MFI Microsavings: Inclusive or Transformative? A Participatory Survey of Household Savings in Northeast Rural Bangladesh

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Abstract

This study focuses on MFI microsavings as a vital component of financial services to the poor in northeast rural Bangladesh. Using participatory approach to qualitative inquiry, the study observes that MFIs microsavings as a potential tool for financial inclusion are not as inclusive as expected. The role of MFIs in savings mobilization can be labelled as the transformation of informal savings into credit-focused microsavings. Findings show that rural poor demand savings-led microfinancial services from MFIs. These observations provide substantial insights for policymakers to formulate and implement appropriate savings policies for the rural poor.

Keywords: Microfinance institution (MFI), microsavings, financial inclusion, savings transformation, participatory methods.

1. Introduction

Microfinance institutions (MFIs) provide financial services to rural poor who are traditionally thought unbankable. Despite various initiatives for financial inclusion across the globe, unbanked population is still significantly large. According to global financial index (Findex, 2017), 1.7 billion adults remain without an account in financial institutions or mobile money agents and most of the unbanked population live in the developing countries. Nigeria, Mexico and Bangladesh are home to nearly half of the world unbanked population. Among the unbanked adults, fifty-six percent are women (Demirgüc-Kunt, et al., 2018). The situation of financial inclusion in Bangladesh is alarming. Findex data shows that fifty percent of the adult Bangladeshis have accounts at financial institutions or at least transfer money through mobile banking. The gap between rich and poor in terms of holding account among Bangladeshi adults is 17 percentage point compared to 13 percentage point globally. In gender aspect, the gap is even larger - 29 percentage point compared to global 7 percentage point (Findex, 2017). Savings scenario of Bangladesh is akin to account holding status. The Global Findex data shows that 28 percent of the Bangladeshi adults save any money of which only 10 percent save in formal institutions compared to 27 percent of global adults who save formally. The rest saves informally in cash at home as well as in kind such as livestock, jewellery, and land. Despite the low savings habits, poor people's contribution in MFI microsavings

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is noteworthy. MRA (2016) data shows that outstanding aggregate savings of the clients of 758 MFIs in Bangladesh is Taka 171.19 billion (compared to outstanding microloan of Taka 459.37 billion) and the amount is growing at more than 20 percent per annum (MRA, 2016). With that as background, this paper focuses on microsavings as an essential component of the microfinancial services to the poor. The main aim of the study is to investigate the role of MFI microsavings in the financial inclusion in Bangladesh. Underlying research question is: Is MFI microsavings inclusive or transformative? The term 'inclusive' specifies the inclusion of rural poor through savings-focused financial services. While the conversion of informal savings into semiformal deposits which serve security against the loan default in credit-focused financial services can be labelled as 'transformative'. Clients' savings motive is insignificant in this scheme and thus financial inclusion is incomplete. Primary data for the research are collected through participatory methods from two villages in the northeastern part of Bangladesh. Analysis of the data are qualitative and participatory. The paper is organized as follows: after a brief introduction of the study, section II reviews literature on related issues. Section III elucidates definitions and key concepts in microsavings and financial inclusion. Sections IV and V illustrate research methodology and major findings of the study. Section VI concludes the study to account for some policy recommendations. Data appendix elucidates transcripts of qualitative data collection tools used in this research.

2. Overview of related studies

Many MFI practitioners and policymakers tend to assume that poor people are too poor to save. Even if they save, they do it for gaining access to loan. However, projects like Financial Diaries across Asia and Africa, MicroSave in eastern and western Africa, and Safe Save in Bangladesh have experienced an opposite view. They demonstrate that saving is central to poor people's livelihood and people always search for right place to save and right time to withdraw (Rutherford, 2003, Ruthven and Kumar, 2002, Zeller and Sharma. 2000, Collins, 2005). Poor people save in a number of ways to manage future needs. They prefer safe and accessible savings mechanism but often face barriers (Hulme, et al, 2009). In an empirical study on savings behaviour in northeast India, Moulick, et al (2008) found that poor people continue informal saving due to barriers from formal mechanism. Main obstacles were the distance, low outreach, and complex documentations. Deshpande (2006) reviewed findings from savings services in five countries including Benin, Mexico, the Philippines and Uganda and concluded that the demand for savings services in these countries was high but the usage of formal financial services was relatively low. Primary reasons were the formal institution's deficiency in institutional capacity and lack of incentives.

During 2000s, there has been a major policy shift in microfinance all over the world: from credit-driven to savings-led financial services. Previously, MFIs focused on microcredit delivery embedded with compulsory, locked-in savings instruments. In compulsory savings system, service providers presumed that clients needed to learn financial discipline and savings habits (Robinson, 1997). They wanted clients to deposit a certain amount as a conditional requirement for loans. The savings had no withdrawal rights and thus it served as loan security. In savings-led financial services, service providers assume that poor people already have savings habits and institutions need to learn to how to provide appropriate savings facilities along with other financial services (Robinson, 2001, Wright 2006). Contemporary studies across the world suggest that clients always preferred flexible and open access savings schemes (Wright, 1999, Rutherford, 2001; Cohen and Sebstad, 2003; Dowla and Alamgir, 2003; Wright, 2006; Hirschland, 2006, Hulme, et al 2009). Global evidence indicates that microsavings products have relatively larger impact on poor households.Using a randomized control trial in Kenya, Dupas and Robinson (2013) find that women with formal microsavings were better able to combat health shocks. Ashraf, et al (2006) find a positive impact of savings on women's participation in household decision making in rural Philippines. Respondents in a study on SEWA Bank's clients in urban India argue that savings were more beneficial to poor facing shocks than credit (Chen and Snodgrass, 2001). Comparative analysis of savings-led vs credit-driven microfinance indicates that financial service providers with credit-driven approaches have a general tendency to ignore people's demand for savings accumulation and over emphasize the credit delivery. On the other hand, saving-led services face some regulatory barriers due to lack of deposit insurance scheme and fear of MFI bankruptcy (Choudhury, 2015a). These two phenomenon may result in savings gaps in financial inclusion. This research is an attempt to study financial inclusion failures due to wrong savings mobilization policy in rural Bangladesh.

