

First draft

Savings schemes for the rural poor: a comparative picture

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Background

The importance of savings mobilization is manifold. Zaman et al (1994)¹ highlight the importance of savings for institutional viability...

"Yaron (1993) conducted a comparative study on four Asian rural finance institutions, BAAC in Thailand, Badan Kredit and Unit Desa in Indonesia and the Grameen Bank. The performance of each was measured according to two criteria; the level of outreach and the extent of self sustainability. The latter is measured by a subsidy dependence index (SDI) which is formed by measuring the percentage increase in the average lending rate required to compensate for a subsidy elimination. Yaron comments that Unit Desa performs best in this category, being the only one out of the four which is fully self sustaining. **"The speed with which Unit Desa reached financial self sustainability may be linked to its tremendous success in mobilizing voluntary savings."** Yaron also believes that keeping track of the financial ratio of the value of savings to the loan portfolio and the rate at which it is changing is important for an institution to monitor how well it is substituting savings for donor funds.

Hulme/Montgomery's study on the rural credit cooperative movement in Sri Lanka (SANASA) highlights several points which contribute to institutional financial viability. Apart from the need to maintain high loan recovery rates and low administrative costs they discuss the importance of member savings and the fact that the cooperative movements success largely hinges on the fact that "it provides hundreds of thousands of villagers with a valued service which competitors cannot match." More specifically this refers to the fact that the cooperatives have extended their resource mobilization activities by introducing non member deposits, fixed deposits and children's savings schemes". Furthermore SANASA's operational changes between what they charge on loans and the rates paid on savings have widened lately, ranging from 6% on ordinary loans to around 40% to 50% for "instant" one month loans. This greater commercial orientation in pricing policy is underpinned by a process of organizational cultural change from a "break even" to an enterprise orientation."

¹ Zaman et al "Current accounts for the rural poor - a study of BRAC's pilot savings scheme" RED, BRAC 1994

Savings mobilization is also important as a form of financial discipline for income earners and also as a means of integrating the rural poor with the financial institutions. Moreover raising the rate of savings is essential to improve domestic resource mobilization for the country.

Objective of the study

The purpose of this paper is to document the range of savings schemes offered to the rural poor in Bangladesh by NGO's, specialized financial institutions and the formal banking sector. The idea is to compare the choices available to poor depositors within the existing financial system. The following institutions will be analysed:

1. BRAC
2. Proshika
3. ASA
4. Grameen Bank
5. BRDB
6. Sonali Bank
7. Bangladesh Krishi Bank

Methodology

The paper is primarily a supply side analysis in terms of what the various institutions are offering with regards to savings incentives. The relevant information is gathered from annual reports of the different organizations, through questionnaires completed by the managers of some of the organizations, and interviews of Area Manager, Program Organizers (Pos), Program Assistants (PAs), and Research Assistants. A small part of the work is done from the 'demand side' i.e. what the poor villager values in terms of savings services. As it was difficult to identify and question members of other NGO's and the clients of the other organizations the only 'demand side' information was collected from BRAC members. This was gathered through non-formal interviews of the members, village organization (VO) meetings, and a savings 'issue meeting'.²

² Issue meetings are held once a month. As the name suggests there is a different topic discussed by local BRAC staff with the VO members generally focussing on the BRAC-target group relationship

Findings:

1. BRAC: The Bangladesh Rural Advancement Committee (BRAC) has been operating development programs in Bangladesh for more than 20 years. By 1994 BRAC' savings and credit program coverage 1.39 million members 80% of whom are women. The target group is households' that owns less than .50 acre of land and mainly depends on manual labor. Only one member of the household can join the program. First, they form Solidarity Groups (SG) with 5-7 male or female members and SG members cannot be related to each other. Five to six SG's form a Village Organization (VO) with 35-40 male or female members. There is a annual membership renewal fee of 10 Tk. Members must participate in weekly VO meetings in a pre-selected place and must contribute a minimum of 5 Tk./week to the individual savings fund. Every member have his or her separate savings account with the Area office. This is somewhat like a deposit account with compulsory weekly savings which can only be withdrawn at old age. The interest rate on the amount deposited is 6%. The purpose of savings mobilization is to strengthen the financial security of the poor borrowers. Credit is generally provided in 3 to 6 months after a VO is formed. Loan repayment starts immediately and on a weekly basis. Loans are given to members on recommendation from their Vos. SG leaders are elected every two years and they are responsible for the weekly installments of his/her group. Every member has to go to the area office to get their pass book at a cost of 5 Tk. This pass book keeps track of weekly savings deposit and loan repayment installments. The BRAC staff usually fills in the agreement form and credit sheet (if the member is taking out loan). The member has to sign twice and also a witness signature is required for the pass book. One additional guardian (Father/Husband) signature is required in case the member is taking out a loan. The loan recovery rate for 1994 was 98%, 95% of them having no past due.

