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Rural Savings Mobilisation : Lessons Of Experience

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INTRODUCTION

It is generally believed that "incentive "and "ability "to save are two major determinants of savings and the degree of eventual success in an economy, therefore, should be measured in terms of the extent and depth of domestic savings. As majority of population in developing countries live in the rural areas and most of them are poor in relation to their urban counterparts, savings in the rural sector are non-existent or negligible. It is also argued that in a country like Nepal, the near-stagnant agricultural productivity has created the problem of widening gap between saving and investment. Therefore, efforts should be made to raise the income level of the ruralites first.

In Nepal, even at the completion of eight development plans, more than 90 percent of the population lives in the rural areas and depends on agriculture and allied activities for its livelihood. Despite HMG's best efforts to mobilise rural savings, during the Seventh Five Year Plan, 70 percent of the total public sector development outlay was financed through foreign aid. However, very little attention has been given by economists towards studying rural savings in macro-economic settings—that is how the domestic saving are determined in the national economy of a country like.

Nepal is a country of villages. Farming and allied occupations are the major sources of living. The rural sector is dominated by hundreds of thousands of small and marginal farmers. Most of the households control very small plots of land ranging around 0.2 to 0.4 hectare of cultivable

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land. Low productivity of agriculture is evident from the fact that less than 20 percent of the cultivable land is under effective irrigation (MOF 1990.) Off-farm employment opportunities are limited.

According to Economic Survey of 1989-90, Gross-Domestic Saving (GDS) in FY 1987-88 reached NRs. 6677 million, up by 15.9 percent level from NRs. 5761 million in the FY 1986-87. However, a comparative data on Gross National Saving (GNS) with Gross Domestic Saving (GDS) show that it was 10 percent in FY 1986-87 and it has come down to 9.8 percent in FY 1987-88. Nevertheless, a comparison between GNS and GDS shows that it was 13.6 percent in 1974-75, reaching 14.3 percent in 1987-88. The ratio between GNS and GDS within 14 years was in the range of 13. to 18.5 percent and GNS had a four fold increase during the review period. But most of this increase in saving rate may be attributed to urban sector alone. Therefore, mere adoption of flexible interest rate policy of offering positive incentive in terms of real rate of interest by banking institutions is secondary importance in a country like Nepal. The crux of the problem is how to enhance the ability to save by raising the income level of the farm population. Therefore, any study on domestic resource mobilisation in Nepal must encompass both taping the rural savings potential together with meeting the credit needs of small farmers. The question can be conveniently asked whether domestic saving can be enhanced without linking it with credit needs of the ruralites, if not, then what sorts of institutional and promotional measures should be adopted to tap rural savings ? How can these savings by farm families be transformed into financial savings ? These are the basic issues to be analysed and examined in right perspective through proper research.

OBJECTIVE OF THE STUDY

Keeping in mind the above mentioned issues, an attempt is made here to examine the problem of rural saving mobilisation vis-a-vis the problem of credit to farmers of low income group within the framework of dynamic macro-economic model setting of Nepal and also to pinpoint those factors affecting domestic savings- positively and negatively. Specifically, efforts are made to examine the experience of the measures of rural savings mobilisation in Nepal with reference to the functioning and performance of the existing financial institutions and on-going schemes of HMG/Nepal and to suggest measures to augment the process of rural savings mobilisation. This study is based on the Nepal-specific literature and micro-level case studies of similar countries.

EXPERIENCE OF RURAL SAVINGS IN SOME DEVELOPING COUNTRIES

Grameen Bank Experience In Bangladesh

One extremely successful operation is demonstrated by Grameen Bank of Bangladesh in this context. The approach is based on taking the banks to the rural poor rather than manking them to come to the bank. The Grameen bank grew out of an action research project organised in 1976 by Dr. Muhammad Unus, Professor at the University of Chittagong in Bangaladesh, to test the hypothesis that, if the poor are supplied with working capital they can generate self-employment without external assistance. This hypothesis proved correct. By 1987, the Bank had paid in capital of US $ 2.3 million of which the government provided 25 percent and shareowning borrowers the rest. In 1987, the Garmeen Bank had 298 branches reaching 250 thousand households, a portfolio of outstanding loan amounting to US $ 9.6 million and annual disbursement of US $ 17.3 million (Hossain 1988).

