INDIA

Community-Based Savings Groups in Bihar

Financial inclusion has captured a dominant position on the development agenda of policy makers, regulators, multilateral organisations and development organisations globally. Various policy, industry associations and advocacy initiatives are discussing how to build more financially inclusive economic systems. However, with just over half of the world's population "unbanked", it is becoming evident that investments in microfinance have not yet met the challenge of financial inclusion.

Since 1983, the Aga Khan Rural Support Programme (AKRSP) – an initiative of the Aga Khan Foundation (AKF) – has been working with remote, resource-poor communities in India to help improve the quality of life of their inhabitants. Initially basing its activities in Gujarat, AKRSP in India has since reached over 850,000 beneficiaries in over 1,700 villages in the states of Gujarat, Madhya Pradesh and, more recently, Bihar. While the promotion of self-help groups (SHGs) is the predominant financial inclusion strategy in India, anecdotal evidence demonstrates that SHGs do not reach the very poor. In Bihar, India's poorest state, where less than half of the population can read or write and the per-capita income is one-third of the Indian average, the inclusion of poor households from scheduled castes is particularly limited.

In recognition of the need for a safe place to save, in 2010, AKRSP in India partnered with three other NGOs (Nav Jagriti, Nidan and Sakhi) to introduce the AKF-designed community-based savings groups (CBSGs) in Bihar. The project began providing community members with a safe place to save and access to credit on flexible terms to meet investment, consumption and emergency needs.

By 2013, more than 39,000 members had joined over 2,000 AKRSP-supported community savings groups, 90 percent of whom were women. Group members had an average savings of US$ 44 and an average outstanding loan size of US$ 63. The average return on savings is nearly 13 percent, while the cost per member is less than US$ 18, one of the lowest costs of facilitating agencies globally. Recognising the population's relatively limited financial capabilities, in partnership with ACCION-India, the Foundation also developed and delivered customised financial literacy training to all group members and the wider communities.

In June 2012, a qualitative study of 21 savings groups was conducted by

According to the CBSG methodology, the loan size should not exceed three times the amount of individual savings so as to allow multiple members to access loans and to avoid loan-takers being over indebted.

Most CBSG members retained a core set of messages from their financial literacy training, including:

- *Anyone can save even if income is limited.*
- *Saving is important to meet large future planned or unplanned expenses such as marriage or illness.*
- *Continuously saving small amounts can yield a larger amount of savings in the future.*
- *Loan size needs to be proportionate to income, expenditure and savings to allow for timely repayment.*
- *The terms and conditions associated with different loan options are important as certain sources can promote indebtedness (e.g., moneylenders)*

Non-CBSG members, however, did not articulate or recall such messages subsequent to the training.

Cover Photo:
In the Bihar study, most respondents cited the proximity of the savings group and its provision of reliable and timely access to loans as positive features of this intervention.

AKF to better understand how CBSG membership affects savings and loan-taking behaviour, responses to socio-economic shocks and household financial decision-making. The study also sought to evaluate the effect of the programme's literacy training on members' saving and loan-taking practices. This report highlights the main findings of the study.

How the programme works

A CBSG is a voluntary group of 15 to 25 people on average who save together and take small loans from those savings. The activities of the group run in yearly cycles, after which the accumulated savings and the loan profits are shared out to the members according to the amount they have saved. The Foundation's role is to train the groups to manage their transactions independently. It does not provide any external capital, and the AKF Facilitator never touches the money nor manages the record-keeping of the group.

According to the CBSG methodology, the loan size should not exceed three times the amount of individual savings so as to allow multiple members to access loans and to avoid loan-takers being over indebted. In Bihar, this has been a concern for a few members who wish to access larger sized loans. In response to this concern and to ensure greater access to loans for all members, some groups in two rural villages are accepting the consolidation of multiple (on average two to three) small-sized loans, taken through multiple passbooks by several members, to serve the needs of a single member. While this arrangement can make larger sized loans possible in the immediate term, this approach is not considered good practice as consolidating multiple loans increases individual indebtedness.

How the study was done

Four sites (three villages, one urban centre) were selected for the study based on the following criteria: distance from urban centre, predominant ethnic group and/or caste, presence of community-based financial service providers and number of households. In each site, two to six savings groups were selected based on the groups' maturity (number of completed cycles) and the implementation model[1] used. A few members from each group were interviewed to capture diversity between groups within a single site. In addition, non-group members were in-

1 The establishment of CBSGs is done through two delivery models. In the first model, AKRSP in India and its NGO partners are directly involved in forming the CBSGs through paid personnel, who are selected from the programme area and trained over the course of two weeks. The secondary model, which was introduced two years into the intervention in response to growing demand for CBSGs, helps the groups replicate and achieve greater scale in a more self-sustainable manner. Here, a CBSG member with the skills and motivation to train a new group takes over the facilitating role of the paid personnel (whose role becomes principally supervisory) and is paid a fee directly by the group itself.

terviewed to provide yet another point of comparison.

