

The Long-Term Survival and Growth of Savings Groups in Nepal

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Introduction:

Savings Groups have revolutionized financial inclusion in Nepal. Instead of financial institutions lending to the poor, groups of about twenty members run their own mini-financial institutions. They save in a common fund, lend what they save to their members and after a few years often divide the fund according to the amount each saved plus interest. The Village Bank methodology was introduced to Nepal in 1999 through Pact's Women's Empowerment Program. Financed through a \$5.4 million grant from USAID, 240 local organizations contracted by WEP formed 6,230 saving and lending groups with 130,000 members by the end of the project in 2001. WEP also introduced literacy training with a focus on women's rights and starting a business. Since 2008 the remaining WEP Savings Groups have, in large part, been linked to financial institutions.

Two evaluations were carried out of the WEP program, the first in 2000 as program funding was ending and the second seven years later after the groups had been operating largely operating on their own for several years. The current study of the Savings Groups of Nawa Prativa, one of the WEP partners, was carried out in January 2017 focusing on these questions:

- Would these groups continue to save and lend or disband after sixteen years?
- Would they manage more funds?
- Would the poorest drop or would more of them join?
- Would the benefits of being part of a group – increased assets, owning more animals and a growing business – increase or level off?
- Would the less tangible benefits – empowerment, solidarity, mutual assistance and standing up for one's rights – be sustained year after year?
- How would these groups link to financial institutions?

The outcomes are encouraging but warrant further research. Are the 50 Savings Groups trained by a single partner representative of the more than 6,000 groups trained by the WEP partners?

The Origins of the Savings Groups Methodology

The “savings group” methodology as it is commonly understood was developed in a remote corner of the impoverished West Africa country of Niger in 1991. From this small beginning savings groups have spread worldwide with 14 million villagers, 80% of them women saving and borrowing in small groups in 75 countries.¹ The largely African and the Nepali programs stem from the same observation. Poor villagers, especially poor village women need a safe and convenient place to save and easy access to small loans.² Financial institutions – banks, cooperatives and microfinance institutions – with rare exceptions, many in Nepal, are not meeting that need.

The Women’s Empowerment Program in Nepal

In 1999, Pact, a US based international NGO, received \$5.4 million from the United States Agency for International Development (USAID) to launch a Village Bank/ literacy/women’s rights/business development program in 21 Districts along the Terai of Nepal. The Terai is the flat, productive lowland sandwiched between Nepal’s mountains and the Indian border. After two years the 240 NGO partners selected to carry out the WEP program had trained 6,230 groups in 21 districts with 130,000 women members. The partners were selected, trained and monitored by WEP’s technical assistance unit.

What WEP achieved was remarkable. In little more than two years WEP had trained more groups with more members in less time than virtually any financial inclusion initiative in the world at that time. As funding for WEP ended in 2001 and the Maoist insurgency spread throughout Terai, many believed that these groups would quickly disband. Instead they proved to be stubbornly resilient. The majority of groups continued saving and lending even though the Maoist

¹ Hugh Allen, VSL Associates, Savix data set

² Sophisticated random control trial (RCT) research in Africa shows that in the villages selected to receive Savings Groups training within two to three years chronic hunger has decreased and families have more savings and more livestock than villages that did not receive this training. With more savings and more livestock and easy access to small loans, families are better able to cope with health emergencies, put food on the table, pay school fees, build businesses and invest in more livestock and agriculture. Seeing that their neighbors prosper, those who have not yet joined groups often ask the leaders of established groups train Savings Groups for them. “The Evidence-Based Story of Savings Groups: A Synthesis of Seven Randomized Control Trials” Megan Gash and Kathleen Odell. A publication of the Savings-led Financial Services Working Group at SEEP

insurgents forced most of the NGOs that had trained the groups to close their doors.

The Current Study

In January 2017 Jeffrey Ashe (who along with Lisa Parrott led the evaluation of the WEP program in 2000) and Achyut Hari Aryal (who oversaw WEP's Technical Unit) carried out a study of the Savings Groups trained Nawa Prativa, one of the WEP partners. Jeff and Achyut, accompanied by the Nawa Prativa staff, spent seven days interviewing 13 of the 50 Savings Groups trained sixteen years earlier. They also developed a model that would extend financial inclusion into the difficulty to access Hilly Regions of Nepal based on their extensive experience with Village Bank programs around the world.³ Extending financial services to the Hilly Regions is challenging. Unlike the villages of the densely populated and economically thriving Terai, not only is access to the villages of the hilly regions difficult, the population is scattered, the level of economic activity is low and literacy is often an issue. It can take hours driving on steep pitched dirt roads and hours of walking to reach these villages.

