Policy Brief 8

Micro Finance Series

Translating Practice into Policy and Practice Change

Financial inclusion— savings and its relevance to poor: issues and solutions

Savings made by member in SHG

Payment made by SHG in Bank

Executive Summary

The poor can save, do save and want to save money. Households need to save money in order to reduce their vulnerability to negative shocks, such as natural disasters, crop failures, job losses, illness or death in the family. With savings in kind or in cash, a safety net is created. Saving defines the action of putting aside a part of current income in order to consume or invest it later. The money saved can be kept at home, deposited in a savings account or invested in different types of capital.

Poor people are at disadvantage, because the banks, insurance companies and other financial institutions that serve the better off rarely cater to the poor. The poor need, surprisingly often, to spend large sums of money. Poor people also require savings to help them better mange their resources over time and enable them to plan and finance their investments. Hence poor people require diverse financial services and should not be shut out of financial services because of the risk they bear; on the contrary they need additional services to mitigate that risk.

With population of around 1.13 billion, India's GDP ranks among the top 15 economies of the world. Majority of the poor in India are outside the formal banking system because banks are often too far away, or the time and procedures needed to complete transactions are too onerous. Operating hours are not convenient for poor depositors. These organizations also impose minimum transaction sizes and/or require depositors to retain a minimum balance, both of which exclude the poor. Hence they resort to informal financial services irrespective of the flaws in its operations.

In order to increase the services to the poor through formal financial institutions and to demonstrate that poor people can save a seminar was organised by DHAN Foundation on "Financial inclusion— savings and its relevance to poor: issues and solutions". The participants included officials from banks, NGOs, academic institutions and various federations. Follow up of that a policy brief is prepared by reviewing the sectoral policies and practice, field practices and recommendations emerged during the seminar. The following are the summary recommendations in this brief:

Summary of suggested changes in policies and practices in various departments

Existing policies/guidelines and practices and their shortcomings	Policy/practice changes required
1. Reserve Bank of India (RBI)	
Majority of the poor in India are outside the formal banking system. Out of one billion people in India, about 300 million people are living below the poverty line. It is estimated that of these only about 20% have access to formal financial intermediary services, including saving services.	Guidelines and monitoring mechanism to be adopted in implementing inclusive approach focusing on savings (Business facilitator/ Business correspondent model).
RBI has recommended a pilot project for State Level Banking Committee (SLBC) for 100% financial inclusion, which has proposed to cover all households or families by opening of bank accounts. In the eastern region and tribal parts of India the access to financial services is less due to the geographical distance between the place where people stay and the place where the banks are situated and the infrastructure facilities are also less.	No specific monitoring mechanisms or a specific guideline for Business facilitator or Business correspondent model on regions specific and tribal regions exists. Hence RBI should evolve suitable context based guidelines and monitoring mechanisms to include the existing Community organisations (CO's) and Self-help Group Promoting Institutions (SHPIs) (who have rich experience in SHG promotion and linkage) through Business facilitator model to reach the unreached. It should also facilitate to deepen the services by making it a secure place for savings and credit services to poor. **Different approaches could be adopted in promoting services like SHGs/SHG promoted federations as business facilitator.**
RBI has priority focus on financial literacy to reach the unreached. RBI has suggested SLBCs to start or set up financial literacy cum counseling centre on a pilot basis.	Innovative mechanisms, approaches are to be designed for financial literacy to reach the unreached.

Existing policies/guidelines and practices and their shortcomings	Policy/practice changes required
	SLBCs should have a definite agenda for every month to emphasise the role of commercial banks, NGOs who are sound in SHG promotion on financial literacy. It includes awareness building, financial counseling on saving, credit, insurance, bank linkages and to make effective decisions by people.
Introduction of a basic "no frill account" is a welcome signal. How ever 59% of the adult population have availed financial bank account and 48% of people have access to credit. The policy of financial inclusion insists on a basic banking account either with nil or very minimum balances as well as charges that would make such accounts accessible to the vast sections of the population.	**RBI has to develop procedural guidelines to banks to encourage saving services among poor**. The mere opening of a bank account in the name of every household/adult person is not enough. **Constant reviewing and monitoring mechanisms of the account is needed to ensure continuity of operations. SHGs account to be considered as an individuals account.** SHGs or SHPIs can be utilized for evolving products. Banks should develop flexible savings product suitable for various context of people.
The current financial inclusion focuses on giving credit services to the poor. Review of various reports shows that savings have increased among the poor given the proper opportunities like microfinance / group approach.	Diversified portfolio for the poor, which includes savings and self-regulation mechanism among the poor people as a commitment feature for designing the financial services under financial inclusion.
2. Commercial Banks, Regional Rural Banks (RRBs) and Primary Agricultural Cooperatives (PACs)	
Till now, Banks are looking at the accounts operated by poor on a purely credit perspective.	The banks should change their perspective from credit services to the poor to meet the huge unmet need of the poor for savings. **All commercial banks should set target and to focus in its services to include savings among poor through SHG concept. The banks should treat the SHG account as the account of the individual member of the SHG in order to avoid duplication and to reduce the transaction cost.** **For safety of savings of poor, regulations regarding deposit services should be only with commercial banks and not with MFIs as stated in the Micro Finance bill.**

Existing Policies/Guidelines and Practices	Policy/Practice changes required
The major constraints for the poor in interacting with the banks are with their paper work, economic costs of going to the bank and in flexibility in operation of accounts.	Integration of savings and credit facility for the poor will benefit them and make the activity more viable for banks and encourage them to lend to the poor. Hence need for a diversified product portfolio for the poor through SHG approach or Community Organisations. Bank should come forward to facilitate the saving portfolio among poor. Banks should get involved in product innovation in order to provide savings services for poor. **The design principle of product innovation should be group approach. The product innovation will include the savings linked insurance services and form part of the policy framework for the savings.**
Financial services to the poor are not viable because of the unorganised nature and higher transaction costs for smaller amounts that are invested. There has been a constant development in technology for using ATM services – Voice recognition ATM machines etc.	Simplifying the procedural constraints and improved infrastructure facilities will make the banks accessible to poor. Cut down the transaction costs by **introducing new technology such as mobile ATM vans, SHG cards. SHG/CO approach and internet usage, smart card facilities to SHGs and exclusive branches of bank for SHG operations etc.**
Banking sector does financial services based on their formal system, procedure and inner strength. Mostly the product does not suit the needs of the poor because they are inflexible and timely delivery of financial services is not ensured.	There is strength in informal financial system. In India well developed SHGs have its attribute of both formal and informal financial systems.
	A pilot study on potential of the savings by poor can be undertaken. Linking informal saving and credit operations to formal financial institutions can enhance effectiveness of both formal and informal institutions. Bank should get involved in product innovation, experimentation, and promotional efforts for expanding its operational services with SHGs/COs. The product can be operationalised either through business facilitator model. This also builds external ownership for banks.
Functioning of Regional rural banks and Primary agricultural cooperatives has been declining due to lack of proper infrastructure facilities.	Revamping of the entire banking system in RRBs and PACs and making them accessible to poor by providing banking infrastructure facilities and operations.

