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Solutions for the Poorest:

Insights on Savings Behavior of Clients

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Acknowledgements

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Executive Summary

The Livelihood Pathways for the Poorest project, implemented in Gaya District, Bihar, India, with support from the Rockefeller Foundation, aimed to demonstrate a model that could help the ultra-poor escape poverty through the provision of integrated financial, livelihood and risk management services. Savings mobilization formed the core of the project and anchored crucial activities, such as linkages with formal financial institutions and the introduction of income generating activities.

Grappling with poverty at its harshest these clients are willing to set aside a tiny portion of an already low and unstable income for future consumption. What made them willing to save, what determined the amount they saved and what drove this need to save? Do they save in lump-sums and how regularly? How likely are they to save? These and more questions drove the quest to decode the savings behavior of the ultra-poor in Gaya.

The savings behavior of the ultra-poor is shaped by their ability and willingness to save, which are a function of several interrelated aspects. These aspects form the building blocks of our savings product. Our learning stems from implementing these building blocks, which deepened our understanding of the ultra-poor's savings behavior. Those experiences also debunked some preconceived beliefs such as:

Attendance is a must for savings: Attendance is a must for the ultra-poor to build awareness and group interaction. But once there is adequate trust and a strong belief that saving will help them prevent future poverty, the ultra-poor of Gaya demonstrated that physical presence at group meetings was not necessary to save. Migrating families in 17 Adapted Self Help Groups (ASHGs)[1] deposited their savings in advance for the months they would be absent – a remarkable display of faith, when you consider that they were going away for nearly six months with all of their belongings. In one ASHG, husbands of members – who were originally reluctant to allow their wives to participate – attended meetings and contributed savings when their wives were ill and unable to attend.

The ultra-poor have a very limited ability and willingness to save, so structure is important: Certain aspects of the ultra-poor's lives are a given. Unexpected expenses are more than minor irritants for the ultra-poor, who do not have contingencies for health scares, death, marriage and festivals. Likewise, their income is not fixed – wage laborers on farms and brick kilns earn by the day. It is for these reasons that they often shy away from membership or even drop out of savings programs. With voluntary and flexible savings options, their main concerns regarding

[1] ASHGs typically consist of have no more than 10-15 women members from a village and serve as an efficient conduit for the delivery of livelihood and formal financial services to individual clients.

having money to save are alleviated. In addition, once they see that savings will help them access loans for critical needs, they are keen to save whenever they can.

The ultra-poor don't have the capacity to manage their own savings and loans groups: ASHGs managed not only their own savings boxes[2], but also their own savings bank accounts once they were taught how to do so. They not only learned their own signatures but also demonstrated a high degree of ownership and responsibility in taking care of their savings boxes and when making inter-lending decisions. It quickly became apparent that, to them, it was their money and they were taking charge. This was also a measure of confidence in each other and in the belief that together they could climb out of poverty. We found, however, that repetition of key messages was essential in instilling the skills and confidence to self-manage the groups.

The ultra-poor cannot upgrade to goal-oriented savings: Food security is an issue with the ultra-poor, and the state of their health determines their ability to earn. Out of pocket healthcare costs are high and debilitating. When households can see tangible uses of their savings, such as for healthcare, the ultra-poor understand and appreciate the need to save for future healthcare expenses and make it their goal.

So how do our insights inform other savings initiatives for the ultra-poor? Considering that this was a small pilot project involving 200 households, we would find it hard to say that a voluntary and flexible savings product is the best way to encourage savings behavior. Our experiences, however, indicate that a fixed or compulsory model is certainly not the only way to get the ultra-poor to save. Migration and seasonal or variable incomes are a reality in the lives of the ultra-poor, and we have found that recognizing this in product design has helped members and increased savings. Another reality is their community way of life, where approval and opinions of others in the community – the non-members – impacts enrollment into savings programs and the regularity of savings. Gender bias is uncontested; although women participate and save, it is critical to ensure the support of their husbands to encourage savings at the household level. Enlisting the support of important stakeholders in the community is critical to instilling savings behavior in clients. Once engaged with the group and with savings, reinforced learning – through home visits and audio-visual media – can teach them about productive loans and goal-oriented savings.

