Consultative Group to Assist the Poorest (CGAP)
Working Group on Savings Mobilization

THE CASE FOR VOLUNTARY, OPEN ACCESS SAVINGS FACILITIES AND WHY BANGLADESH'S LARGEST MFIS WERE SLOW TO REACT

Graham Wright

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CONTENTS

ABBREVIATIONS

ASA	Association for Social Advancement
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung
BRAC	Bangladesh Rural Advancement Committee
CGAP	Consultative Group to Assist the Poorest
CSA	Contractual savings agreements
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH
MFI	Microfinance Institution
NGO	Non-governmental Organization
PRA	Participatory Rapid Appraisal
ROSCA	Rotating Savings and Credit Association
Tk	Thaka

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1 INTRODUCTION

Professor Yunus has consistently - including at the MicroCredit Summit in Washington, February 1997 - argued that "credit is a human right". What has been often over-looked by many microfinance institutions (MFIs) operating compulsory, "locked-in" savings systems, is that savings, and particularly open access to savings, are also a human right. And that voluntary, open-access savings even make business sense. This chapter examines, firstly, whether there is a demand for voluntary open-access saving services amongst MFI clients and, secondly, the implications for the capitalization of MFIs if they were to make these services available.

Recently savings have risen to the top of the international development community's agenda. There has been a sudden realization of, and interest in, the savings side of financial intermediaries. Previously MFIs typically extracted savings from clients through compulsory mechanisms, as there was a prevalent and powerful perception that the poor cannot save. Compulsory savings systems often required members to deposit small token amounts each week and levied more substantial amounts, usually expressed as a percentage of the loan taken, at source from loans. These compulsory savings were then often "locked-in" until – or, in the case of Grameen Bank until 1995, even if - members left the organization - thus denying them access to their own money. Until recently, compulsory, locked-in savings systems, in one form or other, were an extremely prevalent model throughout Asia, and the dominant one in Bangladesh. For a detailed description of BRAC's and Grameen Bank's savings policies, see Annex 1.

However, these compulsory, locked-in savings systems came under increasing pressure not only from the professionals involved in financing, managing and reviewing MFIs but also from the clients themselves. As the Consultative Group to Assist the Poorest (CGAP) in its Note 2 of October 1995 stressed: "Possibly the greatest challenge in microenterprise finance is to expand the provision of savings services to the poor." This is driven by the fact that, in the words of Marguerite Robinson (1995), "there is substantial evidence from many parts of the world that: (1) institutional savings services that provide the saver with security, convenience, liquidity and returns, represent a crucial financial service for lower-income clients; and (2) if priced correctly, savings instruments can contribute to institutional self-sufficiency and to wide market coverage."

2 THE CLIENTS' PERSPECTIVE

2.1 The clients' perspective: Ability and desire to save

> *"Savings are important to all of us - more important than loans. Before I used to try to save a few paisa in the house, but we always spent it - a guest came, the children begged for an ice-cream, or something else important came up - the money always went. Then when you really needed the money you had saved it was not there. We need a secure place to put savings - somewhere outside the house, but where we can get access to them quickly when emergency strikes (Morsheda Ahktar, BURO Tangail member in Bangladesh)."*

The importance the poor attach to savings is also demonstrated by the many (and often costly) ways they find to save. These include investing in assets that can be sold in emergency as for example corrugated iron sheets or livestock, lending between family and friends, or even by taking a loan from an MFI. Stuart Rutherford argues that such loans are often "advances against savings":

> *When Rubhana bought the calf with her first loan, she knew it would be a struggle. Not only would she have to find the Tk70 [1] for the weekly repayments, but also she would have to buy food for the calf so that it grew and fattened quickly. But by taking a little more care with the meager household budget, and selling the eggs from their few chickens, she felt that she could manage.*
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> *Feroza was confident that, if by the grace of God, her husband was well enough to cycle his rickshaw throughout the year, she could pay off the loan she had used to buy jewelry for her daughter's wedding, and a few sheets of corrugated iron to replace the leaking thatch on their home. Of course, she had told the NGO's field worker that she was using the loan for "rickshaw business" to keep him happy.*

Rubhana and Feroza share one thing in common with millions of other MFI members throughout Bangladesh: They are making their weekly loan repayments not from income arising from the loan, but from the normal family household income. This pattern is extremely common not least of all because of the typical MFI repayment schedules. These schedules normally require 50 weekly installments without a grace period, and thus require investments that generate an immediate and rapid rate of return if repayments are to be made from the enterprise's income. Therefore, savings from household income are usually the primary source of the money used to make loan repayments.

Thus loans can, and indeed should, be seen as "advances against savings." And when they are seen as such, the ability of the poor to save, and the latent demand for savings becomes even clearer.

Despite the clear importance of undertaking market research to optimize MFI's systems and financial services, work to examine the clients' perspective has been extremely limited in Bangladesh. Extensive discussions with clients on savings and perceptions of BURO Tangail's[2] facilities provided some interesting insights.

Savings was, and largely still is, seen as a female activity. As such its source is associated with traditionally female occupations such as poultry raising or other *bari*-based production,

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[1] Tk44=US$1.

[2] See Annex 2 for a full description of BURO Tangail.

and the use of savings is often associated with female-controlled work such as child rearing: the most common use cited for savings was schooling costs. This view is shared by men, women and school children. One group of women laughed outright at the suggestion that men could save out of their earnings. This may reflect the men's partiality to tea and cigarettes, films and cards, or may mean that saving is still seen as a small-scale matter.

