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www.*MicroSave*.net
info@*MicroSave*.net

Relative Risk to the Savings of the Poor in Rajasthan

Akhand Tiwari, Akhilesh Kumar Singh, Anurodh Giri, Minakshi Ramji, Abhishek Lahiri, Alphina Jos, Ritesh Dhawan

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ACKNOWLEDGEMENTS

This research would not have been possible without the support of our partner institutions. On behalf of *MicroSave*, the research team extends its sincere gratitude to Urmool, for field support in Jaisalmer, and Satin Credicare, for field support in Alwar.

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DISCLAIMER

Disclaimer
Qualitative research is designed to look beyond the percentages to gain an understanding of the customer's beliefs, impressions, and viewpoints. Gaining such insight is generally best acquired via Focus Group Discussions and Participatory Rapid Appraisal with small, highly targeted samples. Qualitative research is not statistically representative, but is more appropriate for research that seeks to understand complex human responses and financial behaviour.

Individual vs. Consensus Responses.
In this study, responses to research questions are presented in two different ways: individual and consensus. Individual responses are necessary when questions pertain to bank accounts (or lack thereof), age, occupation, education and other specific aspects of respondents' profiles. In group discussions, however, the final consensus of the group regarding various key questions is what matters. Individuals can and do change their minds during the discussion. In such cases, we note the final consensus, not each individual's opinion. This difference will be noted in the various charts and graphs.

EXECUTIVE SUMMARY

In order to better understand how low-income households save, and the relative risks involved, *MicroSave* conducted a study in two districts of Rajasthan, Jaisalmer and Alwar.

Savings in bank accounts remain the most popular (91% consensus in all the various group sessions), while savings at home (87%) and savings with deposit-taking Non-Bank Financial Companies[1](NBFCs) (78%) rank second and third as consensus choices. Other popular avenues for savings include the post office, self-help groups (SHGs), jewellery, and insurance policies (in this research sample, only Life Insurance Corporation (LIC) of India). Also mentioned, in terms of return on investment as a form of savings, were loans with interest to friends and relatives, livestock, grain, and business investments.

All savings avenues associated with the government such as banks, post office, and LIC policies enjoy high levels of trust in most low-income communities.[2] Savings options mediated by private agents such as NBFCs, SHGs, and chit funds do not. Almost all respondents have either personally lost their savings via unscrupulous agents or know others who have suffered losses. A social, rather than legal, contract and the absence of passbooks seem to encourage fraud in many cases.

Respondents believe that LIC policies and NBFC accounts offer the highest return; savings at home and in post offices offer the lowest. However, insurance and NBFC savings are the most difficult to withdraw during emergencies, while money in a *gullak* piggy bank or at the local post office is always available. Legally binding receipts for easy access to savings are important to all respondents. They agree that banks, post offices, and LICs are the most reliable in this regard.

The study sample in Rajasthan appears to be moving toward more formal avenues for savings—banks, the post, LIC policies—and away from livestock and home savings. NBFCs, even the large and very reputable ones such as Sahara, also seem to be decreasing in popularity. (Note also Sahara's savings options will change as of next year and other NBFCs will follow suit. Please see first footnote for more details.)

[1] Deposit-taking NBFCs or Residuary NBFCs are a special category of NBFCs. Their current legal status is changing to comply with RBI policy on accepting public deposits. As of June 2008, the RBI requested Peerless and Sahara, the two biggest Residuary Non Banking Companies (RNBCs) in India to phase out the collection of public deposits. See here: http://money.sulekha.com/rbi-says-sahara-group-companies-can-t-accept-public-deposits_news_25728. Sahara has committed to repaying 19+ million depositors by end-2011 http://www.business-standard.com/india/news/sahara-to-windparabanking-by-dec-repay-rs-9k-cr/447606 Sahara also hopes to extend its services in other ways, including a credit co-operative society. http://www.rediff.com/business/slide-show/slide-show-1-sahara-takes-co-op-route-to-beat-sebi-rbi-bans/20110426.htm

[2] Throughout this report and related ones on savings and remittances, respondents place their fullest trust in any institution with "government backing". In fact, guaranteed deposit insurance, provided in part by the government to state banks, post office savings, and certain insurance policies, is the basis of this trust, but since this level of specificity is not how respondents understand the security of their money, we do not change the phrases and rationales they use instead

Respondents attribute these shifts to rising levels of awareness and increased accessibility to the more reliable forms of savings. They also perceive that, for the present, the formal avenues for savings and the best rates of return remain more available to richer households, and the less fortunate have fewer options and lower returns. The Not So Poor segment show the greatest amount of diversification in terms of how they save and how often they deposit, although they, too, prefer formal savings avenues to informal ones. The rung below tend to use informal sources as well as NBFCs and post offices. The last rung, the Very Poor, have the least access to banks and other formal savings channels and must save in ways that are less secure and more risky. Their rates of return are correspondingly low.

INTRODUCTION

The benefits of savings are obvious to the poor, and increasing evidence suggests that low-income households are actively seeking new and better ways to invest in a more secure future.[3] Unfortunately, close to 41% of India's citizens remain financially excluded with no access to formal banking services.[4] Their choices for savings are thus limited and involve more risk. *MicroSave* conducted a study on the relative risk to the savings of the poor in three different states in India in 2011.[5] This report provides a summary of the research results in the north-western state of Rajasthan in the districts of Alwar and Jaisalmer. An important objective of this study is to help further discussion among policy-makers and other stakeholders on how to improve savings options and reduce risk for the lowest-income households.

RESEARCH PROCESS

Research Objective

The primary objective of the study is to understand the various savings options available to poor people, and the relative risks and rewards each entails.

We will also address the following questions:

1. How do low-income households make use of formal, semi-formal, and informal savings systems?
2. What factors motivate their choices and which ones are most important or relevant?
    - Trust
    - Rates of return
    - Identified goals (education, marriage, health/life/casualty insurance, business or property ownership, other life-cycle events)
    - Security
    - Convenience
    - Compulsory savings
    - Peer pressure
    - Lack of other options
3. How do they perceive the risk associated with formal, semi-formal, and informal savings?
4. How have their savings patterns changed over time, if at all?
5. How do low-income groups perceive the savings habits of other socio-economic groups?

Research Methodologies

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[3] For research on the impact of micro-savings on poor households, see Dupas & Robinson (2011) "Savings Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya" and Karlan, Yin & Ashraf (2008) "Female Empowerment: Impact of a Commitment Savings Product in Philippines". See Collins et al (2009). "Portfolios of the Poor: How the World's Poor Live on $2 a day" Princeton University Press for a more detailed discussion on how poor households save. For a summary, visit " PoP Briefing Note 2 - Borrowing to Save: Perspectives from Portfolios of the Poor", *MicroSave* and Financial Access Initiative.

[4] http://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=342

[5] Please see *MicroSave*'s studies on relative risk to savings in Tamil Nadu and Uttar Pradesh.

The team used the following tools for data collection:

1. **Focus Group Discussions (FGDs):**FGDs, by fostering discussion amongst the participants, provide a window into the thinking behind their preferences regarding personal savings and their understanding of the various risks involved. For more information on the discussion guide, please refer to Annexure 1.

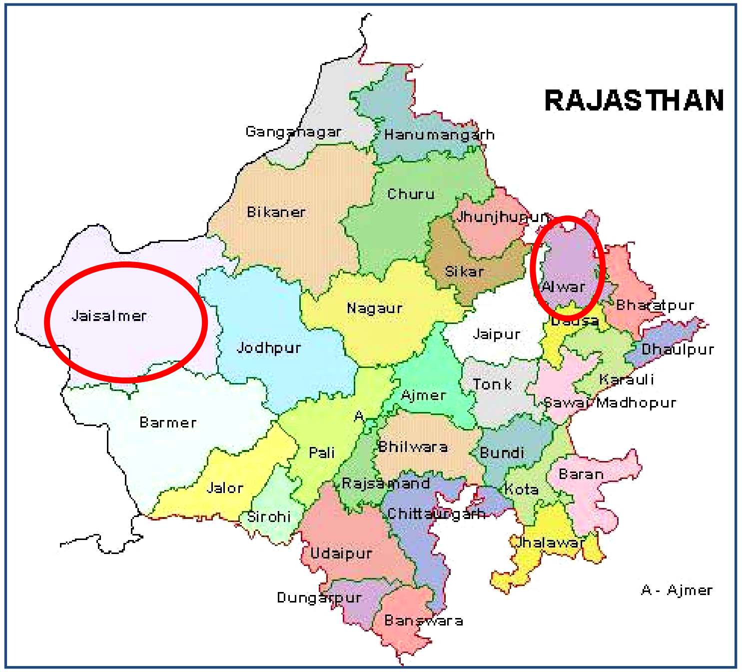
2. **Relative Preference Ranking (RPR):**In the RPR exercise, respondents rank savings choices on the basis of various safety attributes. Annexure 2 provides details on the RPR guide.

3. **Financial Sector Trend Analysis (FSTA):** FSTA provides an overview of how people make choices about savings, how these choices are changing, and reasons for their new decisions. Details on the FSTA can be found in Annexure 3.

4. **Financial Services Matrix (FSM):** This exercise explores the savings habits and perceptions of different socio-economic groups in the research sample. For details, please see Annexure 4.

Area Profile

Rajasthan borders Punjab, Haryana, Uttar Pradesh, Madhya Pradesh, and Gujarat, and is the largest state in India with 33 districts and 41,352 villages.



Alwar: Alwar is situated in the north-eastern part of Rajasthan and is known as a centre for auto parts; electrical, chemical, and crockery industries; PVC cables, sanitary ware, and ready-made garments.

ALWAR AT A GLANCE[6]	
Area	8,380 sq. km
Population	2.9 million
Literacy Rate	62.
Tehsils (Block)	12
Commercial Bank Branches	193

Jaisalmer: Jaisalmer is the largest district of Rajasthan. It is bounded by Bikaner and Jodhpur and tourism is the major industry. Jaisalmer is known for its skilled musicians, dancers, and camel-skin leather bags, plus a thriving handloom and handicraft industry.

JAISALMER AT A GLANCE[7]	
Area	38,401 sq. km
Population	500 thousand
Literacy Rate	51.4%
Tehsils (Block)	3
Commercial Bank	203

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[6]From the district of Alwar's website, http://alwar.nic.in/statistics.html. For bank information, see http://www.rbi.org.in/scripts/PublicationsView.aspx?id=12671. Accessed on June 2, 2011

[7] From the district of Jaisalmer's website http://jaisalmer.nic.in/ssssss.html. For bank information, see http://www.rbi.org.in/scripts/PublicationsView.aspx?id=12671. Accessed on June 2, 2011

Sample

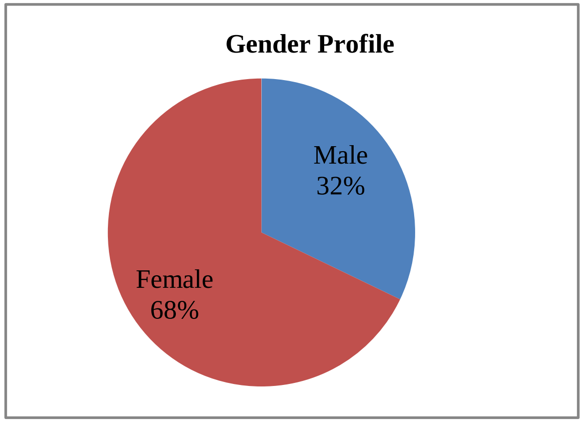
This research includes 168 respondents, banked and unbanked,from both urban and rural regions.

