

MicroSave India Focus Note 45

Who Says You Can't Do MicroSavings in India? Part 1: Community-Based/Owned

Chris Linder with contributions from Denny George

July 2010

It is an oft-quoted (mis)perception that microsavings is virtually impossible to undertake in India. Many mention that the Reserve Bank of India (RBI) is very restrictive, often for good reason, when it comes to providing savings services for the general public, especially the poor, and that the only way to offer savings is to become a regulated bank.¹ This argument needs to be nuanced. The majority of what is called “microfinance” in India, serving over 22 million individuals as of March 2009², in essence is truly only microcredit, offering only one Grameen replicator product. Microcredit arguably is much easier to undertake than microsavings for a variety of reasons: 1) less regulation; 2) easier to sell to clients (borrowing other people’s money instead of safekeeping your own money); 3) much easier to fund through the opening of the banking and capital markets; and 4) seemingly more profitable. However, this ‘difficulty’ argument cannot stand as an excuse for an entire industry, the largest in the world in fact, to ignore savings. Almost every Indian MFI has a mission to improve access for all financial services.

There are several ways in which savings options are available in India. Many of these options are not easy to undertake or the most profitable. Yet, they are there to be undertaken in a viable way for those who take the time to understand the options and clients’ needs. This series provides a brief profile of only some of the options available for providing microsavings in India, some of the challenges they present, and ideas for how one can move forward to use the channels.³ This first note focuses on the microsavings options provided by informal and community based/owned methods. The second note provides an overview of what conventional

financial institutions are offering (or could offer) in terms of microsavings. The third and fourth notes attempt to provide some realistic and practical solutions for the industry to undertake when taking on microsavings.

Self-Help Groups^{4,5}

Self-Help Groups (SHGs) are probably the most prolific option in India for improving financial access in India.⁶ NABARD reported that the number of SHGs was 6.1 million at the end of March 2009 and that SHGs borrowed almost Rs226.8 billion (\$5 billion) from banks and saved Rs55.4 billion (\$1.2 billion) with banks.^{7,8,9}

Sadly in recent years, as the numbers reveal, there has been an overemphasis on bank-linked credit to these groups rather than the original intent of providing safe avenues to save. In fact, some Grameen replicator MFIs break up SHG groups into smaller 5-10 member Joint Liability Groups (JLGs) for credit only. *MicroSave’s* own (and many others’) research¹⁰ has found that most SHGs now only save the bare minimum required to access bank credit. As of March 2009, savings levels were 24.4% of credit levels – close to the ratio, 20%, required to access bank credit.

There are two avenues to be taken to improve access to savings through SHGs. The first need is to improve the internal management of funds. *MicroSave’s* own action research has found that most SHGs (and their supporting organisations) do not adequately track and audit the actual savings and group corpus (equity), so many individual group members do not trust that their own savings are safe.¹¹ Secondly, the players should undertake a new emphasis of

¹ NGO and most NBFC MFIs alike are not allowed to collect deposits. When many NBFCs became defunct in the late 1990s and early 2000s due to mismanagement and fraud, the entire industry almost collapsed. RBI is now very stringent when it comes to deposit-taking NBFCs; there are still some deposit-taking NBFCs (570 authorised out of 13,000+ registered, but much less than 1,700+ deposit-taking NBFCs in the early years of this century). See “[RBI to tighten deposit norms for NBFCs](#)”, 22/5/07 and Rai, Jeetendra, “[NBFC Overview](#)”, 9/8/10.

² N. Srinivasan, “State of the Sector Report 2009.”

³ For example, this note series will not cover Mutual Benefit Trusts (MBTs), as these structures often do not provide true savings products to the unserved, tying up the clients’ capital into the unforeseen future, and are often poorly communicated to clients as to how they operate (and what their rights are, etc). MBTs are often used by Indian MFIs to raise quasi-equity capital to deleverage their balance sheets or raise adequate capital for an NBFC license – see *MicroSave India Focus Note 41 “Microfinance – Time to Get to Back to Basics?”* for an analysis of MBTs.

⁴ *MicroSave’s* research in Northeast India also found that informal ASCAs (Accumulating Savings & Credit Associations) are very active. See *MicroSave India Focus Note 13, “Savings Behaviour of Poor People in the North East of India”* and *MicroSave India Focus Note 21, “Village Financial Systems in Northeast India.”*

⁵ The Aga Khan Foundation is also piloting the implementation of the CARE-based, Village Savings and Loan Associations (VSLAs) that has worked well in Africa in the state of Orissa.

⁶ SHGs are an Indian government-promoted derivation of an Accumulated Savings and Credit Association – ASCA.

⁷ NABARD reports that over 86 million households were engaged in the SHG programme, much larger than the microfinance industry.

⁸ For this note we use the US system: one billion is 1,000,000,000 and a trillion is 1,000,000,000,000.

⁹ “[Status of Microfinance 2008-2009](#)”.