The Wright et al. study (1997) showed that for women, saving - making *shonchoi* - is now very closely identified with membership of an NGO, to the point of being almost synonymous with it. Other forms of saving such as saving at home in bamboo or clay "banks" or by forming user-owned *samities* are now either discontinued or seen as trivial or second-best - the temptation to spend savings kept at home was repeatedly cited as a problem. Almost all older women confirmed that before the BURO Tangail came they saved at home and sometimes in local *samities*. Some younger women said that they did not think about or understand savings in the past and that the NGOs had taught them. Before BURO Tangail started operations, women saved at home in sums up to Tk500 or perhaps Tk1,000. Now, they do not appear to be unhappy with the fairly small size of their NGO savings balances. However, with open access savings facilities there is some suggestion that this may be changing.

Using savings as more than a store for trivial amounts of "female" money is giving way in some households to using savings as part of a household-wide strategy for economic growth. This represents a challenge and an opportunity for often female-focused MFIs to attract potentially larger "male" savings.

> *Hashimon is a poor BURO Tangail member from Sit Kazipur village. She and her husband have agreed on a plan. She saves heavily out of energetically-pursued poultry keeping and, though they have two small sons, she saves from Tk30-50 a week regularly and has built up a large balance. She has taken two loans (Tk2,500 and Tk4,000) which he uses for trading in rickshaw parts and he repays these from his normal income from rickshaw riding*
>
> *The idea is that they will soon stop taking loans and rely instead on savings regularly drawn down on and replenished. She has an unusual record as a saver - once, before the NGOs, she saved as much as Tk3,000 over three years at home in a clay bank. Her neighbors in this very poor-looking bari see her as something of a role model and are proud of her. They told me she is "doing something new". They do not see her as a miser, she says, "rather they praise me (Wright et al. 1997)."*

Virtually every woman denied that they or their fellow-members save only to get loans. Several said they joined BURO Tangail to save and later found themselves facing needs or opportunities that made the option to borrow useful. It is interesting to note that only half of BURO Tangail's members are borrowing at any one time, although almost all of them choose to do so at one stage or another - in response to need or opportunity.

Many respondents expressed considerable sensitivity to interest rates, and they are aware of the different rates. Several pointed out that NGO rates on savings fall well below what can be obtained in the village from lending out. There is a good case for a MFI experimenting with a relatively high interest rate on a liquid savings scheme, even if that means maintaining loan interest rates at a high level. In such a scheme, more members might save and fewer borrow: good for them as it would lower their costs and their risk levels, and raise their self-reliance.

The study showed that the more typical uses of the members' most recent savings withdrawal can be grouped into "quality of life" uses (household consumption, improving housing and health care - 38%), investments (acquiring land, expansion of business activity and education - 31%) and social (marriage and other functions and acquiring gold/jewelry - 16%). Only 7% used the withdrawal to make a loan repayment. In contrast the members planned to use their savings in a markedly different manner. 50% of the members planned to use savings for social purposes, 30% for investments, and 13% did not know.

In a subsequent study of BURO Tangail's operations research program (which is looking at introducing new even more flexible financial services), Rutherford and Hossain (1997) note that "depositing spare cash in a safe home like BURO Tangail protects savings from trivial uses and the demands of children, husbands, neighbors and relatives, and provides some profit too. This is important for women mainly because in Bangladesh culture the maintenance of the household (including the ability to produce cash out of the air when an emergency strikes, and the ability to contribute to known bulk expenditures like a daughter's marriage) falls on women's shoulders."

2.2 The clients' perspective: Compulsory versus voluntary savings

From the above analysis, it would appear that the poor require little compulsion to save - they simply want a reasonable mechanism to do so, and, as we shall see below, the assurance that they can access those savings when they need them. Indeed, there is evidence that compulsory savings, particularly those that are deducted from the loans issued, are simply viewed by clients as part of the cost of the credit. Indeed, it seems clear that clients almost universally dislike the common system of compulsory deduction of 4% or 5% from the loan at source (PromPT 1996).

Nonetheless, until recently Grameen Bank, and many MFIs following its principles and modified versions of its *modus operandi*, assured everyone that members liked the compulsory savings schemes since the schemes allow them to set aside funds for longer-run purposes, for insurance against emergencies or as a provision for old age (Jackelen/Rhyne 1990; Lovell 1992). One is tempted to observe that well-designed open access savings accounts and contractual savings agreement schemes[3] could give the clients the option of setting these funds aside.

Weekly contractual savings schemes seem to be more acceptable to the clients, particularly when the amount to be saved is client-defined and the savings accounts are open access, since they enforce a discipline of saving. Indeed, the discipline of having to find a specified small amount each week or month is not only valued in Grameen Bank-inspired schemes, it is the basis of Rotating Savings and Credit Associations (ROSCAs), savings clubs and many other more traditional indigenous schemes throughout the world (Miracle et al. 1980).

But clients also greatly value facilities that allow them to save more than the minimum contractually defined amount whenever they have disposable lump sums - a not so uncommon occurrence in poor households, on the sale of assets or after harvest and so on. When BURO Tangail increased their maximum weekly savings deposit from Tk50 to Tk200 at the weekly meeting, and unlimited deposits at the branch, this facility was welcomed by the clients who noted that it suited the real cash-flows of poor people, and, as Rutherford and Hossain (1997) observe, makes BURO Tangail more popular than its competitors.

[3] Contractual savings agreements (CSA), commit clients to save a specified amount, every specified period, for a specified number of periods in return for a pre-determined pay out on successful completion of the CSA. Thus for example a woman with a 14 year old daughter that she expects to marry off at 19 years of age might undertake a CSA to save Tk10 a week for five years in return for a lump sum of Tk3,500 on successful completion of the CSA.

