schemes, so that its customers have access to their current accounts, and restricted withdrawal access to long-term deposits. BRI is able to offer such service due to the fact that the Indonesian bank serves both rural and urban populations. The inclusion of both target and non-target people as its clients has permitted BRI to have become a successful enterprise that serves the poor.

However pertinent it may sound to have a differentiated savings scheme with a provision for complete withdrawal access, at present, it is not feasible for BRAC to operate in such a way due to the interdependence of savings and credit programs, and the operations of the Revolving Loan Fund. In BRAC Rural Credit Programme (RCP) members' savings partially serve as an insurance mechanism against loan default. Furthermore, BRAC relies on members' savings for its Revolving Loan Fund. In order to reduce donor dependency, the organization is trying to mobilize sufficient resources at the branch level so that local resources constitute a greater percentage of the loan portfolio. Without providing compensatory measures like incorporating non-target members and offering differentiated savings and loan schemes, if BRAC allows members unconditional withdrawal access to their savings, then RCP runs the risk of going bankrupt. Only when RCP evolves into a full-fledged bank catering to both target and non-target members, will it be possible for BRAC to offer completely open savings account scheme.

One of the over-arching objectives of BRAC is empowerment of the poor which is achieved through the active participation of its members. Participation in this context, denotes the self-identification of problems and access to and control over decision-making. Thus limitations on members access to their own savings accounts runs counter to a fundamental organizational goal of BRAC. Indeed BRAC's stance on savings might be interpreted as paternalistic, characterised by little confidence in the ability of members to self manage their savings. For these reasons, allowing partial/conditional withdrawal access BRAC will recognize the importance of self determination as well as mitigate members' grievances that BRAC does not furnish them with any coping device during times of hardship. Meeting emergencies with own funds will implant in them the value of self-reliance instead of being dependent on hand-outs or loans.

At the present time, however, it is only feasible to offer conditional withdrawal access to savings by group members conditional in the sense that members can withdraw part of their savings under certain conditions explicitly specified by RCP. BRAC has already experimented with conditional/limited withdrawal access to savings accounts in ten Area Offices during March 1993-February 1994. Although completely open withdrawal practices were supposed to be undertaken at these branches, local management deemed it necessary to impose some conditionalities for operational as well as financial reasons. Different branches used different combinations of conditions under the pilot project. Upon evaluation it was reported that savings mobilization had greatly increased during that period and that the scheme appeared to be financially viable. Interviews with BRAC staff, however, revealed that net savings had actually decreased due to withdrawal frequencies during that period at the pilot branches. Depending upon the actual practices of each branch, the Revolving Loan Fund faced various degrees of fluctuations and the sustainability of the program was considered uncertain.

However, in view of BRAC's commitment to the empowerment and self-reliant of its members, as well as the obvious financial gains from long-term members BRAC currently is considering an option of giving loans from group savings to its members. After a thorough discussion with senior personnel from RDP, monitoring and audit division we developed a scheme which is as follows:

- 20% of the previous years savings of each Village Organization will be set aside for this loan.
- Members will be allowed to withdraw savings as loans from this fund under the following circumstances:

  a) death/severe illness in the household and

  b) post-disaster rebuilding of home.
- This loan will have to be repaid in monthly installments, within six months, with interest at a fixed rate of 6% per annum.
- The interest will be credited to an individual loanee's savings account. BRAC will pay interest on the savings amount that remains after having disbursed the loan amount, in the individual loanee's account, while the loanee herself/himself will pay interest on the amount disbursed to her/him as a savings loan.
- No member will be allowed to withdraw his/her entire savings amount.
- The maximum allowable savings that can be withdrawn is fixed at 50% of the amount in excess of the matching savings percentage for an on-going general or program loan that the loanee may have taken.
- Overdue loanees will be ineligible to apply for a savings loan. Unless the savings loan has been repaid fully with interest, the loanee will not be qualified to apply for any other loans. (This point was suggested at the initial stage of our field work, by the PAs in the Madhabdi AO, and since it seemed like an excellent idea for exerting pressure on the loanee to repay the loan in her own interest, we tested this proposition in the other branches as well.)

Study Objectives:

A. To explore the experiences of other development oriented rural financial institutions with regards to their savings return policies.