Since the late 2000s, there has been another paradigm shift in rural finance: from discrete microfinance to inclusive finance (Choudhury, 2010; 2014). Microfinance means provision of financial services to low-income people to support their small enterprises and risk management. Discrete microfinance particularly focuses on poor women and excludes non-poor and male members of the community. In some cases, it excludes extreme poor and vulnerable groups. An inclusive financial system, on the other hand, covers all clients including those excluded by conventional microfinance institutions (MFIs). Its financial services encompass all components of microfinance including asset transfers (government aid and grants). Service providers in inclusive finance comprises all agents involved in rural finance in addition to MFIs, such as the government, banks, credit union, and savings and credit cooperatives (Choudhury, 2010; 2014). Fundamental transformation of microfinance to inclusive finance lies in the transition from 'prejudiced model' to 'robust model' of financial service delivery in response to the diverse demand of people (AusAID, 2010).

Without an inclusive financial system people usually drawdown assets or rely on informal finance to cope with crises and manage resources (Beck, et al., 2008; Demirgüc-Kunt and Klapper, 2012). They may plunge in chronic poverty, severe vulnerability and persistent inequality. In broader aspect, substantial urban-rural, rich-poor and male-female gaps are evident in financial scene (Demirgüc-Kunt and Klapper 2012, Demirgüc-Kunt, et al., 2018). The existing body of literature suggests that financial inclusion is an incomplete phenomenon and the contribution of MFIs in financial extension is significantly inadequate. For example, in a mixed method study, Choudhury (2015a) finds five types of gaps (gaps in payment, borrowing, savings, gender and cognitive) in financial inclusion initiatives in rural Bangladesh. Studies in financial inclusion are heavily concentrated in quantitative inquiries into service providers' documents and datasets that indicate significant contributions of banks and MFIs. Only a negligible number of qualitative studies were conducted to accumulate service user's views and perceptions in financial services. As financial inclusion is a robust phenomenon only quantitative study is not enough. Current study is an attempt to fill the research gap with a user-centric qualitative study of financial inclusion focusing microsavings mobilization in rural areas. Its findings might encounter the claim of many provider-centric quantitative study that MFIs have significant contribution to financial inclusion through savings mobilization.

3. Definition and concept

Savers want safe place and easy access to deposit their spare money. They also value flexible withdrawal facility in the MFI microsavings program. These are the major savings-side motivators for financial inclusion.

Willingness and ability to save

People save money for variety of reasons such as insurance against risks, social obligations, future consumptions, and investment (Vogel 1984, Zeller and Sharma, 2000). When social security is inadequate, savings can serve as cushion against bad health, disability, accident, and seasonal variations in income and employment. Poor people wish to save in the form of assets such as jewellery, poultry birds, and pond fish to address minor issues like sudden illness, school fees, weekly loan instalment, coping with risks and shocks. They also save in bulk assets such as trees, livestock and land for large spending such as children's higher education, travel cost for job at home and abroad, and marriage. Rutherford (2001) identifies three occasions when poor people need more money: life cycle events such as birth, death and marriage, widowhood, old age, bequest motive; emergency spending such as sudden illness, accident, divorce, death of the main earner; and opportunities such as starting a business, purchasing land, and buying life enhancing products like fans, television and refrigerators. Poor people consider three factors when they wander about where to save: return i.e. interest on deposits, prizes or bonuses for good saving, quality of product i.e. withdrawal facility, safety and security, and quality of services i.e., proximity to home, transparency and clarity, service providers' attitude toward the depositors.

The fundamental question is: can poor save? The answer is yes, if they have right place to save and free access to financial services (Robinson, 2001, Helms, 2006; Demirgüc-Kunt, et al 2008; Hulme, et al., 2009; Rutherford and Sinha, 2013). Traditional banks consider the poor unbankable due to their low income, financial illiteracy, less profitable project, and thus such institutions are impassive to include them into financial services. Formal banks screen out poor savers with high opening and minimum balance requirement. Banks typically locate in urban areas which causes higher transaction costs for the poor in terms of time and distance. These constraints can be summarised in "access" to financial services (Wright 1999). Poor people choose financial products based on the accessibility and convenience. The most convenient form of savings is household savings held in cash or kind. In-kind savings can easily depreciate if they are not properly stored or nurtured. For example, rice granary can be infested by rats and pests; cattle can suffer severe diseases. Savings in cash at home are not risk free. They might be stolen or exposed to spending temptation. Thus people consider safety and security in addition to accessibility and convenience in financial products. People also consider time spent and cost of transport while seeking financial services in formal institutions. High transaction costs make financial services inaccessible and prohibitive for the poor (Wright, 2006).