2.3 The clients' perspective: Open-access versus locked-in savings

In years up to 1996, Grameen and BRAC members became increasingly vocal about their dissatisfaction with the denial of access to their savings, and many mature members were leaving the Organizations in order to realize their (often substantial) compulsory savings. By the end of 1995, there was a widespread strike among Grameen Bank members in Tangail District in support of demands for access to their locked-in "Group Funds", generated through compulsory savings. The financial consequences of this strike were profound. According to an unpublished Grameen Bank internal report (1996), in Tangail District there were nearly 60,000 general loanees with repayments more than 25 weeks overdue, and the cumulative un-repaid amount had climbed to over Tk82 million or US$2 million. In 1995, Khan and Chowdhury noted that nearly 57% of membership discontinuation in BRAC's program is attributed to the lack of access to group savings during emergencies.

In 1993, BRAC introduced a savings experiment in ten branches, which were instructed to introduce open access or "current" accounts for the members. The design and implementation of the experiment was not rigorous enough to draw any operational conclusions, but an indisputable finding of the study was that the clients greatly valued the scheme. "The Village Organization members' attitudes towards BRAC ... have significantly improved due to this new facility" and "The villagers on the whole stressed that they would prefer that BRAC maintain an open savings account even if it meant that lower interest was paid on deposits ... (Zaman et al. 1994)." Indeed, the authors of a follow-up study assert, not to allow members open access to their savings "runs counter to the fundamental organizational goal of BRAC" - the empowerment of the poor (Deeba/Ara 1995).

3 THE MICROFINANCE INSTITUTION'S PERSPECTIVE

Having completed the review of the clients' perspectives, this section turns to the institutional issues facing MFIs wishing to start mobilizing voluntary, open-access deposits. First, it examines the dilemma currently faced by the large MFIs who have become dependent on compulsory, locked-in savings as a source of capital funds. Thereafter, it looks at some of the issues facing the MFIs seeking to attract voluntary open-access savings: specifically the need for prudential regulation and supervision and the risks and threats posed by natural disasters to the stability of funds, and thus the MFIs themselves.

"By insisting on savings, 'new wave' micro-finance institutions screen out some potential defaulters, build up individuals' financial security, increase funds available for lending, and develop a degree of identification with the financial health of the institution among members (Rogaly 1996)." So why had powerful and poor-sensitive institutions such as Grameen Bank and BRAC persisted with locked-in savings systems in the face of the clearly expressed desires of the very members they were serving?

Grameen and BRAC faced the apparent dilemma confronting all of the larger MFIs in Bangladesh. By the end 1995 Grameen Bank members had generated a cumulative Group Fund savings of US$105.4 million, or over 70% of the value of all grants received from donor and other institutions, and were meeting a very important part of Grameen Bank's capital requirements (Grameen Bank, 1996).

And in the words of the BRAC savings study, "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 Program members' savings partially serve as an insurance mechanism against loan default. Furthermore, BRAC relies on members' savings for its Revolving Loan Fund (Deeba/Ara 1995)."

Not only had the locked-in group fund savings acted as *de facto* loan guarantee reserves although this is formally covered through Emergency Fund contributions in many MFIs, but in addition, years of enforced group savings had allowed the larger MFIs to develop a huge capital fund for their lending operations. It was feared that allowing open access withdrawal of those savings could result in massive outflows of funds as the members use these large balances - possibly in preference to taking loans.

Massive outflow of funds when they finally relented and allowed members to withdraw their locked-in savings would seem to confirm this. But we should not lose sight of the build-up to the change in policy that allowed members the right to withdraw from their substantial Group Fund savings: a right won after years of protest and, in Tangail, a strike during which many groups did not meet. It may take a while for the members' confidence to be rebuilt. Informal discussions with the Pathorail Branch Manager in late 1997 suggested that both confidence and the members' savings were indeed returning (personal field notes, 1997).

In view of the demand for access to Group Funds, in 1995 BRAC introduced loans-against-savings schemes very similar in nature to that of the Grameen Bank Group Fund, which to its credit, Grameen has always operated. These schemes allowed members to make a limited number of withdrawals from their own savings subject to the usual rigorous weekly loan repayment conditions. Such schemes are unlikely to attract those who want to save to buy capital items or fund children's education. Nor those who want open access to their savings in the event of emergencies or opportunities without the prospect of having to add another repayment installment to their weekly household expenditure. Indeed as early as 1998, Mahbub Hossain was finding it "difficult to understand why a large proportion of the

Group Fund remains unused since the poor tend to be in constant need of credit." The schemes are hardly the recipe for massive savings mobilization or for meeting the needs of the members. But these loans-against-savings schemes had been developed more on the rationale of the MFIs' institutional necessity to secure and safeguard capital funds than on the members' needs or desires.

But the basis of the rationale that limited access to the Group Funds will indeed better secure the capitalization of the MFIs in Bangladesh had not been adequately explored.

Wright et al. (1997) concluded that "the programs of BURO Tangail suggest that voluntary open access savings can raise funds not dissimilar to those levied through the mainstream MFIs' compulsory savings schemes. And do so while offering an important service to the poor. Nonetheless, it also appears from BURO Tangail's work from 1991-1996[4] that:

- The poor - quite rightly - take time to develop confidence in an organization and its ability to repay savings - they like to see loans being made available on demand and to test the withdrawal facility to ensure that it operates as advertised. Banking is all about confidence; and
- The very poor (for whatever reasons) have not become members to date.

However, BURO Tangail's program is not adequately established to see if even more savings will be mobilized as the members gain confidence in the system, or as it becomes more fully open access."