B. To appraise whether VO members feel the need for an open savings account or not.

C. To assess members' response to a conditionally open savings scheme (as described earlier) that would offer partial withdrawal access to own savings accounts and to ascertain whether the members perceive the proposed scheme to be advantageous or disadvantageous. This study also aims to investigate whether VO members are willing to deposit additional savings since there will be provision for access to it.

D. Discuss with BRAC staff at the field level, the practical sides of implementing and monitoring such a scheme with respect to procedures and personnel involved.

Methodology:

The study was conducted in four Area Offices (AO) chosen according to their age, proximity to location and inclusion in the pilot project (see Annex). Two 5th year branches from the district of Rajshahi; Paba and Mohonpur and two 9th year branches from Narsingdi; Amdia and Madhabdi were selected. Within each branch four Village Organizations (all female) were studied. Among the four Area Offices, Paba and Madhabdi were among the pilot branches where open savings practices have been implemented during March 1993 - February 1994. It should be noted that not all the VOs under the pilot AOs enjoyed the privilege of savings withdrawal access. It was upto the discretion of the Branch Manager to exercise her/his judgment on the technicalities of the withdrawal process.

We pre-tested our techniques in Manikganj and modified our approach based on the reactions from VO members there.

Group Discussions

Since the main objective of this study was to get feedback from VO members whether they would like to have withdrawal access to their savings and in what way, a qualitative research approach was adopted.

When we went to the Area Offices we tried to find out whether there were any VO that was having its weekly collection meeting at that time, or had one scheduled for that day. In cases where such VO meetings were taking place visits were made. Otherwise, we requested either the Branch Manager or the Credit PO to arrange for a meeting at the VO members' convenience. Usually the attendance at these impromptu meetings was on average 15-16 members per VO.

A focus group discussion was initiated by engaging participants in a general conversation about their respective VOs, its age, whether there were any drop-outs from their VO, reasons for discontinuing membership, whether the dropouts withdrew their savings or not, why they saved, what were the rules associated with the savings scheme, and how they coped in times of hardship when the money in hand was not sufficient.

Next we asked them about the general rules and procedures regarding BRAC's current savings scheme; this would inevitably lead to the issue of withdrawal of funds from savings accounts. For those interviewed in the pilot program, we discussed the withdrawal procedure and how many among those present had withdrawn their savings, in what amount, for what purposes. During our pre testing it was apparent that no one was well informed about the rules regarding withdrawal in both the VOs that experienced the pilot program and those that did not. We probed to see whether members were content with the present lack of access to savings and whether they would like their savings accounts to be more accessible or not.

At this point we asked them what they thought could be done about it. If their responses did not bring up the subject of savings withdrawal, we introduced the idea of a conditionally open savings account. Conditionally open in the sense that they would be allowed to withdraw their savings as loans. We explained to them what the tentative scheme would be like and elicited from them their suggestions regarding the rules for such a loan, perceived advantages and disadvantages suggestions for implementing and monitoring the proposed scheme.

Since the feasibility of a semi-open savings scheme would depend upon the degree of savings mobilization, a crucial point to be explored at the group discussions will be to find out whether the members have the capacity and the will to deposit extra savings in the semi-open savings account, on top of paying for mandatory weekly deposits and installments for the general loans.

Area Offices

At the Area Offices what we inquired about were the actual withdrawal practices of AOs under the '93-'94 pilot scheme, and what provisions for withdrawal were present at the non-pilot AOs. In-depth discussions with the Branch Managers, Credit POs, Accountants, and the Credit PAs were had to assess whether local management perceived it necessary to let VO members have withdrawal access to their own funds or not to appraise their opinion on the proposed scheme, and to solicit their informed comments and suggestions with regards to the tactical aspect of executing, supervising, and monitoring the suggested scheme.

We spoke with the Regional Manager of the Rajshahi region on similar issues as well.

Limitations:

1) The study findings may be slightly skewed due to sampling limitation.

2) The study was hampered by too little time. Studies which aimed to influence policy decisions of an organization should be done in a longer time period than what we were allowed. The actual amount of time spent on this study was approximately 40 days; 25 of which was spent in academic background research and the rest of the time spent in field work and in the writing of this report.

3) Another drawback of the study was non-participation of some members. Frequently, responses came from VO chairpersons who were more vocal than the others. Later we were told by the field staff that usually the VO Management Committee members actively participated in these conversations and the rest of the group would let them speak because they considered the Management Committee members to be more knowledgeable and hence placed a lot of faith on their judgment. Our purpose was to find out whether members perceived the need for withdrawal access, and if so to solicit their views of how this should be done while members were able to indicate whether the need was present or not, when asked to suggest solutions to the problem they did not always respond satisfactorily. In many instances it was necessary to intervene and introduce our ideas and propositions.