Microsavings

Microsavings is a part of microfinance that permits individuals or families with low income to deposit limited amount of money to generate funds for future application or receiving microloans. Microsavings are commonly provided by microfinance institutions (MFIs) to poor in rural areas to motivate saving behaviour. Traditional MFIs offer microsavings products to serve quasi-collateral for the loan. This type of savings is called compulsory savings as the poor have to save a certain amount to receive a certain amount of loan. This also include a portion of loan deducted at the time of disbursement. Client cannot withdraw this savings until the maturity of the loan or discontinue of MFI membership. Modern-day MFIs recognize clients' precautionary or investment demand for savings. They accept voluntary savings in which clients enjoy flexibility in depositing and withdrawing money to meet financial needs.

Financial inclusion

Financial inclusion refers to cost effective access to a range of financial services such as credit, deposit, insurance, remittance and pension services for households and firms (United Nation 2006; CRISIL Influx, 2013). There are two aspects of financial inclusion: 1) *Financial provision* – a supply side concept of financial services delivery and 2) *Financial participation* – a demand side perception of financial access (Choudhury, 2015a). Financial provision refers to the capacity of the market to meet customers' satisfaction in financial services. Financial participation, on the other hand, refers to the ability and willingness of service users to receive financial services. Providers' financial capacity includes appropriate financial products to suit customer preferences and right strategies for product delivery. Financial capability or willingness of the customer is determined by needs and preferences, financial literacy, and access to financial advice and information. Any gap between financial provision and financial participation may result in financial inclusion failure (McKillop and Wilson, 2007). A particular group of clients may face difficulty in access to financial services if terms and conditions are not suitable. Clients may also choose not to accept a particular financial product due to lack of its relevance to their financial activities (Collard, et al., 2003; Clark and Forter, 2005; Atkinson, et al., 2006). Financial provisions may exist in a community but they are not inclusive if financial participation is incomplete. One can measure financial inclusion using qualitative and/or quantitative approaches.

Quantitative technique measures the extent of financial provisions in two dimensions: 1) outreach and 2) usage. Outreach measures the provision of financial services by ‘geographical penetration’ (bank branches or ATM per 1000 square kilometres) and ‘demographic penetration’ (bank branches or ATMs per 100 thousand people). Usage is the actual use of banking services or access to financial services (account, deposit or credit penetration i.e. number of accounts, or deposits or credit per 1000 people). Qualitative methods, on the other hand, ask respondents about their financial participation and effective uses of financial instruments. One of the major drawbacks of the quantitative approach to financial inclusion is that it depends on financial service provider data that may not reflect client choice. Qualitative measurement involves participant’s own expression of financial participation including the need for financial services and effective uses of financial instruments. Qualitative approaches focus on the demand side of financial inclusion and thus use participatory techniques such as PRA and FGD. Current study is a qualitative assessment of microsavings as a tool for financial inclusion.

4. Data and methods

The study is a participatory survey of savings behaviour of the rural people in northeastern Bangladesh known as Sylhet division. The survey explores people’s preferences for savings instruments and MFIs’ ability to satisfy their needs.

Study area

Sylhet division has two main topographies: 1) hills, small hillocks and high plains along the Indian border and 2) low laying flood plains with free water wetlands at the centre and adjacent to its border districts of Bangladesh (BBS, 2011). High lands, locally known as *Ujan*, *Pahar* and *Tilla*, are normally free from flood but prone to droughts. They are cultivable two times per year (bi-harvest including vegetables in between). Agricultural production is relatively high in this region. Lowlands with flood plains and free water wetlands, locally known as *Bhati*, *Haor* and *Beel*, are cultivable once a year (mono-harvest as lands remain under water between 3-5 months of a year). I have selected two villages from each topography: 1) Advantageous *Ausha* is situated in relatively fertile high plain, about 12 kilometres away from the Sylhet city. 2) Backward *Bhadeshwari* is situated in low flood plain, about 40 kilometres away from the city. They represent the livelihood diversities of the region in terms topographic difference and affluence. Two villages were selected at random from the list of villages from two topographies. Village list was collected from a Sylhet-based MFI named FIVDB.

Data collection methods

The study employs qualitative survey through participatory rural appraisal (PRA) and focus group discussions (FGDs). A team of three members, the author as principal investigator and two data collectors, conducted the survey. Principal investigator facilitated PRA exercises and group discussions while data collectors documented the process using field notes and digital recorder. Participant selection criteria for data collection were willingness to participate and awareness of socioeconomic condition of the village. Both PRA and FGD instruments have a built-in motivation mechanism: interesting to observe and enjoyable to participate.

a) Participatory rural appraisal (PRA): PRA is a process of learning from respondents, not simply collecting data from them. The role of the researchers is to facilitate the process of collecting, analysing and presenting data owned and shared by the respondents (Chambers 2006, Narayanasamy 2009). PRA contains various exercises including social mapping, wealth ranking, seasonal calendars, Venn diagrams, flow charts, and mobility map. This research includes the following PRA exercises:

Village transects – Village transect is a rapport-building tool through which local people gradually gain trust and confidence through interaction with researchers. To begin the process, I met the village leaders and senior persons to obtain a general overview of the village. After a brief discussion, they appointed a local person to accompany me in the observatory walk through the village. We passed through the residential areas, observed village resources and ask residents about the village. The whole process provided an 'objective' map of village infrastructure and economic activities.

Wealth ranking – Wealth-ranking exercise provides household wealth index based on local views of wealth characteristics and wellbeing. To begin the exercise, I asked respondents to rank all households in the village using their own perception of wealth and poverty. The process includes preparing a list of households, selecting criteria for wealth ranking, collecting information to make an index card for each household, sorting the cards, classified the households into poverty groups (extreme poor, poor and non-poor), and finally, verifying the information with a wider audience.