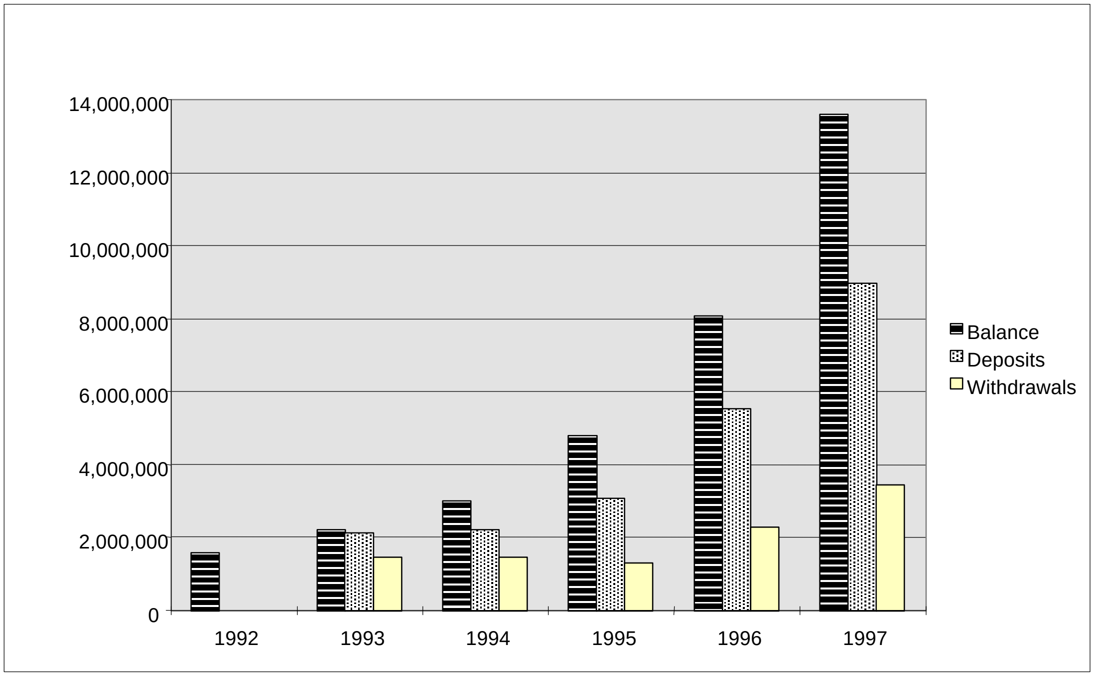
This conclusion was underlined and amplified by the remarkable upsurge in BURO Tangail's annual savings deposits in 1996 and 1997, which jumped by 102% from US$111,425 in 1995 to US$224,974 in 1996 and by another 97% to US$442,440 [5] as of December 1997. Clearly, these figures are somewhat distorted by the rapid growth in BURO Tangail's membership, which grew by 56.5% in 1996 to 32,744 as of December 31, 1996 and by a further 37.4% to 45,003 as of December 1997.

Detailed analysis of the ten oldest, more established branches (which experienced more limited (24.2%) membership growth in 1996 and 2.9% membership growth in 1997) demonstrates that all the indicators of savings activities have surged in 1996 and 1997. The net savings balance per member rose from Tk382 to Tk517 in 1996, and by another 64% to Tk848 in 1997. Furthermore the savings deposited during the year per member rose by a total of 126% from Tk247 in 1995 to Tk559 in 1997. The overall rise in savings deposits and net savings was spectacular, while the modest growth in withdrawals also shows the clients using the open-access facilities actively.

4 To May 1996.

5 Converted at the prevailing rate of Tk40/US$ in 1995, Tk42/US$ in 1996 and Tk44/US$ in 1997.

Graph 1: BURO Tangail savings over time in the first ten branches[6]



Effective April 1st, 1998, BURO Tangail took the final step and removed the requirement to have 15% of any loan taken deposited in the loanees' savings accounts. With this, BURO Tangail moved from a partially to a fully open-access system. Initially, as had been expected, members made large-scale withdrawals and total net savings in the ten oldest branches declined by 18% in April and a further 12% in May. The net balances increased marginally in June, before the advent of the floods in July (discussed in detail below) knocked savings down again. The large scale withdrawals in April and May reflected the members adjusting to and testing the completely open access system as Grameen and BRAC experienced during their experiments with such systems. By the end of the year there was an upsurge in savings deposits and a dramatic reduction in withdrawals. In December 1998, despite the devastating floods, net savings in the oldest branches increased by 13% and was quickly moving the net savings position to its December 1997 level.

Thus it is fair to conclude that in its mature branches BURO Tangail has indeed demonstrated that voluntary open-access savings schemes can mobilize more net savings and thus capital per member, per year, than compulsory locked-in savings schemes - and provide a valued, and well used, financial service while doing so.

It was perhaps this realization that has resulted in the predicted "beginning of a new era in Bangladesh when the large MFIs provide a wider range of financial services to a broader spectrum of people and thus improve the indigenous capitalization of their systems (Wright et al. 1997)." In 1995 Grameen Bank, and in 1996 BRAC, announced that they were starting open-access savings facilities for their clients, and would be encouraging voluntary savings contributions in addition to the weekly compulsory deposits which are being maintained for their positive effects on savings discipline - see above. In 1997 ASA also initiated an open access savings facility, available to both regular and "associate" (non target group) members.

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6 Exchange rate: Tk37/US$ in 1993, Tk44/US$ in 1997.