Existing Policies/Guidelines and Practices	Policy/Practice changes required
3. National Agriculture Bank of Rural Development (NABARD)	
NABRAD facilitates the role of financial inclusion. NABARD has taken initiatives like SHG bank linkage, MFI, watershed approach to promote savings and credit. In spite of these initiatives, there exists a gap in reaching the unreached.	There is a need for concept and context specific approach and experimentation to facilitate financial inclusion. NABARD should facilitate the role of financial inclusion intensively by setting an exclusive cell attached with MCID (Micro Credit Innovation Department). It should facilitate promotion of SHGs/COs among small and marginal farmers/landless labourers for promotion of savings, access to credit for agriculture and allied activities.
4. Community Organisation (CO)/ Self-help Promoting Institutions (SHPI)	
Cos or SHPIs are involved in developing or facilitating saving services among poor.	Capacity building for COs and SHPIs is necessary to strengthen the technology of Micro finance among the members to capitalise the saving services among poor, for which financial literacy on micro finance for member based approach is important. COs/SHPIs to go with inclusive approach by adopting business facilitator model exclusively for the poor.
5. Central and State Government	
Lack of co-ordination between the state, central government, commercial banks, MFIs and NGOs in delivering microfinance and development services to poor.	Initiative should come from the State to provide innovative pro-poor reforms in wider banking sector. State can also support and encourage new partnership between banks, commercial banks, postal department, insurance departments and SHG promoting institutions, corporates that make it less costly to deliver financial services to the poor.
6. NGOs	
NGOs and their SHGs have designed savings products according to the context. There is a lack of coordination and collaboration mechanism with mainstream commercial banks and government to reach more poor.	NGOs can take capacity building to the mainstream institutions like Banks, COs, SHPIs and SHG members on financial literacy. Design flexible product according to context. Financial literacy can be imparted to the poor people. A study can be undertaken jointly with commercial banks and NABARD.

Existing Policies/Guidelines and Practices	Policy/Practice changes required
7. Academic Institution	
Lack of research on financial inclusion, about the saving mechanism of poor people and indigenous method of saving.	Research studies can be undertaken to know about the indigenous saving mechanism of the poor people. Proper documentation on the various ways of savings is needed. **Research on developing a new savings product can be undertaken.**
8. Postal Department	
The major strength of postal department is its strong network in rural areas and its popularity among the public. However a mist exists in providing financial services in the given legal framework. (Since they are not governed by RBI or any other regulatory framework)	The postal department should join hands with SHPIs to provide financial services to the poor.

SHG Group Meeting

Interaction with Bank Officials

Savings and its relevance to poor: issues and solutions

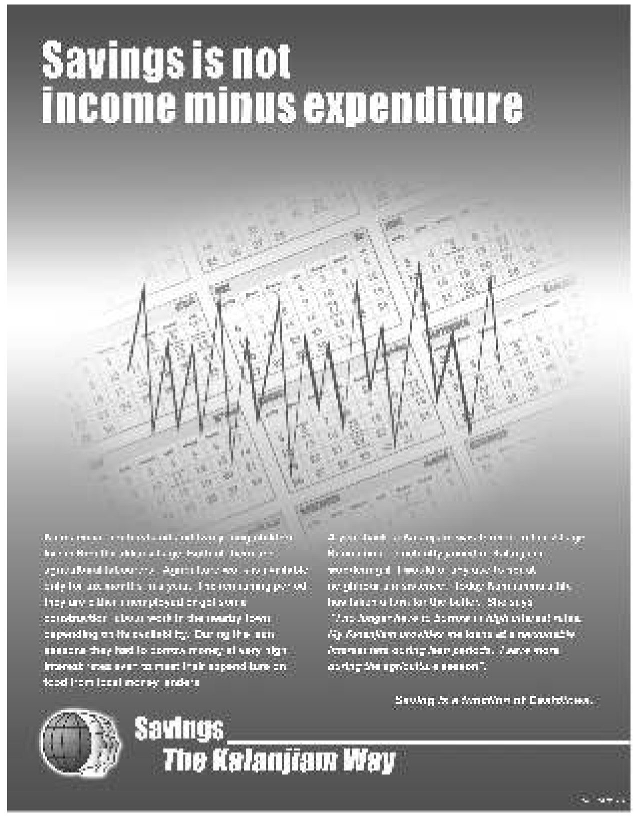
I. Introduction

"The poor households want to save, and do save... but it is not easy" (Rutherford, 1999). Households need to save money in order to reduce their vulnerability to negative shocks, such as natural disasters, crop failures, job losses, illness or death in the family. With savings in kind or in cash, a safety net is created.

Saving is defined as an action of putting aside a part of current income in order to consume or invest it later on. The money saved can be kept at home, deposited in a savings account or invested in different types of capital. Savings in monetary form is just a way to manage the liquidity of the household. In a long term perspective, savings can contribute to increase the income base, for example by investing in the children's school education, buying a cow, or a new sewing machine. So **savings is defined as the amount kept aside in the current period and it is not an Income minus consumption / expenditure, it is a function of cash flow.**

Need for poor households to save

Managing money well begins with avoiding unnecessary expenditure and finding a safe place to store whatever money is left over. The choice to save rather than to consume is the foundation of money management. Poor people are at disadvantage, because the banks, insurance companies and other financial institutions that serve the better off rarely cater to the poor. The poor need, surprisingly often, to spend large sums of money. Poor people also require savings to help them better manage their resources over time and enable them to plan and finance their investments. Hence poor people require diverse financial services and should not be shut out of financial services because of the risk they bear; on



the contrary they need additional services to mitigate that risk. The three major categories under which they spend money are:

- To meet their **life-cycle needs** which include marriage of their daughters, to educate their children, to build houses, to obtain or repay credit and to celebrate festivals like Diwali, Eid or Christmas. The money spent during each of these events is greater than the amount of cash found normally in their household.

- **Emergencies** create a sudden and unanticipated need for a large sum of money. This may be due to personal emergencies like sickness or injury, death of a breadwinner or loss of employment and theft or harassment. Impersonal emergencies include war, floods. cyclones, fires etc.

- **Opportunities** include investing in new or existing business, to buy land or other productive assets. The poor like to invest in needy items that make life comfortable – better roofing, fan, TV, furniture, etc.

Where do poor people save?

A household's home is probably the most universal place to keep money, although it is not safe, either because temptation to use it , or it might be stolen easily. Few poor households deposit money in a bank savings account since the money is kept safe from uncontrolled spending. Poor households deposit money in savings and credit cooperatives, if they have access to these facilities.

Those who do not have any secure place to deposit their savings entrust it to a money guard. Reciprocal lending (i.e., lending between relatives, friends or neighbours) is also a means of savings. It yields higher returns than depositing money and serves a social purpose, but might not always be secure.

Poor raise large sums for meeting their needs through the following ways:

1. **By sale of assets:** Poor people sometimes sell, in advance, assets that they do not hold now but expect to hold in the future. The common example is the advance sale of crops. These advances are a form of financing since the buyer provides, in effect, a loan secured against the yet to be harvested crop. The advance may be spent on financing the farming costs required to provide that crop.

2. **By Mortgaging or Pawning of assets:** This enables poor to convert assets into cash and back again through mortgaging land in countryside or pawning of assets. These two methods require that users have assets, and poor people have very few assets. This fact limits the effectiveness of the two methods. It makes them neither reliable nor sustainable.

3. **By finding a way of turning their small saving into large lump sums:** This requires the users/poor people to have a flow of savings, however small or irregular. It exploits their capacity to make savings by using various mechanisms to convert savings into large lump sums.

    - Savings Deposit: Allows a lump sum to be enjoyed in future in exchange for a series of savings made now.

    - Loans, which allow a lump sum to be enjoyed now in exchange for a series of savings to be made in the future (in the form of repayments), and

    - Insurance, which allows a lump sum to be enjoyed at some unspecified future time in exchange for a series of savings made both now and in the future

Basic personal financial intermediation–the process through which people turn their savings into usefully large lump sums of money. Poor people need this process as much as anyone else, because poor people can save and poor people have frequent needs, throughout their lives, of "usefully large lump sums of money". Hence the task of financial services for the poor, therefore, is to deliver them mechanisms through which the swap from savings into lump sums can be made.