In the pages that follow, we document our learning, interspersing it with some interesting stories of ultra-poor women who are determined to climb out of poverty and our experiences on the ground. We hope these learnings take us one step further in understanding how to better support the ultra-poor in their fight against poverty.

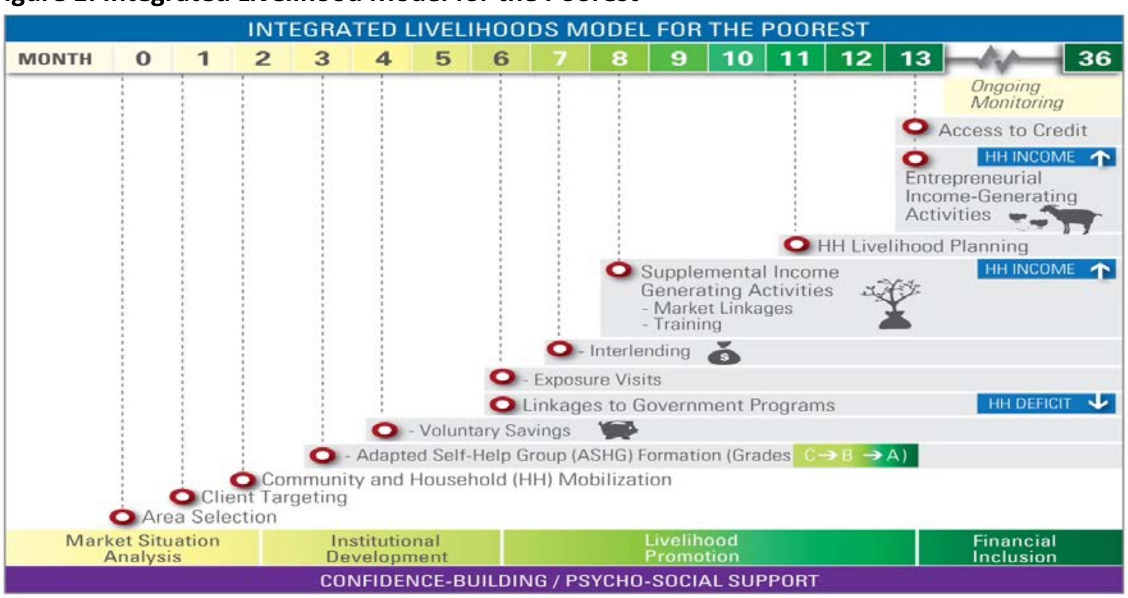
[2] Savings boxes are locked boxes where ASHG members store their savings.

Section I: Overview[3]

The poor need access to financial services to create diversified and reliable sources of livelihood, which help them move out of poverty. Microfinance, which provides essential financial services to the poor around the world, however, has found it difficult to reach out to the poorest, who live on less than US$ 1.25 per day. The Livelihood Pathways for the Poorest project, which is jointly implemented in Gaya District, Bihar, India, by the Grameen Foundation and the Livelihood School (part of BASIX group of companies), aimed to demonstrate a model that could potentially fill this gap in service provision to the ultra-poor. The project employed a holistic approach to address the needs of the ultra-poor by providing integrated financial, livelihood development and risk management services. It used action research to test the hypothesis that it could be financially viable for a microfinance institution to cater to the economic needs of the very poor along with their other target clients. The project also sought to determine that even the poorest could effectively use microfinance services (savings and loans) if they are provided in combination with additional services, such as insurance, livelihood development and mentoring, particularly if the products are structured to align with clients' livelihood patterns.

The project adopted a sequential approach – it built up the skills and confidence of the households, gained their trust and gradually introduced entrepreneurial income-generating activities. Households were formed into ASHGs that started saving, and subsequently, used the funds to inter-lend among group members. In stages, the clients were encouraged to establish supplemental income generating activities with low barriers to entry. Finally, households were given loans to support entrepreneurial activities that add to household income. (See Figure 1)

Figure 1: Integrated Livelihood Model for the Poorest



[3] USD conversion done at the December 18, 2012 INR/USD rate of 54.81

The approach adopted in the project incorporated and was built on certain aspects of conventional microfinance and other ultra-poor initiatives based on the BRAC model, which are being implemented in various parts of the world. This project was unique as it aimed to develop a business model around providing services to the ultra-poor in place of the asset transfer/ grant based model practiced elsewhere, thus delivering the approach at about half the cost of the grant-based models.