This represents a fundamental philosophical shift, for as we are reminded by Marguerite Robinson, "voluntary savings contrast sharply with compulsory savings required as a condition for credit; these reflect two different underlying philosophies. The latter assumes that the clients must be taught financial discipline and the 'savings habit.' The former … assumes that most of the working poor already save, and that what is required for effective savings mobilization is for the institution to learn how to provide instruments and services that are appropriate for local demand (Robinson, 1995)." And as noted in chapter 4 of this publication, staff training, attitudes and practices, book-keeping and monitoring systems and many other aspects of the organization must also change - a transformation that is not easy to effect.

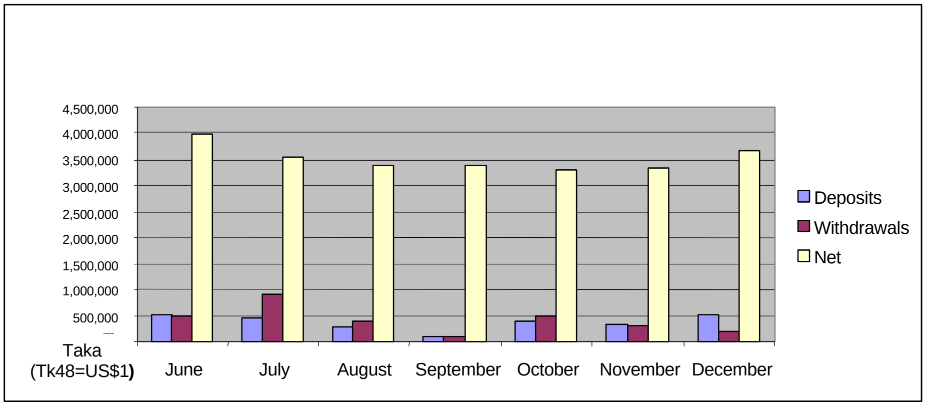
Now that MFIs in Bangladesh have come to accept that there is a large scale of demand for open access savings facilities, we must ask whether MFIs in Bangladesh in a position to start mobilizing voluntary savings from the public. In terms of the history and performance of many of the MFIs in Bangladesh, they are unquestionably organizationally capable, and now it seems they are ready to start with voluntary, open-access savings schemes. However in Bangladesh at present, despite many examples of loss of precious the savings of the poor (usually through both benign incompetence but occasionally through criminal intent), there is no regulatory nor insurance mechanism to safeguard all the savings being mobilized. There is a clear need for the MFIs and others interested in the well-being of microfinance in Bangladesh to be proactive in developing regulatory mechanisms and depositor protection schemes.

In the particular context of Bangladesh, the constant threat of natural disaster seemed to necessitate that MFIs work together to develop second-tier re-financing arrangements. Disasters such as floods, cyclones or tornadoes were considered likely to result in a massive draw-down of open-access savings. Indeed such emergency needs may be one of the most important motivations to save in open-access accounts. The MFI must be able to respond to this demand to draw-down savings in order to maintain the clients' trust and confidence in the institution, and were therefore considered to need re-financing support. Localized natural disasters seemed to present less of a threat to larger MFIs with nation-wide coverage since these could simply move surplus savings from other unaffected areas. But they were expected to have a profound impact on smaller district or thana-based MFIs. And there were fears that nation-wide disasters such as the 1987 and 1988 floods could place severe stress on even the largest MFIs now that they have moved to open access savings-based operations. These concerns were tested in practice by the 1998 floods, which, according to the World Bank, were "the worst in living memory", and covered two thirds of Bangladesh for a period of nearly three months.

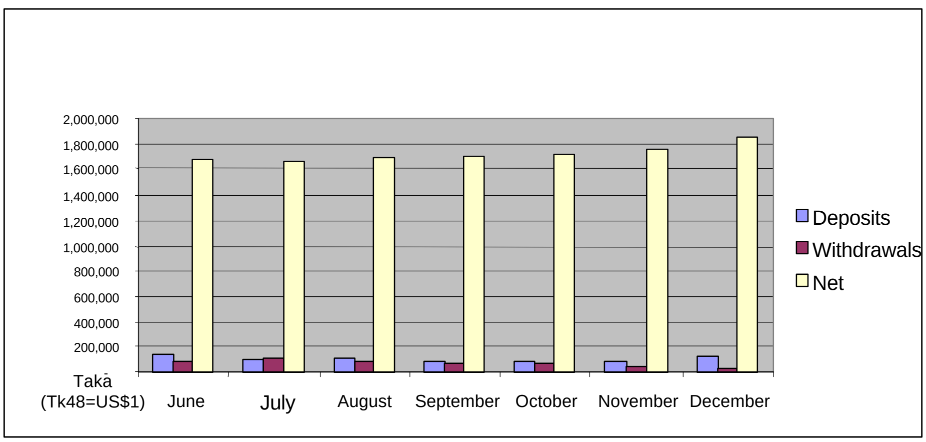
The results were surprising. Hassan Zaman's work on BRAC revealed, "having [special and extraordinary] access to [half] their savings was welcome during the crisis but recourse to it was less than one would have expected. The reason for this is that clients know that larger savings deposits within BRAC means access to larger loans. Hence they perceive withdrawing money from their savings accounts as a de-facto interest-free loan as they may need to 're-deposit' some or all of the amount they withdrew in order to be eligible for the loan size that they require (Zaman 1999)." BURO Tangail with its completely open access savings accounts experienced a different pattern of deposits and withdrawals.

As noted above, BURO Tangail had already removed their requirement that 15% of the loan taken should be held in the members' savings account, thus the reaction of the members was an acid test of the durability of an open-access savings system under the stress of natural disaster. Furthermore, in contrast to many of the larger MFIs, BURO Tangail remained open for business almost without interruption – even the extremely badly flood affected groups met regularly and transacted again after a suspension of activities of only three weeks. Surprisingly, a remarkably small proportion of the flood affected members' open access savings was withdrawn, and indeed deposits kept flowing in, albeit at a reduced rate.