Financial services for the poor

With population of over 1 billion, India's GDP ranks among the top 15 economies of the world. However around 300 million people about 60 million households are living below the poverty line. It is estimated that of these households

The financial services of the poor can be classified into formal and informal service

Ways of Savings

Formal	**Semi-formal**	**Informal**
• Apex Development Bank	MFI	Money Lenders
• Development Financial Institution	SHG–Bank linkage Programme	Trade Creditors
• Commercial Banks		Local Shopkeepers
• Regional Rural Banks		
• Cooperative Banks		
• Insurance Companies		
• Post Office Network		

(source: World bank report)

only about 20% have access to formal financial intermediary services, including saving services. Majority of the poor in India are outside the formal banking system. The receipt of total small savings in India for the past ten years from 1997–98 to 2007–08 has shown a declining trend from Rupees 46935 crores (1997–98) to Rupees 30996 crores (2007–08). The post office bank deposits has shown an increasing trend where as the post office time deposits and post office recurring deposits shows a declining trend in savings rate.

Informal financial services

Poor people save all the time, although mostly in informal ways. They invest in assets such as gold, jewelry, domestic animals, building materials, and things that can be easily exchanged for cash. They may set aside grains from their harvest to sell at a later date. They bury cash in the garden or stash it under the mattress. They participate in informal savings groups where everyone contribute a small amount of cash each day, week, or month, and is successively awarded the pot on a rotating basis. Some of these groups allow members to borrow from the pot as well. The poor also give their money to neighbours to hold or pay local cash collectors to keep it safe.

Why poor prefer informal financial institutions

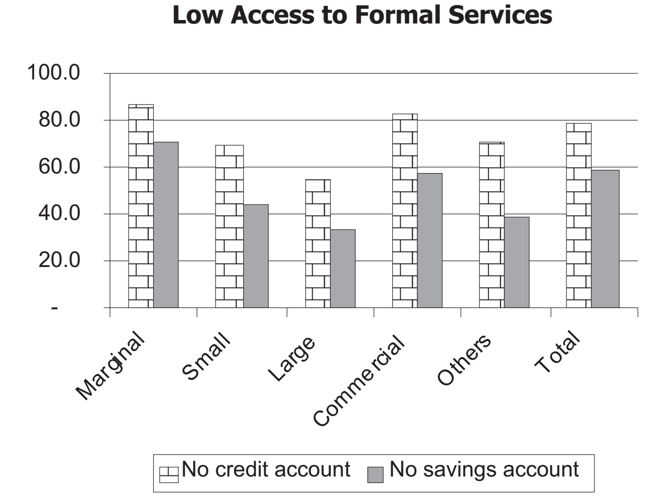
Information in financial transaction is far from perfect and information is crucial and the costs of financial transactions are considerable and these are the major strengths of informal financial institutions. Loans to, and savings of, poor people are usually small; it costs a lender just as much to screen and monitor a client for a small loan as for a large one especially for the banks. The informal financial markets, especially in rural areas have good way of dealing with problems of risk and cost. The groups take joint liability for the repayment of loans amongst their members with a peer-monitoring system to ensure timely repayment. These groups had ways of selecting borrowers including self-selection and rules which make access to further credit obtainable only after repayment is made. In this way they were able to achieve higher repayment rates at lower costs, while the poor gained better access to finance as they could use social collateral (joint liability) instead of the more difficult conventional collateral requirement (e.g. land title). These systems show how formal financial institutions could overcome the difficulty of catering for the poor while still remaining profitable.

The various types of indigenous savings system are the chit fund locally known as chit serves both as a profitable avenue of investment and a convenient method of small savings. Various types of chit are popular viz, the kulukkal chit (chit awarded through lots), ela chit (that which is open to auction), jewel chit, vessel chit, garment chit, festival chit, tourism chit and chit for buying of grains.

Formal financial institutions and need for inclusion of poor in Saving services

Institutions that mobilize deposits include banks, credit unions, and postal department. The poor lack access to safe and formal deposit services. Banks are often too far away, or the time and procedures needed to complete transactions are too onerous. Operating hours may not be convenient for poor depositors. These organizations also may impose minimum transaction sizes and/or require depositors to retain a minimum balance, both of which can exclude the poor.

The World Bank (WB)–National Council of Applied Economic Research (NCAER) Rural Finance Access Survey (RFAS, 2003) prepared a report on access of poor to formal financial services. The outcome of the report indicates that rural banks serve primarily the needs of richer rural borrowers; some 66% of large farmers have a deposit account; 44% have access to credit. Meanwhile, the rural poor face severe difficulties accessing savings and credit from the formal sector. Some 87% of the poorest household's surveyed (marginal farmers) do not have access to credit, and 71% do not have access to savings from a formal source. Access to formal credit is particularly a problem for the poor when trying to meet unforeseen expenditure, and difficulty in accessing formal finance has resulted in a heavy reliance among poorer rural households on informal finance—mostly moneylenders and shopkeepers.



Source : RFAS 2003

On analyzing the potential among poor to save and the reasons for exclusion of poor from formal financial services, it becomes important for the formal financial institutions in its policy frame work and in its operations to include poor in saving services.

II. DHAN's experience in designing savings products to poor

India occupies a significant place and niche in global micro finance through promotion of the self-help groups (SHGs) and the homegrown SHG-bank linkage model. The Indian model offers greater promise and potential to address poverty as it is focused on building social capital through linking with the mainstream.

The Kalanjiam Community Banking Programme (KCBP) promoted by the DHAN foundation works towards upscaling of the community banking Programme for poor women based on the principles of self-help, mutuality and ownership. Besides achieving financial sustainability, the model enables building of community organisations at the local level for social development going beyond the narrow "Financial delivery approach".

The three basic guiding principles of Kalanjiam Community Banking Programme are empowerment of communities through nested institutions reaching out to the poorest, poverty reduction through arresting leakages and going beyond micro finance to address social development.

