

Giving Credit to Savings - how rotating the money can empower poor women

Background:

Rotating Savings and Credit Associations (ROSCAs) have regained momentum around the world as a convenient saving model for poor communities. ROSCAs are considered as the oldest savings model and believed to have been practiced for 700 years, now existing in around 80 countries, including USA and Japan.

Prior to mushrooming of the microfinance institutions in Bangladesh, ROSCAs were widely practiced in both rural and urban settings by different groups, known under names such as *Rickshaw Cooperatives*, *Labour Associations* and *Cooperatives of Petty Shopkeepers*. In the 1980's many NGOs used this model for savings generation by the poor and 'credit-unworthy' population. This, however, lost traction due to the emergence of microfinance institutions and poor documentation of the results of the model. Stuart Rutherford, former Country Director of Action Aid-Bangladesh, for the first time documented the impact of ROSCAs practiced by Rickshaw *Samities* in Bangladesh, where he exhibited evidence of how this informal savings model helped thousands of rickshaw pullers become owners of their own rickshaws.

UNDP Bangladesh brought back ROSCAs in REOPA (Rural Employment Opportunities in Public Assets), an employment generation project for destitute women. The project was implemented by the Local Government Division (LGD) for five years, with financial and technical support from the European Union and UNDP. REOPA employed about 23,000 women in six districts for a two-year cycle. Since ROSCA participation was voluntary, about 15,000 beneficiaries generated BDT 20,501,500 (US\$ 262,000) in a year and invested in Income Generating Activities (IGAs)¹. Had ROSCAs been introduced in REOPA from the beginning, savings generation could have been substantially higher.

Operating principles of ROSCAs:

ROSCAs are formed with individuals usually from similar ethnic background, income group/vocation, residing in proximity, who join hands to make regular contributions to a common fund. This fund is then given to all group members in rotation, until all of them have received a similar amount. Based on the number of participating members and their savings capacity, a sensible level of winning amount that each member will get is decided. Savings can be contributed on weekly, biweekly or monthly basis, whatever the members decide. Increased frequency implies smaller amounts saved and awarded, and shorter rotation cycle. The group may either decide to select the recipient through lottery, or on the basis of actual need. No interest is charged for the credit, but sometimes the groups decide to charge an amount additional to savings as service charge and share the profit among the members (especially those getting the lump sum late).

ROSCAs in SWAPNO:

Within the ambit of NSSS, the SWAPNO project (Strengthening Women's Ability for Productive New Opportunities) is being implemented by the Local Government Division (LGD) to lift rural ultra-poor women headed households out of extreme poverty. These women are mostly divorced, widowed, separated, abandoned or have a husband with total disability.

¹ Mutuality in Credit: Rotating Savings and Credit Associations (ROSCA) – REOPA-UNDP

Drawing on experiences from REOPA, the SWAPNO approach of social transfer is a package of tried and tested solutions for poverty eradication and successful graduation, starting from cash-for-work employment, social empowerment, life skills training, vocational skills training, income generating activities, savings habit development and financial inclusion. The project promotes employment, and most importantly future employability, of ultra-poor rural women through market driven vocational training.

In the first phase of the project, 4464 rural extreme poor women who are the sole breadwinners of their families have been selected (through rigorous data analysis, physical verification of households and open lottery) from 124 Union Parishads of Satkhira and Kurigram districts. They are employed for 18 months to work on important public assets. Selected beneficiaries are mostly single who are either widowed (49%), abandoned (25%), or divorced (16%), or married to disabled husbands (9%). They had suffered from income and food poverty, along with social and institutional exclusion.

Drawing on the REOPA experiences, ROSCAs were introduced in SWAPNO from the second month of operation. SWAPNO planned to facilitate informal savings generation and proper utilization, either in asset accumulation or starting part time Income Generating Activities (IGAs) by the women beneficiaries. Usually women beneficiaries are paid twice in a month, at a rate of BDT 200 for each working day. Out of this, BDT 50 per day is kept in an escrow account as mandatory savings, which the beneficiaries will be able to access on completion of the employment tenure.

Apart from the mandatory savings, the women beneficiaries were motivated to wisely use their time and wages. A quick assessment on existing skills of the beneficiaries was conducted, in order to arrange necessary technical support to start IGAs. The ROSCA operational process along with success stories of REOPA presented ROSCAs as a viable option of collective savings generation and investment in livelihoods assets development.

Since REOPA was implemented in Satkhira and many of the UP Secretaries certified the process as productive, all beneficiaries (1872) decided to start ROSCAs from the first payment date. They decided to go for union wide ROSCAs, involving all 36 women and contributing BDT 200, to accumulate BDT 7,200 per lottery draw. Upon completion of the first cycle, total savings generated in Satkhira is BDT 13,478,400 (US\$ 172,247). Considering remaining six months' employment, the beneficiaries here are planning to go for a second round with smaller contribution and in smaller groups (groups of 12).

