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Savings Are A Human Right (And Good Business Too)

The Case for Voluntary, Open Access Savings Facilities

Graham A.N. Wright and Mosharrof Hossain

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Abstract

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 has been lacking until very recently among most MFIs in Bangladesh are the facilities to allow the poor to save in a way that helps them 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 preference amongst the poor for voluntary, open-access savings, although compulsory minimum weekly deposits (particularly when they are client-defined) are also often welcomed since they provide savings discipline and an opportunity to safeguard savings from “trivial” spending. This preference, when met with flexible and responsive savings facilities, can result in large-scale savings mobilisation. Voluntary, open-access savings schemes can generate much 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.

Effective (but not restrictive) regulatory systems and (ideally) depositor protection schemes should be in place to provide security for the introduction of large-scale savings mobilisation schemes. With such safeguards are 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.

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I. INTRODUCTION

Professor Yunus has consistently (most recently 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)[1] programmes operating compulsory, “locked-in” savings systems, is that savings, and particularly open access to savings, is also a human right. And that voluntary open-access savings also make business sense.

Recently savings have risen to the top of the international development community's agenda. There has been a sudden realisation of, and interest in, the savings side of savings and credit systems. Previously MFIs viewed savings as the poor relation, Vogel’s “forgotten half”[i], and typically extracted savings from clients through compulsory systems. There was a prevalent and powerful perception that “the poor cannot save”, thus compulsory savings systems often required members to deposit small token amounts each week and levied more substantial amounts 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 organisation - 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 (which we examine in detail below).

However, these compulsory, locked-in savings systems came under increasing pressure not only from the professionals involved with financing, managing and reviewing MFIs and but also from the clients themselves. 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, "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.[ii]"

But for MFIs with a history of credit-driven services which have levied compulsory savings as part of the package, the shift to flexible financial services including (even stressing) savings products is often hard to effect. Staff can take time to make the transition from enforcing compulsory savings to encouraging voluntary savings, as Banco Caja Social (BCS), Columbia (and many, others making this difficult transformation in business practices) have found out. “The shift from a forced to a voluntary savings model is still not reflected in the practical, daily work of branch staff. Some branches are still reluctant to sell voluntary savings products and prefer to offer a credit + savings package. To some degree, this is due to the long tradition of using forced savings as an entry ticket for credit ...”[iii]

Nonetheless, once the shift is made, the rewards for both the MFI and its clients are immense. Bank Rakyat Indonesia (BRI), with which Marguerite Robinson has worked for over a decade, has mobilised over $ 2.7 billion in voluntary savings through 16.1 million savings accounts and provides services to 30% of Indonesia's households. And BRI <u>does</u> attract the poor: a 1993 BRI study found that over 30% of BRI members had a monthly income of $78 or less. At any time, for every borrower, there are five savers, and their savings provide the capital for all of BRI's loans. To achieve this extraordinarily level of market

[1] There is a distinction between credit driven and dominated institutions which see savings as part of the credit package (MicroCredit Institutions-MCIs), as opposed to those emphasising <u>both</u> savings and credit facilities as part of financial intermediation services for clients (MicroFinance Institutions-MFIs).

penetration and capitalization BRI offers three savings facilities: 1. the liquid which permits unlimited number of withdrawals, 2. the semi-liquid with a restricted number of withdrawals per month, and 3. the fixed deposit. These products were developed on the basis of research on savings motives and preferences of rural people that demonstrated that a savings facility should combine 1. Safety/security, 2. Convenience, 3. Liquidity, and 4. Positive return[iv]. Thus as with traditional banking, these facilities offer clients the opportunity to balance liquidity and returns.

The SANASA Thrift and Credit Cooperative Societies in Sri Lanka offer both open access accounts and higher interest term deposits. These have proved successful not only at providing a service that is much in demand and mobilising savings from which SANASA can make loans, but also in meeting the needs and optimizing the participation of the very poor. Richard Montgomery[v] argues that SANASA's flexible repayment terms, open access savings facilities and instant consumption loans provide vitally important coping mechanisms for the poor in times of stress. Indeed it is this flexibility of financial facilities offered by SANASA that allows it to attract the poorest as clients.

II. SOME DETAILED ANALYSIS FROM BANGLADESH

In Bangladesh - largely as a function of the all-pervasive influence of the Grameen Bank system - until recently most NGOs were implementing systems that involved compulsory savings that were then locked-in and only available to clients when they renounced their membership and left the organisation. However, one non government organisation, BURO, Tangail, bucked this trend and implemented a “savings-friendly” model.

1. Description of BURO, Tangail's System

1.1 Background:

BURO, Tangail initiated its work in 1989 with the establishment of five "model" branches which were the basis of its project development system. The process of on-going monitoring led to improvements in the services and operation of the organisation during the small-scale experimentation phase that lasted until November 1991. However, it was not until 1993 that BURO, Tangail had attracted enough donor capital funding[2] to initiate full-scale activities.