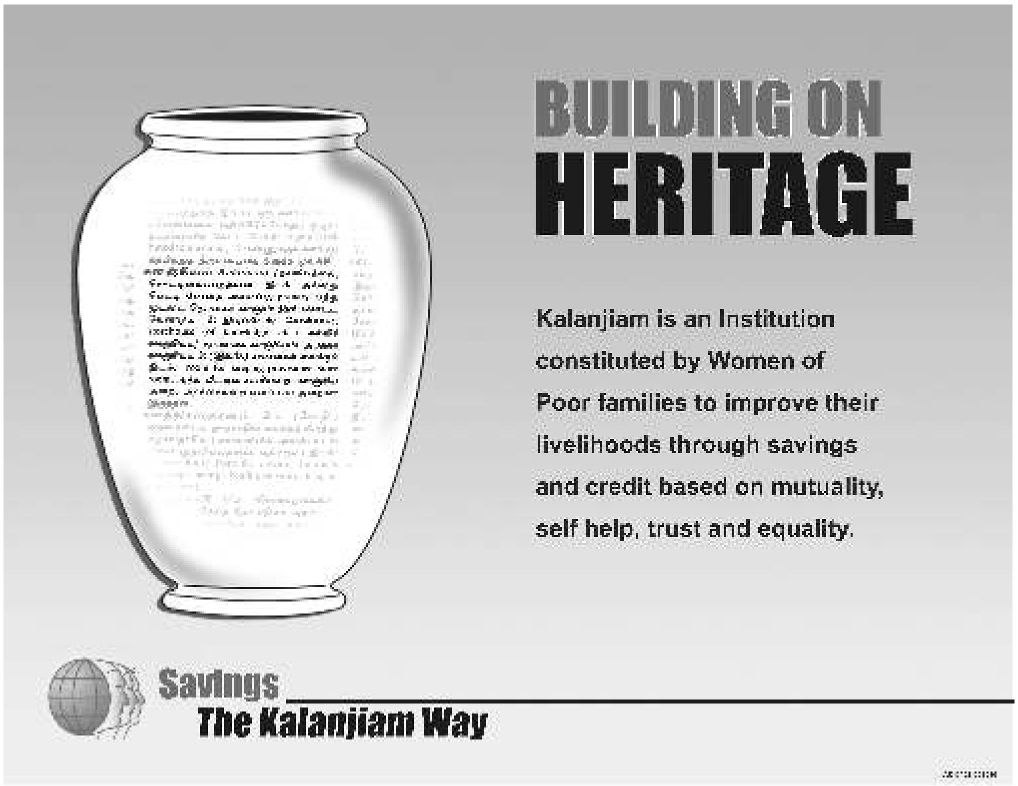
Contribution of Kalanjiam Programme

Kalanjiam Community Banking Programme focuses on creating community organisations called Kalanjiam nested institutions, which include groups, clusters and federations and other associated network of institutions owned and controlled by poor women. It is one of the largest programmes in the world, focusing on community ownership, principles of self-help and mutuality. The programme is implemented in rural, urban, coastal and tribal context and focuses on saturation of the poor. **Kalanjiams have the strength of both formal and informal financial institutions.**

As on October 2008, the Programme has an outreach of 3,87,688 poor women spread over 157 locations covering 7311 villages/slums in 36 districts of Tamil Nadu, Andhra Pradesh, Karnataka, Madhya Pradesh, Orissa, Rajasthan, Maharashtra, Jharkand and Pondicherry.

Many products developed by the Kalanjiam model have innovatively integrated the existing indigenous practices of poor, which have enhanced the acceptability and ensured continuity of the Programme. A Savings of Rs. 11,311 lakhs by members have been mobilised. Regular monthly savings facilitate internal lending in groups. "Special Saving" is a contribution in addition to regular savings, meant to meet specific development needs of the members for health, education, and marriage.

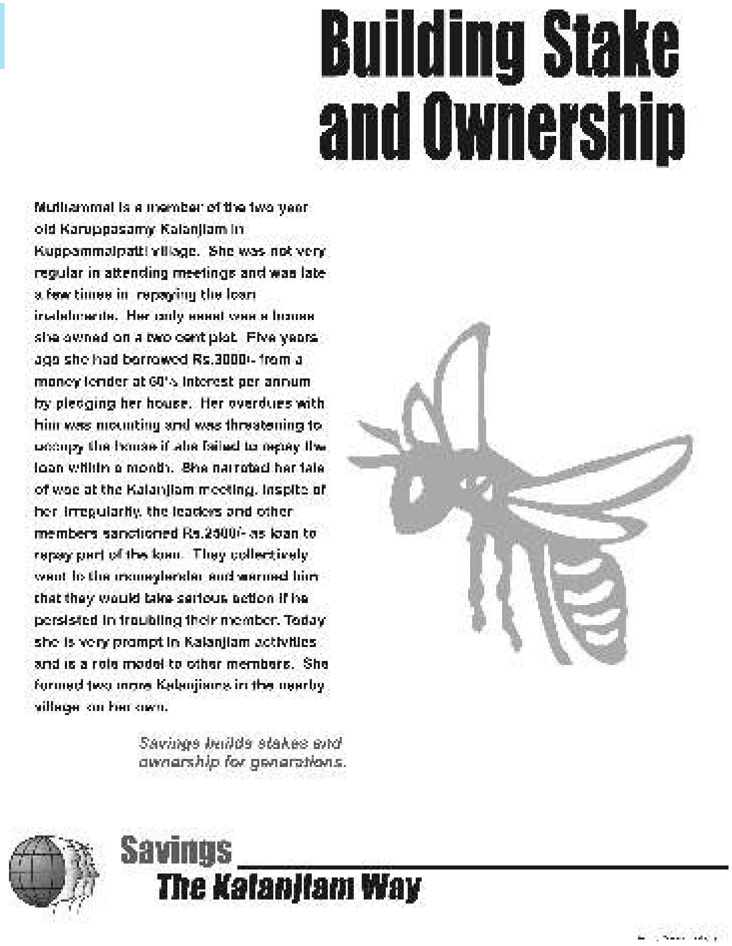
The Programme has linked a total of 210122 groups around 192 bank branches of 29 different commercial banks and RRBs, and are involved in this linkage process. As the needs and economic strength of the members increase over time, demand pressure is constantly created to find innovative ways of providing substantial services to the members. Savings by the members influence credit mobilisation from formal financing sources. A major proportion of the loans (28%) provided from the Kalanjiam were for redeeming members debt with informal financing sources followed by productive and asset creation purposes such as agriculture and livestock (15%) housing (14%) and small-scale economic activities (9%). Hence Savings play an important role to meet the future consumption needs, and for mobilizing funds from formal financial institutions (Source: Impact of Kalanjiam, DHAN Foundation, 2004). Thus, **Savings insulate investment credit.**



Impact of Kalanjiam

An impact study of Kalanjiam Programme on its members was carried out to assess the economic development of the members and contribution of Kalanjiam Programme towards empowerment of women and their family members. The study's findings are as follows:

- Access to formal credit system has increased and the income drain in the form of paying interest at usurious rates to the informal financing institutions decreased as the membership in Kalanjiam increased. Awareness among members about accessibility of credit from local commercial banks increased after their membership in Kalanjiam.
- Kalanjiam unleashed the hidden potential of the members to save money. After the intervention of Kalanjiam the members were able to save Rs 100 per month on an average. The savings by members serve as collateral for the Kalanjiam while approaching banks for getting loans.



Building Stake and Ownership

Muthammal is a member of the two year old Karuppasamy Kalanjiam in Kuppammalpatti village. She was not very regular in attending meetings and was late a few times in repaying the loan instalments. Her only asset was a house she owned on a two cent plot. Five years ago she had borrowed Rs.3000/- from a money lender at 60% interest per annum by pledging her house. Her overdues with him was mounting and was threatening to occupy the house if she failed to repay the loan within a month. She narrated her tale of woe at the Kalanjiam meeting. Inspite of her irregularity, the leaders and other members sanctioned Rs.2500/- as loan to repay part of the loan. They collectively went to the moneylender and warned him that they would take serious action if he persisted in troubling their member. Today she is very prompt in Kalanjiam activities and is a role model to other members. She formed two more Kalanjiams in the nearby village on her own.

Savings builds stakes and ownership for generations.

Savings
The Kalanjiam Way

- The savings to loan ratio was declining from 19% to 13% as the age category of the Kalanjiam increased from 3-5 years to greater than five years. This shows the confidence instilled in the banks to provide higher and higher amounts to the Kalanjiam in proportion with the increment in age.
- Investment in assets by Kalanjiam members increased with age of Kalanjiam. The assets include productive assets such as agricultural land, livestock, petty trade etc. and non-productive assets such as jewels, household durables etc.
- Rise in family income with intervention of Kalanjiam, which was mainly attributed to the loans provided for income generating activities.
- Change in quality of life in terms of their intake of frequency, quantity and quality of food, housing conditions. Many members have also opted for the various social security schemes offered by Kalanjiam.
- The intervention of Kalanjiam Programme has empowered a considerable proportion of women. As many as 12% of kalanjiam women have assets such as house, land and savings in post office, bank etc., apart from savings in Kalanjiam.