Seasonal calendar – Rural households are vulnerable to seasonal shocks. The seasonal calendar captures the seasonal variations in household income and spending and thus identifies the pattern of rural savings. In this study, villagers prepared trends in their main economic activities and identified seasonal variations in crop production, employment, and other livelihood opportunities.

Preference ranking – Preference ranking is a pair-wise classification in which people express their priorities in pair of elements and preferences in overall ranking. Participants at first recognized their priority set for the savings instruments, then prepared a symmetric matrix placing all instruments in the row and column to compare each pair, and finally placed the preferred item in the relevant grid. Participants then explained the reasons for their preference or non-preference to a particular savings instruments. Finally, they calculated preference score to rank each item by adding number of its occurrences (frequency) in the matrix.

b) Focus group discussions (FGDs): FGDs aimed at issue-based discussions with a certain group of people under investigation (Krueger and Casey, 2009). I organized four focus group discussions in each village: three with poverty groups (extreme poor, poor and non-poor), and one with microfinance service group (MFI field staff working in the villages). The main theme of the FGDs was perception and preferences to savings instruments and the role of financial inclusion. Participants discussed impacts of MFI microsavings on their livelihoods and identified limitations of the savings mobilization. MFI field officers expressed opinions about the microsavings of their institutions. Male and female participants also discussed gender issues in microsavings.

Ethical procedure

Fieldwork approval was obtained in two levels. At first, I met village supremoes and explained the objectives and usefulness of my research project. At respondent level, acceptance came in two ways. *Firstly*, built-in rapport building mechanism in PRA motivated rural people to actively participate in the study. *Secondly*, as a facilitator, I pronounced the purpose and importance of the research before the starting of each PRA or FGD exercises and guaranteed for anonymity and data confidentiality. In addition, I explained to participants that this project was a pure academic exercise, not anything that might bring direct financial benefits. Respondents accepted the process and enthusiastically participated in the survey.

5. Findings and discussions

Participatory inquiry into savings behaviour and MFI microsavings in the study areas reveals some interesting findings.

Informal savings in *Ausha* and *Bhadeshwari*

Savings in cash: People save cash for instant use in emergencies. Most of the informal savings are held at home, inside the *matir bank* (clay bank) or stashed under a mattress. Sometimes they save inside a bamboo pole (a part of home structure) in which they make a hole to drop coins. They save these tiny to spend for small (micro) purposes such as treatment for minor illness, pocket money for school going children, and weekly instalment for MFI loans. Respondents in the group discussions argued that informal savings habits had been declining for three main reasons: 1) Impatience – informal savings cannot resist the spending temptation of the family members, especially children. 2) Insecurity – money kept under the mattress or inside the *matir bank* is always at the risk of theft or snatching. 3) MFI instalment – MFIs members argue that under weekly loan repayment cycle there is no money left for *matir bank*.

Savings in kind: Apart from cash, people save in physical assets including productive assets such as trees, livestock, poultry, and unproductive assets such as jewellery and household durables. People liquidate these savings to address medium (meso) type emergencies including serious illness, accident, children’s education, and marriage. There is a special kind of savings practice in rural areas. Women usually save a fistful rice grain in a jar from the cooking amount. This type of savings is called *musti chal* (fistful rice). In a month, they might save a substantial amount of rice and convert them into cash for various uses including medicine for minor illness, children's exam fees, and purchasing goods from hawkers. A woman in the group discussion claimed, "Recently, *musti chal* deposit is not common as in the past. We now deposit rice grain to compensate weekly instalment deficit. We also donate the deposit to the mosque as a religious obligation (for weekly prayer)".

Grain stock: Rural people often face sudden crop failure and seasonal variation in food prices. They store rice or wheat in the granary and consume throughout the year to combat such crises. They often calculate month's equivalent of food in the store. In *Ausha*, the average food storage is 8-10 month equivalent while it is a 5-7-month equivalent in *Bhadeshwari*. Thus, residents in *Ausha* are more food secure than those in *Bhadeshwari*(Table A1.2 and A1.3 in Appendix). The calculation of month equivalent contains food consumption plus cash conversion by selling a portion of the grain stock. The cash is used to buy necessary items. Self-sufficiency (at least 12-month equivalent of food storage) is a serious concern for rural households. They attempt to increase food production through crop diversification or land purchase.

Microsavings products in *Ausha* and *Bhadeshwari*

Three MFIs, namely Grameen Bank, ASA and FIVDB, are currently active in the villages under study. Grameen members can open three types of savings accounts: 1) personal savings, 2) special savings and 3) pension deposit. There is a five percent obligatory deduction from the loan at the time of disbursement. Half of this deduction goes to the personal account and the rest to special account. In addition, there is a weekly savings, which go to personal account. In the pension deposit account, members deposit a certain minimum per month. After 10 years, they receive almost double the amount put into the account. Grameen bank also take deposits from non-members. ASA offers two types of savings: 1) voluntary savings and 2) long term savings. Borrowers can save money at any time according to their ability for an indefinite period. Friends in Village Development Bangladesh (FIVDB) offers two types of savings services: 1) voluntary savings (weakly savings) and 2) compulsory savings (five percent of loan deducted at source).

Choice of savings products

Preference ranking exercises (Table A1.4 and Table A1.5 in Appendix) are used to understand the rural choice for savings services. Respondents considered five types of savings instruments in preference ranking exercises (Table 1). Residents of both villages expressed top preference for voluntary savings services. This is due to precautionary demand for savings. However, *Bhadeshwari* residents considered mandatory savings as their second choice because they were credit risk and thus they had to save in MFI to achieve microloan. The residents of *Ausha* valued savings in kind ahead of the compulsory savings as they were less dependent on MFI microloans. Their demand for loan is mostly covered by patrons (friends, village chief, rich family) who charge no interest for the loan. Ausha residents usually prefer savings for investment purposes.