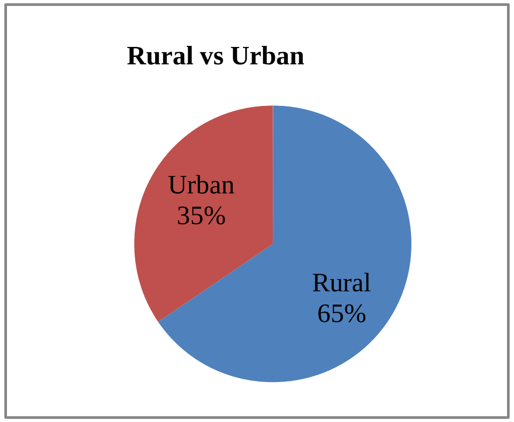
Sample and Tools Used

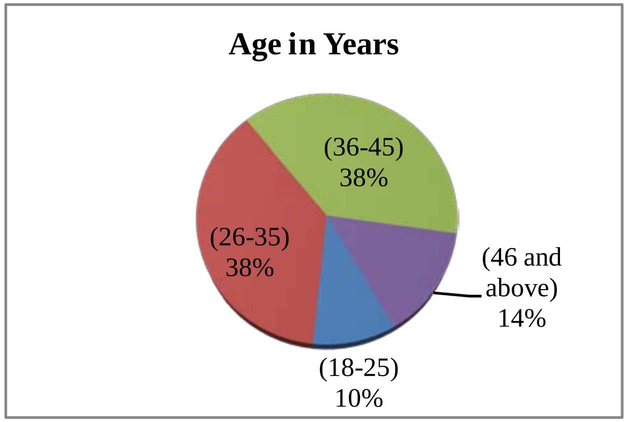
S. No.	Tool to be used	No. of Sessions	Total Respondents[8]
1.	Focus Group Discussions	23	105
2.	Relative Preference Ranking	16	68
3.	Financial Sector Trend Analysis	6	25
4.	Financial Services Matrix	11	45
5.	**Total**	**56**	**168**

[8] FGD sessions were done in combination with one of the following tools: RPR, FSTA or FSM. As a result, the sum of the total respondents under each qualitative research tool used exceeds the total number of respondents in the study.

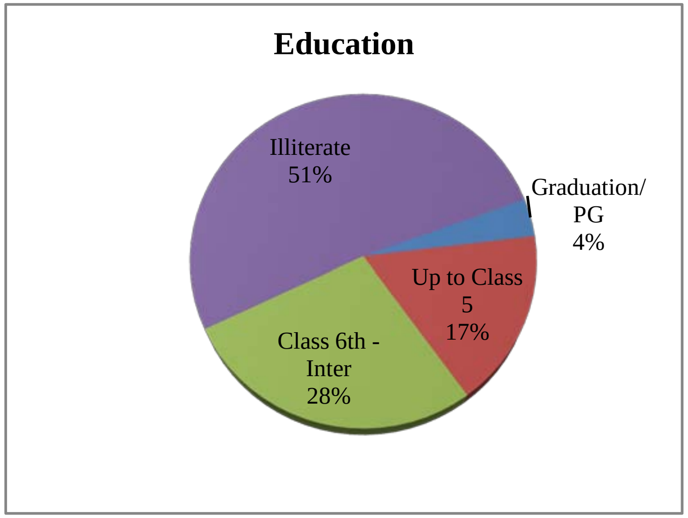
RESPONDENT PROFILE





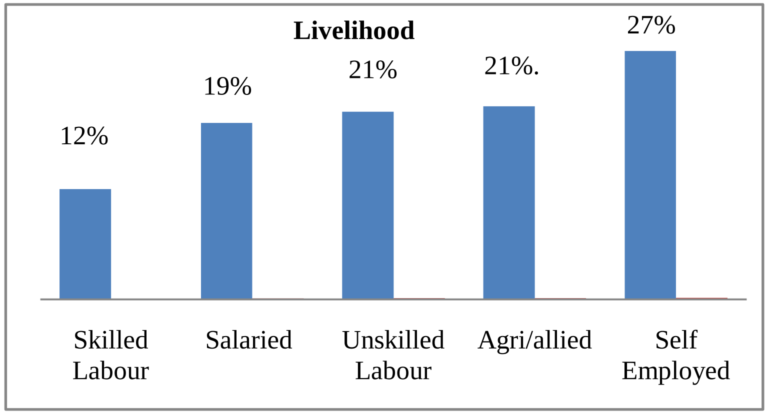


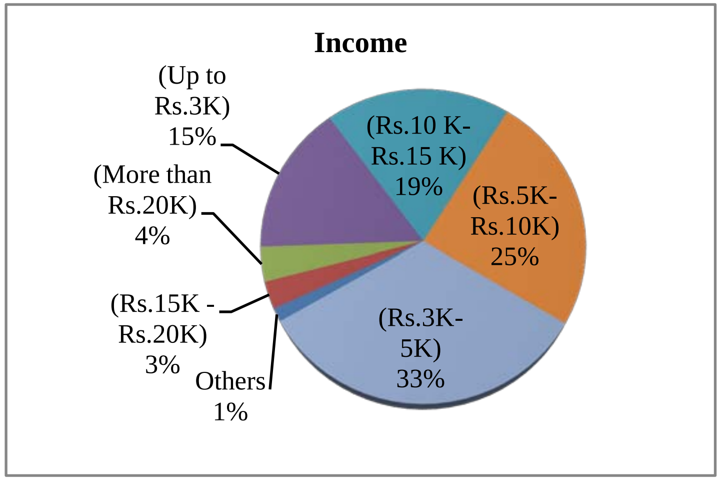
Approximately 70% of the sample is female. Sixty-five percent of the respondents are rural and the rest are from urban and semi-urban areas. Thirty-eight percent are age 26-35. The same number is between 36-45. Fourteen per cent are 46 or older. Only 10% of the respondents are 18-25. Fifty-one percent are illiterate. About 30% have some secondary school education, 17% have had some primary schooling, and close to 4% have studied at the graduate level.



Twenty-seven percent of the respondents are self-employed. This group includes small businesses such as shops, restaurants, tailors, and masons. Twenty-one percent depend on agriculture and livestock for their livelihood. A similar number are unskilled labourers working on other people's land or in the NREGA[9] programs. Close to 20% of the respondents work in government or private salaried jobs as school teachers, *anganwadi* workers (dealing mostly with women and children's issues in villages), and hospital nurses. Twelve percent of the sample is involved in skilled jobs such as tailoring and carpentry.[10] Thirty-three percent have a monthly income of Rs.3,000-5,000. Twenty-five percent of respondents earn between Rs.5,000-10,000 per month. Respondents who earn below Rs.3,000 comprise 15% of the total.

Sixty-three percent of the total 168 respondents have a bank account. By contrast, 93% of this same total either own a mobile phone or share one with a family member. Nevertheless, 10% are unable to use a mobile phone, and only 15% know how to make a call or read a text message. About 20% of the respondents can write text messages.

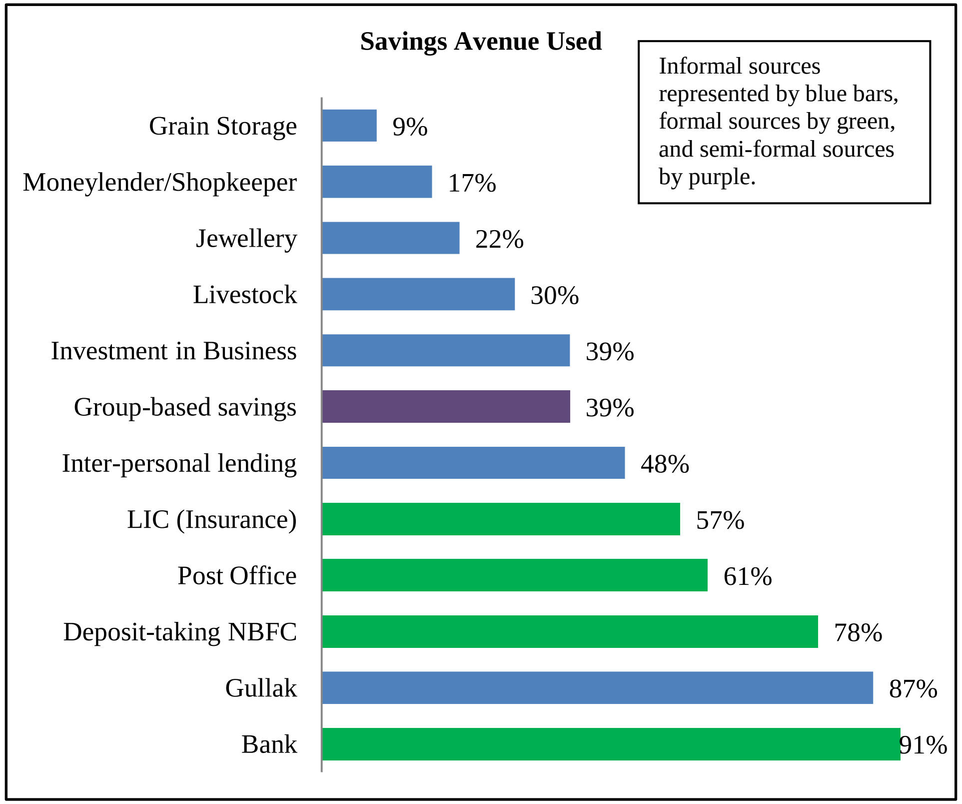




[9] Mahatma Gandhi National Rural Employment Guarantee (MNREGA, commonly known as NREGA) scheme has been put into place by the Indian government to provide income security to rural households by guaranteeing 100 days of wage labour to one adult member of every rural households who agrees to do some unskilled manual labour. More details here: http://nrega.nic.in/netnrega/home.aspx

[10] Some tailors, carpenters, masons, etc, are self-employed, while others are marked as holding salaried positions. This difference depends on whether the respondent works for a bigger establishment or works on his own.

PREVALENCE, PREFERENCES, AND PERCEIVED RISKS



Prevalence and Preferences

This graph shows the relative use of, and preference for, various savings options, according to focus group discussions. Banks rank first, but savings at home are only a few percentage points behind. Respondents report that almost everyone they know keeps some money at home, either in a *gullak* (a small earthen piggy bank) or in their *peti* (suitcase). [This report uses *gullak* and savings at home to mean the same thing.] Semi-formal alternatives such as NBFCs Sahara and Peerless are also popular. Of the 12 savings choices mentioned, only three qualify as "formal" avenues (banks, LICs, and the post office).

Savings Avenue	Description	Frequency and Form of Usage
Bank	• State banks are perceived to be extremely safe and trustworthy due to their association with the government. • Respondents use both savings and fixed deposit accounts. Savings are more popular. • For those who have ATM cards included with their account, the expanding network of cash machines makes banking more convenient.	• Deposits include: o Small monthly deposits o Larger lump sum amounts at the end of harvest season
Savings at Home	Savings kept in a safe place at home--the rice bin, *gullak*, suitcase, or cupboard. • Advantages include: o Ready access to cash during an emergency, especially a medical one o No account-opening or maintenance fees o Convenience. Savings possible on a daily basis	• Respondents add money when they have loose change or excess cash. • Some note they consciously add a certain amount to their *gullak* each day.
NBFCs	• Deposit-taking NBFCs or Residuary NBFCs are a special category; their current legal status is changing to comply with RBI policy on accepting public deposits. [11] • For the moment, NBFCs can offer fixed long-term savings, usually with higher rates of return than bank or postal savings. • NBFCs are private companies and recruit sales agents within communities who also collect deposits and disburse rewards. • Advantages include convenience and proximity of agents, and promise of high returns. • Disadvantages include high incidence of fraud and inadequate agent management.	• In over half the sessions, respondents claim they save on a monthly basis. • In about one third of the sessions, respondents say they save daily. • Respondents, especially those who save monthly, save at home first and then deposit with the NBFC agent.
Post Office	• Post offices inspire a high level of trust due to their government status. "*Woh toh sarkari hain*". (It is part of the government) is a frequently heard refrain. • The post office offers a savings account where savings can be variable and voluntary, or a recurring deposit where deposits are fixed and compulsory. • Benefits include: agents who provide doorstep collection, or deposits directly in a nearby post office, plus policies and accounts that cater to small savings.	• Most respondents who use the post office say they save on a monthly basis. • They also deposit directly into their local post office, or via the postal doorstep collection service. If the latter, a "tip" is often mandatory.

[11] As of June 2008, the RBI instructed Peerless and Sahara, the two biggest Residuary Non-Banking Companies (RNBCs) in India to phase out their public deposits. Sahara intends to do so by end-2011. Please see first footnote for more links regarding these changes.