Graph 2: Savings in the four heavily affected branches



Graph 3: Savings in the two unaffected branches



In July, as the flood waters rose, in badly affected branches, withdrawals doubled to around 25% of the net savings balance, and in the same month savings deposits halved. In the areas unaffected by the floods, withdrawals also increased by about 34% and deposits declined by 27%, probably suggesting that seasonal factors were influencing members' savings activities. Even in the most badly affected branches, savings deposits were exceeding withdrawals again by November, the month after the flood waters had finally receded. By December, monthly deposits had returned to their pre-flood levels and withdrawals had dropped to 6% of net savings balance – members were building their savings balances once again. These trends are shown in tables 2 and 3 drawn from a sample of data taken from four badly affected and the two unaffected branches.

It is therefore reasonable to conclude that natural disasters have a smaller than hitherto expected impact on savings balances.[7] This somewhat startling conclusion is also reflected in recent research conducted in Uganda where in response to crises, MFI clients preferred to run-down their trading stocks, sell assets or take informal loans from relatives in preference to making large-scale withdrawals from their savings accounts (Wright 1999; Mutesasira/Wright – forthcoming).

[7] This phenomenon was also noted by CARE-Bangladesh in an informal communication on the Development Finance Network in December 1998 and SafeSave in its monthly progress reports for 1998.

4 CONCLUSIONS

Evidence from the remotest of Bangladeshi villages and indeed from all over the world suggests that the poor want to save, and indeed are saving in a wide variety of ways. What had been lacking until very recently among most MFIs were the facilities to allow the poor to save in a way that they could meet current needs and opportunities as well as save for the future. The large MFIs have instead concentrated on providing credit facilities at the lowest sustainable interest rates, and on capturing compulsory savings in order to do so.

There is a clear demand for flexible savings facilities, and it is also apparent that almost all people, including the very poor, want to save, while not all want to borrow all the time. Given these facts, is it not reasonable to suggest that the large MFIs should look at optimizing the savings facilities they offer, even if this entails marginally increasing the rate of interest charged on the loans? Such a policy could allow the MFIs to offer services to a larger number of the poor, and encourage the participation of the very poor.

There is a clear preference amongst the poor for voluntary, open-access savings, although contractual minimum weekly deposits are also often welcomed since they provide savings discipline and an opportunity to safeguard savings from "trivial" spending. These preferences, when met with flexible and responsive savings facilities, can result in large-scale savings mobilization. Indeed voluntary, open-access savings schemes can generate more net savings per client per year and thus greater capital for the MFI than compulsory, locked-in savings schemes and provide a useful and well-used facility for clients while doing so.

However, caution should be exercised, because in Bangladesh there is extensive experience that:

- Small MFIs mushrooming to take savings and lend them back to members almost invariably rapidly run into a demand for credit in excess of the deposits they are able to attract. This results in declining confidence in the organization until it either collapses or finds donor or soft loan support to capitalize its credit operations and regenerate confidence.
- Given the exposure to this catastrophic loss of confidence, fraud and/or incompetence, only those Organizations with a track record of delivering effective credit services should be encouraged to move into large-scale savings mobilization. For we must remember that under credit-based systems, the MFI must "select borrowers who are trusted by the lending institution. In savings mobilization however, it is the customers who trust the institution (Robinson 1995)."

Effective, but not restrictive regulatory systems and ideally depositor protection schemes should be in place to underpin the introduction of large-scale savings mobilization schemes.[8] With such safeguards in place, MFIs that believe in serving the poor - and particularly the risk- and credit-averse poorest - and in generating indigenous capital funds, should move ahead with the development of voluntary, open-access, savings facilities. For open access to hard-earned savings is not just a human right, it also makes business sense.[9]

[8] This is an issue which is fortunately very high on the agenda of the Consultative Group to Assist the Poorest, the Microfinance Network and many other organisations.

[9] And, of course, would make more so if donors would deliver less free capital funding in the form of grants.

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6 ANNEXES

6.1 Annex 1: BRAC and Grameen Bank's savings policies and their implications [10]

6.1.1 BRAC

BRAC had a policy that required members to deposit weekly minimum compulsory savings of Tk2, subsequently raised to Tk5 in 1994, plus 4% of all loans disbursed, into the Group Trust Fund savings account. Thereafter, limited withdrawals were possible: 25% after 5 years, 50% after 10 years and 100% after 20 years or on resigning membership, subject to a maximum of 3-5% of total savings balance for each Area Office. This meant in practice that members probably had to leave the organization in order to realize their savings.

In 1993, BRAC introduced a savings experiment in ten branches, which were instructed to introduce open-access or "current" accounts for the members. However, in an attempt to "see different modes of operation and their efficiency" (Zaman et al. 1994), no fixed guidelines were issued from head office as to how the new scheme should be implemented in the field. A variety of schemes were implemented in different branches, aged between two and eight years, and the study concluded that "the average own savings per head was Tk17.7 a month compared with Tk13.8 in the (matched) control branches." However, as a result of the high level of withdrawals, the study concluded that, "in the first year of operation, savings mobilization was not enough to cover the operating expenses" (Zaman et al. 1994).

But these conclusions require careful consideration. In the branches where the savings scheme was genuinely voluntary and open (i.e. where the BRAC staff were promoting the scheme and were not dissuading or blocking members from making withdrawals) the financial results look markedly superior. In Paba branch for example the monthly end net savings rose ten-fold in the year.[11] Furthermore, a look at the detailed financial data suggests that a year may have been too short a window of opportunity for the members: Members may have been testing the new savings system to see if it would operate as advertised prior to depositing, and not withdrawing, larger sums.

