# *MicroSave* India Focus Note 13

## Savings Behaviour of Poor People in the North East of India

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The scenario is grim when available options for savings - the “forgotten half” of financial services – are studied in the context of yet another forgotten area the North East Region of India (the NER). The findings of recent *MicroSave* research reinforce that: everyone saves; that low income people in remote areas also save; and that they save significant amounts, of which much is unfortunately lost to fraudulent operators in the absence of a secured and accessible savings services.

Savings in the NER is practised through informal, semi-formal or formal mechanisms in the form of cash, in-kind or account based savings. The choice is mostly influenced by the economic status of the user. Respondents categorised users as poor, not so poor and rich, based on the local perceptions of economic status, which is usually related to stable cash flows, asset base (land holdings, livestock, jewellery) and availability of lump sum amounts to cope with crises.

*Savings in cash* at home has the advantage of liquidity and accessibility, but as it is vulnerable to theft or being frittered away, it is not the preferred mechanism. *Savings in-kind* is common because it provides quick and higher returns, for example through the reproduction of livestock. It is also used because of traditional social practices and the status attached to assets like land and jewellery. Nonetheless, savings in kind is highest amongst low income people, usually not by choice, but for want of a better option. Saving with Non Banking Financial Companies (NBFCs), Rotating Savings and Credit Association (RoSCAs)[1] and Accumulating Savings and Credit Associations (ASCAs)[2] is a more common practice, due to their high outreach and simple processes. Despite major concerns about their security amongst almost all respondents - most of whom have lost money many times - saving through these informal systems continues.

Although most people would prefer to save in a secure and accessible account in a formal institution, there are formidable barriers. Such institutions can be located at a long distance from many of the villages in the hilly parts of the region. The products offered often do not meet clients’ needs effectively, and they are delivered by staff members who are not sensitive to the needs and expectations of low income people. Government led initiatives, like the ‘no frills’ account, have been introduced, but these are not promoted aggressively – presumably because of the cost implications for the banks.

The above advantages and disadvantages of each mechanism affect the choice of savings options by different economic category of rich, not-so-poor and poor. Understandably, the rich are the highest users of the formal institutions and the poor the lowest. Semi-formal

[1] **RoSCAs (**Rotating Savings and Credit Associations, known as *Marups* in Manipur) are groups of people who pool money weekly or monthly and then distribute it to the RoSCA members in turn. The turns are decided by mutual consent, lottery, seniority within the group or bidding. The frequency of deposit in the pool depends on the occupation of members, and members all typically save the same amount (although some members may have multiple ‘shares’ and thus contribute double or triple the amount and thus receive two or three pay-outs). The tenure depends on the number of members in the group and typically varies from 20 to 30. No new memberships are allowed during the tenure, and the group dissolves after the tenure.

[2] **ASCAs (**Accumulating Savings and Credit Associations**), also known as *Sonchay, Somobay, Samiti, Got* (in Assam):** These are savings based groups of generally 25-40 where members deposit monthly savings of a fixed amount into a central pool, from which money is lent out to members and non-members. ASCAs are usually purpose-based groups which run for 1-2 years, and often liquidate and provide payouts prior to festivals. Members earn interest in proportion to their savings amount. ASCAs are very common in the valleys of Assam, as well as in some parts of Meghalaya and Nagaland.

institutions such as Self Help Groups (SHGs) and Micro Finance Institutions (MFIs) cater more to the poor and reach out to the lower segment of not-so-poor category. Multiple informal mechanisms are used in parallel, mostly by the not-so-poor category, as these mechanisms diversify the poor's risks and help them accumulate lump sums to meet some planned need or to invest in some asset. The poor also often use the informal mechanisms, but the most commonly used option is simply to hold cash savings at home, which is mostly driven by lack of feasible alternatives.