Overall, focus group discussions and in-depth individual interviews were conducted with 137 community members: half of whom were CBSG members, nearly a quarter non-CBSG members and the remainder key informants (village leaders, influential community members and financial service providers -- by and large male). Of the 137 community members, 74 percent were female.

A pilot study helped address potential challenges prior to data collection. While the field team's limited experience in conducting qualitative studies affected its ability to select effectively individual respondents, only one major limitation arose during data collection. Data collected around socio-economic shocks should be treated with caution because respondents and facilitators felt awkward talking about this subject, perhaps due to the lack of familiarity with one other and the sensitivity of the topic.

Key findings of the study

Finding 1: Savings groups help promote financial awareness.

Prior to joining their savings group, a majority of members (65 percent) did not save due to limited disposable income. Those who did save reported saving in cash or in-kind (sometimes both) either at home, at a bank, through an insurance scheme or through a self-help group. Since joining their savings group, however, a large majority of members now do save and tend to use these savings to pay their children's tuition and other education fees, improve their home, purchase clothes for household members, cover travel fees and finance their retirement or their daughter's marriage. In reality, for roughly half of the members, the share-out money was not necessarily used for these purposes post share-out owing to unplanned events such as health emergencies. Having such a safety net is discussed in Finding 5.

Most respondents cited the proximity of the savings group and its provision of reliable and timely access to loans as positive features of this intervention. However, despite regular attendance at group meetings, a few members have yet to start saving for lack of disposable income. In particular, rural women spoke of large household expenses, including those related to childcare, which they are not able to reduce in order to save. Others explained that their source of income is not reliable, which limits their ability to save.

While a handful of these women are still not able to save, it is important to note that their participation in community-based savings group meetings – seeing their neighbours make regular deposits and hearing them talk about plans for their children's education or their own retirement – has certainly changed their attitudes towards saving. Whereas in the past financial planning had not really occurred to them, during their interviews the point came up repeatedly that these members are now increasingly motivated to increase their income with the express aim of saving it.

Finding 2: Savings groups help promote financial capabilities.

A growing interest in financial planning could also explain why some group members are changing household financial management strategies to diversify their income sources and thus increase their ability to save. For example, key informants noted that in the last three years women have increasingly taken on daily wage work to help diversify and strengthen their household's income sources.

"The attitude towards work has changed. The women are coming out for work, they are working in lands, they are taking a step towards animal husbandry. Last three years, it was not like that but now they are paying more attention... gradually moving towards [having a] job."

-- Key informants in a rural village

Importantly, some members who experience greater difficulty in saving tend to adopt negative strategies such as skipping meals, compromising on the diversity and quality of foods pur-

The average return on savings is nearly 13 percent, while the cost per member is less than US$ 18, one of the lowest costs of facilitating agencies globally.

"If I save in a bank, I will not get the opportunity to interact with people. One cannot get advice on how loans can be taken, for what duration it has to be taken, how much interest we have to pay back on a particular amount."

-- A young male CBSG member

chased, and cutting other household expenses in order to save.
With regard to credit, prior to joining their savings group, most members borrowed from relatives, neighbours, friends, self-help groups and moneylenders when in need of cash. However, the duration of such loans was rarely defined. As a result, a borrower would experience hardship in paying back a loan relatively quickly when given a last-minute notice by the creditor. In other cases, loans taken from relatives did not appear to be time-bound.

Contrary to such ill-defined arrangements that limit a household's ability to build a smooth financial base, the community-based savings groups offer reliable access to loans with flexible terms and conditions that are clear to all members. As a result, most members stated that the savings group has become their main or only source of credit.

The main exception relates to members who also participate in a self-help group. The latter appears to disburse loans of larger amounts at a lower interest rate as compared to the CBSG (1.5-2 percent compared to 2-10 percent for the CBSG). The overall repayment time for loans is similar (three months) but weekly instalments are expected by self-help groups. For certain members of the community this condition is not a problem. However, the CBSG appears to be better suited to the needs of community members who are of a poor relative wealth level because they have the entire repayment term of three months in which they can pay back the loan at fixed interest.

"In CBSG we have kept a low rate of interest so that the one who is able to deposit money can take the loan easily as interest is low. In SHG the rate of interest is very low but it is compulsory to repay the loan weekly. We have to deposit the amount weekly even if there is some emergency in our home."

-- A CBSG member in a rural village

In most cases, members stated that they have been able to repay their savings group loans. In certain cases, share-out money or loans were used to pay outstanding debts with moneylenders. Because of this ability to clear outstanding loans, members feel that their savings group experience has been a positive one.

Finding 3: Savings groups help increase community participation through financial literacy training.

The financial literacy training, delivered in 2012, more broadly targeted all community members in villages where savings groups had been formed. The aim of this training was to promote a better community-wide understanding of savings, loans and insurance.

Members who attended the financial literacy training shared the key messages of the training with their

"Simply put, the poor in the developing world require access to just about every kind of financial product and social service that individuals or small-enterprise owners require in the developed world..."

-- His Highness the Aga Khan, speaking at the inauguration of the Aga Khan Agency for Microfinance, Geneva, Switzerland, 22 February 2005

In June 2012, a qualitative study of 21 savings groups was conducted by AKF, to better understand how CBSG membership affects savings and loan-taking behaviour, responses to socio-economic shocks and household financial decision-making. This report highlights the main findings of the study.