Table 1 Preference ranking for savings instruments

Financial institutions	Ranking	
	Ausha	***Bhadeshwari***
Mandatory savings	III	II
Voluntary savings	I	I
Informal savings	IV	IV
Savings in kind	II	III
Formal bank savings	V	V

Note: Mandatory and voluntary savings together constitute microsavings. Informal savings are cash at home under the mattress or in clay bank. Savings in kind include land, livestock, and jewellery.

Both villages demonstrated less preference for informal savings and least preference for the bank savings. According to PRA and FGD participants, voluntary and mandatory savings in microfinancial institutions are gradually replacing the traditional informal savings. This indicates the inclusive nature of microsavings, only if they meet clients' needs. Otherwise, it is simply a transformation of informal savings into institutional deposits. Many non-poor residents in both villages reported to have bank accounts but, in general, they preferred informal savings to depositing money in the bank. This is because of the high transaction costs in terms of time and distance.

Savings as a medium of crises finance

When people face a crisis, they need instant cash. Cash at hand, savings in clay bank, and bank deposits are the main sources of cash for non-poor residents in *Ausha* and *Bhadeshwari*. Sometimes they ask for payback of outstanding loan to the poor. As they have bank deposits they do not have to liquidate in-kind savings for risk coping. The poor and extreme poor depend on savings in cash or kind and microsavings with MFIs. In crises, instant cash is desirable but neither MFIs microsavings nor savings in kind can guarantee the timeliness of withdrawal or liquidation. MFI members are therefore in a challenging situation. They accumulate or gather small savings to pay loans and savings instalments, but for an emergency or crisis, they have to wait for the next weekly meeting or office approval for savings withdrawal. They use this upcoming money as a guarantee for borrowing from other instant sources, which makes the crisis finance costly.

Precautionary savings and credit constraints

Savings largely depends on cash in hand and flow of income. When actual cash in hand is below the expected level, individuals try to build assets to compensate the shortfall. As a precaution, they build an emergency reserve against uncertainty or a rainy day (Kimball, 1990; Deaton, 1990; 1991; 1992, Carroll, 2001). *Impatient* individuals prefer current consumption (and investment) to future consumption (i.e. savings), whereas *patient* individuals curtail current consumption to build assets to insure future income shortfall. When credit market is smooth, households can easily borrow and lend. In case of liquidity constraints or a market with limited credit facilities, households develop precautionary savings motive. Inability to borrow in bad times compels households to accumulate assets in good time (Deaton, 1992). PRA and FGD exercises in two villages reveal two scenarios of savings behaviour:

***Observation 1**: In the absence of liquidity or credit shortage, poor people's willingness to save is less when there is a strong social network. People with surplus income provide interest free loans to those with an income deficit*

***Observation 2**: In credit-constraint environment or in a market with limited credit facilities, poor people's willingness to save is more when there is a weak social network. People with surplus income lend and charge high interest to those with income deficit.*

The first observation is relevant for *Ausha* where household earnings are higher (because of high agricultural output and remittance) and credit constraints are offset by charity, gifts and zero-interest loans through social connections. Because of the availability of funds, poor people do not worry about precautionary savings. The second observation fits with *Bhadeshwari* where a mono-harvest flood plain causes low income and liquidity shortfall and thus moneylenders take the opportunity to charge high interest for loans. People want to save money to become eligible for low cost microloan from MFIs and avoid costly borrowing from moneylenders. Relatively high motivation for savings in *Bhadeshwari* confirms Deaton's view that credit constraints motivate precautionary savings (Deaton 1992).

Savings gaps in financial inclusion

Despite various efforts to scale up the extent of financial services, inclusion gaps still exist in Bangladesh (Choudhury, 2015a, Demirgüc-Kunt, et al 2018). Residents of *Ausha* and *Bhadeshwari* highlighted some financial inclusion gaps in savings mobilization.

Savings gap:Non-poor respondents argued that they had accounts in the bank to deposit remittance from abroad or earnings from agriculture or business. However, the frequency of using bank accounts was low because of transaction cost. As 'distance' matters, they wished to be MFI member to receive doorstep financial services. ASA had associate membership for the non-poor who could not borrow but save. This facility was terminated in 2012 as per instructions from the Microcredit Regulatory Authority (MRA). Now, no MFIs can take deposits from non-members. The only exception is Grameen bank that functions under the Grameen Bank Act, 1983 instead of MRA rules.

Respondents from poor and extreme poor groups had mixed opinions about microsavings. One member from FIVDB in *Ausha* said, "I wanted to be save-only in FIVDB but the loan officer insisted on loan and savings together not loan or savings alone. Therefore, I opted out. I do not want loan anymore". When asked why savings only, she replied. "I took loan from FIVDB for a shop. My income is enough at the moment. Now I want to save for my children". Non-member respondents (who are poor but not clients of any MFIs) argued that they did not have the 'right place' to save. They have fluctuating income and thus they want to save when there is a surplus income to spend in the time of deficit. When there is no secure place to save, the temptation for spending is high. "Our savings at home is at risk of theft or claim from children or other family members. We do not have secure place to save. Therefore, we spend anyway. We drink more tea, smoke more cigarettes when we earn more". A woman from *Bhadeshwari* said, "My husband goes for gambling whenever he earns more and always comeback penniless". Above all, "We spend everything we earn. We have no money left for the future".