LIC (Life Insurance)	• Life Insurance Corporation of India (LIC), a government-owned insurer, is the largest such savings option with over 1 million agents and close to 270 million policies. [12] • Alliance, Bharati AXA Life Insurance, others also offer insurance policies as savings. • LIC policies typically guarantee some money back at the end of the period insured, even if death, casualty, or whatever other insured event does not occur.[13] • Benefits include: access to a lump sum amount at policy maturity, higher interest, and LIC agent doorstep service.	• Typically insurance policies require semi-annual payments. • Respondents tend to save elsewhere to achieve the premium amount and then hand this lump sum over to an agent or deposit it at the LIC local office.
Inter-Personal Lending	• Many respondents lend with interest within their social circle whenever they have saved a sufficient amount. • Some claim this practice is becoming less common (due to delay or non-payment and options with better returns elsewhere) and happens only if a close friend or family member is in dire need.	• Typically, this type of lending happens with home savings and only if there is no other pressing demand for the funds.
Group-based Savings (*Beesis* and SHGs)	• SHGs are a form of compulsory group savings; peer pressure forces everyone to pay on time. The savings are then deposited in a bank account. • SHGs are particularly valuable as they also offer access to credit, and members benefit from the shared interest on these loans. • In this sample, Chit funds or *beesis* (or ROSCAs) and SHGs are the most common forms of group-based savings. • The chit funds in this study are all informal, community-created funds. • Each member puts in the same amount each month and one member, whose name is decided by lottery selection, takes the entire amount. The members take turns to access the entire amount so that everyone receives a lump sum at least once during the lifetime of the chit. • Chit funds are particularly attractive to those who require lump sum amounts to pay for festivals, school fees, health crises and other life-cycle expenses. • In this study, chit funds are more common in urban areas. • SHGs are more common in rural areas.	• Typically, SHGs and chit funds meet on a monthly basis • In 66% of the cases, respondents saved directly into their group. The rest saved at home or elsewhere before depositing it with the group.
Investment in Business	• Many respondents put their savings back into their business (farming, shops, construction, etc.).	• Respondents tend to invest in their business as they save up over time.

[12]http://www.licindia.in/operations.htm, http://www.licindiaagent.com/list-of-all-lic-insurance-policy, http://www.myinsuranceclub.com/insurance-news/lic-customers-and-branches-face-problems
[13] For more information on LIC products see http://www.licindia.in/ and http://www.microfinancegateway.org/gm/document-1.9.29756/3588_file_03588.pdf.

	• While there is always a risk of losing one's business, many who are self-employed see this form of recycling as a superior savings option. • Investment in business has increased with greater access to credit and savings.	• For farmers, investment in agriculture is seasonal.
Livestock	• Much of the research took place in a dairy area, so livestock play an important role in respondents' lives. • Goats and buffalo are critical income-generating assets for these households. Buying and selling livestock is the focus of their finances. • Benefits of saving to invest in livestock include: o Almost everyone in the family can participate in taking care of the livestock, thus reducing their maintenance costs. o Calves can be sold for income without depleting the breeding stock.	• Purchasing livestock is a seasonal activity. • Since livestock are not cheap—buying a buffalo can cost up to Rs.40,000—respondents use a mix of savings, earnings, and loans for such purchases.
Jewellery	• Investing in jewellery offers the following benefits: o Liquidity: jewellery can be easily sold or pawned, and is especially useful for emergencies. o Potential high returns: gold in particular and other precious metals and stones can increase significantly over time.	• Typically respondents save up, buy and store at home, or buy in instalments from a trusted jeweller.
Moneylender/ Shopkeeper	• Respondents save money with the local moneylender or shopkeeper (who is, in some instances, the same person).	• When people have extra money, they deposit it with the shopkeeper.
Grain Storage	• During the harvest season, some grain is stored away to be sold at a higher price at a later date	• Grains are stored seasonally.

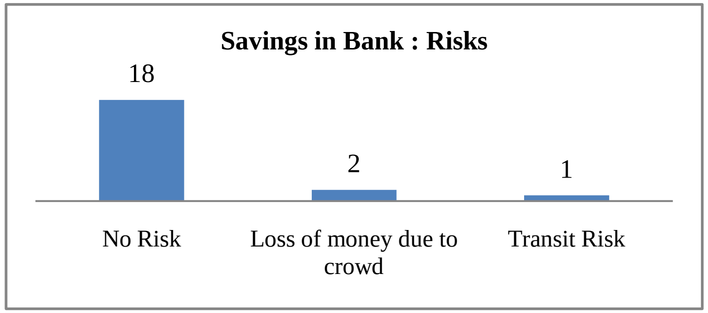
Perceived Risks

Savings are not without risks, however. The poorest households are often also the most vulnerable. In this section, we look at each savings option respondents use and the potential problems attached to each. The findings derive from 23 focus group discussions.

Bank

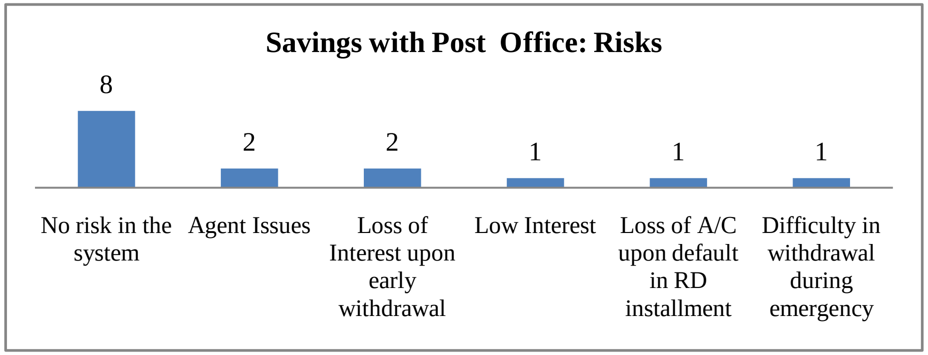
Banks came up in 21 sessions, and in 18, respondents claimed that there is zero risk in saving with banks. They concede there are risks associated with travelling to and from a bank with money—pickpockets and robbers en route are common fears. However, respondents agreed that no one ever lost money kept at the bank. "*Koi chinta nahin hoti hain*". (We do not worry at all [when we keep money in banks].)

"*Banko pe puri duniya ka viswas kayam hai*". (The whole world trusts banks.)



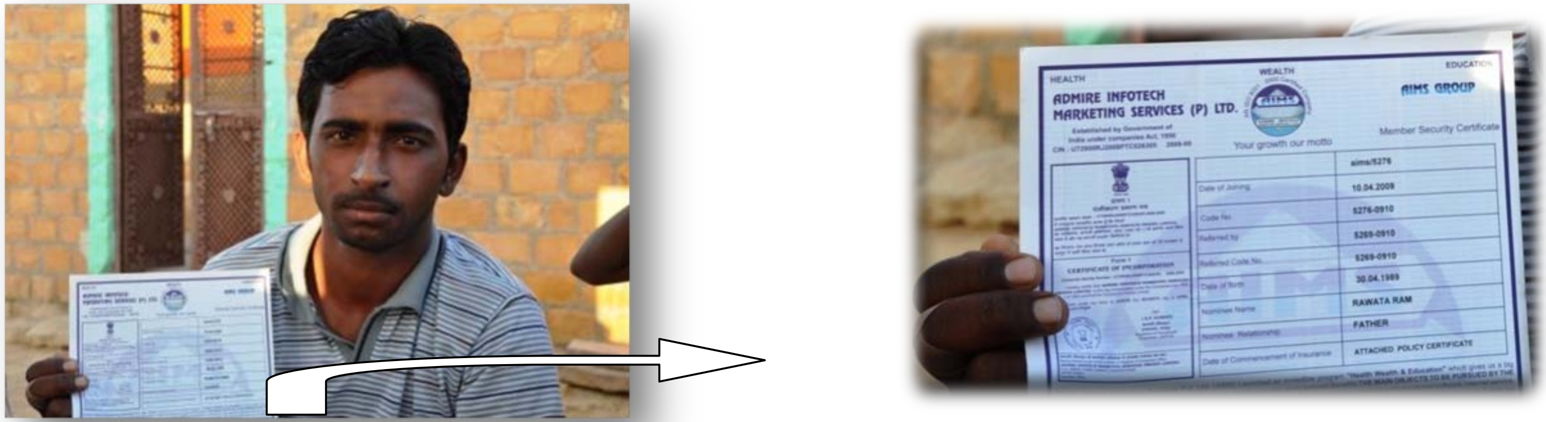
Post Office

Post office savings accounts are also popular and came up in 14 sessions. Post offices are trusted and risk is limited to the occasional dishonest postal agent who absconds with doorstep deposits; possible default and thus perceived loss of savings for those with mandatory recurring deposit accounts; and inability to access money in long-term savings for emergencies.[14]



"*Post office mein koi dikkat nahin hai, agent ke vajah se dikkat ho sakti hain*". (We have no problems with the post office. Any problem that crops up is related to the agent.)

[14] In fact, this is a false perception. The post office allows up to four defaults; on the fifth, the account is discontinued. If discontinued, the account holder receives the balance, plus interest. S/he can also revive the account by paying the amount due, plus a small penalty fee, within two months. For more details: http://www.indiapost.gov.in/POSBActs/PORDRules1981.pdf. Accessed on 11 July 2011.

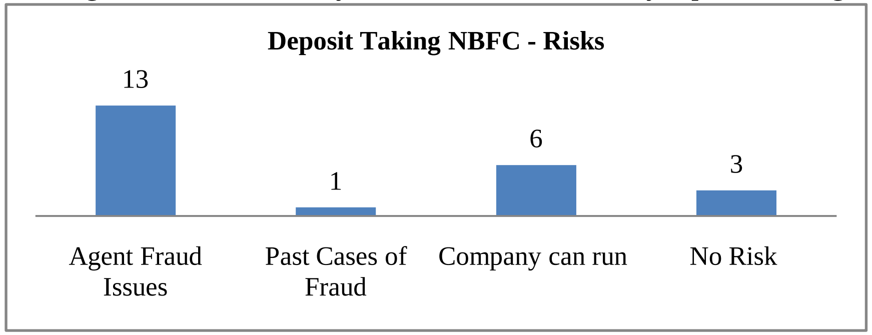


Deposit-taking NBFCs

NBFC savings came up in 18 out of the 23 focus groups. In 13 of these sessions, respondents recounted numerous cases of fraud amongst friends and family. A woman who had been swindled by a private company admitted, "*Mein toh itna dar gayi hoon ki ab toh mein bank bhi nahin jaungi*". (I have become so afraid that I have stopped using the bank as well.)

> "*Jiske saath ghatna ho gaya hain, voh darte hain, kehte hain ki mera paisa doob jayega*". (Those who have had a bad experience feel concerned about the safety [of NBFCs]. They say that I will lose my money.)

In general, since NBFCs are private firms with no links to the government, respondents perceive them to be riskier. In six sessions, respondents expressed fears of these companies making off with their money, and in five sessions, they reported losing savings up to Rs.5,000. In such cases, most depositors had no legal recourse to recover their money.



Not everyone mistrusts the NBFCs. Some respondents claim in fact that their trust has grown over time as the NBFC in their area establisheda large number of local agents. "*Vistaar badhaya hain, ab ghar ghar mein agent hain aur har ghar mein doh teen khata hain. Ispar poora vishwas hain*". (They have really increased their outreach. Now there is an agent in almost every home and two or three accounts in every household. We have full confidence in them.)

Saving with NBFCs: Fraught with Fraud

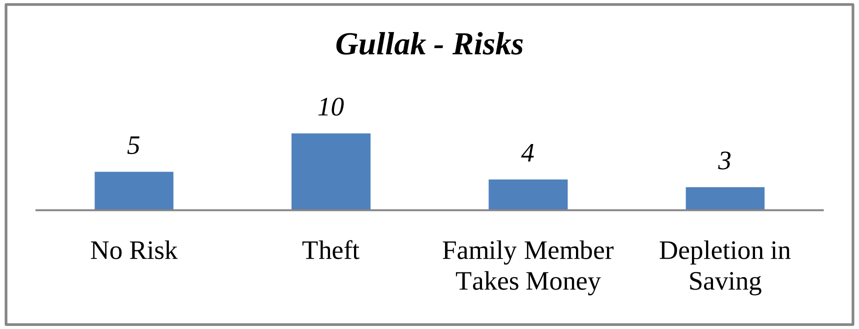
About a year ago, Laxman, of Badaghar village in the Jaisalmer district, heard about an offer from a private company. For an initial investment of Rs.7,000, the company would ensure a return of Rs.10,000, plus cheques thereafter for Rs.100-400. Insurance coverage and a free computer course were also included.

Laxman was sceptical. But he knew the company agent and he saw the agent's bonuses (a Honda motorbike and TV), so he enrolled. For three months, he received cheques for Rs.100. But when he showed up for his course, the computers were not working. Then, on the fourth month, the cheques stopped. A few days later, Laxman read in the newspapers that the company had swindled many from Jaisalmer for a total of Rs.10 million.

No one from Badaghar took legal action against the agent because they knew him and they were all from the same village. More important, the agent seemed just as helpless as to how they might recoup their losses.