Case study : the Matlab Area Office:

Matlab office has been operating the non-collateral credit and savings mobilization program for the poor for last three and a half years. The Area Office has an Area Manager, 2 Pos (1 credit PO and 1 program PO) and 18 Pas (9 credit Pas and 9 program Pas). The program has a total of 5199 members in 132 VOs.. Every PA attends 2 to 3 meeting per day and collects the savings deposit and credit installments from the members. The PA's collect the money directly from the SG leaders, who are responsible for collecting the individual amounts at the meetings. The PAs then enter the individual pass books and sign them. The PAs explain the balance and answer questions regarding the balance on the passbook. The interest on the amount deposited is given out as cash to the members to reassure them that they are making money on their capital. The PAs hand over the money, collected from the VO meetings to the accountant and the accountant deposits it at nearby Janata Bank.

A few noteworthy points emerged from the conversations with the VO members:

- The minimum savings deposit was increased to 5 Tk. From 2 Tk in 1995. From the interviews of the members, it was clear that 5 Tk. was a burden for them as most members also had weekly loan installments to repay.
- BRAC's views the weekly forced saving as a time deposit, which can be withdrawn only at old age. The savings program is to all extents and purposes an old age security program.
- Most of the members did complain about being in uncertainty at times of need. Since they cannot get any help from the weekly savings, they are forced to take out loans from friends, family and in most cases from the village money lenders at very high interest rates. Eventually, they get stuck with paying both the weekly savings deposit and the loan repayment installments for the money lender.

2. Proshika:

Proshika Manobik Unnayan Kendra, one of the largest NGOs working in Bangladesh, started out in 1976. Proshika has organized around 670,000 members and about 50% of them are women. Proshika's target group are the landless and small farmers. Proshika works among the poor through organizing them into primary groups (PG) of 15-20 members. One of the primary activities of the group is to form a collective fund. It is imperative that all Proshika group members contribute 5 Tk. each week to the group fund. The interest rate on the deposit is 5%. Proshika's savings regulation is relatively advantageous for the depositor because they can take out savings in times of need if they have more than 1,000 Tk. And as long as the PG approves. The savings of the PG are generally deposited at a local commercial bank. Under Proshika's membership regulations a first time lonee need to save 10% of the loan amount, 20% for the second loan, 30% for the third and subsequent loans. The loan recovery rate at the end of 1994 was 93.1%.

3. ASA

Association for Social Advancement (ASA) was established by a group of development workers from different NGOs. ASA has about 270,000 members, of whom 99% are women. ASA targets landless laborers or marginal farmer's family having a monthly income of 1,200 Tk. Or less for program membership. The members form a group of twenty and start participating in development education process. The weekly compulsory savings is collected from each group of 20 members during weekly meetings at 6 Tk. To 10 Tk. Per member. The interest on member savings is 5%. ASA has conditioned the practice of the group members as means to create access to credit facilities and ultimately create their own capital. A group member, who has worked with the group through the disciplinary process, and who has in regular savings 10% to 25% of the required amount in credit, is entitled to receive credit from ASA. ASA's paper work is similar to BRAC's, in addition ASA requires individual and group guarantee. ASA along with the Grameen Bank takes the shortest time for application to disbursement of

loan, which is one week. ASA collects the loan repayment in 46 fixed installments. The recovery rate for 1994 was 99.7%.

4. Grameen Bank:

Nearly two million beneficiaries are covered by Grameen Bank's programs, out of which 94% are women. Grameen Bank targets families owning less than 50 acre of cultivable land or possessing assets worth of one acre medium quality of land in the respective area. The rules and regulations of Grameen Bank are very simple but strict. Also Grameen Bank's operational procedures are not frequently changed. The minimum weekly required savings deposit is 5 Tk. Every village of Grameen Bank operation has a samity house at the center of the village, where the banking assistant comes at a particular day of the week to collect weekly savings and payment. The time taken from application to disbursement of loan is only one week. The loan recovery rate for 1994 was 99%.