The Bank's loans did not exceed Tk 5000 (US $ 160 in 1987) and were repayable in weekly installments over the following fifty weeks, at 16 percent interest. Contribution to a group fund for financial and social emergencies amounting to 5 percent of the face value of the loan plus Tk 1 per week or US $ 0.032 in mid 1987 were collected during and additional two weeks. Twenty-five percent of the loan interest had to the contributed to an emergency fund, managed centrally to handel unforeseen events such as death and disability. Loan processing had taken less than 2 weeks and was done entirely through group and center intermediaries. The economic activities financed by the bank loans had been mostly for livestock and poultry keeping 26 percent, processing and manufacturing 25 percent, and commerce 23 percent.

Remarkably, 97 percent of the loans have been repaid within on year period, and 99 percent within 2 year. The comparable on time repayment rate of government agricultural loans was 39-48 percent 1980-81. Twenty percent of the borrowers, mostly women, were newly employed, and those already employed were working on additional 12 days per month. Bank members' income was well above that of similar but nonparticipating village and local nonparticipating people. The greatest impact appears to have been on women, who make up 24 percent of the membership of the bank and 69 percent of it borrowers.

An analysis of the reasons for success of Grameen Bank shows the following:

- Because lending was limited to the needy, there was no risk of diversion to others.
- Leadership provided by the bank's founder was outstanding and inspired the staff.
- Loans were made primarily for income-producing activities.
- Repayment was at small frequent but installments bank consonant with the way the poor could handle the money
- The bank's practice of lending only to group tended to discourage the well-to-do.
- A weekly repayment schedule discouraged the farmers from applying for the loans, since their income is cyclical.
- Although the interest rate is commercial the required additional contributions to emergency fund deterred the better off from applying.
- Because of socio-religious restriction on paid employment, the opportunity cost of female labour was low.

Commercial bankers were surprised when it was revealed that the low default rate notwithstanding, the cost of making small loans to the poor was 27 percent of the face value of the loans, 11 percent lower than the commercial bank interest rate. The reason, of course, is the high cost of attaining the low default rate and targeting results: the in-village service, the intensive tarining of bank employees and borrowers, and the close monitoring of loan utilisation.

The Garmeen Bank has managed receiving loans from the International Fund for agricultural development in large installments that were then deposited with commercial banks, earning interest until needed. The money offsets the cost of operations by 5 percent, while its cost of funds has been only 4 percent, with fund coming from the Bank of Bangladesh and from foreign donors at interest rate of 2.3 percent.

Although the Grameen Bank is subsidised, it has demonstrated an important point: credit for self-employment, if extended to the landless poor and oriented to the needs of the borrowers, can do great deal better to boost incomes than farm credit, job training and welfare programmes. The principles of guaranteeing loan repayment and proper utilisation through group pressure; recovering in small, frequent amounts; and institutionalisation of collective saving, by and large, seem to be as applicable in the crowded rural areas of Bangladesh as in the urban slums of India or Nepal. However, the service outreach possible in the flatlands of densely populated Bangladesh may be more difficult to organise in the mountanious, sparsely populated areas of Nepal. Nevertheless, the basic principle is highly relevant.

Mobilisation Of Domestic Saving In Republic Of Korea

The Korean economy virtually broke out with the Korean war in 1952 and the economy of Republic of Korea virtually was deprived of the saving institutions during the war period. However, slow recovery from the devastation of war was made possible by banking institutions which were effectively organised for the channeling of the domestic saving. Now, currently a full-fledged system of financial intermediaries of various kinds and characteristics the financial intermediaries in the republic of Korea include central bank, commerical banks, specialised banks, saving institutes, etc, active in domestic savings mobilisation.

The financial intermediaries which accept deposits saving type are multifarious and extensively desegregated. There were already seven specialised banks in Korea in 1983. The medium scale bank operated in order to support small and medium sized firms aimed at financing loans and government support as well as mobilising saving from this sector in industry. Others included Korea Exchange Bank, Korea Housing Bank, Citizens National Bank, etc. The three cooperatives related with livestock, fishery and agriculture have their purpose to support agricultural activities. All these institutions, in addition to their specific and original function are playing very important roles of mobilising domestic savings mainly by encouraging and inducing savings from all sectors of the economy with establishment of operations of mutual installment funds, issuance of private kind of bonds, rendering technical and administrative guidance to infant industries to raise productivity and efficiency. In the framework of banking operations, these institutions have invented and established various kinds of savings and saving inducing devices which fit into peculiarly indigenous economic development such as *kye* , a private mutual installment account which is still operated extensively in the money market.

Several small size non-banking saving institues spread all over the country mainly were engaged in small-scale domestic savings mobilisation of low income households and small scale business firms. Mutual Credit Safe is one typical example, which is run by small-scale financiers. Trust Company is another example of collecting body of various kinds of small scale assets such as cash, negotiable instruments, real estates, etc. Credit cooperatives are also typical credit unions operating on non-profit basis. Also, the insurance companies and the investment companies are playing their similar roles in mobilising domestic saving.