Studies of the WEP program in 2000 and 2007

The previous studies of the WEP groups provide a context to help understand the findings of the current investigation. The 2000 study was carried as WEP funding was ending and with the local partners actively training and supporting groups. The 2007 study assessed the groups and their impact as the Maoist insurgency ended and when most of the groups had received little or no external assistance for nearly seven years.

Pact's Women's Empowerment Program in Nepal 1999 to 2001:

As the Women's Empowerment Program (WEP) was entering into its final phase the evaluation carried out by Jeffrey Ashe and Lisa Parrott in 2000 documented that:

- 97% of the funds saved by the groups were on loan.

³ Ashe, Jeffrey, Achyut Hari Aryal. "Bringing Village Banking to Remote Villages in the Hilly Regions of Nepal: How Group Members and Financial Institutions can Both Benefit. March 2017

- The leaders of the established groups trained an additional 878 groups showing both the scale of the unmet demand and the desire of the leaders of these groups to share what they had learned.

Furthermore:

- WEP had created the expectation that virtually any woman could start her own business, a new concept in this society where wives were expected only to care for their husbands, raise children and cook and clean. While only 14% of the women had a business before they joined WEP, by the time of the study this percentage had increased to 71%.
- Through the literacy training provided by the WEP partners a majority of those who were illiterate when they joined WEP could now read a simple paragraph. The booklets used for literacy training also taught women their rights and how to run a business and manage a Village Bank. This was literacy training with a purpose.
- In addition, group members launched and participated in 100,000 campaigns against trafficking girls to brothels, child marriage, multiple marriages and alcoholism in addition to many community improvement projects.
- At the time of the 2000 study, as a result of their participation in the WEP groups, many said that they now had more say in family planning, children's marriage, selling property and sending their daughters to school.

The poorest also joined these groups. Of the 130,000 women who joined WEP groups, 56,500 were very poor and were more likely to be agricultural laborers, single heads of household and had never had gone to school.⁴

The 2007 study:

The follow up study carried out in 2007 focused exclusively on the 1,500 Savings Groups that received more training. Over these seven years:

- Two thirds of the groups survived
- The number of groups trained by the leaders of existing groups was nearly equal to the number of groups that disbanded.
- Replicated groups functioned equally as well as the staff trained groups.

⁴ See Annex 1 for more of the findings of the 2000 study

- The size of the loan fund had quadrupled in size as the average number of group members increased by three.
- The program without ongoing support was achieving its poverty objectives. New members were poorer than existing members.

The same empowerment benefits detected in the first study were also sustained and often deepened over these seven years.⁵

The WEP Groups Today: Cooperative Nawa Prativa:

Nawa Prativa trained and supported 50 WEP groups between 1999 and 2001 in the District of Nawalparashi, one of the more centrally located Districts along the Terai. Today the District is a thriving economic hub.⁶ Although Nawa Prativa was a NGO at the time the groups were first trained by 1997 Nawa Prativa had become a cooperative. As a financial institution Nawa Prativa today provides individual loans and savings and retirement accounts as well as building and educational savings accounts to the Village Bank group members. They also trained more than a 1,000 Grameen groups along with a few more Savings Groups. Nawa Prativa was one of the few local organizations that continued to operate during the Maoist period even though through the Director Ram Prasad Kafle was briefly kidnapped and most of the staff were let go.

Between January 10 and 16, 2017 Achyut and Jeffrey accompanied by Nawa Prativa staff visited 13 groups, most of them WEP groups. They also visited Savings Groups trained more recently, a Grameen group and two recently formed groups in the Hilly Regions, one accessible by a seasonal dirt road and the other accessible only by trail.

In brief, these are the findings of the investigation:

1. ***Financial Services for Women are broadly available:*** In sharp contrast to 2000 the market for financial services along the Terai is saturated.⁷ We were told that groups and individual group members were visited frequently by MFIs

⁵ See Annex 2 for more of the findings of the 2007 study

⁶ Ashe, Jeffrey, Lisa Parrott. "Pact's Women's Empowerment Program in Nepal: A Savings and Literacy Led Alternative to Financial Institution Building", 2001

⁷ There are doubtlessly remote areas in the Terai that lack access to financial services where financial institutions are seeking to extend their outreach.

promising larger loans and better interest rates. Financial institutions are largely increasing their market share by poaching customers from each other. The consensus among the members of the groups we interviewed was that there was only a handful in each village who were not receiving services from a financial service provider.