Who are the Poorest of the Poor – Client Profile

- Majority (83%) of these households belong to the Scheduled Castes (SCs)[4], 16% to the Economically Backward Classes (EBCs) and only 1% to the Other Backward Classes (OBCs).
- Average family size is five, with three dependent members per household.
- Overall literacy rate is very low at 8.2%.
- Majority of the households are engaged in unskilled casual labor (81%) and most households did not have access to any productive assets such as land, skills and tools.
- As daily wage labor is the main source of livelihood, uncertain work availability has been ranked as the most pressing work related concern.
- About 94% of the households eat two meals a day and only 3% have three meals a day.

Savings Mobilization through a Voluntary Savings Product

Savings mobilization was a critical component of the program and anchored other important stages such as linkages with formal financial institutions and the introduction of income-generating activities. The client profile indicated that we needed to design a product that would align seamlessly – not only with their needs, but also with their situation.

Building Blocks For an Ultra Poor Savings Product

Understanding the ultra-poor through the lens of savings helped put together the building blocks for an ultra-poor savings product. These helped us focus on several keys areas, which are detailed in the sections that follow:

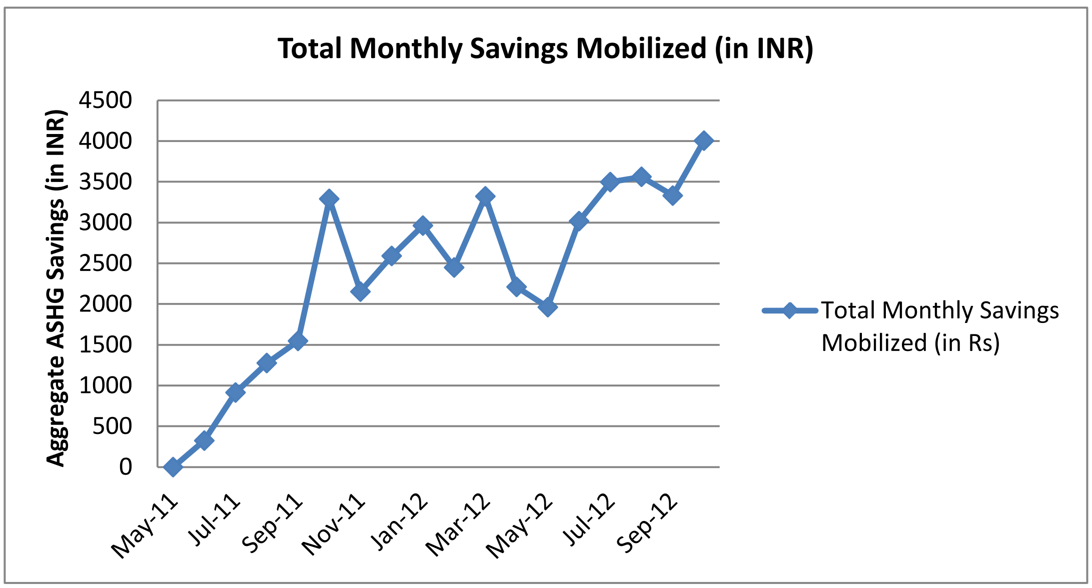
1. Determining the incentives needed to encourage participation
2. Designing a better savings product based on client insights
3. Understanding the importance of community approval
4. Reinforcing the message that regular savings directed at a goal or aspiration is an important step out of poverty.

[4]The Central Government of India classifies some of its citizens based on their social and economic condition as Scheduled Castes (SC), Scheduled Tribes (ST), and Other Backward Classes (OBC). Extreme social, education and economic disadvantages arising out of the traditional practice of untouchability are criteria for inclusion of any community within the SCs. The Indian Constitution defines OBCs as "socially and educationally backward classes." Under the Indian Constitution, it is obligatory for the government to promote the welfare of SCs and OBCs.