Experiences of Other Rural Financial Institutions with Regards to Savings Return:

Association for Social Advancement (ASA)

ASA has approximately 400,000 members under its 388 branches. ASA groups constitute of 20 or so members, who are mostly female. Weekly compulsory savings for individual members vary from six to ten taka. Current total savings stand at about Taka 20 crore. ASA pays interest on savings at a rate of 5% per annum. Until a few months ago, ASA did not allow savings withdrawal. Rules regarding ASA's savings were as follows:

- Withdraw savings upon discontinuation of membership
- Matching savings amount for each loan is fixed at 15%
- Interest on savings is calculated once each year but it is not withdrawable

In effect, ASA members did not have access to either own funds or to ASA loans during times of dire need. ASA realized the need for allowing savings to placate discontented members due to the lack of savings withdrawal service to bar usage of credit amount to meet emergency situations and to respect an individual's rights to savings. In order to meet these demands ASA has introduced a system of loans from savings. The Emergency Savings Loan Scheme is to be accessed under certain circumstances only. They are:

- Severe illness
- Death in the household
- Damage of household due to fire/natural calamities
- Accidents (e.g. burglary)
- Post-flood plantation

Further conditions were imposed in order to insure ASA's Revolving Loan Fund against loss. When the above mentioned situations arise then a member becomes eligible for applying for a savings loan only if she/he fulfills the following criteria:

- Individual savings will have to be greater than Taka 1,000
- If a member's savings is under the required 15% matching amount for regular credit, a minimum of 20 installments will have to be repaid for the on-going loan.
- The ceiling of the savings loan amount for an individual member is fixed at Taka 1,000

No matching savings is required for the savings loan and the 2% life insurance deduction for this loan is waived. Members that take the savings loan will pay a service charge of 10% per annum (interest rate for general loans is 12.5% per annum). This is to be repaid in 50 installments at Tk. 22 per instalment. The grace period for this loan is 15 days. A member may apply for the savings loan through group resolution that bears the signatures of at least two other group members as guarantors. Final loan approval is left to the Regional Coordinator's judgment. The time taken from loan application to disbursement of the loan is one week.

Grameen Bank

Grameen Bank covers about 2.2 million beneficiaries through its 1,053 branches. The bank has its own group savings mobilization program. Each member is required to deposit Tk. 2 every week to the group fund. At present this fund amounts to approximately 290 crore Taka. and it is the single savings fund for members. The other contribution that is made to the group fund is through a group tax, which is a 5% deduction from the borrowed amount for individual loans. The bank pays interest on the group fund at 8.5% per annum. The group fund is reclaimable by members only after 10 years of group formation. After having formed a group and saved a minimum amount of Tk. 500, each member is required to purchase equity shares of Grameen Bank, costing Tk. 100 per share. No member can buy more than one Grameen Bank share.

"The group fund is managed by the group itself and provides additional source of loanable funds for members for various purposes (e.g. illness, children's examination fees, children's weddings, consumption smoothing etc.) based on their mutual agreement." Grameen Bank requires that its members adhere to two rules when taking loans from the group fund. The first being that the loan has to be repaid within a year, in weekly installments and the second that, a member will be allowed to withdraw no more than 50% of the total group fund. However, in times of natural calamities, group members can withdraw the entire amount after having formed a group resolution. One cannot qualify for a second loan from the group fund until the first loan has been fully repaid. The bank does not calculate interest on the group fund loans, it is upto the group members' discretion whether they want to charge interest from the loanee who withdraws from the group fund. No additional group tax is charged on the disbursed savings loan amount by Grameen Bank. The time period from the loan proposal to disbursement is no more than one week.

Proshika Manobik Unnayan Kendra (PMUK)

Proshika has 880,000 members throughout the country. Group savings although mandatory for group formation are not managed by Proshika. Minimum weekly savings is fixed at Tk. 5 per week for each member. A 100% savings withdrawal is allowed due to membership discontinuation, illness, migration or death of a member. Utilization of group fund is decided by the group members and actions are taken accordingly by the respective Group Management Committee.