Gullak or Savings at Home

In 20 of the 23 sessions, respondents in claimed they save at home. These savings are of course vulnerable to external theft. A smaller number of respondents noted that often children, their husbands, or other family members mighttake money out of the *gullak*. One woman noted during a session, *"Ab jaise yahan aa gayi hoon, mere saans to shak ho sakta hain, to tod bhi sakti hain"*. (For instance, while I am here now, my mother-in-law may decide to break the *gullak*.)

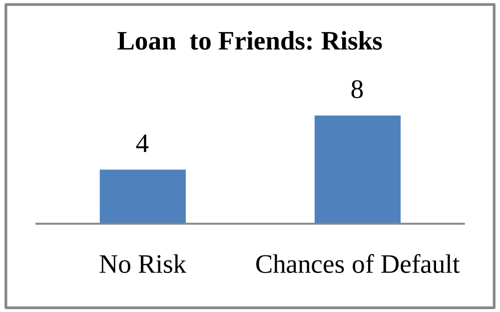


In addition to theft, respondents admitted that having the money so readily at hand means the temptation to spend is often irresistible. If they had saved elsewhere, the money might still be safe.

"Gullak, saal do saal mein ek baar chori to ho hee jaati hai". (Money from my piggy bank gets stolen at least once a year.)

Inter-Personal Lending

In 11 out of 23 FDGs sessions, respondents mentioned lending money within their social circle, either with interest or to ensure reciprocal lending when they in turn need a loan. The risk is the high likelihood of default. *"Fifty per cent doobne ka khtara rehta hai"*. (There is a 50-50 chance of the danger of default.) Sometimes the lender insists on collateral to mitigate this risk. Inter-personal lending is less common now than it used to be due to the increased availability of savings options with higher returns and lower risk,



Saving "Down" When You Cannot Save "Up"

Beena, 38, lives in Rajgarh in urban Alwar. She runs a small *kirana* shop and her husband is a tempo driver. They have a monthly income of Rs.10,000, but with four children, this barely suffices. Her family does not have a bank or post office account.

Beena's case illustrates how loans can work as "future savings" for low-income households. Instead of saving up by setting aside some money until it grows to a useful sum, Beena takes a loan today and repays it by setting aside a portion of her income as repayment and future savings. She notes it is impossible for her to save in normal ways with children who need to be fed, clothed, and schooled. Four years ago, she tried investing money in buffaloes. But when an emergency arose, she had to sell them quickly. For her, MFI loans are the best way to access big amounts from which she is able to save small amounts every week in addition to her repayments.

Beena belongs to two MFI groups and an informal chit fund ("*beesi*"). She tries to set aside Rs.230 each week to repay her MFI loan—though she worries about theft at home and in her shop (where Rs.600 were once stolen).She is aware of other savings options, but she likes her *beesi* as it allows her to access big amounts in one go, something that would not be possible on her own. She saves Rs.3,000 per month for 25 months at the *beesi*. She trusts this fund as it has been operating successfully for a long time and, for her, it is safer than saving at home.

LIC (Insurance)

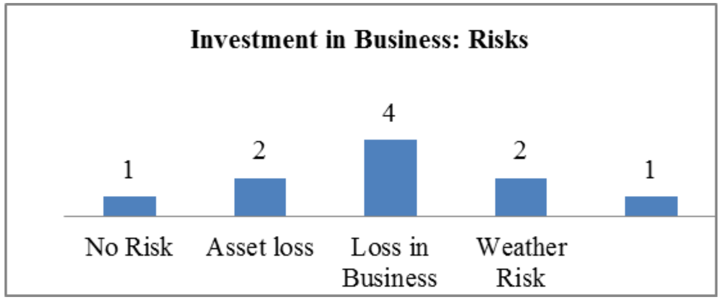
Respondents mentioned LIC policies in 13 sessions and seem to have high levels of faith in them, although in two sessions, respondents noted agent fraud can be a problem. They also worry that if they default on the premium payments, they may lose their investment.

Group-Based Savings

In nine sessions, respondents discussed saving in groups. This method works well if there is strong trust in the group leader and among the group members. The only real risk is if one member defaults, everyone's credit history is jeopardised. Only two sessions mentioned this risk. In general, group-based savings seem satisfactory for those in this study who use it.

Investment in Business

In nine sessions, respondents discussed business investments as a savings method. The principal risk is low profits and in five sessions, respondents reported losing money on businesses that performed poorly. (In four sessions, the loss was more than Rs.5,000.) "*Nafa nuksaan to hota hee hai*". (There is always profit and loss in business.)



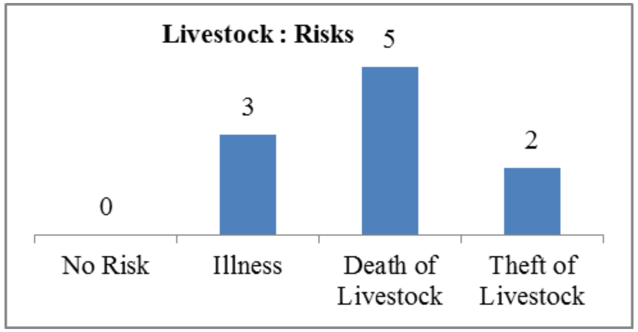
Livestock. Respondents brought up livestock as a savings option in seven sessions and in all of them, they agreed that the risks are high. Livestock illness and death are the most common downside—"*Marne ka dar rehta hai*". (The [animal] can die anytime.) In two sessions, they also discussed theft. Several respondents reported losses of, more than Rs.10,000.

Saving with Livestock: Risk and Reward

Pushpa, 35, lives in a village in Alwar. Her husband is a taxi driver, while she augments the household income looking after livestock. Lately, however, this plan appears to have derailed.

When Pushpa took out a Rs.10,000 MFI loan to buy male and female goats, her plan was to sell the female's milk (Rs.20/litre per day) and the kids (Rs.4,500 each) and make a profit. Unfortunately, her goats' kids were not strong and died soon after birth. The female goat then fell from a rocky area and also died. Now Pushpa is left with a loan to repay with interest of Rs.355 every two weeks for 15 months, and a male goat of no real use, plus a buffalo that recently stopped giving milk.

Her new plan is to sell her male goat and buy a female. When asked, given the risk, would she not she prefer to invest in a safer place, Pushpa says she did not know of any other options and if her livestock remain healthy, the high returns outweigh the risks.

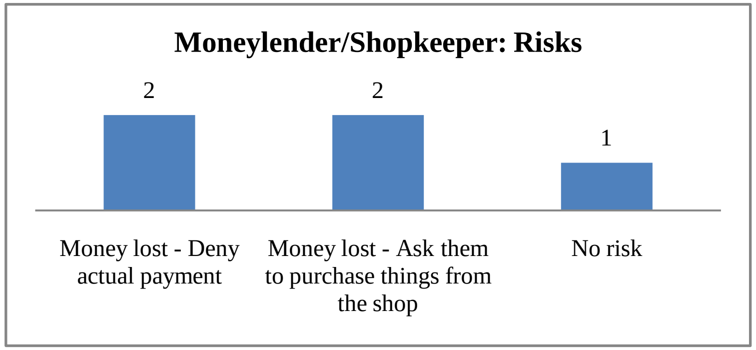


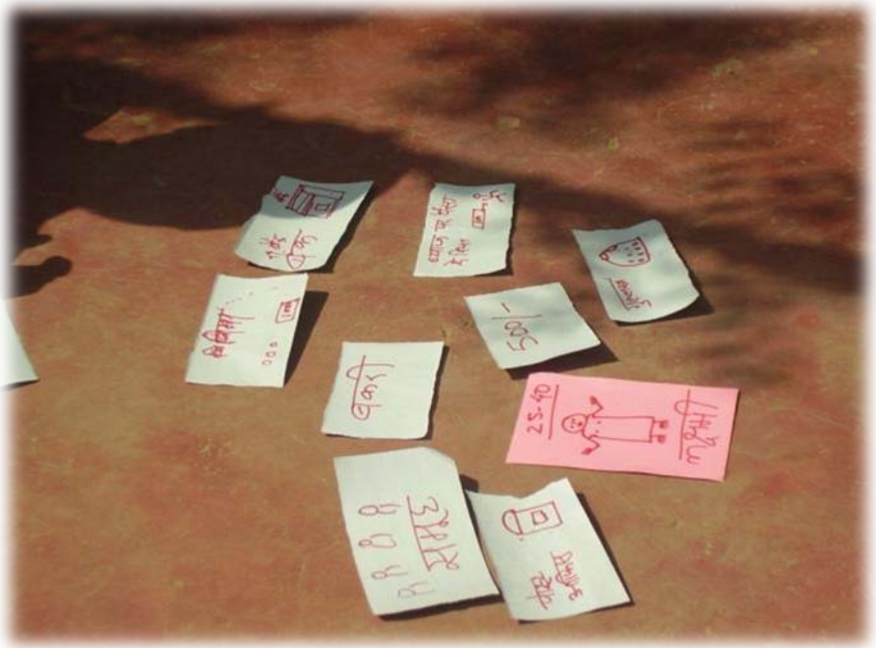
Jewellery.

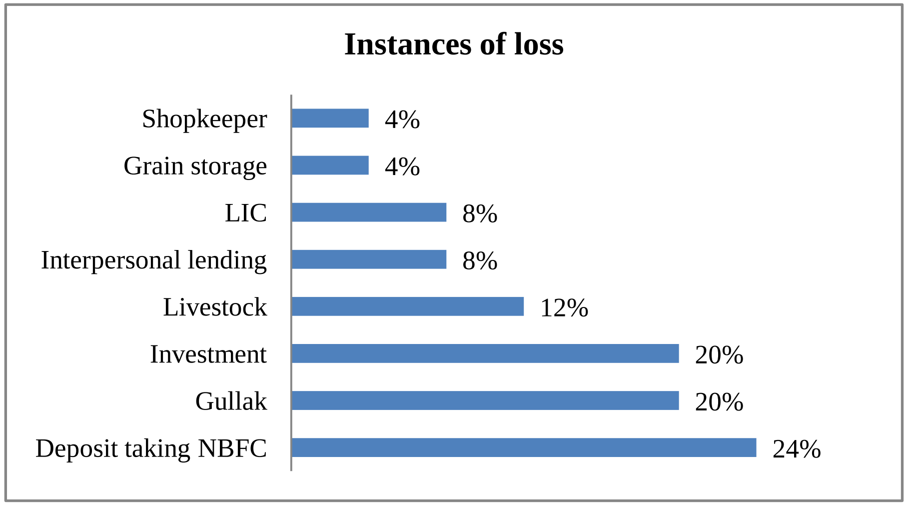
Jewellery came up in only five of the 23 sessions as a savings option. Respondents associate two major risks with this choice. Jewellery is easily stolen and, if pawned, not so easily retrievable. Nevertheless, on balance, the benefits appeal to many as it is always important for wedding gifts and it represents status at all income levels.

Local Moneylender or Shopkeeper as a Money Guard

Respondents in four sessions save with the local moneylender or shopkeeper. The risk associated with this method is that these individuals may refuse, or be unable, to return the money. Some shop owners offer store goods instead of cash. Moneylenders pose even greater risks for the very poor. "*Baniya to fail bhi ho sakta hai*". (Saving with the money lender can prove to be useless.)







Loss of Savings

As the previous section outlines, low-income households save in ways fraught with risk. NBFCs account for almost a quarter of these losses—either the agent, or the company, or both connive to cheat the depositor. Typically these losses do not exceed Rs.5,000, although one respondent claims to have lost twice that amount.

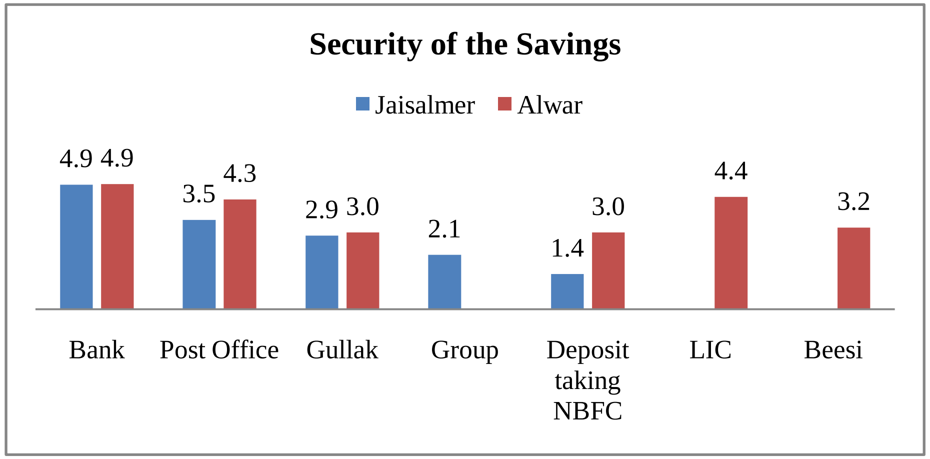
Investing in business or saving at home each account for another 20% of depositors' losses. Pilfering from *gullaks* is difficult to quantify, but two respondents estimate their losses total close to Rs.5,000 each. Investment in business includes agriculture. Most of these losses are too varied to specify, although poor monsoons are generally the reason for farming losses.