2. ***Extending outreach to this densely populated and thriving region makes good business for financial institutions.*** Financial institutions can be profitable when there is a high level of economic activity and where financial access is year round especially when those who know how to save, borrow and repay their loans are targeted. These institutions are profitable even though the maximum interest a financial institution can charge is 18% on a declining balance in Nepal.
3. ***Savings Groups have thrived over these years as financial institutions have increased their outreach and broadened their services.*** Sixteen years ago the women were saving 2 rupees per week and borrowed a few hundred rupees. Today they are saving ten to twenty times as much with many taking out loans of 10,000 rupees or even more from their groups and even much larger loans from Nawa Prativa. In addition many have individual savings accounts with Nava Prativa, fifteen year retirement accounts as well as educational and housing savings accounts from this cooperative. Many of the women in the groups told us that they also saved in forest user groups and other local organizations.
4. ***This is savings led not credit led microfinance:*** For those who believe that lending is what poor women need in Nepal, this market has been fueled by disciplined regular savings. Savings Groups members recognize the value of setting aside money to meet their long term goals. We learned that when the fund becomes too large for the group to manage they divide it among the members according to what each has saved, generally every three to four years. These payouts average 40,000 rupees per member (the highest payout was 150,000 rupees per member.) The payouts are often used to purchase livestock and invest in a shop thereby generating even more income.
5. ***Savings Groups have had a powerful impact on women starting and growing businesses.*** Although sixteen years ago few of women had a business and they were dependent on their husbands for every purchase, through their

disciplined savings and borrowing and business and livestock investments most of these women now consider that they are middle class. Only a handful in each group considered themselves as still poor defined most often as not being food secure for part of the year.

6. *The status of women in the District has improved:* When these groups were first trained an integral part of the Women's Empowerment Program was to encourage women to become involved in campaigns. There were campaigns against women trafficking to Indian brothels, child marriages, multiple marriages, alcoholism and spousal abuse. According to our conversation with the members of the WEP groups, these issues are no longer loom so large in the women's lives although many said they helped individual women who had suffered these problems. Asked why, one woman summed it up this way, "we are too powerful for them to do anything." They take enormous pride in what they have accomplished in addressing these issues. WEP was only one of the many factors leading to improved conditions for Nepali women. Government policy prohibiting child marriage was enforced and the efforts of many other NGOs focusing on Women's rights were also important.
7. *None of the groups we visited had trained another group.* New VB groups are trained by the Nawa Prativa staff. Although Nawa Prativa during early 2000 developed some incentives system in the form of training to VB groups to train other VB groups but this did not continue as their focus has changed to Grameen approach.
8. *Nawa Prativa is a model of how to a financial institution with a strong sense of mission can have a positive impact on women in poor communities* An important factor in promoting these changes is that Nawa Prativa has a vision of improving the lives of the women in the communities where it works which goes beyond maximizing profits. Serving the community is also good business. The women in the groups we spoke to are loyal to Nawa Prativa even though other financial institutions are trying to secure their business. They cite the good treatment they receive from staff and the useful products Nawa Prativa offers. Nawa Prativa also supports groups in the hilly regions even though this is not profitable. It also provides scholarships to the children of ultra-poor villagers.

The growth of Nawa Prativa has been remarkable. Starting as a small NGO

providing literacy training to 250 village women through World Education between 1999 and 2000 its staff trained 50 Village Bank groups with 1,000 members. Nawa Prativa is currently providing its services to 90 Savings Groups (27 of them trained through the WEP program and the rest more recently) and slightly over 1,000 Grameen groups. These groups have a total of 23, 000 savers and 12,000 outstanding loans.

Since 2011:

- Share capital of the cooperative has grown from 2.8 million to 33.5 million rupees.
- Saving deposits increased from 31.5 million to 336 million rupees.
- Outstanding loans have grown from 63.4 million to 600.2 million rupees (about half of the loan capital comes from commercial banks and RMDC and the rest is generated through member savings.)

Grameen groups are more profitable than the Savings Groups – Nawa Prativa can relend the considerable savings the groups generate as all the funds are managed centrally. While Savings Groups manage their own funds Grameen groups require a permanent institutional presence.

Nawa Prativa has expressed its interest in expanding its work further into the Hilly Regions. How to introduce financial services in these areas without subsidy and with an eye to future profits building will be the subject of our future work.

Annex 1

Pact's Women's Empowerment Program in Nepal: A Savings and Literacy Led Alternative to Financial Institution Building: Jeffrey Ashe, Lisa Parrott, 2001

In 1999 Pact received a \$5.4 million grant from USAID to launch a microfinance program in the lowland Terai region of Nepal. It was assumed that the groups would link to microfinance institutions once they were trained by the 240 local NGOs Pact supported. Since no microfinance institution had the capacity or the interest to lend to the groups, the groups by default became stand alone mini-financial institutions.