An appreciable percentge of Kalanjiam members were found to take independent decisions regarding visit to hospitals for health problems (38.33%), expenditure on education of children (18.33%), purchase and sale of assets (15%) and purchase of durable consumer goods (24.50%).

***Source:** Impact of Kalanjiam, DHAN Foundation, 2004*

Savings the Kalanjiam way: lessons learnt from field experiences

1. **Savings, a felt need by the poor:** Kalanjiam Programmes' success proves that potential borrowers first take part in savings Programme. If people cannot save, they cannot handle credit either. At the same time it has been proved that everyone, even the poorest of the poor, has the capacity to save. Savings is mainly to build the stake among the participants of the Programme. Thus, integrated savings and borrowing is a precondition for the success of the Programme. Saving is seen as a training school for borrowing. This saving component is very useful to provide separate line of credit for consumption and emergency needs for the members. It is also seen as a major source of loan funds for its members. Thus **Kalanjiam provides a safety net for the deposits of the poor.** The main criteria for the success are the principles of mutuality, self-help and ownership.

2. **Ways of mobilisation of savings:** The foremost priority in mobilisation of savings includes the knowledge on people's capacity to save. Hence the amount to be saved should be decided based on the nature of people's work, their ability to save and the various indigenous methods prevalent in the area. The members have to attend group meeting in which they decide the amount for savings based on the availability of work and the objective for indulging in savings. There is a lack of protection of the amount saved in informal institutions. The process of savings in groups helps in management of money effectively in lending to the members and repayment. These processes develop trust among the people on Kalanjiam.

3. **Savings products:** Designing saving products based on the need and context of the people is essential apart from regular savings by people. People make diversified savings when expenditure is anticipated in advance. Diversified savings are done for purposes like festival, health, education, marriage of their children etc. The following should be taken care while designing the various types of savings products.

- Care should be taken to explain the features of the savings product, for example, whether interest would be paid on their savings, what happens in case a member withdraws etc., to avoid conflicts in the future.
- Developing other savings products should be dealt in advance by the Programme.

4. **Management of savings:** The savings rate should be decided by the members and not imposed by the organisation. There could be various types of savings product that are initiated in the groups. The regular savings is the most common product. The most important aspect of managing the savings is that it must be rotated among members so that it generates more funds to meet the requirement of the members. Any savings amount lying in the bank is an inefficient handling of savings. The bank account should only hold the minimum amount required to maintain the account and the rest should be rotated among the members, unless there is no demand from the members.

5. **Interest rate on savings:** It is a good practice to give interest rates on savings to members, which encourages them to save more. The interest rate on savings could be determined by the prevailing bank interest rates or by the interest rate charged on loans given to members.

It is a good practice to allocate the interest earned by the group to all its members. Usually this is done after the accounts of the group have been audited at the end of the year. The profit of the group is shared by the members and transferred to the individual accounts of the members.

6. **Withdrawal of savings:** Norms should be evolved and included in the group byelaws on withdrawal of savings by members. Only when a member leaves a group the savings amount will be refunded along with the share of the interest earned. The special savings can be withdrawn if the member wishes to.

Over time as the group matures, the rate of savings should be increased with the consensus of all the members. This could bring in additional financial resources for the members to borrow and thus earn more income from the groups.

7. **Management systems:** The group should design their saving policy on a periodical basis. The group should also introduce systems of bookkeeping and accounting to manage their saving services effectively.

CASE STUDY 1: Impact of Kalanjiam on a member

Podhigai federation in Madurai is a seven-year old federation with 203 groups and 11 clusters and 3140 members. The total savings of the federation is Rs. 1.7 crore and the loan outstanding is Rs. 3.25 crore.

M.S. Angalaeswari was deserted by her husband after two years of marriage. She was left with a wide range of debts by her husband and two girl children to be brought up. So, she started to live in her parent's house. To bring up her children, she needed money and hence she opted to go for work in nearby area and earned around thousand rupees, which was not sufficient to meet the needs of the family.

Moreover she wanted to give her children good education and a decent standard of living. Her parents were not well enough to support her family. So she left her children in her house and went to work in Madhya pradesh as a warden for school children who were in hostel. She knew only Tamil and felt very hard to live in a place because of language barrier. She stayed there in spite of the hardships since she had to look after her children. She used to send the money she earned for maintenance and school fees for her children.

After two years she had to come to her hometown since her father was ill and she had to take the responsibility of the family since her brother was young. Again she started to work as wage labourer. In the year 1999, DHAN was entering the village with the objective of promoting Kalanjiam. Hence many meetings were conducted to create awareness among people. She did not show any interest in joining initially. In the mean time she got Rs 10,000 for the job she did in Madhya pradesh. With that amount she settled some amount of debt and utilized Rs. 2000 for starting a small business. The business includes selling of sarees, blouses, selling of snacks etc. She used to get money from the local moneylenders for investing in business. By seeing the working of Kalanjiam groups and the benefits to members, she also joined the Nondichami kalanjiam in 2002. At the start she started to save Rs. 50 and after saving for six months got a loan for improving her business. She repaid the amount and again got loan for investing in business. She also started to save money for her children's education and for reconstructing her home.

There has been an increase in the customer base since most of their group members and others in village started to buy from her. She walks to each and every village for selling snacks, clothes etc. She was like any other women in the first but the hardships she faced in life made her strong and developed her skills to live in the competitive world.

She is very proud to be in Kalanjiam and recognizes the support the members gave to her in various occasions of life. She has taken loan from kalanjiam for her first daughter's marriage. She also took loan to reconstruct her house. She is also supporting her second daughter's education by making special savings for education. She strongly believes that the wide exposure given by kalanjiam in interacting with various people from officials to members has helped her to develop confidence.

Now she has a total saving of Rs. 11000 and Rs. 2000 in savings for education and Rs. 3000 in Amutha surabhi (Fixed deposit scheme). On the whole kalanjiam has improved her standard of living there by improving her business and gave self-confidence, communication and entrepreneurial skills.

CASE STUDY 2: Need based savings product development at Kalanjiam level

Kanchi Kalanjiam federation is situated in Kancheepuram district. The federation was registered in 2006. Ponniamman Kalanjiam is one of the best functioning kalanjiam or group in the federation. The group has a savings of Rs. 1,08,037, diversified/special savings of Rs. 15,570 and withdrawal savings of Rs. 17,448 and common fund worth Rs. 40,088. The total loan outstanding with the members is 2,63,600. The average saving of the member per month is Rs. 111. The members of this kalanjiam are employed mostly as wage labourers and go to near by towns or cities to earn their income.

Before formation of Kalanjiam

Before joining Kalanjiam, the members saved through indigenous methods of saving like investing in chits on weekly, monthly or yearly basis. The money got through these savings was used for purchase of materials and meeting their consumption needs. The people got money whenever needed or they lose their money due to unforeseen situations. At this point of time the Kalanjiam programmee approached the people and the people were organised into groups because of their felt need for savings.

Types of savings

Need based savings or diversified savings

The saving is for varied purposes for which the expenditure is anticipated in advance. In order to encourage the habit of savings among poor, withdrawable and diversified savings have been introduced. The various types of diversified savings are Savings Chit for education, Savings Chit for Deepavali or any festivals, Savings Chit for Tour, Savings Chit for Marriage, Saving Chit for buying gold, Savings Chit for any functions, Savings Chit for buying/reconstruction of house, Savings Chit for buying materials or any immediate need.