Factors Affecting Domestic Savings In Republic Of Korea

Several factors were found affecting the level of domestic saving in the Republic of Korea. Since the economy just recovered from virtually subsistence level of national income in 1960s, the average propensity to save in the first half of 1960s was at a level below 10 percent of GDP. But, from 1973 onward the rate accelerated to exceed 20 percent upto 1985, the income elasticity of saving to national income also increased. During the years marginal propensity to save was less than average propensity to save and a higher portion of very increment in income was used in consumption than in the past years. However from 1966, the income elasticity of saving increased to more that unity (Yeou 1985).

The second factor contributing to dramatic success in domestic resource mobilisation was the political stability. This is shown clearly in history that except for the years 1960, 1965 and 1980 when propensity to save scored negative value due to political instablility, in 1960, the country had to face student demonstration collapsing the first Republic; in 1965, there was heavy protest demonstration against Korea's renormalisation treaty with Japan; and in 1980, there was establishment of the 5th Republic. All other years witnessed smooth increase in the rate of saving to cross 20 percent level.

The third factor for the better business condition in the Republic of Korea relates to the fact that when business flourished, the income conditions of the income-earners improved and additional saving were induced; investment activities thrived and additional investment was made. A high return on investment led to further flourishing of the business.

The fourth factor that contributed to increase in domestic saving mobilisation in Korea was the implementation of saving mobilisation compaign by the concerned institutions. The laws enacted to mobilise domestic saving were also very effective, like Labouring Households Act 1976 and Real-Name Financial Transactions Act 1982.

The fifth factor was the interest rate flexibility which facilitated the channeling of mobilised saving towards desired investment areas. The chronic low level official interest rate discouraged saving in the past, which, however, was made higher under special saving schemes.

Finally, the steady inflow of foreign saving to supplement domestic saving was crucial in supporting productive investment in Korea. In the beginning of foreign investment early in 1960s domestic savings were negligible in size and played a complementary counterpart investment for foreign investment. At this stage, foreign investment enticed domestic savings rather than it hindered, leading the economy towards generating more domestic saving mobilisation.

Case Study of Nepal

The Case of Dadhikot, Bhaktapur District

As the Agricultural Development Bank (ADB/N) in Nepal is the only specialised agricultural credit institution in the country, an assessment of its performance in mobilising deposit through its branches is of importance in the context of need for rural saving mobilisation in the country. The case study (NRB 1984) had its principal focus on the examination of saving generation of ADB/N and the level of savings of the rural households covering a period of 1983/84 as compared to 1979 based on their preceptions on banking institution.

The finding of the study are categorised into household level and the institutional level.

At the household level it was found that the average annual income of the rural households in the selected area during 1983/84 was NRs.

26557 compard to the annual average expenditure of NRs. 16940, showing an increased income of NRs. 9617. This high income, compared to the national average, was realised through livestock rearing, agro-business activities and involvement of many households in the services.

The annual average surplus income of both the depositors and the non-depositors households constituted about 40 percent of their total income. The level of higher saving in the study may be attributed to their traditional habit of not spending much on food and clothes from the increased amount of incomes. About 71 percent of the households with agriculture, services and other professions had bank account compared with the lowest percentage of housholds having bank account which had agriculture as their only occupation. This confirms the hypothesis of the study that the agricultural housholds are characterised by low level of monetisation and low level of income and they are not employed in agriculture throughout the year.

At the institutional level it was found that the average growth rate of new accounts for the Fiscal Year 1980-81 to 1983-84 compared to the figure for 1979-80 showed an increase of 137.5 percent. But there was no accout opened by female in this and also the opening of new saving account was negative by 25 percent.

In case of fixed deposit account, the average annual growth of new account was 42.5 percet. However, the growth in the account opened by female was only 12.25 percent compared to the account opened by male 45.83 percent.

It was observed that during the same period the current account collected NRs.. 1740 thousands per year, the saving account collected NRs. 438 thousands and the withdrawal made was NRs. 427 thousands. Compared to current and saving accoutns, the average annual growth of deposits and withdrawals in time deposits account was high. The growth of deposit was 55.5 percent and that of withdrawal more than 450 percent and the balance was 32.3 percent.

Funds received as deposits from all kinds of accounts were increased by an annual growth rate of 6.68 percent ant that of funds received from loan collectives increased by 43.2 percent. On the user side, the average growth of loan investment was 37.6 percent. Out of the total resource available during 5 years, the share of deposit was 62 percent showing that bank involved in extending agricultural financing through borrowed funds. On the other side, the growth rate on investment was 37.6 percent, it was only 6.7 percent on deposit side, showing that the deposit could not finance increasing loan investment.