Section II: Savings Behavior of Clients

Some of the most interesting – and surprising – insights coming out of the project relate to the savings behavior of the poorest. In this case study, we present these insights and attempt to draw lessons for other financial inclusion programs. We also compare these lessons with learnings from other ultra-poor programs, where possible, and attempt to highlight similarities and points of divergence. Given the importance of savings and the recent attempts by various stakeholders to provide savings services to the poor, we believe our learnings will add to the knowledge of the wider community of those working towards financial inclusion of the poor and the poorest.

On the ground at Gaya, clients were initially reluctant to sign up for voluntary savings. At the planning stage, we had envisioned that the ASHGs would begin voluntary savings within four months of client identification (See Figure 1). It took, however, about five months to organize the women into ASHGs and an additional two to three months to get the women to start saving in the ASHGs. This was primarily due to the past experiences of the clients, which we share below. Our project team had to undertake continuous confidence and trust building measures which eventually resulted in active participation of clients in the program. As members started attending ASHG meetings, there was a gradual increase in the savings. Over the course of the project, client savings witnessed a notable increase (See Figure 2).



We sought to explore questions, such as: What led to this increase in client savings? Which factors promote savings? What is the saving pattern of the ultra-poor?

While some of the insights are already known and others are new, we have summarized the ones that we observed as having the greatest impact on the savings behavior of the very poor. As this project offered client savings behavior insights that were both layered and deep, we have classified these insights into three categories:

Program level insights: We discuss insights that draw from the approach, methodology and processes, as well as the design of the savings product.

Group level insights: We try to understand how intra-ASHG dynamics and inter-personal relations among the group members impact the savings behavior of clients.

Client level insights: We focus on the savings behavior of individual ASHG members and draw insights from the project on socio-economic factors that determine their savings behavior.

Voluntary Savings Product

- No fixed amount for savings
- No fixed interval for savings
- No penalty for not savings at a ASHG

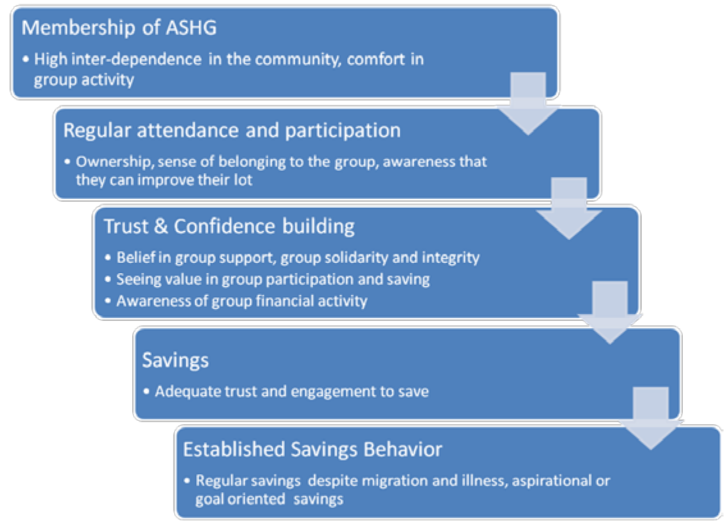
Program Level Insights

We look at some of the major learnings that we feel are important at the project approach and design level to create a savings program/ product for the poorest.

Flexible savings products motivate the poorest to save: The flexible savings product was designed taking into account the economic status of clients with unreliable income sources**.** The qualitative insights from the CGAP-Ford Foundation Graduation Program echoes a similar thought as it suggests designing the program in response to the constraints of the population. At Gaya, the introduction of a voluntary savings product made it possible for clients to save at their convenience without any restriction on the amount of savings. The ASHG members could save any amount, at any interval and there was no penalty for not saving at an ASHG meeting. Avinash Kumar, the Project Manager, recalls, "At the start of the project, we realized that the attendance in ASHG meetings was poor as the women felt that they would be forced to save if they attended the meetings. Because most members did not have spare cash to save, they felt embarrassed to attend the ASHG meeting. As the fear of 'commitment' savings discouraged members to attend the meeting, we decided to introduce voluntary savings." He elaborates, "Once voluntary savings was initiated, members felt at ease, as they could save whenever they had a cash surplus, depending on their income pattern." Our project team had to encourage members to save without putting any pressure or compulsions on them. This approach seems to have worked and most members have started saving.