Advantages of special savings as felt by the members

- Satisfies the future needs of the person as the amount is receivable at the right time
- Avoids unnecessary expenditure
- Safety of the savings in Kalanjiam
- Preference to get loan in group and member can get more loan from the banks based on their savings with lesser interest rates
- Chance of acquiring assets or to start new employment opportunities.

Special features of savings done by people

- Increase in the monthly savings per member and inculcating the habit of special savings for special needs
- Diversion of unnecessary expenditure at family level
- Federation has become self-managed institutions by providing salaries to the employees and managing their operating costs.
- The myth that poor cannot save has been wiped out by the establishment of Kalanjiam
- Interest rate of 12% is provided for savings by the people

Challenges in operation

- To design the savings product according to the income of the family
- Inability of people to save continuously due to various personal reasons
- To impart the knowledge on special savings to the associates of members in Kalanjiam

After the formation of Kalanjiam, and organizing the people a lot of improvements in the life of people has been happening. The bank which was hesitant to give loan to the members initially has started to lend to the people because of their savings habit and the continuous efforts made by the people to convince the bank manager and they have obtained loan to the tune of Rs 1,60,000 in third linkage. The women members who initially were very hesitant to take part in the social activities have come forward to actively participate. By diversified savings the members are able to meet out their expenditure without disturbing the amount in regular savings.

Thus, they feel that Kalanjiam as a boon to solve their financial needs and leading them to their next step in life socially and economically.

III. Sectoral Review Analysis

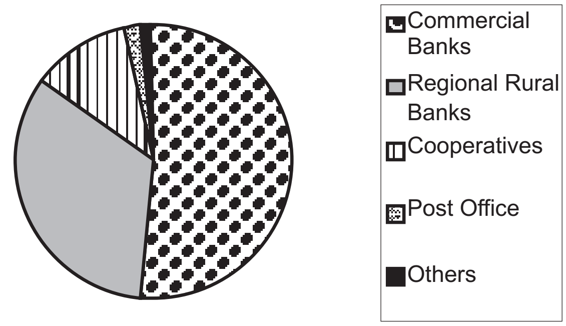
Financial services for the poor

In India vast segments of the population are still unserved, inappropriate financial services are offered and inflexible contracts are extended. Poor farmers and small businesses are generally excluded from conventional financial institutions like the commercial banks. However, the mere opening of a bank account in the name of every household or adult person may not be enough, unless the account holders use these accounts and the financial services offered to them. At present, commercial banks do not find it viable to provide services to the poor especially in the rural areas because of huge transaction costs, low volumes of savings in the accounts, lack of information about the accounts holder, etc. For the poor, interacting with the banks with their paper work, economic costs of going to the bank and the need for flexibility in their accounts make them turn to other informal channels or other institutions. Thus, there are constraints on both the supply and the demand side.

Hence they have to resort to informal ways of saving, insuring and borrowing, such as paying shopkeepers to keep their savings safely, or borrowing from moneylenders at very high interest rates.

Informal mutual saving systems like thrift and credit groups, SHGs in India demonstrates that poor households can save. The poor household, which lack access to the formal system and to a lesser extent the credit system, savings provide a safety net and help them tide over crisis. Savings can also keep them away from the clutches of moneylenders, make formal institutions more favourable to lend them, encourage investment and make them shift to more productive activities, as they may invest in slightly more risky activities, which have an overall higher rate of return.

These informal services lack safety and there is a chance of misappropriation of funds invested by the people. Hence **safety is the major concern of the poor in opting for financial services–formal or informal.**



Source : RFAS 2003

The current SHG movement in our country demonstrated that integrating the need for savings and credit facility would benefit the poor and also make the activity more viable for banks and encourage them to lend to the poor. The important determinants of savings by poor include security, liquidity and the accessibility of their savings. Based on these determinants some banks and micro finance institutions have tailored diversified portfolio of services according to the demand and manage to increase the savings and lending base.

Till now, banks were looking at these accounts from a purely credit perspective. Instead, they should look at this from the point of view of meeting the huge unmet need of the poor for savings. The banking sector should provide financial services for the poor, which include savings.

RBI thrust on financial inclusion

The policy of financial inclusion gives remedy by making available a basic banking account either with zero or a minimum balance as well as changes that would make such accounts accessible to vast sections of the population. Hence a constant review and monitoring mechanism of the account is needed to ensure the continuity of operation.

The recent circular by RBI on micro credit emphasises on promotion of savings habits within the group, which is a criteria for selection of SHGs by NABARD. The SHGs, which are involved in promotion of savings, are entitled to open bank account and are sanctioned savings linked loans by banks. Apart from this the documentation process by banks should also be simplified to make quicker transactions. **On reviewing the RBI circular it could be noted that the circular should encourage banks to promote innovative savings product and ways and means of mobilising savings for SHG. A recent study by RBI emphasizes on Business Facilitator or Business Correspondent model, wherein credit and insurance model to include the savings aspect.**

RBI has recommended a pilot project for State Level Banking Committee (SLBCs) for 100% financial inclusion, which has proposed to cover all households or families by opening of bank accounts. Hence **different approaches could be adopted in promoting services like SHGs, SHG federations as business facilitator. RBI and SLBCs should coordinate with commercial banks, NGOs sound in Microfinance services at field, to undertake financial literacy including counseling on savings, credit, insurance and bank linkages.**

Role of banking system in financial inclusions

The worldwide focus on financial inclusion reflects the concern of governments and central banks on bringing people into banks and providing them financial services. The target of the financial inclusion effort is the unorganised sector, which remain financially excluded. The reason for the exclusion of the unorganised **is as follows: the excluded are unorganised and hence difficult to cover, the volume of business offered by the sector is commercially insignificant; the widely dispersed nature and small individual requirement renders services to the sector unviable.**

Banking institutions focuses on viability through its business operations and hence they focus less on rural poor and providing the services. Commercial banks include the public and private sector banks. Public sector banks have achieved a greater penetration compared to the private sector banks to respond to the growing credit needs of the rural poor. Public sector banks have achieved the set target of 40% of net bank credit to the priority sector compared to 39% in 1999.

Regional Rural Banks (RRB) was created to lend to the rural poor. Improvement in services of RRB was done through Kisan Credit cards and use of micro finance as mechanism to reach the poor by encouraging them to promote and lend to SHGs. Hence RRBs have a potential to get in to promotion of financial services to SHGs. Performance of credit cooperatives has been declining since the introduction of micro finance and the lack of norms that are being applied to the banking institutions. Hence gap exists to serve the poor.

Even though India had invested considerable resources in expanding its banking network, it is able to serve only a small part of potential clientele in the rural area with the provided infrastructure. The major reason is limitation of physical infrastructure. Secondly, the staff required to deal with the expanded client base is inadequate. **For safety of savings of poor, regulation regarding deposit should be only with commercial bank and not with MFIs as stated in the Micro finance bill. There exists a gap in reaching the poor by formal financial services.**

Critical review of the existing policy on financial inclusion suggests the following to make it a success.

- Financial inclusion should focus on the saving needs along with credit needs
- Have a diversified product portfolio for the poor
- Cut down transaction costs for the poor especially for SHGs by making innovative use of available technology. For example, software systems for SHGs, ATM cards and credit cards (like Kisan credit card) and offering mobile van with ATM and deposit collection features for individuals.

Self-help Groups, Community based organisation, Micro finance institutions and savings

1. **MFI and savings:** The importance the poor attach to savings is demonstrated by the many ingenious ways they find to save. These include investing in assets that can be sold in emergency. Participating in local initiatives such as savings and credit groups, self-help groups or by lending between family and friends. But for a variety of reasons, including their inflexibility, these mechanisms fail to meet the needs of the poor in a convenient, cost effective and secure manner.