By the end of December 1996, 30 branches were operating. The ten branches established in the experimentation phase were turning average profits of around $ 2,000 a month. The other branches were also turning smaller-scale profits. In 1996, the 30 branches generated profits of $ 155,149, and all these profits were re-invested in the branches' revolving loan funds. Overall, net of head office costs, the organisation made a profit of US$ 109,918 (excluding subsidies of US$ 74,613 and the cost of donated capital (imputed at 10%): US$ 36,622), and this brought retained earnings to US$ 297,198. Total expenditure for 1996 was 19.1% of the loans disbursed.
By the end of the year to December 31, 1996, net savings, including members’ emergency funds increased by 97% to US$ 390,178, and already provided 37% of the branches’ capital reserves. The weekly savings rate in mature branches continued to rise, and was significantly above (usually double) the projected/budgeted rate of US$ 0.125. As of December 31, 1996 donors had contributed $ 366,217 to capitalize the organisation, and the 32,744 members had almost doubled this with $ 297,198 from branch profits, and $ 390,178 in their savings accounts.

BURO, Tangail continues to conduct operations research to increase the flexibility and responsiveness of its financial services. New components of the financial services programme proposed for testing and implementation by BURO, Tangail include:

Savings Facilities:

Open Savings Deposits - offering unlimited savings deposit opportunities.

[2] AusAID, CIDA, ODA, PACT/PRIP, and SIDA

Open Savings Withdrawals System - allowing open access to members' savings.
Fixed Term Deposit Scheme - offering higher rates of interest for longer-term savings.

Credit Facilities:
Supplementary Loan System - offering additional loans to maintain members' working capital.
Simple Prepayment Facilities - allowing prepayment of loans when members have excess liquidity.
Alternative Prepayment System - allowing prepayment of loans with a reduction of interest charges.
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).
Flexible Loan Repayment System - offering longer repayment terms for loans to assist poorer members.
Short-term Providential Loans - offering 3 month loans for emergency needs.

1.2 Details of the Savings Component of BURO, Tangail's System

1.2.1 Savings Deposits:

BURO, Tangail has a minimum weekly compulsory savings level of Tk. 5, but members are welcome to deposit more. Prior to January 1, 1996, members could deposit up to a maximum of Tk. 50 at the group meetings. The Mid-Term Review team, examining BURO, Tangail's operations in July 1995 noted that this policy was to meant to discourage "non-target group" from joining and in fear of encountering cash management problems. But it was causing problems for savers, and meant that members could not deposit "lumpy" household income from the sale of assets: livestock, housing materials, or from windfalls.

In response to this observation, BURO, Tangail introduced a policy of offering the facility of unlimited savings deposits effective January 1, 1996. Members are permitted to deposit to a maximum of Tk. 200 at the group meeting, and an unlimited amount at the branch. Operations research is underway to examine a "Fixed Term Deposit Scheme"[3] - offering higher rates of interest for longer-term savings - which was introduced on a pilot basis in March, 1996.

1.2.1 Savings Withdrawals:

Since its inception in 1989, BURO, Tangail has operated a policy of offering open-access savings accounts to its members. Members are permitted to withdraw their savings whenever they do not have a loan outstanding; and loan taking is entirely optional, at the member's discretion.
BURO, Tangail has taken the decision to test a completely open savings withdrawal system under which members may withdraw at any time. However, the savings balance for the loan size sanctioned must remain on deposit. This condition is designed to increase the members "equity" and "self-reliance" over time. The table below outlines the savings balance required for each loan size.

Loan Size (Tk.)	Required Savings Balance
< 5,001	15% of Loan
5,001 - 10,000	20% of Loan
10,001 - 15,000	25% of Loan

This paper looks at savings and reviews the perspectives of both the clients and the microfinance institutions that serve them and examines the results of BURO, Tangail's innovative approach.

2. The Clients' Perspective

2.1 Ability and Desire to Save

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 (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[vi]".

3 Comprising Contractual Savings Agreements of Tk. 5 - 50 per week over 5 years.

Loans as Advances Against Savings
(an important digression)

When Rubhana bought the calf with her first loan, she knew it would be a struggle. Not only would she have to find the Tk. 70[4] *for the weekly repayments, but she would have to buy food for the calf so that it grew and fattened quickly. With a little care with the meagre household budget, and selling the eggs from their few chickens, she felt that she could manage.*

And Feroza was confident that, if by the grace of God her husband was well enough to cycle the rickshaw all through 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 (no 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.