The Case Of Fikkal, Ilam District

This study (NRB 1984) was undertaken with a view of the level of savings of rural people and its different aspects in the Eastern Region with particular focus on assessing the prospect related to indigenous process of rural saving mobilisation. Altogether 5 percent of 2400 households was selected for sampling purpose. In Fikkal village where Rastriya Banija Bank (RBB) of Nepal had its rural saving mobilisation activities were started since 1977 and ADB/N also had its branch in the area, not so effective, however, in rural saving mobilisation.

The major findings were that the 94.6 percent of the population had farming occupation, about 3 percent had employment in business, trade-industry, etc. Main off-farm activities included *ghee* processing, weaving works, bamboo products, etc.

Despite efforts of RBB and ADB/N for saving mobilisation it was found that 66 percent of the household kept their saving at their houses, 14 percent invested in assets, 10 percent lent to other persons and only the rest kept their saving at the banks. Of the total depositors, 60 percent reported that they had fairly good knowledge of banks where as 40 percent non-depositors reported good knowledge. Of the total male depositors, 64 percent was illiterate, 27 percent undergraduate and 5 percent graduate. Similarly among female depositors, 75 percent was literate and 20 percent under graduate.

The average annual income of the households was NRs. 14628 of which 46 percent was from agriculture, 22 percent from services and 26 percent from business. The income was highest, NRs. 21,015, among the shareholders followed by businessmen, NRs. 15444, farmers, NRs. 11472, and labourers, NRs. 6336. The average annual cash income of depositors was NRs. 19965 whereas that of non-depositors, NRs. 9288. This showed, on average, the depositors were earning as much as double the income that of non-depositors

The average annual expenditure of a household was NRs. 1983, out of which 41 percent was alloted on household activities, 38 percent on food consumption, 12 percent on crop production and livestock rearing, and 8 percent on social activities. On an average, a depositor household spent much on household, 12 percent, whereas non-depositor household's heavy expenditure was food consumption, 42 percent. The expenditure of depositors on production including livestock rearing and social work was 13 percent and 10 percent respectively while for non-depositors the proportion was 12 percent and 8 percent respectively.

Depositor households with high income spent 43 percent of the total income on household activities against 38 percent of non-depositor high income households. The proportions of expenditure on food item among depositors and non-depositors were 34 percent and 41 percent respectively. On the whole, expenditure of a depositor family was 1.6 times higher than that of non-depositor family i.e. NRs. 13151 and NRs. 8223 respectively.

The annual surplus of a household in average was NRs. 3932. However, low income households' saving, NRs. 366, was very low compared to high income households, NRs. 5400. On the other hand, a family with deposit in bank generated saving almost 6.4 times higher than that of a non-depositor households. Among non-depositors, service holders had the highest savings, followed by businessmen and farmers. Labourers had the lowest level of saving.

Depositors had 41.7 percent of thier total surplus deposited in the bank. Farmers deposited highest portion of their surplus money compared to the businessmen and servicemen who deposited only half of their surplus. The possible reason for this could be that these households had alternatives fields for investment. Labourers deposited hardly 1.3 percent of their total surplus. Among high income households 39.9 percent of total surplus was deposited.

Performance Of SAJHA Cooperative In Rural Saving Mobilisation In Nepal

The Sajha co-operatives in Nepal are spread over 72 districts. (HMG 1988) They are the primary co-operatives do deal with agricultural goods, agricultural credit, principal consumer goods as to be made available at the due prices to the rural poor. Co-operatives, both of the terai and hilly areas have been engaged in distribution and marketing of agricultural products. Whereas the non-agriculture-based co-operatives of the urban and also of the rural areas have prompted some activities, including service activities as to generate income for the organisations.

The Sajhas have helped farmers with production loans, besides availing the most important consumers goods, viz., food, in the food deficit areas of the hilly parts of the country, and other essential goods. These activities are expected to help reduce exploitation of the people by the middlemen. Also, it has been expected to enhance returns to the producers. Such incentive may be in favour of women producers also. Generation of income to males and females may keep society in food balance from the view point of making to other communities progress simultaneously.

By and large Sajha has played important role in institutional development by advancing loan and invesment for agriculture; distributing agricultural inputs; consumers goods; selling agricultural products.

It has played in development and growth of establishment of multi-purpose agricultural co-operative societies; organisation of co-operatives for women's cottage industries; establishment of purposewise co-operative and auditing of the co-operative unions, alongwith training and education for its members.