6.1.2 Grameen Bank

Since its inception, the Grameen Bank system has required a 5% group tax (deducted at source from the loan) plus Tk1 (recently raised to Tk2) personal savings contribution to the Group Fund. "To ensure that ownership of the Bank remains in the hands of the poor, and to ensure capital for future growth, it is compulsory for each group to buy shares in Grameen Bank. When the savings in a Group Fund have reached Tk600, the group concerned is obliged to buy shares in the amount of Tk500 (i.e. 5 shares at Tk100 each) (Fuglesang/Chandler 1993)." Savings today - share capital tomorrow.

Thereafter, interest free loans are made available from the Group Fund at the discretion of the group. Grameen Bank reports list more than 350 uses of these loans including a variety of social and household needs, health and medical expenses, loan repayment, maintenance, repair and addition to capital equipment, raw materials for manufacturing and processing, farming and trading. And with US$59.2 million Group Fund loans disbursed from Grameen's inception to December 1995, the facilities have been heavily used by the members.

[10] Based on G.A.N. Wright, M. Hossain, S. Rutherford, Savings: Flexible Financial Services for the Poor (and not just the Implementing Organisation).

[11] As compared to less than three-fold in the comparison control branch at Mohonpur.

But until 1995 the members were only allowed to withdraw the personal savings component of the Group Fund and then only when they left their group. The substantial Group Fund (as much as Tk3,000 or more for members who have been with the Grameen Bank for ten or so years) was retained in the group. Only since 1995, have the members been entitled to a full refund (including interest) of Group Fund savings when they leave their groups. And better, after ten years with the Grameen Bank, the members who remain are now entitled to transfer all of their portion of the savings in their Group Fund (with interest at 8.5%) into their Individual Savings Deposits (see below).

Other savings schemes under Grameen Bank's system include the compulsory Emergency and Children's Welfare Funds, the voluntary Special Savings (or Centre Fund) and Individual Savings Deposits designed to encourage the members "to build their economic strength by keeping extra income in personal savings accounts." These Individual Savings Deposits earn 8.5% interest, and may be withdrawn on request from the Branch Office, irrespective of whether the member has a loan outstanding.

Chen noted back in 1992 that the total savings mobilized by Grameen Bank was four times larger than the combined savings of the five major commercial banks in Bangladesh (Khandker et al. 1994). And by the end of 1995, Grameen Bank members had generated a cumulative Group Fund savings of US$105.4 million, or over 70% of the value of all grants received from donor and other institutions, and were meeting a very important part of Grameen Bank's capital requirements.

The Individual Savings Deposits represent the first open access current account savings scheme among the large mainstream MFIs in Bangladesh. And more, it is policy that people who are not Grameen Bank members can also save using these accounts. However, interestingly Grameen Bank's Head Office MIS does not track Individual Savings Deposit accounts, at present they are monitored at Zonal level instead, and are probably subsumed under the Group Fund heading in the Annual Accounts. This may be indicative of a system under development, or the perceived unimportance of these Individual Savings Deposits - after all, "Grameen Bank has never deviated from its central vision of credit for poverty alleviation (Hashemi/Schuler 1996)." It also suggests that Grameen may have an under-recognized instrument and capital reserve in these Individual Savings Deposits at the branch level.

With the Grameen Bank's new policy, the Individual Savings Deposits assume a tremendous importance. Many members who have been with Grameen for more that ten years are transferring their Group Funds to the Individual Savings Deposits, and some non-members are beginning to open accounts.

We examined three sixteen year-old branches[12] in Tangail, with an average of 2,499 members. This limited and rapid survey revealed that an average of 1,451 (58%) of members had Individual Savings Deposits, and on average 110 non-member accounts had been opened in each branch.

Suraz branch, with the highest number of non-member accounts (200), had attracted Tk1,858,700 - an average of Tk1,170 per account. However, the 1,424 members and 25 non-members in Atia branch had only deposited Tk461,160 - an average of Tk318 per account. This low average net savings per member seems to be the result of a high level of withdrawals. In June 1996 at the Atia branch, the Tk685,153 withdrawals exceeded deposits by 4%, and Grameen suffered a substantial net outflow of funds. The situation was

[12] Elashin, Atia and Suraz as of 9 July 1996.

marginally better in Elashin branch where the Tk149,834 June 1996 withdrawals were only 65% of the savings deposited in the month.

These withdrawals appear to be large-scale transactions - in Atia the average withdrawal was Tk4,030, a figure that may well correspond to the amount transferred in from the group funds. The relatively large number of accounts, together with the high level of turnover suggests than a significant proportion of members are withdrawing substantial percentage of their Group Funds once they are transferred into the Individual Savings Deposits. This analysis was confirmed by the Grameen Branch Manager in Atia - almost as soon as the Group Funds are transferred into their Individual Savings Deposits (net of any loans outstanding), the members are withdrawing them.

What is not clear is why these withdrawals are being made. Are the members now using these substantial sums to establish income generating activities without the burden of the annualized weekly interest and capital repayments? Or are they being used to improve housing, to pay off burdensome loans, or to buy land and other assets? Or is it to test the new system (which has been introduced after years of member pressure for access to their group fund savings), and with time and confidence, Grameen Bank will see a rise in the level of savings per member? This requires research - it has important implications for the policies and programs not just of Grameen, but also for the other large MFIs in Bangladesh.