Thus 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 optimise MFI's systems and financial services, work to examine the client's perspective has been extremely limited in Bangladesh. Extensive discussions with clients on savings and perceptions of BURO, Tangail's savings facilities held as part of the recent Graham Wright et al. study [vii], provided some interesting insights.

The study showed that for women, saving (making *shonchoi*) is now <u>very</u> 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. Virtually all older women confirmed that before the NGOs came they saved at home (and sometimes in local *samities*). Some younger women said that before the NGOs came they did not think about or understand savings and that it is the NGOs that instructed them.

Shamima, Rokeya and Anwora all agreed, they had always made savings by putting aside a few taka from the sale of eggs and fruit - after all "a good wife saves". The savings had been useful for school fees, clothes and other small-scale expenses. Before they had kept their savings in clay money banks - shaped like fish - but there was always the temptation not to put money in, or to take some out for little treats for the children or visiting guests. But Rubia and Nurjahan disagreed, they had not saved before, Rubia because she "had no place to save", and Nurjahan, because she "did not think about saving". They all liked BURO, Tangail's savings account system, the ability to withdraw their savings and the discipline of having to save each week. "Now we save more, much more", they chorused.

Virtually every women denied that they or their fellow-members "save only to get loans". Several said they joined BURO, Tangail to save and were slowly persuaded that borrowing would be useful. (It is interesting 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).

[4] Tk. 40 : US$ 1

Minu smiled confidently and assured us that "everyone" is saving more these days, and that this is "part of the progress and development in the whole area". People are busy buying cows, raising poultry and working hard - almost everyone is in an NGO group.

Considerable sensitivity to interest rates was expressed by many respondents, 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; good for the MFI because it would earn more from fewer loans. 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, 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. Before the NGOs came women saved at home in sums up to Tk. 500 or perhaps Tk. 1,000. 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 30 to 50 taka a week regularly and has built up a large balance. She has taken two loans (Tk. 2,500 and 4,000) 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 Tk. 3,000 over three years at home in a clay bank. Her neighbours 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".

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 programme (which is looking at introducing new even more flexible financial services), Stuart Rutherford and Iftekhar Hossain note that, "Depositing spare cash in a safe home like BURO, Tangail protects savings from trivial uses and the demands of children, husbands, neighbours 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."[viii]

2.2 Compulsory v. 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[ix]. Indeed, it seems clear that the common system of compulsory deduction of 4 or 5% from the loan at source is almost universally disliked by clients.

Nonetheless, until recently Grameen Bank and many MFIs following its principles and modified versions of its *modus operandi*, assured all-comers 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[x]. One is tempted to observe that well designed open access savings accounts and contractual savings agreement schemes[5] could give the clients the *option* of setting these funds aside.

Weekly compulsory 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 - see below), since they enforce a discipline of saving. Indeed, the discipline of <u>having</u> 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[xi]. Of course, once again, this need could also be met by voluntary contractual savings agreement schemes.

But clients also greatly value facilities that allow them to save <u>more</u> than the minimum compulsory amount whenever they have disposable lump sums (a not so uncommon occurrence in poor households: on the sale of assets - livestock etc., after harvest and so on). When BURO, Tangail eased their maximum weekly savings deposit from Tk. 50 to Tk. 200 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 makes BURO, Tangail more popular than its competitors (banks and the many other NGOs operating in Tangail)[xii].

2.3 Open Access v. 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 organisations 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: 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 Tk. 82 million or $ 2 million[xiii]. In 1995 Khan and Chowdhury noted that nearly 57% of membership discontinuation in BRAC's programme is attributed to the lack of access to group savings during emergencies[xiv].

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 Organisation members' attitude 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

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[5] 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 Tk. 10 a week for five years in return for a lump sum of Tk. 3,500 on successful completion of the CSA.

deposits ...[xv]" Indeed, the authors of a follow-up study assert, **not** to allow members open access to their savings "runs counter to the fundamental organisational goal of BRAC[xvi]" - the empowerment of the poor.

3. The MicroFinance Institution's Perspective

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 ?

The answer lay in institutional financing needs and an erroneous assumption, for 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 $ 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[xvii]. 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 programmes, and the operations of the Revolving Loan Fund. In BRAC Rural Credit Programme members' savings partially serve as an insurance mechanism against loan default. Furthermore, BRAC relies on members' savings for its Revolving Loan Fund.[xviii]"

Not only had the locked-in "Group Fund" savings acted as *de facto* loan guarantee reserves (although this is formally covered though Emergency Fund contributions in many MFIs) but also 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.
And Grameen Bank's initial experience in Tangail, where they experienced a 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.

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"[xix].) The schemes are hardly the recipe for massive savings mobilisation 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.

Graham Wright et al. concluded in July 1996 that "The programmes 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 January 1991 to May 1996 that:

a. the poor (quite rightly) take time to develop confidence in an organisation 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.