But majority of MFIs have concentrated on providing credit facilities at the higher interest rates and focusing on compulsory savings. The lacuna among most MFIs are the facilities to allow the poor to save in a way that they can meet current needs and opportunities as well as save for the future in the absence of legal framework in MFIs for mobilisation of savings.

2. **SHGs and Savings:** SHG programme started in 1992 as a pilot project and upgraded to a regular banking programme in 1996 and has been rapidly expanding since then. The growth of the programme was slow during the initial years since the programme was not mandatory for the banks unlike other subsidized lending Programmes. Involvement of multiple actors like promoter organization to form SHGs, SHGs themselves and banks led to a slow institutional learning process. A group of 15–20 members operate their financial transaction with SHG in terms of savings, credit and insurance. So SHG represents **15–20 member transactions. The members have already started to save in SHGs and in turn the SHGs relate with the banks for depositing their surplus amount and to credit services. It is the first step towards inclusion of poor in financial services. Through business facilitator approach banks should encourage SHGs and SHG–federation to mobilise savings from its members for their future expenditure. There is no need of individual transaction among poor with commercial banks. Banks should perceive the SHGs operation as the transaction of its members. SHGs should be considered as a mechanism of promoting savings and access to loan services to reach all the poor.**

In spite of all these factors the growth of SHGs is due to the mutuality concept among members and the flexibility to mobilize savings. Moreover the lending of loans to SHGs by bank also reduces the transaction cost and flexibility in operation of accounts. Thus savings provides a safety net for the poor to tide over crisis.

Though SHG concept is mutuality based and member has flexibility to save; only very few NGOs/SHPIs who are promoting SHGs have such speciality focus for savings, technology of credit and financial management. SHGs are seen as a channel to implement government programmes and for credit. Hence the quality and sustainability of SHG promoted by many institutions is a concern. SHPIs/NGOs need to acquire sophisticated management capabilities, to train SHGs to manage liquidity, risks and information and reporting systems. The present financial inclusion should provide focus on strengthening the saving services to the poor through financial literacy.

Emerging trend

SHG–Post Office linkage

The SHG–bank linkage Programme initiated by NABARD as a delivery methodology linked the banking system to the poorest by providing them two important financial services viz., savings and credit. The main aim for the linkage was to provide the financial services to the poorest and keeping the transaction costs low for both the banking system and poor, so that financial relationship between the banks and poor becomes lasting.

In spite of the high density of the formal banking system the people in tribal and hilly areas have to walk a long way to access these formal systems and hence the transaction cost involved by banks and the poor is high. In such cases where the physical distance between the people and banks is more, post offices come to their rescue.

In spite of all these initiatives, **there is lacuna in advancement of promotion and development of saving services for poor since credit is given more importance in the design of financial services.** There is a need to device mechanisms and products according to context and need. Post offices and banks should encourage poor members to save.

Mutuality concept

Mutuality concept is to be encouraged among SHGs, its member groups and promoted federation to promote saving services to earn more profit for their members. Some measures have to be followed to encourage SHGs promoted federation, COs get involved in micro finance activity with development focus and the long term measures are:

- Transparency and self-regulation
- Effective management of system
- Good governance
- Mutuality concept

The present institutional arrangement in registration of the SHGs/Federation is to be relooked to ensure greater quality on the above said measures. The mechanism followed by registrar office in identifying the institution on quality adherence is to be strengthened and speeding up the process to support the development services to poor.

Impact of macro policies for savings and credit services among poor

The poor who borrow most of them, in rural areas face greater obstacles. They are often small farmers and women. They often lack education and health services and are primarily dependent on agriculture. Their poverty is due to lack of access to financial services, infrastructure, improved agricultural technology and social services such as health and education. Two main reasons why the poor do not borrow are their lack of profitable investment opportunities that could carry the cost of the loan and their inability to risk indebtedness.

It is therefore essential that government develop the necessary infrastructure in rural areas, liberalize markets and implement other policies to support market integration. These steps are also essential for creating a rural financial system, which would help in greater outreach and more cost effective services in building partnership between banks, COs, NGOs and corporates.

The role of government in regulating and monitoring the profit-oriented financial intermediaries is a constraint. Sound financial and legal regulatory systems are needed for financial intermediaries that would help smooth information flow.

Development intervention Programmes by Government–Swarna Jayanthi Gram Swarozgar Yojana (SGSY)

Development policy is presently being reoriented towards savings mobilization supplement by credit programmes based on personal savings. SGSY adopts the SHG concept of groups and savings, but provides capital and interest subsidy for investment loans. The major change in SGSY from that of Integrated Rural Development Programme is that a significant portion of funds, both loans and grants are made available to the SHGs rather than individuals. The implementing agencies like banks, NGOs and DRDAs lack the required capacity to implement the Programme with SHGs principle in mobilizing savings among members, which is the major disadvantage of SGSY.

There is a need for alternative way of development, a development, which really addresses the daily needs of the poor, not merely those of the national economy. If development Programmes are properly designed and sensitively implemented, they become a vital key to unlock the creative and productive potential of the world's poor.

What do the poor want?

The review of the sector presents the following needs that the poor wants from financial services. Credit often serves the same purpose as savings for the poor, but it is riskier, usually more expensive, and often as unavailable as appropriate deposit services. Savings may in fact be more important than credit in helping the poor to raise incomes and reduce risk. **The poor want their savings to be secure, with low transaction costs, appropriate design and if possible constant in value.** The following are the prerequisites that poor want from these deposit services.

1. Safe and secure financial services

An institution providing deposit services for the poor need the capacity for "safe and sound" deposit operations, this requires strong management of credit, liquidity, and interest rate risk. It also requires internal controls, management information system, the financial capacity to withstand external shocks (inflation and devaluation) and adequate capital. There are many examples of institutions providing deposit services, which include commercial and government controlled banks, NGOs, specialised micro finance banks and non-banking financial institutions, financial cooperatives and SHGs.

2. Access to financial services

Formal institutions lack mechanisms in designing savings services for poor and reaching them. The most important factor to consider is increasing access to financial services to the poor is that programmes must fit the specific context of a particular area and its population. Poor need appropriate institutional structure viz., community based model, which would enable the members to save, manage their savings, lessen the transaction cost with proper information system among members and more investment required on people for capacity building in knowledge and performance.

Micro Finance comprises small savings, savings-based credit (group loan mostly for consumption) and bank credit for income generating activities, payment services, money transfer, insurance and linkage. Group formation, group lending, collateral substitute, peer pressure, high level of repayments, proper end use with asset creating linkage, banking with NGO and SHG are all common features associated with the micro financial activities.

The imperative need for accelerating micro financial activities for covering the poorest and women are policy direction, which should focus on the development of savings and demand oriented financial products and services in rural areas. The whole gamut of micro financial activities such as a group approach, savings, savings-based credit, blocked savings, peer pressure, joint appraisal and joint recovery could be effectively activated thorough micro level institutions.

Financial literacy

Financial literacy includes awareness building, develop the ability of people to make decisions, to save, to know the financial structure and role of various actors. Financial literacy needs to be promoted among the poor families and the promoter institutions like Self-help group promoting institutions, community based organisation and Micro finance institutions.

Ability to make decision involves the ability to manage money and to take effective action in using money. Relevant information should be provided to the member at low cost and should be user friendly.

Unlike credit, financial literacy does not capture the awareness and importance of savings among members .The areas should include assessing of savings potential, safe place to save, mechanisms to save, role of promoters in savings

Future strategies-partnership in financial services to the poor

In rural areas, commercial banks, regional rural banks and cooperatives are the formal institutions and NGOs/voluntary organisation, farmer clubs, women's groups, SHGs are the informal institutions involved in undertaking micro financial activities.