The crucial difference between PMUK and the other two organization under this study is that, Proshika does not rely on the group savings to finance its credit operations. Establishing a habit of savings is looked upon as part of the institution building process.

Study Findings:

VO Group Discussions

As mentioned earlier, although a few of the meetings that we attended were scheduled weekly meetings, the majority were not. Instead we requested a relevant branch staff or whoever was available at a given time to gather 15-20 people from a given VO. Following some general queries about the age of their VO, and reasons for dropout, we moved onto the topic of savings. Our intention was to assess the extent of their knowledge about various stipulations regarding their savings.

VO participants stated that each member deposits a minimum of Tk. 5 to her account, which is non-withdrawable unless a member dies or leaves the organization. Some VOs have a ceiling for weekly deposits which is Tk. 20 with an exception of the Madhabdi AO which accepts weekly deposits larger than Tk. 20. They also mentioned the interest that they earn on their savings, but were not very well informed on the rate of interest. The group leader, along with a few other members seemed to be aware of the rate at which interest on the group savings was calculated (6% per annum). Some members withdraw the interest that they earn once a year, usually in the first quarter, while some do not. In the latter case, the PA makes an entry in the respective member's passbook indicating the amount of interest that she has earned in the previous year. They unanimously regarded their savings as security for old-age.

When asked about the kind of circumstances that they perceive as emergency situations, members indicated the following: illness in the family, migration of a female member due to divorce, daughter's wedding, purchase of land/house adjacent to ones own homestead if it is being sold at a very low price, rebuilding of homes after a natural disaster has struck, as well as children's education related expenses (e.g. examination/admission fees). Madhabdi, which is a weaving community, faces poor sales during the Bengali months of "Phalgoon-Chaitra" (mid February - mid April). Without any prodding some members commented that it would be greatly beneficial to them if they were allowed to withdraw part of their savings to supplement their respective businesses during the lean seasons.

When describing how they coped in emergency situations when the money in hand was not enough, the most frequently mentioned practices were working harder for longer hours, interest free borrowing from relatives and friends, borrowing from village usurers at a very high rate of interest, selling off of property, livestock and poultry. The frequently quoted rate that the village money lenders charged was 96% per annum.

At the branches where open savings practices have been implemented for a year under the pilot project, we inquired if the members knew about the scheme, and what were the procedures for withdrawing savings from their AO during that period. In Madhabdi, with the exception of two relatively younger VOs, we found that the members were aware of the pilot scheme and were allowed to withdraw amounts in excess of both the forced and weekly savings. The two VOs that did not implement a savings withdrawal practice were Kobirajpur and Shekher Char. Because the VOs were relatively young, it is likely that members had not been able to save sufficiently so as to meet the branch criteria set by the Manager. The Manager at the Madhabdi branch did not allow full withdrawal of the amount in the savings accounts. In Paba members were informed of the pilot savings withdrawal scheme, however, the manager did not allow total withdrawal of funds, only whatever was in excess of the minimum balance (i.e. Minimum weekly deposit of Tk.2 * number of weeks of membership). If someone had a large outstanding loan or was not very regular on her payment of installments, then the Manager let her withdraw her savings only partially.

In general we noticed some confusion among VO members regarding withdrawal of savings. Some were well-informed and said that they would be able to withdraw savings upon discontinuation of membership. Others stated that they would be able to withdraw approximately one-third of their savings after 5 years of the VO's existence for after 5 years they were at a liberty to decide whether they wanted to remain as a member or not. Others stated that after 5 years; when an individual member has already saved Tk. 5,000, then she will be allowed to withdraw half of her savings.

At this point we introduced to them the proposed savings loan scheme. The proposed was initially greater with marked reaction. There were two VOs that were in favor of the savings loan from the beginning while the remaining 14 VOs sampled were vehemently against it. Group participants from these VOs considered their savings as an important source of future security *(Bhobisshoter punji)* and were unwilling to touch it for any reason. Opposition was also voiced in response to the condition that they would have to pay interest on their own money that they withdraw as savings loan. Some members voiced their fear by stating what their husbands might say:

> *"It is my own money that I am withdrawing; how can it be considered a loan?; I shall not return what I withdraw."*

At first it was unclear to the members whether the interest would be deposited in their respective accounts or be paid to BRAC. Once it was clarified that the interest paid on the savings loan would be deposited in their names and that BRAC would not charge additional fees for the service, then the majority of respondents supported the scheme. No matter how split the group members were on issues such as what would constitutes an emergency or whether anyone would actually withdraw their savings, there was a consensus among them that it would be collectively beneficial to institute a provision for withdrawing savings under unforeseen circumstances. Some members welcomed the idea of payment of interest on savings loan. Their rationale was that a system of paying interest will ensure that the loanee's savings grows at the same rate as the others who have not withdrawn their savings. It will serve as a deterrent from withdrawing savings for non-emergencies since the loanee will have to shoulder the burden of an additional interest paying loan however small the rate of interest is.