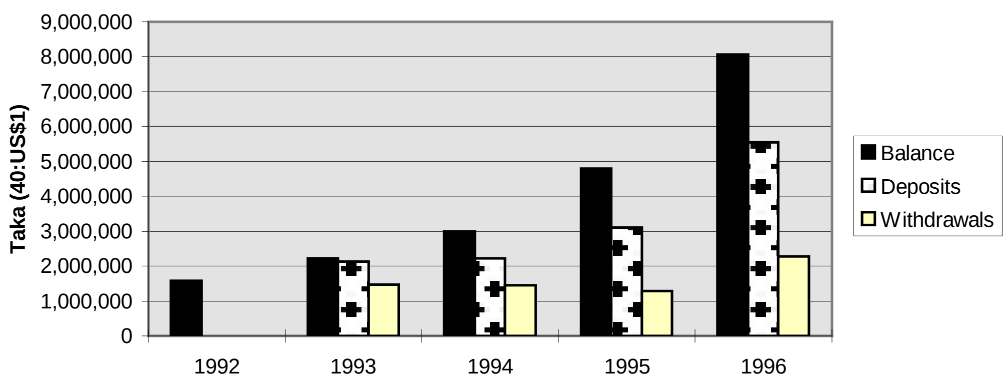
and

b. the very poor (for whatever reasons) have not become members to date.

However, BURO, Tangail's programme is not adequately established to see if even more savings will be mobilised 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 savings deposits in 1996, which jumped by 112% from US$ 111,425 in 1995 to US$ 236,223 in 1996. 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. Detailed analysis of the ten oldest, more established branches (which have experienced more limited (24.2%) membership growth over the last year) demonstrates that all the indicators of savings activities have surged in 1996: net savings balance (up 68.1% - and increasing from Tk. 382 to Tk. 517 per member), savings deposits (up 79.4%), and withdrawals (up 76.4%). (See the graph *BURO, Tangail: Savings over Time - First Ten Branches* below).

BURO, Tangail: Savings over Time - First Ten Branches



Thus it is fair to conclude that in its mature branches BURO, Tangail has indeed demonstrated that voluntary open-access savings schemes can mobilise **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 realisation 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"[xx]. In 1995 Grameen Bank, and in 1996 BRAC announced that it was 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).

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 mobilisation is for the institution to learn how to provide instruments and services that are appropriate for local demand[xxi]." And as noted above, staff training, attitudes and practices, book-keeping and monitoring systems and many other aspects of the organisation 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 “are MFIs in Bangladesh in a position to start mobilising voluntary savings from the public?” In terms of the history and performance of many of the MFIs in Bangladesh, they are unquestionably organisationally 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 mobilised. There is a clear need for the MFIs and other 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 necessitates that MFIs work together to develop second tier re-financing arrangements to respond to these. Disasters such as floods, cyclones or tornadoes are 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 may therefore need re-financing support. Localised natural disasters present less of a threat to larger MFIs with nationwide coverage (since they can simply move surplus savings from other unaffected areas), but could have a profound impact on smaller district or *thana*[6]-based MFIs. And nationwide 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.

III. CONCLUSIONS

Evidence from the remotest of Bangladeshi villages and indeed from all over the world suggests that the poor want to save, and indeed <u>are</u> saving in a wide variety of ways. What has been lacking until very recently among most MFIs is the facilities to allow the poor to save in a way that they can 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.

Given the demand for flexible savings facilities, and the fact it appears that most people (including the very poor) want to save, while not all want to borrow all the time, 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 in the MFI's programmes.

There is a clear preference amongst the poor for voluntary, open-access savings, although compulsory minimum weekly deposits (particularly when they are client-defined) 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 mobilisation. 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 of that:

a. 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 organisation until either it collapses or it finds donor/soft loan support to capitalize its credit operations and regenerate confidence;

and

[6] A small administrative division with a population of around 200,000.

b. given the exposure to this catastrophic loss of confidence, fraud and/or incompetence, only those organisations with a track record of delivering effective credit services should be encouraged to move into large-scale savings mobilisation. For we must remember that under credit-based systems, the MFI must "select borrower who are trusted by the lending institution. In savings mobilization however, it is the customers who trust the institution[xxii]."

Effective (but not restrictive) regulatory systems and (ideally) depositor protection schemes should be in place to underpin the introduction of large-scale savings mobilisation schemes. This is an issue which is (fortunately) very high on the agendas of the Consultative Group to Assist the Poorest, the MicroFinance Network and many other organisations. With such safeguards in place, MFIs that believe in serving the poor (and particularly the risk- and credit- averse poor<u>est</u>) 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 ... and will do even more so as donors shift to delivering capital funds as loans instead of grants.

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