On the basis of their experience in Tangail, there is a possibility that Grameen Bank, like BRAC, may conclude that open access facilities will result in a massive outflow of savings and thus precious capital. But we should not lose sight of the build-up to the change in policy that allowed members to withdraw from their substantial Group Fund savings: a right won after years of protest and, in Tangail, a strike during which many groups did not meet. At the end of 1995, in the whole of Dhaka District there were around 18,000 general loanees with repayments more than 25 weeks overdue, but in Tangail there were nearly 60,000, and the cumulative non-repaid amount had climbed to over Tk82 million or US$2 million.[13] It may take a while for the members' confidence to be rebuilt. Time will tell.

6.2 Annex 2: BURO Tangail - An overview [14]

Organization: BURO Tangail has been operating since 1989, and is dedicated to the economic development of the poor, primarily in Tangail district, with the Mission Statement: "To establish an independent, sustainable organization dedicated to providing effective flexible and responsive financial services to promote self-reliance among the rural poor in Bangladesh."

Through years of careful operations research, BURO Tangail has developed and implemented a program which emphasizes the importance of savings as well a credit, and has become one of the more innovative and influential NGOs operating in Bangladesh. BURO Tangail believes in the open exchange of information to further the development process. It seeks to disseminate the results and findings of the program and operations research to other NGOs (through the Credit Development Forum, an umbrella organization of over 300 savings and credit NGOs in Bangladesh), and to donors and other interested parties (through the BURO Tangail donor support group and CGAP) and regular publication of annual reports and working papers.

[13] Unpublished Grameen Bank internal report.

[14] Data as of 31 December 1998.

Savings and credit activities: BURO Tangail encourages potential clients drawn from the poorer "target" section of the community to form groups, encourages them to save, and provides credit to capitalize their income generation activities.

Until 1996, BURO Tangail offered limited deposit (maximum Tk50 per week) and limited withdrawals savings products (under which clients could only access their savings if they did not have a loan outstanding). The organization also offered a traditional Grameen Bank-inspired loan program, offering loans repayable in non-negotiable 50 weekly installments. As part of its commitment to innovation and to offering the best possible services to its clients, BURO Tangail is now developing and implementing new financial service products. New components of the program proposed for testing and implementation include:

New savings facilities proposed for testing and implementation:

1. Open Savings Deposits - offering unlimited savings deposit opportunities (now introduced in all 40 branches).
2. Open Savings Withdrawals System - allowing open access to members' savings subject to maintaining 15% of the value of any loan outstanding (now introduced in all 40 branches).
3. Total Open Savings Withdrawals System - allowing open access to members' savings irrespective of whether they have a loan outstanding or not (currently being pilot-tested in one branch).
4. Fixed Term Deposit Scheme - offering higher rates of interest for longer term (two, five and 10 years) contractual savings agreements (currently being pilot-tested in two branches).

New credit facilities proposed for testing and implementation:

1. Supplementary Loan System - offering additional loans to maintain members' working capital (currently being pilot-tested in one branch).
2. Simple Prepayment Facilities - allowing prepayment of loans when members have excess liquidity (now introduced in all 40 branches).
3. Line of Credit System - offering an overdraft facility (thus overcoming the problems of rigid repayment schedules that are so unresponsive to many members' business cycles) (currently being pilot-tested in two branches).
4. Business Loans - larger loans of Tk20,000 - 75,000 for the more successful entrepreneurs among BURO Tangail's members (currently being pilot-tested in three branches).
5. Leasing Loans - larger loans of Tk20,000 - 75,000 to finance the acquisition of fixed assets (currently being pilot-tested in three branches).
6. Flexible Loan Repayment System - offering longer repayment terms for repayment of the business and leasing loans and to assist poorer members repay their normal "general" loans (currently being pilot-tested in two branches).
7. Short-term Providential "Hand" Loans - offering three-month loans for emergency needs (currently being pilot-tested in two branches).

By charging rates of interest designed to cover implementation costs and contribute to the capitalization of the organization, BURO Tangail has developed a cost-effective and sustainable savings and credit system that by 2001 will provide financial services to around 100,000 members in a geographically compact area.

Members' participation: The BURO Tangail system encourages the members to participate in the planning, implementation and monitoring of the financial services and village development activities provided by the organization, through participatory workshops, PRA and the Customers' Consultative Groups.

Scope of operations: BURO Tangail provides flexible financial services to 1,362 villages in Tangail district through 41 branches, which are managed from a head office located in Tangail town. There are a total of 448 staff who undergo regular classroom and on-the-job training.

Savings: In the year to December 31, 1997, net savings, including members' emergency funds increased by 105% to US$797,858, and the weekly savings rate in mature branches continued to rise, and was significantly above (usually more than double, often triple) the projected/budgeted rate of US$0.125. In the year to December 31, 1998, net savings including members' emergency funds increased by 14% to US$863,915. The declining rate in the rise in net savings arose from the lifting of the requirement to hold 15% of loans taken in savings account and the members' need to withdraw savings to meet emergencies in the wake of the disastrous 1998 floods.

Loans: As of December 31, 1998 US$12,242,543 in loans had been disbursed, and US$8,106,841 had been recovered. The loan recovery rate further improved over previous years to 98.08% loanees with up-to-date repayment records (with only 1.03% of loans with repayment installments more than 26 weeks overdue).

Capital funds: As of December 31, 1998, donors had contributed US$2,210,180 (59%) of the total capital funds, and the 71,479 members had matched this with US$647,508 (17%) from branch profits and US$863,915 (24%) in their savings and emergency fund accounts.

Profitability and cost analysis: In 1998, BURO Tangail made a profit of US$376,219 (excluding grants of US$272,680 (reflecting the high rate of expansion at present) and the cost of donated capital (imputed at 10%): US$193,377), and this brought the organization's retained earnings to US$647,508. Total expenditure for 1998 was 12.7% of the loans disbursed.