SAVINGS ATTRIBUTES

The risk of losing one's savings or investment is what everyone hopes to avoid. Nevertheless, "security" is not the only attribute that matters to respondents and they make savings choices based other attributes as well. This section explores those attributes and how various savings choices differ for each. We asked respondents to compare savings methods with perceived rewards and risks. The graphs present the accumulated average score of each savings option against each attribute.

In Jaisalmer, we asked respondents to assess the various savings attributes for banks, post offices, NBFCs, home *gullaks*, and group-based savings (both *beesis* and SHGs). In Alwar, respondents worked with a slightly different list: banks, post offices, NBFCs, insurance (LICs), *gullaks*, and *beesis*.

Results include:



Savings Attributes

1. **Security.** Low/no incidence of fraud or theft.
2. **Return**. Interest or other benefits accrued.
3. **Trust**. Level of comfort in the security of deposits and the reputation of the institution or individual safeguarding these savings.
4. **Ease of withdrawal**. Convenience, speed, and ease of accessing savings for emergencies.
5. **Physical evidence**. Transaction receipts, passbooks, physical infrastructure, identity cards, and uniforms to help reinforce security and trust.

Security. Not surprisingly, respondents see banks, post offices, and LICs providing the greatest security for savings. All three are described as "government-backed" and thus safe. Moreover, no one has ever lost money or known anyone who lost money with these institutions. Banks rate slightly higher than the other two options because, although travelling to and from the bank with large deposits and withdrawals can be dangerous, the possibility of dishonest doorstep-collection agents for the post and LICs apparently pose higher risks. Past experience proved the most important determinant for this attribute. Most respondents have either personally lost money with *beesis*, SHGs, *gullaks*,and NBFCs, or known others who have.

NBFCs vs. Post Offices

Geeta lives in the village of Rupsi in Jaisalmer. For the past four years, she has been a post office agent. Her husband is an LIC agent. He was hesitant about her working for Sahara, one of India's leading NBFCs, and was more comfortable with the post office.

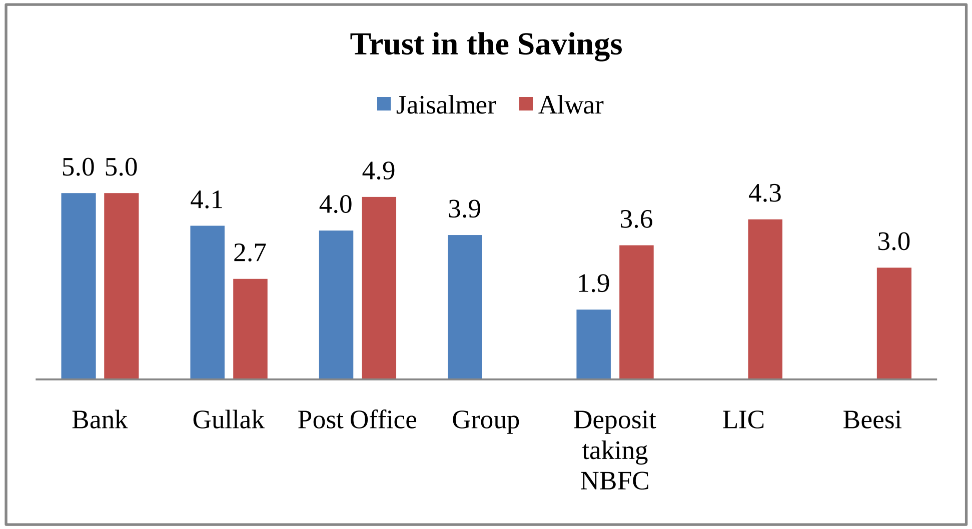
Neither the post office nor Sahara has the full trust of most villagers. One of Geeta's own relatives, also a post office agent, previously swindled many depositors. Similar stories abound for NBFC agents. Geeta has faced an uphill battle convincing her community to open post accounts. But she is making progress. Her arguments that the post office is a government entity, and the Sahara office is too far away to easily verify their agents' claims, seem to be working. Ultimately, most people appear to have more faith in the post office than a private company.

On deposit-taking NBFCs:
"Ye sarkari nahi hai na, log kahenge, ki humara paisa kha jayenge" (It is not a governmental organisation. So people will worry that their money will get stolen.)

With group-based savings such as *beesis* or SHGs, respondents worry that group members may leave or that the entire group may dissolve. They also admit that it is sometimes difficult knowing whom to trust. On savings at home, one woman confided, "*Gullakbacche budhe sab nikaal lete hain aur pata nahin chalta. Pati bhi maang ke nikaal sakta hain*". (Children, grownups, everyone removes the money, and we may never find out. Even my husband can ask me for money and take it.) NBFCs are seen as the least secure, due to their dependence on less than fully reliable agents to collect savings. Even agents who are well known and part of the community are not immune to temptation. As one respondent notes, *"Kisi ki niyat firte time nahi lagta"*. (It does not take too long to lose one's integrity.)

Trust: Respondents in this exercise see banks, post offices, and LIC policies as not only the most secure, but also the most trusted. The same reasons also apply: high levels of security, government links to insure deposits, and better fraud prevention than the other alternatives. Post offices and LICs have had their difficulties with agent fraud, but most respondents blame the agents, not the institutions themselves. *"Kaafi janta jaati hai wahan; kaafi dinon se chal raha hai"*. (Many people go to the bank and post office; they have been there for a long time now).

Trust in groups-based savings appears to hinge on the group leader and his or her ability to manage defaults. A group run by a strong leader has high levels of trust. Given this dependency, however, most respondents did not feel they should give group savings in general a high score for trustworthiness.

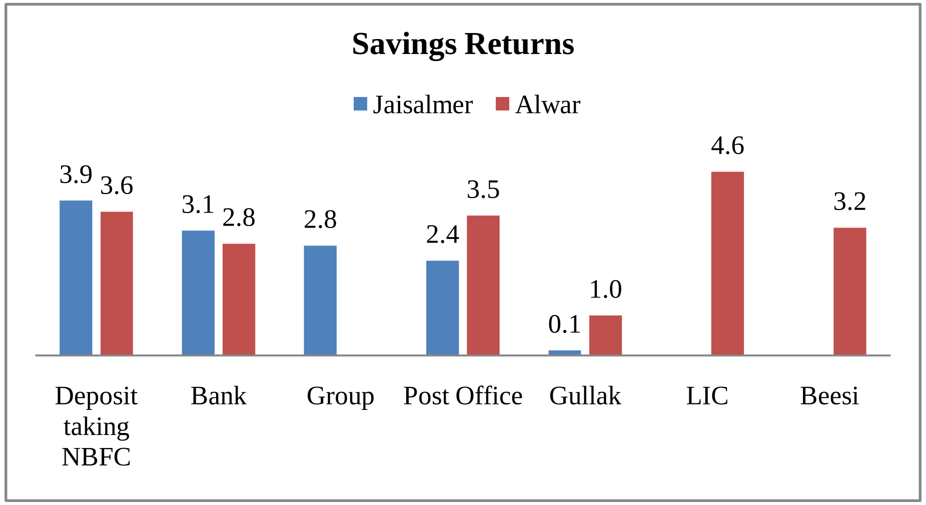


In Jaisalmer, many trust saving at home,if for no other reason than the money is always tangible and readily available. *"Apana Paisa Apne paas"*. (One's money should remain with one.) Certain NBFCs have such a poor reputation in this area, due to companies disappearing without a trace, that keeping money at home appears more attractive than it might otherwise.

Nevertheless, Sahara and Peerless have been working in Alwar for many years now with many satisfied customers. *"Chal rahi hain kaam, toh vishwas hain"*. (So far we have been able to save without any risk, so we have faith.) *"Dagabaazi toh aajtak nahin hui hain, bahut saal se kar rahe hain, byaz samet mile hain humko"*. (We have not experienced any fraud in the many years that we have been involved with Sahara. We always get back our money with interest.) In general, though, private companies are less trusted since almost everyone has a story to tell of losing savings with an NBFC.

Returns. LIC policies and savings with deposit-taking NBFCs receive the highest score. Respondents explain that LICs offer attractive interest rates, plus coverage in the event of accidental death. Both post offices and NBFCs offer a recurring-deposit product where after saving for five years, one receives a payout at maturity. Bank savings earn lower interest. Since *gullaks* do not offer any interest at all, they score the lowest in almost all the RPR sessions.

With group-based savings, respondents mention that, although returns are often good, they are not certain. Sometimes people leave the group, which is particularly problematic if one's turn to take entire chit suddenly comes at the end. *Beesis* are praised for providing access to lump sums, but criticised since they can only benefit one person at a time.



Weighing Risk vs. Return

Tarachand started his own electric shop in 1986 in Sarholi village in Alwar. He also began saving then with a private company his *panchayat* secretary recommended. He invested Rs.5, 000 and three of his friends invested significantly more on the secretary's advice. The company promised to double the amount over three years. One day, well before the three years were up, Tarachand and his friends awoke to discover the company's Alwar office was closed and their money had disappeared. His concerted efforts to recover his money met only with frustration and disappointment.

Some years later, Tarachand invested his savings in Sahara and Pearls. Tarachand trusts Sahara because he knows their customers receive good returns and it has been operating in the area for some time. He is less certain about his savings in Pearls, and only invested because a close friend encouraged him to do so. In addition, he has invested in a third and unknown company, USK, which takes monthly deposit of Rs.1,000 for five years and then returns Rs.86,620. He did so in this case because his cousin has guaranteed his deposits in case the company defaults.

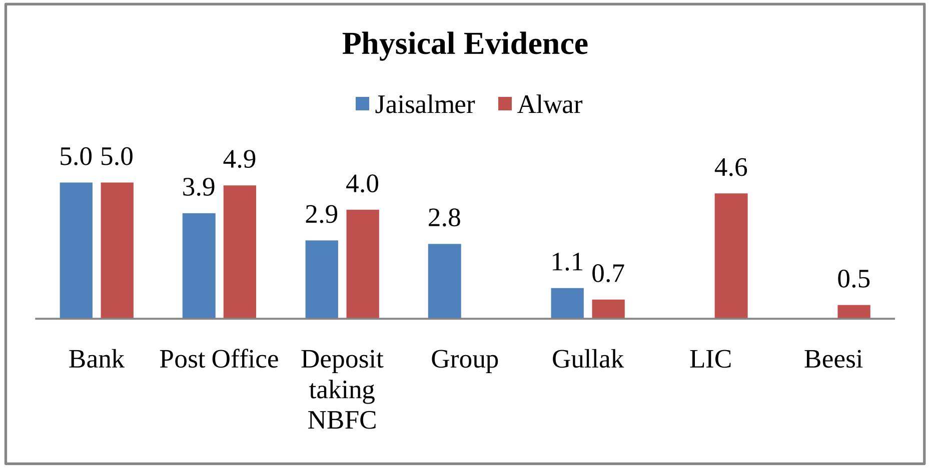
After his first experience, Tarachand understands there will always be risks with private companies. He looks for agents who are local and own property. If the agents claim they are putting their own land and house at stake, Tarachand takes them and the offer more seriously. "*Agentbolte hai ki meri zameen naam karwa lo ya ghar likhwa lo*" (The agent says that you can entitle my land/house before investing.)

For Tarchand, high returns are a strong motivator. He invested in his first company because it was offering to double the amount in three years, whereas the banks took five years to do the same. Tarachand feels one has to take some risk to meet future life-cycle events. "*Function karo to 2-3 lakh koi dega nahi"*. (If you have to conduct some religious or social event, then no one will give you Rs.200,000-300,000. You will have to make arrangements on your own.)