With respect to the repayment period of the savings loan, most members seemed to agree upon the time period of 6-months. Some members pointed out that since a member who has withdrawn her savings as a loan will not be eligible to apply for a general/program loan until the previous one has been fully repaid, this stipulation will create a pressure on the loanee for timely or even advance repayment. Most of the discussions regarding the repayment method yielded that the members would prefer to return the money in weekly installments. Some members even stated that if they are allowed access to their savings, however conditional it may be, they would increase the amount of weekly deposits given the assurance that they can withdraw their money when they are in urgent need of it. In contrast to the opinion of the majority, members of the Gourangopur VO, under the Mohonpur AO, however, wanted to repay the savings loan in monthly installments. Gourangopur is a trading community, where financial transactions are done on a monthly basis. therefore, the members registered that it would be convenient for them to repay the savings loan in monthly installments.

Two groups were very reluctant about having to pay interest on the savings loan, and as a result they did not support the suggested scheme. As one member stated:

> *"The size of our savings is so small that the amount that we withdraw under this scheme will not be enough to meet emergency situations."*

Some of the respondents who appeared comparatively well off stated that it would be more beneficial to them if BRAC increased the maximum allowable loan size. In this case they would not need to withdraw their savings which they think of as old-age security. They claimed that with earnings generated from the additional investment, they will be able to cope with emergency situations on their own. However, we pointed out that an individual VO member is not entitled to more than two loans at a time, under RCP rules.

Those in favour of the savings loan proposed identified the following advantages of such a scheme:

- Provides money in times of emergency and thus helps smooth over difficult periods.

- Helps them become self-reliant in the sense that they will not have to wait for hand-outs from others to tackle problems in their lives.

- Saves them from being exploited by village money lenders who would otherwise exact a very high interest rate. Even though the suggested scheme of a savings loan is not completely interest free, it will still be nearly 16 times less than what they would have had to pay if they were to borrow from the non-traditional lenders.

- In addition to paying a much lower interest rate, the money from interest payment will be deposited to their own accounts and not to the usurer's.

- It will strengthen their confidence in BRAC as a trustworthy financial institution where their money will be safe in the sense that if this proposition is implemented, then VO members know for sure that BRAC is not going to run away with their money, and they will be able to withdraw their money in times of need.

- Under this system the members can repay the money in weekly installments over a 6-month long period. This system is preferable to borrowing from sources that require them to pay back the entire amount in a single instalment, which is a comparatively larger liability than having to pay the money in smaller installments.

The disadvantages indicated by the VO members were associated with the implementation side of the scheme. Some feared that there may be a few members who will ask for savings loan for non-emergency needs or who may not use the money for the same purpose as indicated in the loan application. When asked how they thought these problems could be dealt with, the response was that group members would monitor each other to ensure proper usage of the loan. They also pointed out that since the loan proposal is based upon a group resolution, they will be aware of why a member needs to withdraw her savings. They suggested that the relevant PA or the PO can investigate through their field visits about the circumstances and accuracy of savings loans applications and how they were utilized. Another aspect which the members overlooked in their discussion was the payment of general loan installments with the money withdrawn from savings accounts. When asked whether they have explored this issue, one member expressed:

"One who cannot meet the general loan repayment installments, would not even think of taking a savings loan."

Discussions with Area Office Staff

In our attempt to incorporate all relevant personnel at the AO level in the consultation process, we spoke with the PAs, credit POs, Accountants and Managers at the Area Office level. PAs in the pilot branches stated that during the pilot period although the tendency to save had increased, net savings had fallen due to the frequency of withdrawals. AO staff members all agreed that a completely open savings system would not be feasible financially under RCP's current capacity. With the exception of the employees at the Amdia branch, most of the staff from the Area Offices relented by saying that on humanitarian grounds some sort of provision should be present in order to help members overcome difficult situations in their lives. For this reason a conditional system of savings withdrawal seemed appropriate to them. By contrast, the staff at the Amdia AO did not consider giving withdrawal access to savings to a useful development instead they proposed that the 3% or 5% savings return ceiling ought to be raised for the sole purpose of expelling troublesome and inactive members from their VOs. They also added that if savings withdrawal is allowed then it should be utilized for the payment of loan installments when a loanee misses an instalment.