Flexibility of ASHG meeting schedules helps ensure attendance, and as a result, savings: Initially, the attendance at ASHG meetings was very poor. We knew that the primary occupation of most households was wage labor and their work schedules varied according to demand, which often changed seasonally. In order to ensure food security for the household, clients could not afford to miss work during productive hours. The weekly ASHG meetings were, therefore, scheduled to accommodate members and ensure maximum attendance. In December, for instance, our project team arrived early in the morning for the ASHG meeting as the members were busy during the rest of the day in rice paddy harvesting. In February, the meetings were shifted to afternoons as members worked as daily laborers to harvest pulse and oilseeds. The afternoon meetings continued until the peak of summer in May /June as the members were busy the rest of the day. This approach to scheduling meetings helped clients develop a sense of ownership and responsibility towards the ASHG and also positively impacted savings. We recognized and respected the fact that the clients could not afford to miss work. This coupled with a demonstrated value in their association with the ASHG ensured continuous attendance and growing savings.

Savings Behavior Trajectory for the Ultra Poor



Client trust and confidence in their ASHG and implementing organization is imperative for savings mobilization: We realized that the clients had, in the past, often been on the receiving end of various unfinished schemes in which they invested their time and energy without seeing any tangible benefits. The targeted households, therefore, were very skeptical, and needed to be convinced of both, the longevity of the project and its positive intentions towards the community. To build confidence and trust, our project team took clients and their family members on exposure visits to other successful self help groups and SHG federations. The targeted households were, thus, able to see a live demonstration of the benefits of participating in the program and also realized that it was possible for the poor to organize themselves and get access to formal financial institutions through regular savings and inter-lending.

Trust Building Measures

- The human touch through home visits, regular interactions
- Exposure visits to successful ASHGs and federations
- Village level training programs
- Opening of bank accounts

Home visits helped the project staff understand clients' household dynamics and the factors that were inhibiting them from saving. Training programs at the village level were conducted by community resource personnel to inform even the non-targeted households about the program and raise awareness so that there were no objections to women's participation in ASHGs.

The importance of trust in savings mobilization has also been highlighted by other studies on the financial and social mobilization of poor. Qualitative insights from the CGAP-FORD Foundation graduation program emphasize the importance of household visits and counseling in building confidence amongst the poorest. A CGAP study on key savings mobilization strategies also states that trust in the repository of savings is a key factor that influences households' decision to save.

Client confidence further increased with the opening of ASHGs' bank accounts as clients perceived bank accounts to be a safe and secure place for their savings. Kumar recalled, “Despite low levels of literacy, clients were aware about bank accounts and the fact that savings are secure in banks. They, however, thought that the banks were beyond their reach." Our project team played a critical role as a trusted intermediary and facilitated the opening of ASHG bank accounts - the first bank accounts for two ASHGs were opened in November 2011. The bank accounts reduced the risk of ASHG fund mismanagement and also gave members the opportunity to access various income-generating schemes for SHGs. The ASHG members viewed the bank accounts as a reward for saving regularly and collecting the minimum required amount. The bank passbooks were shared with other ASHGs, who were also motivated to meet requirements for opening a bank account, such as timely payment of loans and regular savings.

Saving Matters- Only when it can be put to use!

Sugia Devi from Barsha ASHG needed an eye cataract surgery to be done. In August, 2011, she learned that there was a free cataract surgery camp organized by a charity organization in Bodh Gaya, which is an hour away by bus. However, at that point in time, she did not have the money for the bus fare, but was able to take a loan of INR 100 from her group’s collective savings when encouraged by other ASHG members.