Ease of withdrawal. Banks and *gullaks* receive the highest score for this attribute. According to respondents, "ease" is determined by the amount of paperwork and procedures required, and the time both take. A *gullak* is quickly broken. Banks also receive a higher score because respondents feel that banks require less paperwork than other savings options. For those with bankcards, ATMs have also made withdrawing money from banks much simpler

Respondents claim that withdrawing money from the post office account usually takes a day or two, sometimes even a week. Post offices typically keep very little cash on hand, and need time to process the request. Savings with LIC policies and NBFCs are even more difficult since one can usually only access fixed or recurring deposits before the maturity date by paying a penalty. "*Ek kishth bhari hain. Panch saal tak paise nahin milte hain*". (I have just deposited one instalment so far. I will get my money only after five years.)

Furthermore, the withdrawal, be it premature or at maturity, requires a lot of paperwork and at least one week's time. "*Sau dasthakhat chahiyeh paise nikalne ke liye*". (You need 100 signatures to withdraw your money.) In Jaisalmer, respondents appear even more sceptical of NBFCs and these low levels of trust influence how they perceive withdrawals. In the case of *beesis*, withdrawal happens only once during the lifespan of the *beesi* and depends on the luck of a lottery draw.

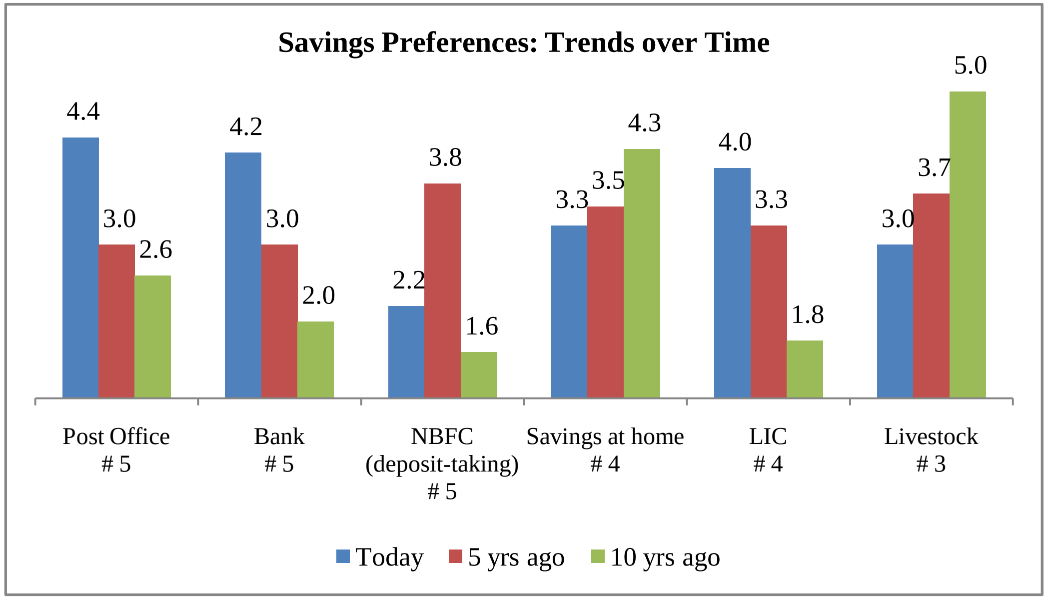


Physical Evidence. Once again, the formal channels—banks, post offices, and LICs—provide the most meaningful physical evidence to their customers. Banks offer tangible proof of transactions with computerised entries in a customer's passbook and printed ATM receipts. The post office also has passbooks, but these are usually updated by hand, introducing the possibility of human error. Respondents also value LIC's stamped premium receipts, but if agents are involved, they worry about authenticity. NBFCs have the same problem because agents typically deliver the receipts.

In both the districts, *beesis* are based on community trust (and peer pressure). Proof of transactions and other tangible evidence are often ignored. Some group-based savings, including SHGs, have group treasurers who maintain accounts—although they, too, can make mistakes. Since few keep receipts for savings at home, the score for *gullak* is low. However, "*Gullak to khud hee sabot hain*". (The presence of the g*ullak* is evidence in itself.)

SAVINGS OVER TIME

Risks and attributes, and perceptions of both, can change over time. This section provides an overview of the respondents' sense of how their savings preferences have evolved in the past ten years. We asked respondents to provide a score ranging from 0-5 where 0 represents the worst possible savings option and 5 represents the best for three different time periods—today, five years ago, and ten years ago. *MicroSave* conducted six financial services trend analyses (FSTAs) with 28 respondents for this exercise. (Savings options that respondents mentioned fewer than three times were not included.)



The chart shows that in the past decade, the use of formal venues such as the post office, banks, and LICs has increased. Less formal arrangements such as investing in livestock or saving at home have diminished. Savings with NBFCs such as Sahara rose in the medium term but have dropped since then in the face of repeated frauds.

Post office savings have increased over time, particularly in the last five years. Respondents attribute this trend to the following:

- NREGA payments routed through the post office have resulted in a dramatic increase in new accounts. Before NREGA disbursements, few people used the post office for savings. *"Sirf dakkhane ke karmchari he istemaal karte the"*. (Only the post office employees used to use it.)
- The new '*Dak Beema Yojana*' (Post office Insurance Policy) has further increased post office traffic.)
- Financial awareness and education levels in their communities have increased significantly over the last few years, leading to a better understanding of post offices and banks.

"Main baat yeh hain ki aadmi hi bank jaata hain. Par bachat aurat hi karti hain!" (The main issue is that only men go to banks, though women are the ones who save!)

Savings Preferences: How Maggidevi Saves

Maggidevi is a daily wage earner in Dabla and makes about Rs.100 a day. She is also enrolled in the NREGA program, which is called "gang" work in this part of Rajasthan. She receives her NREGA money every two to three months at the post office which is about three kilometres away by foot. When asked why she did not save at the post office, she says she had no idea it was possible to do that.

Maggidevi has two preferred forms of saving:

- ***Saving at home***. Maggidevi feels for poor people like her savings at home is the best solution, because the money is available when you need it. "*Gareeb ke liye aur kya kaam ayega. Bank ka jhanjhat bhi nahi rehta aur paisa jab chahe utha lete hain*" . (What else is valuable for poor people? You do not have to wrangle with bank officials, and the money is there when you need it.)

- ***Buying jewellery***. She prefers to save in jewellery because she can buy pieces slowly over time and they can be easily converted to cash. "*Paisa jab bach jate hain, toh gehna khareed lete hain. Roz ka kharcha kam karke gehna khareedte hain. Sonar ke paas paisa rakthe hain. Jab gehne ka aadha se jyaada paisa jama ho jaata hain, toh gehna ghar le aate hain aur baad mein voh gehne ka paisa bhi poora kar dete hain*". (When we save money, then we buy jewellery. We sometimes scrimp on daily expenses to have money to buy some. We keep money with the jeweller and when we save at least half the full sum, he lets us take the jewellery home. We continue to pay him till we reach the full amount.)

Bank savings also show a steady increase in the past decade. Respondents believe that bank savings require higher levels of awareness and education, even more so than post offices. They claim this is largely due to the difficulty in filling out bank forms and following bank procedures. Nevertheless, overall literacy and financial competence have apparently improved in the study areas, and bank savings—plus crop and livestock loans—have risen accordingly. Other factors also contribute: more bank branches, better transportation from rural areas to those branches, and increased income due to better rainfall in recent years. "*5 saal aur ab me raat din ka farak aa gaya hain!*" (The situation five years ago and the situation now [for bank use]—they are as different as night and day!) Respondents also note that more men use banks than women. One reason may be the dangers of transporting cash to and from the branches.

LIC term policies have also multiplied over the years. A decade ago, most people did not understand or have easy access to insurance. Today, respondents can buy LIC policies at the local post office—with premium receipts mailed to their homes.

Trust in Sahara, one of India's best-known NBFCs, and use have improved due to increasing numbers of reputable agents in the region. This is not true of all NBFFCs, however. Agent fraud remains common in too many areas, and many hesitate to save money this way. Trust hinges on the integrity of the local agents. Good agents can create an expanding network of satisfied customers. "*Vistaar badhaya hain, ab ghar ghar mein agent hain aur har ghar mein doh teen khata hain. Ispar poora vishwas hain*". (They have really increased their outreach. Now there is an agent in almost every home and two or three accounts in every household. We have full confidence in them.)

"*Pehle gullack mein ikhata karte hain, phir khaate mein dalte hain*". (We usually save first in the piggy bank and then put in our [Sahara] accounts.)

The tendency to save exclusively at home has fallen off over the last decade. Many respondents have been saving small amounts in their *gullaks*since childhood. "*Itni see hoon, tab se isme bachat kar rahi hoon*". (Since I was little, I have been saving here.) Now, with more options available, more reliable information, and easier access, many begin their savings at home and then transfer lump sums to banks or the post office, or invest in their business.

While investing in livestock was an important savings strategy ten years ago, it is not as popular anymore. Buffaloes were also cheaper and fodder more easily available and affordable then. "*Pehle chara tha ab jamindaar ki jameen hai*". (In the past, we had enough fodder; now all the land is owned by big landowners.) Young people today are also less interested in tending to livestock, in keeping with the general trend of moving away from informal sources of both income and savings toward more formal, more reliable avenues for both.

Service Provider Perspective:
Excerpts from an Interview with Regional Manager, Rajastjan Region, Sahara India

Q*: Why do you think people save with Sahara?*
A: The biggest reason is our dedicated workforce who actively sell the product. Sahara employees are also easily available and approachable. Bank employees do not always talk properly to rural or low-income clientele, especially those who are not literate and may need special assistance. We are in the private sector, trying to run a business. Take today, for instance. It is *Ambedkar Jayanti* which is a holiday. Look at all of us in the office. You think this is possible in a post office? It is possible at Sahara!

Q: *What is your marketing strategy? How do you sell your product?*
A: Well, we do not sell a product. We sell an emotion. We hold special trainings for all our employees, especially our agents, so that they understand what the organisation stands for and why savings are important in people's lives. Say a client has a daughter, we ask him to think about 15 years from now when he has to marry her off. If he has a son, we ask him to think about his education. We help our clients convert their ideas to reality.

Q: *How do your agents create trust in their clients?*
A: I do not develop trust in my clients or my agents. The Sahara brand develops trust. We want our agents to develop relationships with their clients. "*Hamara worker clients ke saath emptionally juda hua hain. Agar kisi client ke jeevan mein kuch ho jaye toh hamara worker keh sakata hain 'Main hoon nah'* ". (We want our workers to emotionally bond with our clients so that if something happens, our worker can say, 'I am here for you'.) What we look for in our agents is faith in our brand. Our clients in turn choose our agents because they trust them. All banking in this country is banking based on "*sampark*" (relationships).

Q: *If clients have problems with agents, what can they do?*
A: Clients can go to any office and make a complaint. The number of the closest branch is always in their records. If they do not receive appropriate information at the branch, we invite them to go to the sector, then the region, then the zone, and then all the way up to the headquarters in Lucknow. We rarely receive complaints, though, and we monitor our agents closely. If someone brings in Rs.5,000 last month and then only Rs.4,000 this month, we check up on why there is a reduction in the money.

Q: *Given the large number of episodes involving fraudulent agents, what advice would you give to low-income households who cannot always verify what agents are telling them?*
A: They should check two things: the agent's Sahara Identity Card, and Sahara stationary serial numbers which cannot be copied from anywhere else. In my opinion, however, most of the fraudulent cases are related to credit, not savings. No one in a village will hand over their money to an unknown person. If it is a question of credit, anyone will take money without asking questions. Who will instantly deposit their hard-earned income?

SAVINGS ACCORDING TO INCOME GROUPS

This section provides an overview of how respondents perceive various savings options for various income levels. In this exercise, participants listed savings strategies they are aware of in their neighbourhoods for the Rich, Not So Poor, Poor, and Very Poor. Then they scored who they believe uses which type of savings in these groups (and in many cases they offer reasons why). A score of 0 means no use by that income group and 5 means they think everyone in that group uses this method.