However, those who were in favor of the savings loan scheme, agreed with almost all the conditions and suggested a few of their own. The PAs at the Madhabdi branch stated that it should be specified that those who withdraw savings as loan will have to repay it in full before applying for another loan of any kind. Some PAs raised the issue of members' unwillingness to pay interest on their own money. The Manager at the Paba Branch reflected a similar concern and she suggested that it would be more acceptable to the VO members if the savings loan was made interest free with all the other specifications attached. The issue of PA misuse of weekly deposits in paying for loan installments also emerged in our discussions. The general opinion was that the likelihood of this happening remains unless the VOs are strengthened and the frequency of monitoring is increased.

RDP also did its own review of the savings issue by discussing this in staff meetings. The following includes the advantages and disadvantages of the proposed savings loan system as indicated by BRAC staff during our field visits and as well as from the excerpts from review meetings attended by the Programme Managers. Area Office Managers, and POs in Charge in Rajshahi and Sherpur regions:

Advantages-

- The rate of savings will increase because people will know that their money is accessible in times of need, therefore they will deposit their additional savings to this account.
- Increased goodwill towards BRAC.
- Increased BRAC membership due to the above mentioned reasons.
- The members will not have to incur losses by selling property, live-stock or, borrowing from village money lenders during emergencies.
- Reduce misuse of money from general loans for consumption purposes. Members sometimes use loan amounts for meeting other consumption needs since they do not have access to savings. With the new system they will have security money in times of need and will not divert money intended to be working capital.

Disadvantages-

- Increased work for almost all in the Area Offices. It is feared that a large amount of extra work will be required to serve a very limited number of members.

- Fear of mismanagement due to increased work load. (Because of the stipulations imposed on the eligibility criteria of the savings loan, it is very likely that only a modest number of people will be receiving it. Therefore, the possibility of huge mismanagement may be slightly overstated.)

- There will be a rise in the tendency of field staff to realize loan installments with money withdrawn from savings due to target based administrative practices.

- Difficulty in reaching both general and program loan disbursement targets. Because of saving loans, there may not be an adequate amount of money in savings accounts against which additional loans can be disbursed. Moreover, due to the stipulation that saving loans be repaid before being eligible to apply for additional loans the number of loans disbursed in a month may decrease

Recommendations:

As indicated by our findings the proposed savings loan scheme may provide BRAC's members with a valuable service that will help them cope with emergencies. During our field visit it was mentioned by the Regional Manager of Rajshahi region, that the single most important reason for BRAC member drop-out in 1995 is believed to be the joining of other NGOs. Could it be that better service, more favorable and stable rules and regulations provided by other NGOs are attracting BRAC members? If this is so, then it may be in BRAC's own interest to be more customer-oriented. As Hassan Zaman mentioned in his paper, "... there should be a basic change in attitude whereby branch staff members treat the villagers as potential clients as opposed to beneficiaries" (Zaman, 1993). We have already mentioned that both Grameen Bank and ASA are offering savings withdrawal services to their customers. It is prime time that BRAC offers this service to its members.

Pilot Project

To facilitate the development of a savings withdrawal scheme we propose a pilot project to review the proposed (described earlier) with several modifications (based on our findings). The scheme should consider all emergency situations mentioned by the group members except for daughter's wedding (as this is counter to the organizational policy of reducing the incidents of dowry). As members are not very willing to pay interest on their savings loan, this loan can be interest free and BRAC will not pay interest on their savings until their loan is fully repaid. The Open Savings pilot of '93-'94 was held for too short a time period and in only a small number of Area Offices. A common criticism of this effort was although randomly selected, the branches were not representative of all RDP branches. We would like to suggest that the pilot be implemented in at least 30 branches for a longer period of approximately three years. This purposive sample should be inclusive of both well- performing and problem branches. Given that the sample size is not very large, it should not be a problem for the monitoring division to closely assess the performance of these programmes. This pilot project will enable BRAC to get an idea of the administrational technicalities of the proposed scheme.