Operating Principles of ROSCAs in SWAPNO	
Mode:	Lottery
Members per cycle:	Kurigram 12 Satkhira 36
Amount per lottery:	Kurigram BDT 2,400 Satkhira BDT 7,200
Lottery Cycle:	14 Days
Savings generated:	Kurigram: 8,709,810 Satkhira: 13,478,400

On the other hand, ROSCAs were new to Kurigram women beneficiaries and they decided to start with low intensity. Out of 2592 beneficiaries, 2124 decided to go for ROSCAs in existing working groups of 12, with BDT 200 contribution, while 468 beneficiaries decided to go for BDT 100. In the first cycle, total savings accumulation in Kurigram is BDT 5,265,810 (US\$ 67,294). Since Kurigram started with only 12 participants in a ROSCA cycle, this was completed quickly and also started the second cycle right after. However, realizing the potential of ROSCAs, all the beneficiaries decided to go for BDT 200 per lottery, keeping the cycle within 12 participants. Up to August 2016, accumulation in the second cycle is BDT 3,444,000 (US\$ 44,012). Total accumulation so far is BDT 8,709,810, which is equivalent to US\$ 111,307.

ROSCAs have immensely supported the SWAPNO approach and *livelihoods asset* development, along with overall empowerment of the beneficiaries. Out of five capitals - **Human, Natural, Financial, Physical and Social** (of the DFID sustainable livelihoods concept) required for livelihoods asset development, the savings model has contributed significantly to Human, Financial and Social capital development, and had crosscutting effects on Physical and Natural capitals.

Human Capital: The SWAPNO baseline survey indicates² that about 79% of the beneficiaries have no schooling, 9% completed primary school level and none could complete secondary school. Due to poor education and low skills, 95.2% of beneficiaries had been working as either maid servants or agriculture and non-agriculture labour. After receiving life skills and basic business management training, along with mentoring support from SWAPNO and financial flow through ROSCA lottery, 97% of the beneficiaries have now started at least one IGA, while 30% of them have multiple IGAs. Beneficiary skills will be further developed through customized vocational training planned towards the end of their employment tenure.

Financial Capital: Prior to joining SWAPNO only 27%³ of the women had access to financial institutions. However, most of them had to withdraw for reasons such as high interest rate charged by the institutions, inability to continue scheduled repayments, and without having skills not being able to invest in productive assets. ROSCAs have created opportunities for the beneficiaries to turn acquired training knowledge into practice by investing in different trades, accumulating assets and saving more from their daily wages. About 80% of the beneficiaries have topped up the ROSCA lottery to make enterprises effective.



In Kurigram, total investment in 58 types of small enterprises is BDT 16,542,593 (US\$ 211,406), where ROSCA lotteries contributed BDT 8,709,810 and own savings BDT 7,862,783. Highest investment has been made in goat rearing, with 1310 beneficiaries investing BDT 5,918,080. The second highest investment is made by 338 beneficiaries in cow rearing (BDT 4,564,850), followed by leased in land, for which 58 beneficiaries have invested BDT 1,270,600.

Total investment in Satkhira is BDT 18,150,750 (US\$ 231,958) in 30 different types of enterprises. Out of this investment, BDT 13,478,400 is generated through ROSCAs, while BDT 4,672, 350 is own savings. Highest investment in the district is cow rearing, in which 125 beneficiaries have invested BDT 1,875,000. Crab fattening and fish trading and Tailoring and dress making have emerged as the second and third highest investment areas.

In fact, ROSCAs serve as a 'dry run' to practice prudent investment before beneficiaries get access to the more substantial mandatory SWAPNO savings. Most of the enterprises (based on investment) are giving an average daily return of BDT 50 to BDT 250. This extra income is either used for family welfare (schooling, micronutrient rich food, medical treatment) and asset accumulation, or



² Report on Baseline Survey of SWAPNO, page 18

³ *ibid*, page 33

generates savings to protect the family from shocks.

Social Capital: ROSCAs have created self-confidence and bonding among SWAPNO women beneficiaries. They often meet to discuss about possible areas of investment, avoiding duplication of enterprises in the vicinity, possibilities of joint investment, access to market and government service delivery departments, particularly Livestock, Agriculture and Fisheries Departments.

Since the women have been able to demonstrate group solidarity, creditworthiness and a unified voice against repression and have gained access to various institutions, their social status has been upgraded. The beneficiaries are now invited to community mediations, invited to join social gatherings like marriages, *akika* (celebration for new born babies), *halkhatas* (prospective customers are invited to the beginning of a new trading year by businesses) and other social events, where they were earlier seldom invited.

ROSCAs have also contributed to **Physical and Natural capital** development. About half of the beneficiaries have now access to better housing, safe water and sanitation, along with access to *khas* land (river bank or roadside land), where they either reside or operate shops.

Lessons Learned:

By and large ROSCAs face four criticisms: *inflexibility* - cannot break the ongoing rotation cycle and may not generate the amount of money a lottery winner will need; *cannot handle large amounts of money* - cannot boost household or village economic growth; *unreliable* - early lottery winners may leave the cycle without repayment; and *not easily adoptable* - to modern and individualized livelihoods⁴.

However, ROSCAs in SWAPNO have contributed enormously to developing group solidarity, self-confidence, access to institutions, child education, healthy food, safe housing, water and sanitation, along with financial management. ROSCAs are a proven mutual savings model and an effective alternative to microcredit for ultra-poor communities. If the groups decide to continue using the model beyond SWAPNO implementation, with minimum support of the Union Parishads, they can turn ROSCAs into formal savings societies and obtain registration from the Department of Social Services.

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⁴ Stuart Rutherford and Paul Vander Meer ROSCAs on the Rebound, November 2014.