1. *Savings groups help promote financial awareness.*
2. *Savings groups help improve financial capabilities.*
3. *Savings groups help increase community participation through financial literacy training.*
4. *Savings groups may to a limited extent encourage more consultation between spouses with regard to household financial decisions.*
5. *Savings groups provide more financial options in response to emergencies.*
6. *Savings groups help promote social cohesion.*

relatives, neighbours and friends. The modules were delivered in the form of stories with characters with which community members could easily identify. However, in spite of this approach, savings group members reported limited uptake of concepts relating to financial planning, cash flow and budgeting, savings and debt. This was probably due to the fact that module delivery was staggered over a short four-month period (inadequate for members to internalise the concepts presented). Perhaps more importantly, uptake was limited because the concepts presented were simply not adapted to the financial experiences of most attendees and the financial maturity of most savings groups.

The financial literacy training also had an unexpected positive outcome whereby it became a source of mobilisation for savings group membership. It provided an opportunity for members and non-members to interact and discuss the advantages of the methodology. As a result, the interest of some non-members was ignited and encouraged them to observe how savings groups function. Attracted by the groups' structure for effective savings and loan taking, they eventually joined existing or new savings groups.

Finding 4: Savings groups may to a limited extent encourage more consultation between spouses with regard to household financial decisions.

It is not clear how savings group membership plays a role in improving household dynamics for women, as these dynamics tend first and foremost to be affected by marital status and, in the case of married women, the quality of the relationship between spouses. In addition to the quality of the relationship between spouses, the participation of female members in financial decision making is also contingent on the source from which savings is generated.

Most female respondents from male-headed households stated that they made decisions regarding CBSG savings together with their spouses since the husband provides money for saving and expects to be consulted. With respect to loans, most female interviewees stated that they participated in decisions related to the use of the loan and the source of the loan, but not the amount taken. They do not decide on the amount because the husband provides the money for saving.

Finding 5: Savings groups provide more financial options in response to emergencies.

For the majority of people interviewed – savings group members and non-members alike – the main coping strategy used to respond to emergencies that necessitate quick access to cash is using savings or requesting a loan. The main difference observed between members and non-members is the ability of members to access a wider range of savings mechanisms or sources of loans through the community-based savings group. Most interviewed members appreciat-

Most CBSG members tend to use their savings to pay their children's tuition and other education fees, improve their home, purchase clothes for household members, cover travel fees and finance their retirement or their daughter's marriage.

In Bihar, India's poorest state, where less than half of the population can read or write and the per-capita income is one-third of the Indian average, the financial inclusion of poor households from scheduled castes is particularly limited.

ed being able to address their urgent needs relatively quickly through group membership:

"If we require money for an emergency we take out the money from the group and go to the doctor. And when we have money we pay it back."

-- *A CBSG member in a rural village*

Finding 6: Savings groups help promote social cohesion.

In addition to the financial benefits of saving collectively, the savings group fosters a sense of harmony amongst community members as they are saving together and improving their well-being on the basis of a collective effort. The collective system allows for mutual support, learning and solidarity when in need.

Issues to consider for future implementation

Issue 1: More relevant training

While the financial literacy modules successfully contributed to increasing community participation in savings groups, there was limited uptake of concepts related to financial planning, cash flow and budgeting, savings and debt. For future rounds of programming, AKF may want to plan the delivery of key messages based on the number of cycles completed.

Issue 2: Changes to methodology

Adaptation of the CBSG methodology by independently functioning groups is sometimes neutral or positive and sometimes negative (e.g., the ability for one individual to consolidate loans taken on multiple passbooks). AKF should further investigate these negative adaptation strategies.

Issue 3: Savings strategies that are to a household's detriment

In some households, counterproductive strategies (e.g., skipping meals, compromising on the diversity and quality of foods purchased, and cutting other household expenses) are being adopted to increase savings ability. These strategies should be further investigated by AKF.

Development Partners

The Marshall Foundation

For more information, please contact:

Aga Khan Foundation (India)
Sarojini House, 2nd floor
6, Bhagwan Dass Road
New Delhi 110001
India
Tel: +91 (11) 4739 9700
Fax: +91 (11) 4739 9750
Email: akfindia@akdn.org
Website: http://www.akdn.org/india

The Aga Khan Development Network (AKDN) is a group of private development agencies working to empower communities and individuals, often in disadvantaged circumstances, to improve living conditions and opportunities, especially in Africa and Asia. Its agencies work in over 30 countries for the common good of all citizens, regardless of their gender, origin or religion. Its underlying impulse is the ethic of compassion for the vulnerable in society.

Photo credits: AKDN / Jean-Luc Ray

Aga Khan Agency for Microfinance | Aga Khan Education Services | Aga Khan Foundation | Aga Khan Fund for Economic Development | Aga Khan Health Services | Aga Khan Planning and Building Services | Aga Khan Trust for Culture | Aga Khan University | University of Central Asia