Lack of access to formal financial institutions has resulted in the emergence of a variety of informal systems based on socio-economic structures and needs. The informal mechanisms prevalent in the North East need special mention. On one side, there are the savings mobilisation initiatives to support the lowest income section and for emergencies like natural disasters, death in the family through:

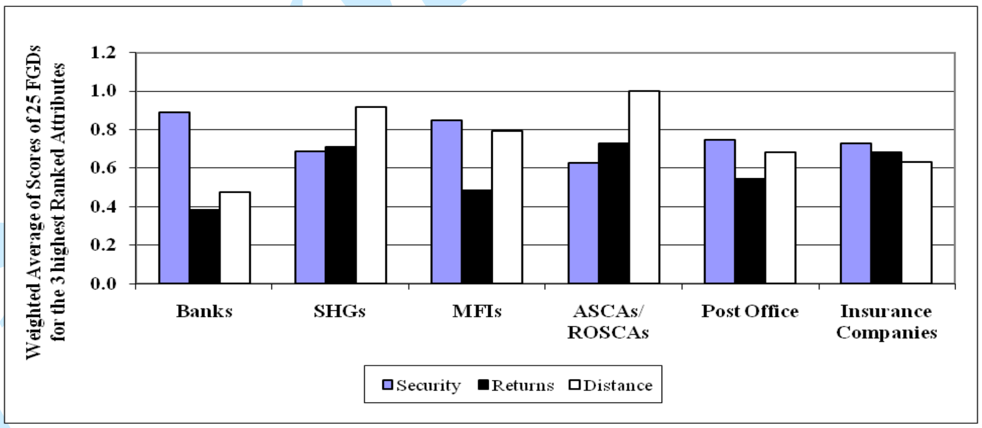
- *Namghars* and *Pujaghars* which are prevalent in Assam. A compulsory deposit of a fixed amount by each household is made to the *Namghar* (prayer hall) in a religious insttiution. It is lent out at zero or lower than market interest rates to address emergencies or extreme distress. Some amount is also used for common community needs, such as road construction.
- *Shinglups* which are prevalent in the Manipuri community of the valley region of Manipur. They are religious boards in each locality which take care of the expenditures incurred during death ceremonies.
- *Mahari Associations* which are welfare groups prevalent amongst the Garo clan in Meghalaya. Contributions are made by all households of the clan, the amount being fixed by the committee, headed by the *Nokma* (the village headman). *Mahari* fund is used for the general welfare of the clan, for marriages, death ceremonies, emergencies, etc.

On the other hand, there are mechanisms focused on economic gains, and these include the *Samities* (ASCAs) which are focused primarily on savings (but with access to emergency loans from the central fund) or the *Marups* (RoSCAs) which is a source for both savings and credit.

The four products that emerged from this research are based on these various factors and are supported by the preferences of low income people. Within these preferences, the attribute of *security* of savings ranks the highest, as it is a precondition for a product or a delivery channel to be broadly acceptable in the first place. Similarly, the *distance or accessibility* to services is also considered most important – for without access, the savings service is useless. As options for any financial services are limited, leveraging savings for loans or getting *high returns* on savings is in demand, but less essential.

**Relative Preference for Savings Mechanism**

As shown in the graph, different delivery channels are preferred to meet these attributes of security, accessibility and returns. Thus while banks are preferred for security,




SHGs and RoSCAs are preferred for accessibility. SHGs and RoSCAs along with insurance companies are preferred for high returns for short term and long term savings plan respectively.

Four products were designed on the basis of the study:
<u>*General Savings Account*</u>: Simple demand savings account that encourages people to enter the formal financial system. It welcomes and helps people develop a relation with a secured financial institution.
<u>*Short Term Recurring Deposit Account*</u>**:** Helps save up small lump sums to address a variety of small and often recurring client savings needs or to achieve small dreams.
<u>*Long term Recurring Deposit Account*</u>*:* Aimed to help strengthen coping capacities significantly by savings up for planned expenses and reducing dependence on loans.
<u>*Monthly/Annual Fixed Deposit with Certificate Account:*</u> Simple, flexible fixed deposit product that captures seasonal cash surpluses for future use.