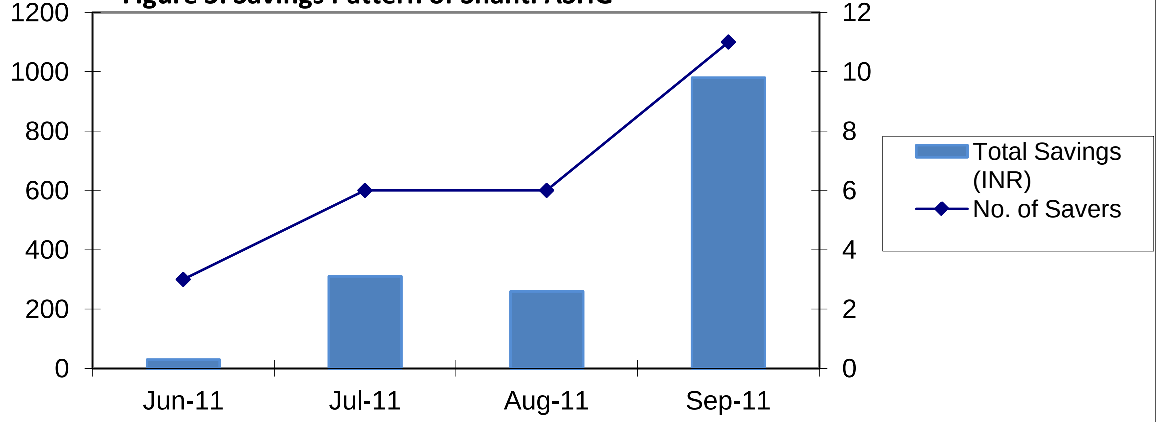
After a successful surgery, her husband, Ramashish Manijhia, who had been opposing her participation in the ASHG, approached the project staff and the ASHG members and said, “I am very apologetic that I did not let my wife participate in the ASHG and discouraged her to save, the ASHG saved her eyes.” This event marked a turning point in the attitude of men towards savings in the ASHG as it showed a tangible benefit.

Clients save when they see tangible benefits: Clients needed to see tangible benefits at the start of the program to start saving. Inter-lending of savings was started within six months of savings mobilization and proved to be a useful tool to demonstrate these tangible benefits. Loans were taken out by ASHG members for health and other emergency needs at very low interest rates and flexible repayment schedules. There was a marked increase in member savings once inter-lending was introduced. The cumulative savings of all ASHGs for six months prior to inter-lending (from May 2011 to October 2011) was INR 9,509 (US$ 173.30). In the subsequent six months (from November 2011 to April 2012) after inter-lending was introduced, the ASHGs saved INR 15,498 (US$ 282.50), registering an increase of 62.9%. Clients realized that by saving regularly, they could access low-cost loans to meet small, but significant needs.

Members who join later save more to catch up with peers: Members who signed up for savings after others often saved a large amount to catch up with members who had a head start. See, for instance, the savings pattern of Shanti ASHG in Pathra village, where the group tentatively began voluntary savings in June 2011 with three members saving a total of INR 30 (US$ 0.50). The following month, the monthly savings rose to INR 310 (US$ 5.60) and six members had deposited their money. In September 2011, 11 members deposited their money in the ASHG and the monthly savings increased to INR 980 (US$ 17.80). Out of the 11 savers, 6 were first time savers and each of them deposited INR 100 (US$ 1.80) to arrive at ‘par’ with members who had saved in the previous months (See Figure 3). A similar savings behavior is visible in other ASHGs as well. Within a 15-month period, the cumulative savings of 17 ASHGs stood at INR 37,689 (US$ 687.10) in August 2012 as opposed to INR 1,110 (US$ 20.20) in May

2011, when voluntary savings had begun in ASHGs. This insight has also been documented in other savings mobilization interventions, according to a CGAP study on savings mobilization strategies, clients' attitude changes with experience. Once the clients realize that their savings are secure, the participation in savings program increases manifold.