Information Dissemination

Information dissemination is a major problem in the Village Organization as well as among the field staff. Often, we have noticed that VO members and BRAC staff are either not very informed on up-to-date BRAC rules and policies, or the manner in which they are explained to members are not sufficiently clear. This, coupled with frequent changes in policies create confusion among the members. Therefore, if a pilot project is to be undertaken then all relevant information should be systematically clearly explained to the participants.

Record Keeping

As for record keeping, it has been suggested that a separate (coloured if possible) sheet for the savings loan be used along with a separate register and ledger. Each week an individual's savings loans installments will be entered on the sheet and subtracted from the outstanding amount. The amount of withdrawn savings and weekly loan installments will be recorded in the member's passbook for her records. At the end of each month the total amount of installments received will be added up. An entry will be made in the existing savings and collection sheet for that particular amount in the column that says, "month-end savings return". For the convenience of recording both the debited and the credited amount due to savings withdrawal and its repayment this specific column may be split into two columns. The column titled "month-end net balance" will indicate the net balance for a month after having recorded all transactions for that month. Separate loan serial and loan codes for the savings loan will be needed for easier operations.

Processing and Disbursement

Processing and disbursement of this loan should be completed within one or two days of loan application so that it does not fail to serve its purpose; helping BRAC members cope with emergency situations with their own funds. A suggestion came from the Regional Manager of the Rajshahi region, that a grace period of one month ought to be given for the repayment of savings loans to allow the members adequate time to save up enough money for the instalment after having weathered a misfortune or crisis.

Monitoring

In order to reduce realization of loans with savings, the frequency of monitoring will have to be increased. At present the monitoring procedure is issue-based. In a given year, savings and credit related monitoring is done two to three times at the most. If the frequency of credit related monitoring can be raised to at least 4 times a year, then it may decrease the probability of staff misuse of savings. Either this or credit-based monitoring can be made mandatory along with all other monitoring activities. Additionally, overdue branches should be more closely monitored which currently represent about 17% of total number of branches. The monitoring of the overdue branches could take place on a sample basis within a month of loan disbursement.

Although it was not a specific objective of this study, we recommend also that BRAC gives the issue of raising the 3% and 5% savings return ceiling for AOs, serious consideration. Our findings indicate that staff members in a number of branches are frustrated by having to keep inactive and troublesome members who are negatively influencing the behavior of other members, as they (staff) cannot return their savings because of insufficient ceiling on savings return.

Conclusions:

The present BRAC policy with regards to savings withdrawal is extremely rigid. Kellog et al's (1994) report on BRAC's credit system noted that the "current restrictions on withdrawals is a dis-incentive to save, particularly if the members have taken a loan and are concerned about making weekly payments." (Quoted in Zaman et al, 1994). In this respect the proposed savings loan scheme will allow some needed flexibility allowing members access to their savings. Both ASA and Grameen Bank are offering savings loan services to their clients. To avoid attrition of BRAC members to other NGOs it is desirable for BRAC to provide its members an equivalent service. However, it is wrong to assume that the proposed scheme is a full-proof measure against emergencies. Firstly, it is up to the Area Office staff to implement the new arrangement. If they do not make their customers aware of the availability of savings loans out of fear of additional work, then it will remain an ineffective policy. Secondly, having conditional access to savings does not cater to all unforeseen emergencies, only the ones that have been pre-selected. Circumstances such as temporary cash or food crisis or financing daughter's wedding do not qualify.

Therefore, even though it is better to have some access to savings rather than none at all, it is advisable that BRAC eventually investigates various long-term solutions looks to this problem, preferably, a differentiated savings scheme that will allow completely open access to savings. Until that becomes a reality, we suggest that the savings loan scheme is introduced on a pilot basis with the above mentioned recommendations.

ANNEX

Area Office	Village Organization	Age	Number of Members
Madhabdi	Tatapara	12 yr.	60-65
	Bhagirothpur	15	65
	Kobirajpur	6	55
	Shekher Char	3	60
Amdia	Matra Poshchim	6	50-60
	Choua Uttar	5	70
	Meherpara	6	80
	Poshchim Danga	6	55
Paba	Baliadanga	5	55-60
	Choubaria	4	50
	Suryapur	4	56
	Bharalipara	3	59
Mohonpur	Moheshkundi	4	54
	Gourangopur	3	26
	Mohonpur	4	39
	Shoipara Dakshinpara	2	36

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