All districts of Nepal are yet to be covered by co-operative, as the coverage by Sajha numbered only 72 districts in 1987/88 against 71 during 1986/87. The number of Sajha organisations reached 721 in 1987/88 against 692, year ago this meant less than 10 co-operatives for one district, 2.26 lakh population for one Sajha. Number of shareholders for 1987/88 standing at 1555287 against 1509073 for a year ago would mean coverage of an average organisation in terms of population would be less than 10 percent—this is desperately low in view of Nepal's constitution very much oriented with Sajha philosophy for economic development. The total share capital of NRs. 15.57 crore in 1987/88 against worth NRs. 12.23 crore a year ago if divided among total shareholders would come around just NRs. 100 per person—is also desperately low for an organisation looking for brisk business undertaking as to mitigate exploitation from the middlemen. It is clear that the poor would not be safeguarded from exploitation (Sajha 1988).

Nepal, with very little capital, skill, unused resources, with import craze, very little scope for competition within and competition abroad, ever paving way for exploitation by elderly entrepreneurs in terms of prices and quality of the products and services, needs small-scale, united scale and co-operative scale of businesses as to ask exploiters to keep off of their hands from excessive exploitation. Co-operative is backed by multi-pronged objectives, viz., the best use of talent skills, mobilisation of small but scattered capital, creation of off-farm supplementary jobs etc. The capital thus mobilised should be used for small entrepreneurial activities as to expand them later on.

CONCLUSION

The experiences in rural savings mobilisation in Bangaladesh, Republic of Korea and Nepal suggest some meaningful measures for generating income and accelerating rural saving.

The lessons suggests that the economy would generate self-sustained momentum provided her rural banks would get support in terms of working capital, training to bank employees and the prospective clients of the banks and that if the conditions for loans and advances are made moderately strict. As Bangaladesh economy needs support for development of livestock, poultry, processing and manufacturing units and also for commercial activities, the success of Bank in rural income generating activities is conditioned by loan flow in these sector and major participation by the women. The Grameen Bank leadership was good because when financial support was primarily for income generation activities with motto of credit for self-employment; loan repayment guarantee by group formation; and institutionalisation of collective saving.

The economy of war-trodden Korea too, as in Bangaladesh, got boost up from banking institutions. The difference between Bangladesh and Korea is that the former formed financing houses to mobilise persons to boost the economy by means of rural financing institutions, and that in the latter, the banks strived more for mobilisation of rural respources. In Korea, banks of medium scale, cooperatives, trust companies, Mutual Credit Orgranisations, etc. were started to mobilise savings to collect cash and negotiable associations were formed for women's savings. As a result of these, average propensity to save increased from the situation of 1960s. High growth and high savings could be made possible because of political stability; and factors for good savings were supported by banking institutions. Better business conditions caused economic conditions to improve. As there were more savings, so there was more and better investment causing higher returns. As special saving were introduced, there was steady inflow of foreign capital and savings.

The Dadhikot village of Bhaktapur in Nepal with its single most specialised agricultural credit institution as the Agricultural Development Bank, could show as an example of better mobilisation of rural savings through the bank branches. Average annual income was found increasing because of increasing number of bank accounts belonging to the people and bank's financing in the field of livestock, agriculture, commercial activities, etc. It is noteworthy that despite ignorance, people would open their bank accounts just to increase their deposit amount. It was due to less monetisation in agriculture in that area and also that their was comparatively low level of income from agriculture. As the study revealed, ADB/N was the biggest trusted friend as to promote the interest of the poor, so the ADB/N was termed as 'bank of the poors, whereas for the rural elites (traders) the 'Nepal Bank Ltd' was found catering well for short–term loans.

In view of less capital, small institutions, Nepal's prospect to develop co-operative societies is really high. As to have immediate impact against mass exploitation of small consumers, small producers and distributors, co-operatives need to be developed. But ironically, the progress of co-operatives has not been smooth; it has been erratic, sometimes depressing too. Savers have lost confidence, debtors proved to be the defaulters. In most cases, there has been wastage of resources and large delinquency. Opportunity should be provided to the rural savers of villages to deposit money at the door steps. Beneficiaries should have been the rural poor and not the better of rural elites.

Similarly government guarantee to loans has led the subsidy to the financing houses. This has made the government to suffer as most of the public enterprises have shown little progress in their activities. This system should be replaced by liberal but competitive economic policies to the extent needed at each stage of participation by the rural poor. Subsidies can not be termed as to protect the inefficient, but to encourage the poor, deprived, and the downtrodden, up to a stage of their recovery or promotion.

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