Withdrawal restrictions: The 'right amount to withdraw' should not be a problem since the regulatory authority has permitted the withdrawal of any amount (MRA, 2011). However, in reality, FIVDB discourages its members to withdraw savings, particularly when a loan is running. Grameen allows withdrawals of any amount from personal savings accounts but not from special accounts. Grameen members have to go to the branch office to collect savings when approved (Grameen 2012). ASA field officers allow an instant withdrawal of Tk. 500 in the group meeting. "For any amount more than TK. 500 you have to go to the branch office", said a respondent. MFI members complained about the 'right time to withdraw' their savings. The MRA rules say that a client has to give written notice of 7 days to withdraw deposits (MRA 2011). These withdrawal restrictions and savings obligations compel clients to search for fund at high rates in case of emergency. These restrictions contribute to the inefficient role of savings in financial inclusion. In order to ensure insurance role of savings, MFIs need to modify their savings instruments considering three rights: *right* place to save and *right* amount to withdraw the savings in *right* time (Choudhury 2015a).

Regulatory restrictions on savings: MFIs in Bangladesh run under the supervision of Microcredit Regulatory Authority (MRA). MRA rules allow MFI to offer three savings services: compulsory, voluntary and time deposits. The major condition for saving mobilization is that the total deposit balance of an MFI shall not accede 80 percent of its principal loan outstanding. In order to mobilize *voluntary savings*, an MFI should have five years of microcredit experience with three years of consecutive profitability, 90 percent recovery rate in current loans and 95 percent recovery rate at accumulated loans. For time deposits, microcredit experience and consecutive profitability periods are ten years and five years along with the recovery rates mentioned above. Moreover, voluntary and time deposit separately must not exceed 25% of the total capital of the organization, which includes donations and retained earnings (MRA, 2011). These prudential requirements of the MRA would adversely affect MFIs' savings mobilisation (International Finance Corporation [IFC], 2011). Restrictions on savings make MFI clients 'net borrowers' which means that the rate of assets accumulation is slower in terms of net worth than as in case of 'net savers'. However, as net borrowers are self-regulatory agents (as bank or MFI run are less likely) the security of deposits is a less worrying issue than in the case of net savers.

Gender gap: Women are more concerned about how to cope with household crises than their male counterparts. They prefer saving money and hoarding *musti chal* as precautionary measures for small purposes such as minor illness, injury, and children's school tiffin. Sometimes, they convert accumulated savings into livestock, jewellery, or even a small piece of land. MFI members accumulate cash for weekly savings and loan installments. These savings behaviours reflect women's preference for the protective role of savings. Men, on the other hand, prefer current consumption or investment spending. Thus, they are interested in borrowing or, at best, savings directed to investment. Most of the male discussants feel that they are excluded from the financial services as MFIs exclusively work with women. MFIs field officers argued that microfinancial services actually go to households through the account of women as MFIs believe women to be more trustworthy in financial dealings than their male partners. However, the male member of a household takes strategic role. He motivates his wife to take a loan from MFIs and hand it over to him. In return, he offers repayment of weekly instalments (of loan and saving) on her behalf. His counterpart sees nothing to lose and only gains in savings ownership. Ultimately, financial behaviour retains. Men are less interested in precautionary savings. They believe in the promotional role of savings i.e. savings turns to investment. Women care about the protective role of savings i.e. precautionary for risks.

6. Conclusion and policy recommendations

Using participatory methods of qualitative inquiry, the study provides a comprehensive understanding of rural savings habits and useful information for the policymakers and practitioners in the field of microfinance. Underlying research question was: Are MFI savings inclusive or transformative (i.e. partial inclusion)? Participatory analysis reveals two types of financial exclusions in case of rural savings mobilization: 1) service exclusion and 2) client exclusion.

Service exclusion: People typically use informal savings in cash or kind as precautionary measures for emergency finance. These practices have been drastically reduced by the introduction of MFI savings and credit practices. Now, MFI members accumulate money for weekly loan and savings instalments. Informal saving habit has thus transformed into formal savings and loan repayment habits. Financial asset holding is now less flexible as savings withdrawal is under the MFIs control. A client's control over savings has been delimited by time-consuming withdrawal procedures and other restrictions. When the transformation of informal to formal financial services cannot meet the cline's demand or cannot ensure full ownership, it remains simply a transformation not full inclusion of informal finance. In this sense, savings services are transformative or at best partially inclusive.

Client exclusion: The main reasons for client exclusions are unwillingness of the service providers or service receivers and distance from service points. The non-poor are less interested in financial services of the banks located in distant urban areas. Banks, on the other hand, consider services to the poor less profitable. MFIs target only female poor people, ignoring their male counterparts. The financial flow of surplus funds of the non-poor to finance the deficit of the poor occurs in informal ways. In *Ausha*, this occurs through low cost, benevolent patron-client relationship. However, in *Bhadeshwari*, moneylenders take an exploitative patron-client role and charge high rate. The major sources of deficit finance are MFI loans arranged from external sources (mainly donor fund). In order to be self-reliant, a village needs to formalise the internal sources and rely less on external funds. In this case, MFIs might accept deposits from the non-poor and disburse loans to those who need funds for investment and emergency spending.