The outcomes:

- By the time of the study in 2001, 130,000 women had been organized into 6,265 groups; 96% of the groups were still active at the time of the study.
- Showing the scale of the unmet demand, the average group was considering eight new members. Those who joined were more likely to be poor than better off.
- The amount each group managed increased two thirds compared to the previous year as weekly savings more than doubled from \$.20 to \$.45 per week.
- Virtually all (97%) of the group fund was on loan and demand for loans exceeded the fund the group managed by an average of \$54 per member. When asked how they would meet this demand, 75% said through increased savings and collective income generating activities. The rest said they would seek out loans from a bank or a MFI. As one group member said, "Why pay them when we can pay ourselves." Some who joined Savings Groups had left MFIs that they said served them poorly.
- Showing their commitment to share what they had learned, leaders of established groups trained an additional 878 groups with 17,500 members. Thirteen percent of the groups trained at least one additional group.

Poverty outreach:

Rural women in Nepal are among the world's poorest subsisting on \$120 year of highly irregular income per year. Of the 130,000 group members, 58,500 were among the poorest living on \$75 per year or less. These are the ultra-poor. They are:

- More likely to be widows (4% vs. 1% for the better off), heads of household (22% vs. 9%) and commonly worked as agricultural laborers, left the area to work and sold their possessions when money ran short. The poorest cut back on what they ate for months every year while the better had enough to eat all year.

- 63% had never gone to school and several thousand had only been recently released from generations of permanent debt servitude. While the “better off” WEP members owned 13 household items, the poorest owned only five.

The poorest used their loans for survival – food, clothing and school fees. The better off used their loans for investment – business, sending their children to private schools and purchasing household items. Both the poorest and the better off found good use for their loans.

Further Outcomes:

- WEP’s focus on teaching basic business skills through its literacy curriculum and its emphasis on business training was successful. The percentage of members with income generating activities increased five-fold from 14% before joining their group to 71% at the time of the study. Business income increased twelve-fold in just two years.
- Literacy training was a major focus of the WEP program. The women interviewed read a simple paragraph as part of the interview. Most of those who had never gone to school could now read the paragraph “easily” or “with some difficulty” a major accomplishment. Unlike most literacy programs the trainers were volunteers.
- The 6,500 groups initiated over 100,000 collective activities with social campaigns – to protest the trafficking of girls, child marriage, spousal abuse and alcohol consumption – twice as frequently as infrastructure and village cleanup projects.
- Overall the women said that they felt that their sphere influence had increased in the areas of family planning, their children’s marriage, buying and selling property and sending their daughters to school. (The impact was greater for the “better off” than the “poor” by 6% to 20% depending on the category but it was still substantial even for the poorest.)

The cost, \$18.42 per group member considering only field related in country costs not factoring in the groups trained by volunteers. The cost is closer to \$40 when Pact’s overhead and the salaries of expatriate staff are factored in.

Annex 2

Women Ending Poverty, The Worth Program in Nepal: Empowerment Through Literacy, Banking and Business 1999-2007 Dr. Linda Mayoux, Valley Research Group June 2008.

How did the WEP groups fare years later? Linda Mayoux's study of WEP groups six years after they no longer received staff support. Her study shows that they fared remarkably well considering that that the lowland Terai region where Pact worked fell under Maoist control and the government collapsed. Mayoux's study focused only on the 1,500 of the 6,500 WEP groups that received additional training. There is no information on how the rest of the groups fared.

Over the six years between the two studies and with no support from outside agents:

- Two thirds of the 1,500 Savings Groups were still saving and lending.
- The assets of the remaining Savings Groups had grown three times to \$3,100 as group membership increased from 23 to 27.
- The number of Savings Groups that disbanded (500) was largely compensated for by the 425 new groups trained by volunteers from established groups.
- The performance of the replicated groups was similar to that of the trained groups.
- Most of the new members of the established and replicated groups were poorer than existing members.

Impact on group members:

- 83% of those surveyed say they are able to send more of their children to school
- Three quarters said they helped members deal with domestic disputes.
- The overwhelming majority report that they have increased access to health services
- Two thirds of the groups are currently engaged in community action
- Three quarters say that they have done something to help others in the community often using their knowledge to counsel others about saving and borrowing.
- Half use their group funds to help those in need who are not group members.
- One in ten says that being part of the group has helped change her life because of the impact on domestic violence.
- Most report that they have become leaders in their families and communities

- Half said that being part of a group made them better able to cope with the Maoist crisis and crumbling government services.

To quote Dr. Mayoux, “For almost a decade WEP has proved remarkably robust and resilient in the hands of poor women who faced daunting obstacles. Yet for all this documented success, WEP and other savings-led microfinance programs remain among the best kept secret in the world of international development and poverty alleviation. ... (T)hey go almost unnoticed by the \$30 billion credit-led microfinance industry.” (p11)