¹⁰ See *MicroSave’s India Focus Note 44 “Savings Mobilisation in SHGs: Opportunities and Challenges”*

¹¹ See *MicroSave’s India Focus Note 19: Should SHGs Balance or Break?*

“savings-linked” services through banks to provide true savings to SHG members serving their individual needs. With help from technology and a few creative banks and support organisations, like federations, a rebalancing could occur, allowing for individual savings.

Cooperatives¹²

The RBI reports that there are over 103,000 cooperative financial institutions in India (of which 94,943 are Primary Agricultural Cooperative Societies-PACs). These varied entities, over 5 different types, had a combined total deposits of Rs3.4 trillion (or \$75 billion) with an average deposit base for the more common PACs of only Rs19.1 million (\$424,000).¹³ Interestingly, a 2009 GTZ study of MFIs which included profiling 445 MACs¹⁴ and three (3) typical Cooperative Societies consistently had a much higher likelihood to offer other services, such as savings, insurance and pensions as well, than did MFIs.¹⁵

Unfortunately, there are tremendous issues around governance, scalability and sustainability for cooperatives in India. The movement became heavily politicised several years ago, with the community ownership focus losing out to local politicians essentially owning and controlling the institutions. Cooperatives also present a complex set of challenges as each state has its own set of regulations for cooperatives, effectively barring cooperatives to “scale-up” beyond borders. There are also several different types of cooperative structures (e.g. SHG-based versus bank-based) allowed in India that are often limited to a certain geographic radius, such as a state or district-level boundary, which all leave the industry fragmented and often confusing.¹⁶ Finally, the same GTZ study above found that MACs were often dependent on grants and had an operating self sufficiency of only 68%.¹⁷

Yet, there is hope. Since the mid-1990s, nine states have bolstered their cooperative laws to protect the rights of members and to de-politicise the movement.¹⁸ Also while relatively small, there are strong players serving members’ needs and protecting funds, such as CDF in Andhra Pradesh and SEWA Bank in Ahmedabad. With a little help to build

up the capacity of these community-owned institutions’ managements, and a nudge from the government, acknowledging their importance in financial inclusion and allowing a scaling-up across borders, this industry could regain its footing in the years to come.

Chit Funds

Indian chit funds are basically Rotating Savings and Credit Associations (ROSCAs).¹⁹ Each state has its own set of regulations and is very difficult to quantify the size of the industry. An IFMR study estimates that the registered chit fund industry could be as large as 10-50% of all priority sector lending, or Rs720 billion (\$1.6 billion) to Rs3.6 trillion (\$80 billion), as of March 2009.²⁰ The study further estimates that the unregistered chit fund market could be as large as 15 times that of the registered market.²¹

In terms of savings, chit funds are probably the most responsive to India’s poor, offering doorstep service and regular and frequent collections. The same IFMR study found that 96% of respondents trusted their registered chits. However, given the estimated number of unregistered chits and common reports of failures and outright fraud, the industry as a whole has a poor reputation.²² This industry is essentially highly un-regulated in India on the ground (even though each state has a regulatory body for chits), with even a single individual able to create a chit fund. There are well-run, national-focused chit funds, such as Shriram Chits, but these are few compared to the estimated size of the industry.

Conclusion

Community-based financial institutions have a much closer mission alignment with serving the underserved than conventional financial institutions. However, there is a systemic issue of governance, scalability, and viability. There are a few bright lights of well managed programmes in India, and with a concerted, coordinated effort these institutions can be strengthened. The next note provides an overview of conventional financial institutions in India and how they answer (or not) the call to serve the poor.

¹² Refer to *MicroSave Briefing Note # 56, “Cooperatives - The Flawed Gem of Indian Rural Finance,”* for more information.

¹³ *Developments in Co-operative Banking*, Reserve Bank of India, March 2009.

¹⁴ *Mutually-Aided Cooperative Societies*.

¹⁵ Regulagedda, Ramakrishna, “An Overview of MFOs in India”, GTZ, Sept. 2009 referred to by Srinivasan, Girija & N. Srinivasan, “Community-Owned Microfinance Institutions”, GTZ, October, 2009.

¹⁶ Such as Primary Agricultural Cooperative Societies (PACS), Mutually-Aided Cooperative Societies (MACs), District Central Cooperative Banks, State Cooperative Banks, Land Development Banks, and Urban Cooperative Banks identified per conversations of members of the UN’s Solutions Exchange in September 2009.

¹⁷ Ramakrishna, *Ibid*.

¹⁸ Jammu and Kashmir, Uttaranchal, Bihar, Jarkhand, Madhya Pradesh, Chattisgarh, Orissa, Andhra Pradesh and Karnataka, per e-mail postings on the UN’s Solutions Exchange forum in September 2009.

¹⁹ Rao, Preethi, *Chit Funds as an Innovative Source of Finance for Low Income Households*, IFMR Trust, January 2007.

²⁰ “*Trends and Progress of Banking in India*”, Reserve Bank of India, October 2009.

²¹ Rao, *Ibid*.

²² Chit fund operators are notorious for collecting savings from the vulnerable only to disappear. The scale of fraud is difficult to quantify, but on a Google search, several major scams, involving Bollywood actors, government officials and a TV station, were cited in 2010 alone.