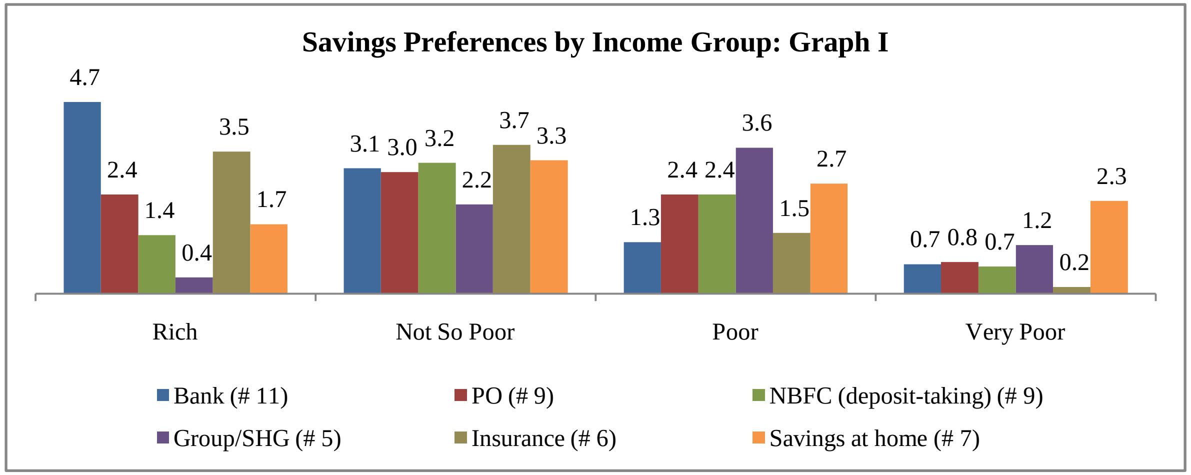
Since respondents came up with the savings options, they only addressed those and not the full spectrum available. These matrices are also their perceptions, not necessarily the reality in their locales.

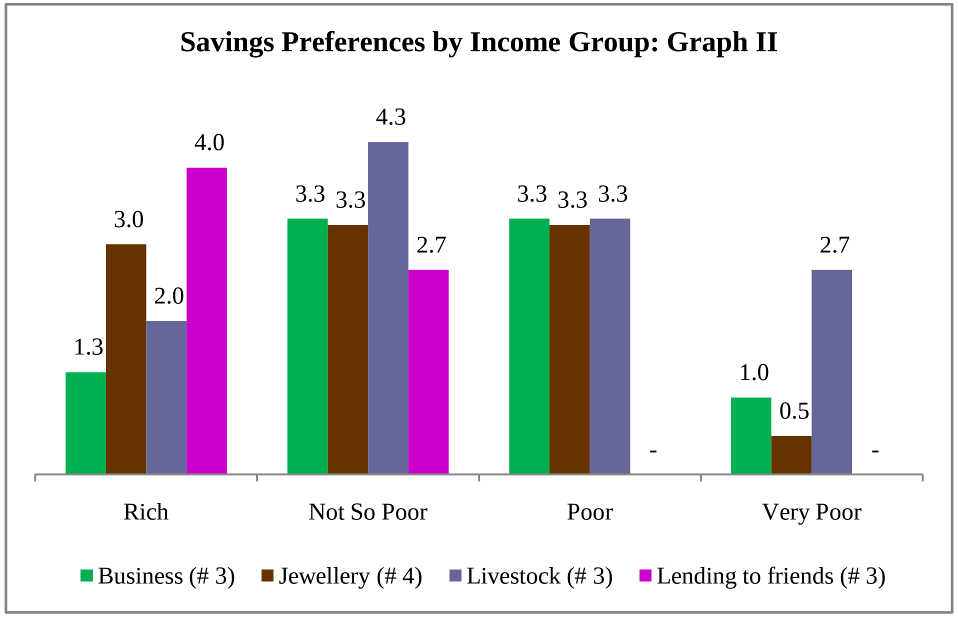
The data collected have been divided into two graphs. The first graph shows the scores for those savings choices that appear in more than four exercises (Savings Avenues by Income Group I). The second graph shows the scores for those savings avenues that show up in three or four exercises (Savings Avenues by Income Group II). Saving options mentioned fewer than three times were not included. The chart legends indicate the number of FSMs respondents chose to consider for each type of savings.

Income Group	Savings Avenue 1st Place	Savings Avenue 2nd Place	Savings Avenue 3rd Place
Rich	Bank	Lending to Friends	Insurance
Not So Poor	Insurance	Livestock	Savings at Home Jewellery Business
Poor	Group-Based Savings	Business Jewellery Livestock	
Very Poor	Livestock	Savings at Home	Group-Based Savings

This is a small sample, but respondents' perceptions include:

- Certain savings avenues are clearly better suited for certain income groups than others.
- Formal savings (notably banks and insurance) appear to be gaining in popularity among almost all income groups.
- Informal channels (livestock, business investment, or interest lending) remain important.
- A strong impression persists that formal savings such as post offices, banks, and deposit-taking NBFC are meant for richer households.
- All income groups use a mix of formal, semi-formal, and informal savings.





Six savings avenues come up in more than four sessions: banks, post offices, NBFCs, SHGs, LICs, and savings at home. For the group designated as Rich, banks are the most popular place to save. Respondents claim that the Not So Poor are more likely to save almost equally across all types of savings with a slight bias toward insurance policies. They believe Poor people save primarily in SHGs, both males and females, and the Very Poor typically save at home.

Four savings methods, mentioned either three or four times, include investing in businesses, buying jewellery, investing in livestock, and lending to friends with interest. Of these four, participants see the Rich as most likely to lend to friends and acquaintances with interest. They believe the Not So Poor purchase livestock most often. The Very Poor have fewer options, but again, livestock seem to be the most dominant. In their opinion, the Poor seem to save equally across these various types of savings.

Banks

Respondents in this study claim that all groups use banks, although they believe the level of use is directly proportional to wealth. "*Jyada paise hain toh bank jaate hain*". (Only those with money go to the bank.) "*Jinke paas kam paisa hain woh gullak mein rakhte hain kyunki bank jaane ka kiraya lagta hain*". (Those who have less money keep it in their piggy bank at home because travelling to the bank costs money.)

Heavy reliance on banks for the Rich derives from their need for security (their savings are too large to safely store at home) and speedy withdrawal or transfer as necessary. Study respondents also believe the less educated Not So Poor use banks less often—other savings options are probably easier for them—yet all income categories see banks as a gateway to a better life.

Study participants believe the Poor and Very Poor use banks to access subsidised loans or government benefits, but not for savings. Some, though not all, are also convinced that low-income households do not know how to save. "*Teen hazaar ka mobile le lega par bachayega nahi. Baad me 1500 ka bech dega*". (A poor person will buy a mobile phone for Rs.3,000. He will never try to save that money. Later, he will sell the same phone for Rs.1,500.)

"*Garibkoi koshish kare to Bank me bachat karta hai*"
If a poor man strives hard, he is able to save in bank

Post Office

Participants perceive post office savings accounts as an attractive option for the first three groups, with a small bias in favour of more affluent households. They see the Not So Poor as most likely to use post offices. Rich and Poor, in their opinion, use it at about the same level, although the wealthy, as noted above, prefer banks. Easy access and a focus on small savings make the post office particularly attractive to the two middle categories, respondents believe.

"*Bade logFD karte hain bank aur post office mein*"
(Rich people tend to save in banks and post offices by opening fixed-deposit accounts.)

NBFCs

Of the four income groups, study respondents also see the Not So Poor as the most likely customers for the large NBFCs such as Sahara and Peerless. They see the Rich as less likely to save this way due to the inherent risks and the high incidence of fraud. "*Ameer aadmi chote mote kamon me ruchi nahi rakhta hai*". (Well-off people are not interested in saving in such small, unimportant schemes.) Respondents believe the Poor use NBFCs as much as they use post offices. For the Very Poor, the NBFC doorstep service for savings collection may hold strong appeal, but most in this group are too impoverished to keep up the monthly payments. Respondents note that the two middle categories make use of these savings schemes because of the high returns. They also imagine that NBFCs have an easier time selling to people who aspire to greater wealth and already save in small amounts on a daily basis.

LIC Policies

Insurance policies as a savings strategy also divide along income lines, although all groups apparently see it as a valuable option. Respondents see the top two groups with equally high levels of interest (though for the Rich, banks always apparently rate first). For Not So Poor households, respondents believe LICs are the most popular form of savings. They see the Poor and Very Poor as no less interested, but often less able to meet the monthly payments. While the Rich take insurance for the whole family, the other groups can only afford insurance for the primary breadwinner in the family.

"Gareeb to kuch karaye na karaye peeche ki soch ke bema jaroor karata hai". (The poor, to ensure their future, prefer to do insurance more than any other saving avenue.)

Group-Based Savings

Group-based savings include savings in *beesis* and SHGs. Respondents think that Poor households are most likely to use this form of savings, and the Very Poor are much more likely to use SHGs than banks and post offices. (Several government programs rout benefits through group-based savings, making this option that much more attractive to these two groups.) The top two groups tend not save in groups because, as respondents point out, one has to depend on others to repay on time. Nevertheless, one participant notes, the Not So Poor can sometimes qualify for higher loan amounts on better terms if seven members of a group qualify for "Below Poverty Line". In such cases, the Not So Poor are apparently not so intolerant of working in groups.

Savings at Home

Of the four income groups, respondents see the Not So Poor as the most likely to save at home, followed by the Poor and Very Poor. They apparently made their calculations per the amounts saved—not the numbers of people saving at home. They see the Very Poor as the most likely to save at home in order to have ready access to cash for everyday and emergency expenses. In one session o this exercise, the respondents estimated that Not So Poor might save Rs.100 at home, a Poor household might put aside Rs.25, and the Very Poor and Rich might save Rs.12.50 and Rs.20 respectively.

"Atee gareeb ko bhi bachane ki tension hoti hai!".(Even the very poor people worry about savings!)

Business Investments

This option is deemed relevant only for the top three groups. The Rich will invest more in businesses (almost as much as they save in banks), according to respondents, because they can earn high returns from such a venture. The Not So Rich also invest in this option, but they cannot afford to take big risks. Respondents believe poorer households are most likely to invest in livestock, (sheep, goats, and cows). They claim the Very Poor work as agricultural labour and are not entrepreneurs.

"garib ke paas, paisa nahi hai, wo kya juma karega aur nivesh karega".A poor household does not have money. How is he going to mobilise the money to make investments in business?

Jewellery

All the groups save by buying jewellery, respondents believe, and the top three groups have approximately the same level of trust in this option. (They claim the Very Poor do not have the means to save in this way.) Jewellery is useful because it is always available, it converts to cash easily, and it can be bought slowly over time. A Rich family receives more jewellery as dowry than a Poor one, respondents note, and the Poor save money in smaller amounts and finally buy either gold or silver.

Livestock

Respondents claim all four income groups invest in livestock, typically buffaloes or goats. Of the four, they think the Not So Poor invest most in livestock, followed by the Poor. They give the Rich the lowest score in this category since they have more varied options with higher returns. Participants note that for the remaining three groups, livestock are either the top or near the top savings choice. (The rising price of buffaloes and fodder are apparently not included in these calculations.)

"Jis ghar mein bhains nahin, vahan kuch bhi nahin, chahe voh ameer ho, chahe voh gareeb ho". (The house which does not have buffalo has nothing, whether it is a rich house or a poor one.)

Inter-Personal Lending

This exercise reveals that lending surplus money for interest is common—although study respondents claim that only the top two income groups are able to do this. One respondent says the rich people in her village lend so they can earn higher interest on their money than they do at their bank. "*Jyada paise hote hain, toh hi udhar mein dete hain. Is gaon ke dhani log, pachas pachas hazar 3 taka par dete hain kyoki bank se jyada byaz milta hain*". (If you have a lot of money, only then can you lend out money. Rich people in this village lend amounts up to Rs.50,000 at 3% because it is a much higher rate of interest than what the bank gives.) For the Not So Poor, respondents suggest they are always on the lookout for money, and borrowing money from their own socio-economic class is typically the first choice.

To summarise perceptions by income group and popularity:

- Rich households use mainly formal savings methods—though anything yielding a potentially high return with low risk is of interest.
- The Not So Poor are more diversified, though they, too, prefer formal channels to informal savings methods.
- Poor households use more informal sources, although they like NBFCs and the post office for savings.
- The Very Poor generally have limited choice, Often they must save at home or in livestock—both riskier than more formal channels—because they have no easy access to and no welcome reassurance from the formal and semi-formal channels.

CONCLUSION

The risks inherent in savings for low-income households is an important, and often neglected, aspect of financial inclusion. To understand better what these risks are and how people assess them, *MicroSave* conducted a study on the relative risk to the saving of poor in three different states in India. This report provides a summary of the research in the northwestern state of Rajasthan in India.

The results indicate that formal savings, specifically banks, post offices, LICs, and deposit-taking NBFCs are the most prevalent avenues amongst the research sample. Less formal savings such as investing in jewellery, group-based savings, and SHGs, buying livestock, and investing in business are also popular, particularly among lower-income groups. NBFCs, though appealing due to their high returns, continue to be potentially high risk. Agent fraud, while actively discouraged almost everywhere, is widespread and many respondents no longer fully trust this saving option. LICs also face agent fraud issues, but there is higher trust in LICs than in NBFCs as the former is a government organisation.