From PRA and FGD analysis, it is evident that the role of MFI microsavings in financial inclusion of the poor is partial and incomplete. The analysis reveals some critical issues and policy challenges:

i. Contrast with the traditional idea, poor people demonstrate that they can save if they find right place to save with free withdrawal facilities. Their savings are low due to lack of appropriate financial services.
ii. Many clients of MFIs want to be save only members. But MFIs financial services are credit-based with supplementary savings and other services. No client can take loan or savings services independently. MFIs must provide need-based financial services in line with the preference of the client.
iii. The basic difference between microfinance and inclusive finance is that microfinance deliver financial services (mainly microcredit) to homogenous group particularly, poor women. But inclusive finance is a need-based mechanism: 1) Assets grants and soft loans for the extreme poor. 2) Micro financial services for the moderate poor. 3) Microenterprise loans for the micro entrepreneurs. 4) SME loans for non-poor. Savings and other financial services are provided according to the demand and capacity of the clients.
iv. Policymakers and practitioners in the microfinance should consider more extensive services without excluding any potential service receivers.

Above all, the paper concludes that poor people have the ability to save but they lack proper place to save. Hence, their savings evaporate, spill over or stuck in wrong places. Financial institutions still lack appropriate instruments to mobilize the potential savings of the poor. As a result, financial inclusion remains incomplete in terms of savings, let alone the other components of microfinance. Appropriate policy is required to address these issue.

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Data appendix – PRA and FGD transcripts

A1 PRA exercises

The study employs four PRA exercises in which rural people to analyse and present data and information of their villages: 1) village transect, 2) Wealth ranking, 3) Seasonal calendar, and 4) Preference ranking. Village transect was just a rapport building exercise. Transcripts of other PRA exercises are as follows.

A1.1 Wealth ranking

In wealth ranking exercises, participants prepared wealth criteria to classify rural households into three poverty groups. Outcome of the exercise is summarized in Table A1.1. It shows that the number of extreme poor is higher but the number of non-poor is lower in *Bhadeshwari* compared to *Ausha*. This indicates that *Ausha* is more affluent than *Bhadeshwari*.

Table A1.1 Household poverty groups in *Ausha* and *Bhadeshwari*

Poverty group	*Ausha* (%)	*Bhadeshwari* (%)
Extreme poor	28 (12.4)	71 (32.7)
Poor	60 (26.5)	56 (25.8)
Non-poor	138 (61.1)	90 (41.5)
Total households	226 (100)	217 (100)

Figures in the parentheses are percentages.

A1.2 Seasonal calendar

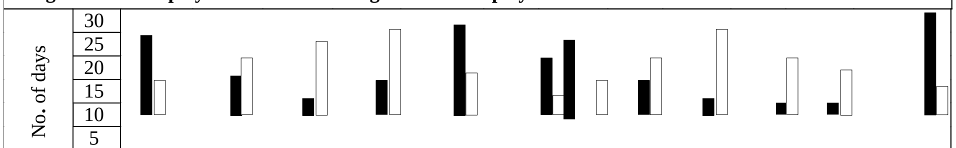
There are seasonal variations in the rural economy – certain months are full of opportunities with more income and food stock and other months are lean. Rural people prepared seasonal calendar for crop production, food stock and employment over a reference period of 12 months. Table A1.2 and A1.3 are extracts from the exercises.

Table A1.2: Seasonal calendar for *Ausha*

Gregorian	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

Bangla	Poush	Magh	Falgoon	Chaitra	Boishakh	Joyshtha	Asharh	Srabon	Bhadra	Ashwin	Kartik	Agrahayon	Poush

■ **Agricultural employment** □ **Non-agricultural employment**



Rice cultivation

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Amon HYV, local												
Ploughing												
Sowing												
Harvesting												
Boro HYV, local												
Ploughing												
Sowing												
Harvesting												

Food security: ■ **Extreme Poor** ■ **Poor** □ **Non-Poor**

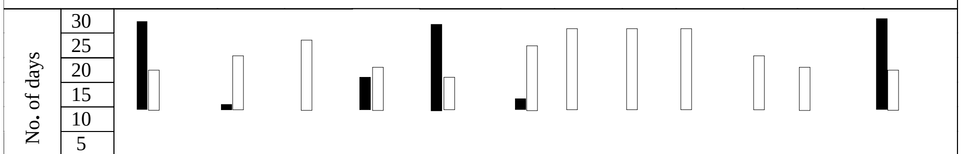
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Extreme Poor												
Poor												
Non-Poor												

The residents of *Ausha* face seasonal fluctuations of employment in both farm and non-farm sectors. Farm activities are pick in ploughing, sowing and harvesting time for two main crops: *Amon* and *Boro* (May to July and December to January). Non-farm activities are less during the monsoon, particularly in two rainy months in Bangla calendar - *Asharh* and *Srabon*. The next three months are lean for agriculture, so people search for non-farm jobs. Respondents in *Ausha* report that extremely poor households normally have food stock up to five months compared to about eight months for moderate poor. Non-poor households have surplus food for more than a year according to their estimates.

Table A1.3: Seasonal calendar for *Bhadeshwari*

Gregorian	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Bangla	Poush	Magh	Falgoon	Chaitra	Boishakh	Joyshtha	Asharh	Srabon	Bhadra	Ashwin	Kartik	Agrahayon	Poush

■ **Agricultural employment** □ **Non-agricultural employment**



Rice cultivation
Boro HYV, local
Ploughing
Sowing
Harvesting

Food security: ■ **Extreme Poor** ■ **Poor** □ **Non-Poor**
Extreme Poor
Poor
Non-Poor

Similar pattern of wage employment is found in *Bhadeshwari*. However, unlike *Ausha*, farmers in *Bhadeshwari* could cultivate only one variety of paddy (i.e. *Boro*) in a year. This is because lands remain under water for nearly 4-6 months during and after the monsoon. Thus, there is no room for *Amon* rice. Instead, they engage in fishing and small trading. Single crop in *Bhadeshwari* has a considerable impact on food stock. Extreme poor households can save up to three-month equivalent of food in the store. Rest of the time they buy food. Moderate poor have about six month of food security. Rich people need to buy food for a couple of months.