NGOs alone cannot make an impact on poverty. They need to work in tandem with the larger commercial banks that have wide networks of branches. The state needs to initiate innovative pro-poor reforms in the wider banking sector or support partnership between state banks, commercial banks and COs that make it less costly to deliver services to the poor. Reforming government owned banks (Co-operatives) would make more poor people access financial services and provide these services with greater security and lower transaction cost.

Despite the wide network of rural branches and specific poverty alleviation Programmes, a very large proportion of the poor especially the women remained outside the fold of the formal banking system which highlights the following: the existing banking policies, systems and procedures, and deposit and loan products are not well suited to meet the most immediate needs of the poor. Hence alternative policies, systems and procedures, savings and loan products, other complementary services and new delivery mechanisms that would fulfill the requirements of the poorest household is needed. **SHG approach may be an appropriate system to serve the poor. It needs to be developed through capacity building to take challenges in capitalizing their savings, safe and secure place and management of savings among them. The banking sector has neglected the collaboration of formal and informal institutions at the grassroots level. Hence collaboration is needed for effective service delivery to the poor.**

IV. The Seminar

A Policy Seminar on **"Financial Inclusion—savings and its relevance to poor: issues and solutions"** was organised by DHAN foundation. The participants of the seminar include officials from various development organisations, banks and government. The seminar was focused to bring together the members of Kalanjiam and mainstream institutions and to deliberate on the policy initiatives, to enable enhancements of savings by poor. The recommendations emerged during the seminar was analysed and proposed in the policy brief.

This policy brief is designed to help policy makers and practitioners understand the financial services needed by the poor and the recommendations to evolve a better financial service.

V. Recommendations

Reserve Bank of India

- Regulatory mechanisms by RBI on sharing of promotional cost to be done. All stakeholders of the process both direct and indirect should share the promotional costs for savings mobilization. The various parties involved are the community, voluntary organisations, banks, State and Central Government. The government at various levels can think in terms of sharing promotional costs instead of introducing subsidies.
- Measures to be followed to encourage SHGs promoted federation and COs to get into micro finance activities with development focus in the long term are transparency and self-regulation, effective management of system, good governance, and mutuality concept.
- Innovative mechanisms and design products for financial literacy to reach the unreached. The components of financial literacy to include awareness building and make people effectively take decisions. Constant reviewing and monitoring mechanisms of the account is needed to ensure continuity of operations.
- RBI has to develop procedural guidelines to banks to encourage saving services among poor. For safety of savings of poor, regulations regarding deposit services should be only with commercial banks and not with MFIs as stated in the Micro Finance bill.

Commercial Banks

- The mainstream banks may consider creation of subsidiaries to deal with micro finance, so that adequate and appropriate attention to various related issues are given. This would encourage experiment by banks on R and D Programme on this subject.
- All commercial banks should set target focus in its services to include savings among poor. The banks should treat the SHG account as

the account of the individual member of the SHG in order to avoid duplication and to reduce the transaction cost.

- Banks to get involved in product innovation in order to provide savings services for poor. The design principle of product innovation should be based on group approach.
- Innovative mechanisms and design products for financial literacy to reach the unreached.

NGOs / Community organizations

- Amount of savings by members of village institutions should be made flexible. Savings products covering family members, besides the group member should be developed and promoted
- Savings may also be considered in kind, for example, grain. The grain collected can then be sold at the market jointly and the returns can be added to the group's common fund.
- Non-productive expenses, particularly pertaining to social obligations should be discouraged, e.g. gifts for relatives. This requires additional change and voluntary organisation promoting the groups should play an important role in bringing about this change.
- Family counseling to plug leakages of income in the family. For example, consumption of alcohol.

Research Institutions

- Conceptualized comprehensive studies of the peoples' needs should be undertaken. This will help in introducing need based specified savings. Information obtained form such studies should be integrated with the process and products of micro finance industry, including mainstream banking, so that synergy is attained between indigenous and modern methods of savings.
- To emphasise that loan usage should shift from consumption needs to income generating Programme over a specified period.
- Development and introduction of incentives for savings, like interest on savings and loan amount proportional to savings etc.

VI. Way forward

DHAN Foundation will take this policy brief into consideration for bringing required changes in Policies, Practices and Research for the benefit of poor people who are out of the reach of financial institutions.

This can be done in consultation with the following departments:

- Central and State Government Departments
- Academic Institutions
- RBI
- NABARD
- Commercial Banks
- Experienced Peoples Federation
- NGOs, COs, SHPIs.

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http://www.blonnet.com, http://www.dhan.org, http://www.nabard.org

http://www.rbi.org, www.microsave.org , www.microsave-africa.com

Abbreviations

COs	–	Community Organisations
KCBP	–	Kalanjiam Community Banking Programme
MCID	–	Micro Credit Innovation Department
NABARD	–	National Bank for Agriculture and Rural Development
NCAER	–	National Council of Applied Economic Research
PACs	–	Primary Agricultural Cooperatives
RBI	–	Reserve Bank of India
RFAS	–	Rural Finance Access Survey
RRBs	–	Regional Rural Banks
SHGs	–	Self-help Groups
SHPIs	–	Self-help Promoting Institutions
SLBC	–	State Level Banking Committee
WB	–	World Bank

Why this Policy Brief?

DHAN Foundation is involved in organising the community in to Self-Help Groups and focussing mainly on Community based development. The initiatives taken so far have reached several villages benefiting thousands of families. By working closely with the community, DHAN has gained valuable experience over the past two decades. DHAN believes that for a better standard of living for the poor, certain changes in the present policies and practices are needed. Hence it has now been decided to come out with Policy Briefs to disseminate the changes needed in specific sectoral issues. This will facilitate Administrators and Field level Organisations in their attempts of better management of financial resources among poor.

Policy Brief 8 focuses on the issues related to lack of financial services for the poor and importance of savings among poor and to design context based saving services. It also emphasizes the role of SHG federations on financial inclusion and financial literacy for poor. Savings acts as a safety net for the poor to meet their unexpected expenditure and tide over their crisis. This brief is planned for focusing the attention of RBI, Banks, Academic institutions and NGOs. Through this document, we hope to share and disseminate knowledge and experience among the stakeholders for paving the way for developing need based Savings products.

About DHAN Foundation

DHAN Foundation is a grassroots development organisation and was initiated with the objective of bringing highly motivated and qualified young professionals to the development sector for new innovations in development Programmes and for upscaling development interventions to eradicate poverty. The Foundation works towards bringing significant changes in the livelihood of the poor through innovation in themes and institutions.

The approach of the Foundation is to promote people's organisation and their networks aiming at improving the livelihoods of poor communities by organising development works around themes. These peoples' organisations would sustain themselves and excel in long run. Presently, DHAN Foundation is working on the themes namely Community Banking, Conservation of Tanks, Information and Communication Technology for Poor, Rainfed Farming and Panchayats.

About the Centre for Policy and Planning

The Centre for Policy and Planning of DHAN Foundation provides support to the Programmes and institutions of the DHAN Collective so that they evolve, develop and modify their policies and fulfill their aims. It shapes the sectoral policies to practice at the grassroots. DHAN Foundation as a member of many policy-making bodies on Micro Finance and Water Conservation strongly advocates pro-poor policies. The Centre takes up policy study and initiating research on Micro Finance, Water Conservation, Rainfed Farming, Panchayat Raj Institutions and Disaster Mitigation. As a resource centre, it organises many capacity building events and training Programmes for Bankers, Government Officials and representatives of NGOs within and outside the country.

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