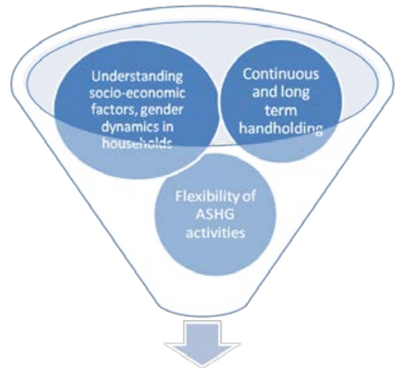
Figure 3: Savings Pattern of Shanti ASHG



Reinforced messaging guides ultra-poor to goal-oriented savings: In addition to regular interaction at meetings and household visits, we realized that repeating the key messages and using of innovative media, such as presentations and audio-visuals, to communicate the importance of savings played an important role in reaching out to the clients and spreading the message. The weekly ASHG meeting helped them retain important communication and transactions in the group. Retention of information on group transactions helped develop a sense of transparency and made members feel that their savings were safe within the group. Reinforcing the importance of savings also motivated members to save regularly. This is echoed in learnings from other ultra-poor programs, which also found that the importance of mentoring and motivation cannot be underestimated while working with the poorest. This learning also illustrates the need for financial literacy and the importance of conducting regular financial literacy training. The training sessions could be as simple as verbal communication by the field staff in regular intervals can be effective.

For women to save, support from the larger community and buy-in from male members who control financial decisions is critical: We learned early on that in the target households, women could not save without the consent of their husbands. We engaged proactively with the men through counseling during home visits, organizing exposure visits and explaining the benefits of the program in meetings with them. In the initial stages of the project, men were very skeptical of their wives' association with the project as they did not see any tangible benefits. In a marked shift from this behavior pattern, in November 2011, husbands of some members participated in the ASHG meetings as their wives were unwell. They sat through the proceedings of the meetings and also deposited money. It is important to note here that though we believe that women should have independent control over their incomes and savings, the ground reality is such in these communities that the husbands have to be brought on board, especially in the beginning when women become a part of the SHG.

Distilling Client Insights to Design a Suitable Savings Product



Flexible savings product design

Similarly, support from the larger community is also essential. Savings decisions are impacted by social forces and we need to be cognizant of these forces that might constrain decision-making regarding savings (Townsend, 1994). Households that economically better-off employ the poorest as agricultural laborers and thereby exert considerable influence on them. The non-targeted households also occupy positions of power in the village (such as the village leader) and it is, therefore, important to get their support. From the outset, we tried to garner the support of important stakeholders in the community through village level meetings and interactions. This helped us win the approval of the wider community and at times seek their help in promoting savings. For instance, the help of village leaders was sought to issue identity cards to members, so that they could open a bank account.

Group & Client Level Insights

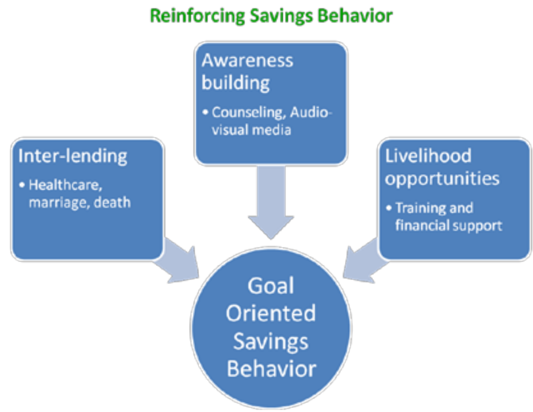
This section answers questions at the group and client level such as: how do group dynamics affect savings behavior? How does socio-economic status of the households and its dynamics impact client savings? What have been the interesting and counterintuitive insights that have emerged from the project?

Participatory decision making ensures regular savings and loan repayment: Early in the project, the ASHG facilitators introduced participatory decision making and monitoring of savings, inter-lending and loan repayment. The loan product and processes were designed by consulting with the members. Delays in loan repayment are discussed by members in ASHG meetings and in genuine cases the loan repayment is rescheduled as per the client convenience. Such participatory processes have resulted in members realizing that they have control over their savings and that regular savings in the ASHG helps in securing loans in times of need.

Migration Pattern

- Number of clients who migrate: 36
- Time of the year when they migrate: September -October
- Places of migration: Delhi, Haryana, Jharkhand, West Bengal and even within Bihar
- Occupation: Agriculture Labor, Brick Kilns
- Period of absence from the village: 6-7 months

Migration is a reality, but it does not stop people from saving if they really want to: It seems intuitive to say that when members migrate seasonally, they would not be able to save and their savings would lag behind in comparison to other group members. However, we observed that migrating members were saving in advance for the months when they would be absent from the village. We found that the labor contractors who hired them pay some part of the wage in advance. Members had used some portion of this money to save in the ASHG for future use. In October 2011, a migrating member from Agni ASHG Rajkumari Devi, deposited her monthly savings through a member of her family in her absence. There are various other instances of members saving a lump-sum amount in advance or on their return to the village to match their savings with other ASHG members who do not migrate. The active participation of migrating members is rooted in their belief that ASHGs are a secure place to save.