5. BRDB:

Under the Bangladesh Rural Development Board's recent project called RD-12, it provides credit, skill development training, organizational help, and other human development inputs to the poor. Project RD-12 targeted families having 50 acre or less cultivable land excluding the homestead. Almost half a million members are covered by this project. Participants are organized in groups of 50-60, called "Bittaheen Society" and also in Solidarity Groups of 4-5 members. Membership is limited to one male and one female member of the same household. Like the Grameen Bank, savings mobilization is also an integral part of this project's activities. Once the poor are mobilized in a group they are required to save at least 2 Tk. Each week and buy a society share worth 10 Tk. Each year. Regular contribution of savings and share at least for three months is one of the conditions for getting loan. The documentation process

for depositing and taking out loan is however very elaborate, in contrast to the Grameen Bank and other NGO's. The program requires two resolution, one application and two promissory notes. Also the time taken from application to disbursement of loan is 1-3 months. The recovery rate for 1994 was 94%.

6. Sonali Bank:

Sonali Bank has both savings mobilization and credit program with no collateral for the poor throughout Bangladesh. Under the "Bittahin Rin Prakalpa" and poverty alleviating programs, Sonali Bank covers 75,000 borrowers. 52% of the savings program participants were women. The target group is described as families with maximum landholding of .50 acre, wage laborers, with maximum income of 6,000 Tk. Per year. Members form an informal group, and are required to contribute at least 1Tk per week. Under this savings program members are allowed to make two withdrawals every week. The interest paid on savings varies from 4 to 6%. Sonali Bank operates human development programs in their credit program through BRDB, Swanirvar, BMET, etc. Technical support is also provided to the loaned projects. Loans are given out at a very low interest rate of 8.50%. The time from application to disbursement can take upto 6 months. The paper work required for membership, savings and loan purposes is very elaborate: about 6-7 pages. The loan recovery rate for 1994 was approximately 60%. The bank staff suggested that the main reasons for having such low recovery rate is lack of awareness, dishonesty and mismanagement. Moreover, Government intrusion into the financial system creates strong disincentives for borrower repayment. By declaring moratoriums and instituting loan forgiveness programs, they not only hurt the financial institutions but also hurt the borrowers. Loans that are not repaid decrease the funds available to lend and make it difficult to assure the security of deposits.

7. Bangladesh Krishi Bank:

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covered by the poverty alleviating programs of BKB. Rural farmers with landholding between .50-3.0 acre are targeted by BKB programs. Savings by program participants is encouraged. Two withdrawals are possible every week from the savings account. 60% of the savings is considered time deposit and other 40% liquid. Interest is not paid on time deposit if it is withdrawn before maturity. The interest paid on rural savings is 4.75%.

Conclusion

Savings are essentially being used as a form of collateral substitute by the above mentioned credit disbursing agencies. These organizations require compulsory weekly savings, varying from 1 Tk. to 10 Tk in order to build up a form of 'insurance fund' for the lender should the loanee default. This form of financial discipline is deemed necessary due to the fact that the lender does not have formal collateral to back up the loan portfolio. As a result the focus is on compulsory savings with limited scope for withdrawals in case of emergency although both BRAC and Grameen do have provisions to take out 'emergency loans' in times of need. However it appears that the savings schemes on offer are not as innovative as say SANASA's in Sri Lanka and that there is considerable scope to improve the quality of service and raise the amount deposited in these organization's. The interest rates offered on the savings are competitive but indications are that the rural poor value access to savings more than the interest accumulated on them. The Bangladesh Krishi Bank which offers both 'current' and 'deposit' type facilities appears a good model for the type of savings portfolio which could be instituted as is Proshika's idea of allowing the individual groups to manage their savings. The drawback with the Proshika approach is that an organization cannot recycle these funds back into their Revolving Loan Fund (RLF) thereby slowing the path towards financial sustainability. The advantage with this approach is that a softer regulatory hand will be exercised by the concerned authorities on a Proshika type operation compared to deposit retaining institutions like Grameen and BRAC.