Trends over time indicate that low-income households are slowly moving towards more investments in formal rather than informal channelsin north-western Rajasthan, due to better education, better transportation, a small rise in overall income, and a greater awareness of the choices available. These are encouraging indicators, but the more substantive changes will take time. The not-so-poor and affluent households are still the most likely to use banks, insurance policies, and other formal savings methods. The very poor still generally opt for *gullaks*, group-based savings, and other informal choices.

ANNEXURE

Annexure 1: Focus Group Discussion

• Thank you for coming – we are grateful for your time. • We are from an organisation called *MicroSave*. *MicroSave* is a research organisation which helps financial institutions design products and services for those who do not get adequate access to prompt and affordable financial services. We try to ensure that the clients' voices and ideas are heard by the institutions which provide financial services. • We are trying to understand what channels you use for savings and your experience with it. We seek your opinion to understand the reasons for usage of a particular channel. Result of this study will be used to support Banks and other institutions in providing better quality services/products to their clients. • Your names and any personal information will be kept confidential – so please feel free to express your opinions. Answers you provide here are neither right nor wrong. Every opinion is important. We would very much like to record (take notes) of these discussions to help us remember them and so that we do not miss any of the issues and ideas you give us. • As a first step we should introduce ourselves. My colleague will prepare the name-tags to help us remember your names.	
Warm up Question: (About 5 Min) ▪ What is your name and your occupation? ▪ For how long you have been living in this area	
General Questions (About 20 Minutes)	**Related Probes**
1. How do you manage the large life cycle expenses like marriage, funerals?	▪ Probe how clients manage their large expenses? ▪ Is it loans from relative, money lender/MFIs or Bank or saving, insurance?
2. How do you manage the emergency expenses – for example when someone falls ill?	▪ Probe how clients manage their emergency expenses? ▪ Is it loans from relative, money lender/MFIs or Bank or saving, insurance?
3. Where do people in this community save if they have any surplus?	▪ Probe for formal, semi formal and informal systems/services
4. Where do people get information on the types of places to save?	▪ Who do you ask about financial services or products?
Core Questions (About 30 Minutes)	**Related Probes**
5. What are the various Savings avenues where you accumulate savings? [record all savings avenues]	▪ What channels/systems do you use for saving? ▪ Is it at a regular frequency or you can deposit anytime you want? ▪ Do you put it directly to the saving avenue or first accumulate it in your home and then save it?
6. What are the risks involved in saving with each channel/system? [record all the risks, saving avenue	▪ How safe is your money in different saving avenues available. ▪ Whether you have lost saving in any of the channel? ▪ What kind of loss?

wise]	▪ What were the reasons? ▪ Do you perceive any other risk in using various avenues
7. Which channel/system do you find most suitable for people like you and why? [record the group's response and corresponding reasons]	▪ Your preference and reasons for using a particular channel ▪ Why are you not using all the avenues/ any particular avenue? ▪ How accessible is each avenue? ▪ Are you satisfied with quality of services received through different channels ▪ What are the direct and indirect costs of using the channels, like transport, opportunity cost
Closure Thank you for your contributions in this discussion. Do you have any questions/comments for us?	

Annexure 2: Relative Preference Ranking

Purpose: Relative Preference Ranking allows us to see how clients and potential clients perceive the financial service providers and components of the financial services they provide. It also helps challenge pre-conceived notions about poor people's attitudes towards financial service providers, what matters to them, and why they have those preferences.

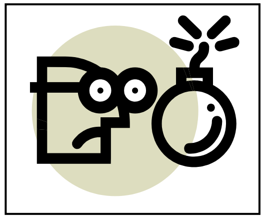
Procedure:

1. Find people who are interested and willing to try.
2. Get participants to list all the financial service providers in the area (including, if appropriate, the informal services such as RoSCAs ["merry-go-rounds"] etc.) Probe to ensure that you have a complete list and try to ensure that the participants have a reasonable level of knowledge of the services they provide. Follow up with points of interest and encourage participation by different people.
3. Put this list along the top of the relative preference ranking matrix.
4. Get the participants to list the most important elements of the financial services that are being ranked. Probe for further criteria/components. Follow up with points of interest and encourage participation by different people.
5. Get participants to list all the criteria/components generated in this way on the left hand side of the matrix. Remember to make negative ones positive/neutral (e.g. "high minimum deposits" becomes "minimum deposit" or "low possibility of getting credit" becomes "possibility of getting credit").
6. Ask participants to rank the financial service providers for each component of the financial services they provide by putting bottle-tops/stones/seeds in each box.
7. Probe - ask participants questions like the following:
   a) Why is this financial service better at meeting this component/criteria?
   b) Why is this better than that one? etc.
8. Listen and learn from the participants – particularly as they discuss the merits of each financial service provider/criteria.
9. You should then finish with a table that looks something like:

<u>Savings Services</u>

Risk Related attributes	Post Office	Co-op Bank	Arusha SACCO	RoSCAs
Agent's Fraud	1	2	3	4
Service Provider closed	4	2	1	3
	2	1	3	4
	2	1	3	4
	3	2	1	4
	1	2	3	4
	1	4	2	3
	2	1	3	4
	3	2	4	1

<u>Note:</u> The totals of these columns are of little value unless each score is given a weighted value according to the relative importance of each of the components/criteria.



PITFALLS:

Sometimes PRA participants do not know enough about the financial services in an area to complete the exercise. The moderator should be sure when recruiting clients for the group, that she has selected clients with an understanding of the various financial service providers used by the community.

Annexure 3: Financial Sector Trend Analysis

Purpose: This tool is useful in determining which financial services have been used over time and thus understanding the changes in the use/availability of a variety of financial services over time, and why participants used them. The listing of financial services here is only tentative and will require modification based on the participants' knowledge and awareness of the various products.

Procedure:
1. The exercise is best done in a closed area with the assistance of a small working group of 6-8 individuals from the same socio-economic stratum. When an MFI is seeking to understand the needs/realities of the poor, they should focus on carefully selecting poor participants for this exercise.
2. If necessary the exercise can be repeated with other groups from other strata.
3. The researcher should develop an initial listing of financial services (formal and informal sectors) available and used in the community.
4. Work with the participants to review, edit and develop/expand the list of financial services that are/were available and used in the area. This part of the exercise should be undertaken with care and <u>as much probing as possible</u>. Please also note that in many societies and cultures, people are unwilling to admit to the existence of interest-earning money-lenders working in the communities, and so this part of the matrix should be handled with appropriate tact and persistence!!
5. Once the list has been developed, turn it into a matrix by making columns for "This Year", "Last Year", "5 Years Ago" and "10 Years Ago". Participants should then be asked to place 0-5 stones/seeds/bottle tops to indicate the use level of the different financial services available.
6. Once step 5 has been completed, each participant should do the same for the previous year.
7. Once step 6 has been completed, participants should do the same for the situation for around 5 years before.
8. Once step 7 has been completed, repeat the same for 10 years before.
9. Alternatively, some find it useful to ask clients about the use level/popularity of one of the financial services this year, last year, 5 years ago and 10 years ago (i.e. completing the row first before moving on to the next financial service).
10. Either way ensure that you CHECK by comparing both vertically and horizontally as the final step to compete the exercise.
11. Listen and learn from the participants – particularly as they discuss how and why each of financial services have been use more or less over time.
12. The final matrix will look something like:

Financial Service	**This Year**	**Last Year**	**Five Years Before**	**Ten Years Before**
<u>Formal:</u>				
• Formal bank: savings account; current account; deposit account; loan account	*	**	**	**
• Insurance company: life, health/accident, pension or other policy				
• Formal employee pension or insurance scheme				

• Building society loan or savings account				
• Leasing company loan				
• Post Office savings account or savings certificates	****	**	**	***
Semi-formal:				
• MFI group-based savings and loan, or loan-only membership		*****	**	
• MFI individual savings and or loan account	***	**	*	
• Credit Union (or Thrift and Credit Co-operative, or FSA)	*	***	**	
Informal:				
• Moneylender	**	**		
• Pawnbroker		*	***	*****
• Deposit collector (private for profit, usually charging a fee)	****	***	*	
• Money guard (employer, senior relative, patron etc.)		**	**	*
• Saving at home in a money box	****	**	****	**
• ROSCA (a cash round: a rotating fund received equally by all in turn)	**	*****	*****	**
• ASCA (a non-rotating fund built by pooled savings from which some members borrow)		***	***	
• Savings club (no loans)		*****	*	
• Reciprocal lending arrangements	****	****	*****	****
• Informal insurance fund (e.g. by market traders to guard against a fire)	*	***		
• Burial funds and other informal insurance for personal uses	****	*****	****	****
• Saving with a supplier (who supplies goods/materials to saver)		****		
• Event-specific contribution arrangements (e.g. we all pay 5,000 shillings when a birth occurs)		*	**	***

Annexure 4: Financial Services Matrix

Purpose: This tool is useful in determining which financial services are used by which socio-economic or socio-cultural strata of society, and why, and thus the potential for designing or refining appropriate financial products. The listing of financial services here is only tentative and will require modification based on the participants' knowledge and awareness of the various products.

Procedure:

1. The exercise is best done in a closed area with the assistance of a small working group of 6-8 individuals from the same socio-economic stratum. When an MFI is seeking to understand the needs/realities of the poor, they should focus on carefully selecting poor participants for this exercise.
2. If necessary the exercise can be repeated with other groups from other strata.
3. The researcher should develop an initial listing of financial services (formal and informal sectors) available and used in the community.
4. Work with the participants to review, edit and develop/expand the list of financial services that are available and used in the area. This part of the exercise should be undertaken with care and as much probing as possible. Please also note that in many societies and cultures, people are unwilling to admit to the existence of interest-earning money-lenders working in the communities, and so this part of the matrix should be handled with appropriate tact and persistence !!
5. Once the list has been developed, turn it into a matrix by making columns for "rich", "not-so-poor", "poor" and "very poor". Check that the participants are happy with and understand these classifications – for example, they may need simplifying down to just "rich", "not-so-poor" and "poor".
6. Once the matrix is completed ask the participants to place stones/seeds/bottle-tops (on a scale of 1-5) to indicate the level of use of each of the types of financial service by each of the socio-economic strata.
7. Listen and learn from the participants – particularly as they discuss how and why each of financial services are used by each of the socio-economic strata.
8. The final matrix will look something like this:

Financial Service	**Rich**	**Not-so-Poor**	**Poor**	**Very Poor**
Formal:				
• Bank: savings, current, deposit & loan accounts	*****	**		
• Insurance company: life, health/accident, pension or other policy	****	*		
• Formal employee pension or insurance scheme	***			
• Building society loan or savings account	*			
• Post Office savings account or savings certificates	**	******	*	
Semi-formal:				

• MFI group-based savings and loan, or loan-only membership		*****	**	
• MFI individual savings and or loan account	**	***	*	
• Credit Union (or Thrift and Credit Co-operative, or FSA)	*	***	**	
Informal:				
• Moneylender		**	*****	***
• Pawnbroker		*	***	*****
• Deposit collector (private for profit, usually charging a fee)		****	***	
• Money guard (employer, senior relative, patron etc.)		**	***	*
• Saving at home in a money box		**	****	*****
• ROSCA (a cash round; merry-go-round)	**	*****	*****	**
• ASCA (non-rotating fund of pooled savings; borrowing allowed)	**	***	***	
• Savings club (no loans)		*****	*	
• Reciprocal lending arrangements	*	****	*****	
• Informal insurance fund (e.g. by market traders to guard against a fire)	*	***		
• Burial funds and other informal insurance for personal uses	****	*****	****	****
• Saving with a supplier (who supplies goods/materials to saver)		****		
• Event-specific contribution arrangements (e.g. we all pay 5,000 shillings when a birth occurs)		*	**	***

PITFALLS:

✓ The moderator need not classify the financial services into "Formal", "Semi-Formal" and "Informal" with the clients - that can be done later in the notebook. However, you may want to assist clients to discuss certain institutions one following another (Banks, Insurance Companies) because of their nature; You do not want to allow the list to get too long.

✓ You may ask the clients if there are any cards which belong together because of their similarity of services (especially if you have generated a very large list with the names of individual institutions). You may come to an agreement that if "all of these banks you have named offer similar terms according to what I have heard you say, can we then discuss them as one group? Are there any we should discuss separately?"

Make sure you have selected PRA participants who can adequately discuss many financial services