Saving for Tomorrow

In August 2011, Phoolmati Devi of Barsha was to migrate to Haryana to work as a construction laborer. She was a very active member and had played a key role in mobilizing the ASHG members.

As she wanted to continue her association with the ASHG, she inquired, "if I migrate and save some money in advance, can I come back and join the group?" The project team encouraged her to do so. She saved INR 120 (US$2.20) in the ASHG for the six months that she would be absent from the village, as most members in her group saved INR 20 (US$ .30) per month.

Planned and unplanned expenditures impact savings patterns; so products must be flexible: We learned that savings were seldom uniform, and varied with seasons, festivals and marriages in the community. For example, in October 2011, when clients incurred expenses in celebrating the Hindu festivals of Diwali and Durga Puja, ASHG meetings could not be held regularly and savings mobilization was low. The total savings mobilization in October 2011 was INR 2,153 (US$ 39.20), 34.5% lower than that in September 2011 when INR 3,291 (US$ 59.90) was mobilized. About 68% households reported saving the most during the months of July and November as they earn regular income during these months by working as agricultural laborers. Recurring deposit (RD) type of products are, therefore, not suitable for such clients. Besides the voluntary savings in ASHG, a special savings product (one time deposit) can be designed and offered to save the surplus cash in these two months.

Health needs are a major incentive for the poorest to save: Clients' capacity to save is adversely impacted by health problems and illnesses in the family, where all able members work. These households lack any health insurance and social security, and therefore, expenditure on health is entirely out of pocket. Health expenses are a big drain on household income and around 85% of the loans from ASHGs have been taken to fund healthcare. As loans are accessible to ASHG members who save regularly, saving for health care costs is a big incentive for the poorest to participate in such programs. Moreover, as most households use their savings to fund healthcare, financial products (such as goal oriented savings and health insurance) that can support them in this need to be designed and provided to the poorest.

Section III: Conclusion

Insights from the field clearly demonstrate a direct relation between the savings behavior of the ASHG members, the level of trust among them and the confidence they have in the implementing organization. At the start of the program, providing immediate rewards (such as loans through inter-lending) for participating in the program encourages members to value their association with the ASHG and thereby save regularly. Inter-lending of savings helps members see the tangible benefits associated with savings, which made them understand the value of regular savings in the ASHG, and therefore positively impacts the savings behavior of members. Socio-economic factors like income sources, unplanned expenditures, and migration are a fact of life for the poor, and products and processes need to flexible to accommodate this aspect of clients' lives. Participatory monitoring of savings and inter-lending in ASHGs instill a sense of ownership amongst members and motivate them to save regularly. Individual household level dynamics also affect a member's savings behavior and so buy in from the husband and other family members help women save regularly, whereas marriages, illness in the family and migration have an adverse impact on regularity and volume of savings.

Insights from this project not only have implications for self-help group programs but also for other financial inclusion programs targeting the poorest such as business correspondents, mobile money, branchless banking and others. To be successful, these programs need to incorporate continuous handholding support and trust building measures within their program design. A 'one-size-fit-all' model does not work with the poorest – and all stakeholders in the financial inclusion space - be they the government departments, NGOs or private companies - need to develop an understanding of the savings behavior of the poorest from insights gained through pilot programs such as this one.

These insights, although useful, are not exhaustive. There is a need for further research on the most suitable savings product for the poorest, as various studies have also highlighted the role played by commitment savings product in encouraging the poor to save. Research is also required to understand whether the changes visible in the savings behavior of clients is sustained over a long period of time, to provide empirical evidence on factors which act as barriers to savings and to explore feasibility of scaling up such programs.

However, we hope that these insights will add to the understanding and contribute to client level insights that will, in turn, help other programs/ projects and business models design appropriate and sustainable savings programs and products for the poor.