A1.3 Preference ranking

In this exercise, participants prepared a preference matrix for various savings services, ranked each savings item and discussed about the reasons for savings preference.

Table A1.4 Savings preference: *Ausha*

Financial Institutions	MS	VS	IS	SK	FS	Score	Ranking
Mandatory savings (MS)	-	VS	MS	SK	MS	2	III
Voluntary savings (VS)	-	-	VS	VS	VS	4	I
Informal savings (IS)	-	-	-	SK	IS	1	IV
Savings in kind (SK)	-	-	-	-	SK	3	II
Formal bank savings (FS)	-	-	-	-	-	0	V

Mandatory and voluntary savings together constitute microsavings. Informal savings is cash at home under the mattress or in clay bank. Savings in kind include, land, livestock, and jewellery.

Residents of *Ausha* expressed top preferences for the voluntary savings and savings in kind. They have less inclination to microloan-embedded mandatory savings in MFIs as they usually receive low or zero interest informal loan from friends and patrons. Although many non-poor residents have bank accounts, in general villagers prefer informal savings to depositing money in the bank. This is because of transaction costs in terms of time and distance.

Table A1.5 Savings preference: *Bhadeshwari*

Financial Institutions	MS	VS	IS	SK	FS	Score	Ranking
Mandatory savings (MS)	-	MS	MS	MS	MS	4	II
Voluntary savings (VS)	-	-	VS	VS	VS	3	I
Informal savings (IS)	-	-	-	SK	IF	1	IV
Savings in kind (SK)	-	-	-	-	SK	2	III
Formal bank savings (FS)	-	-	-	-	-	0	V

Mandatory and voluntary savings together constitute microsavings. Informal savings is cash at home under the mattress or in clay bank. Savings in kind include, land, livestock, and jewellery.

The residents of *Bhadeshwari* are credit constrained and hence they try to overcome the problem by saving more to obtain microcredit. According to the PRA participants, voluntary and mandatory savings in microfinancial institutions crowd out the traditional savings. This is reflected in the preference ranking. However, like *Ausha* residents, *Bhadeshwari* people consider formal bank savings least preferred instruments.

A2 Focus Group Discussions (FGDs)

The data collection team organized four FGDs in each village: three with poverty groups (extreme poor, poor and non-poor), and one with financial services group (MFI field staff working in two villages). Each group contained 6 -10 participants to discuss microsavings and financial inclusion. Moderator used a set of prompts and probes for each group.

Prompts and probes for poverty groups

Introductory: We are here to discuss about savings habits and MFI savings services.

Opening q*uestions*: Do you save money in any form? If yes, what are the various ways to save your extra money?

Transitory p*robes*: Tell us about the existing savings services in your area and your needs and preferences for financial services.

Keyquestions: What are the major difficulties in access to savings services in your area? What types of difficulties do you face in managing your savings?

Ending questions: What opportunities do you see in sources and uses of microsavings in your area.

Summary transcript: Extreme poor in both villages report that they have small amount of extra money to save but they cannot save because of the spending temptation such as school pocket money for children and temptation spending by adults including smoking, betel nut chewing, and even gambling. Moderate poor group report that they have more money to save but they also cannot save for the above reasons. Non-poor participants claim that they have significant amount of money but they bear transaction costs as banks are located in the city. They wish MFIs to utilize their fund. Members of MFIs speak about the difficulties with MFI microsavings. They admit that MFI microsavings are secure but withdrawal facilities are not according to their needs. Access to banks are also difficult because of distance and procedural barriers. Participants reveal some gender gaps in savings services and financial inclusion. Women are interested in precautionary savings against micro crises such as minor illness. Men are interested in investment and assets accumulation. Non-poor groups and male participants complain that they are financially excluded as they are not eligible for MFI membership. Finally, they conclude that there are savings opportunities and MFIs should introduce right products to mobilize the savings.

***Prompts and probes for* financial service group**

Introductory: We are here to discuss about rural savings habits and the extension of MFI savings services.

OpeningQuestions: Why do people need savings services? How do you help them managing their savings?

TransitoryProbes: Tell us about your financial services delivery in this area and future plan of your institution.

KeyQuestions: What are the major difficulties in mobilizing savings in this area? Do you arrange financial consultation and training for your clients?

Ending questions: What opportunities do you see in microsavings mobilization in your work area.

Summary transcript: Poor people in *Bhadeshwari* mainly need savings products to become eligible for microloans to invest in small business. They do it to avoid usurious loan from moneylenders. In *Ausha*, the demand for MFI loans are lower as poor get soft loan from patrons (village chief, friends, and affluent member of the society) who deliver interest free loan on demand. Moneylender are absent in the village. So, compulsory savings for receiving loan is not a desirable option for MFI clients. They prefer voluntary savings. Many clients in both villages demand for savings only membership which is, according to the respondents, against the service rule of MFIs. In response to the query in withdrawal for emergency, respondents report that clients can withdraw their savings any time. MFI field officers are aware about clients' demand for flexible savings services. The only problem is that as MFI is not a bank, it cannot give instant withdrawal facility to the client in their doorstep. They have go to the area office and wait until the withdrawal is approved. Change in service rules is only possible when regulatory authority approves. Field staff from all MFIs agrees that savings opportunities exist in the area and appropriate policy from the authority is required to grab these opportunities.