IMPORTANCE OF SAVINGS

By MOIN QAZI

Some 30 years ago, the field of development finance was born from a radical concept: poor people, when lent small amounts of money, pay it back in a timely manner. In the meantime, that money can be put to use in ways that help boost income — goat-farming, or carpet-weaving — and, ostensibly, raise a family's standard of living. Now another radical concept is starting to take hold: that the thing people really need, more than business loans, is a safe place to save their money. It's what development expert Robert Vogel calls the "forgotten half of rural finance."

Savings is money put aside by an individual or household for use in the future. A key to good money management, savings help individuals and households manage risk, deal with emergencies, smooth income, build assets, and meet financial goals. People save by putting money aside when it comes in and by spending less .

Savings services can be a useful entry point for the unbanked to build up a history with the formal financial institutions before customers are entitled to other financial services. With the greater spotlight on knowing the customer and the fact that poor households do not have a salary slip, utility bills, clear land titles or unique identity papers, a regular savings record could be the first building block to membership of the formal financial sector. What is more, with savings services, poor customers need to trust the financial institution and not the other way round.

Hence for a poor customer to trust a Financial institution his saving needs to be easily accessible, confidential, and not linked to borrowing. Most poor people do set aside money, if in small amounts and irregularly, not because they have income left after meeting basic needs, but because their needs include larger purchases like medicine or clothing or spending at religious and family ceremonies that cannot be matched by the uneven trickle of income. Indeed, while the capacity of the poor to borrow and save may be surprising, their need to do so is greater than it is for the better-off. Precisely because their incomes are tight, ways to manage mismatches between often-volatile incomes and consumption can be a matter of survival.

Saving has generally been neglected in the poverty-alleviation programs. The meager earnings of street vendors, artisans and operators of micro-enterprises allow savings that have been too small and irregular to attract the development of organised mechanisms for their accumulation in a financial system. The lack of micro-financial system to accommodate savings has encouraged rural people with some surplus to buy jewellery or gold as security, rather than devote their earnings to investments. Saving money at home – dropped into a mud bank, tucked between roof-sheets, or tied into petticoat – was convenient enough, but very hard to protect from myriad tiny spending needs, and from the predations of mothers-in-law and cousins with hard-luck stories could be a great risk

It is only recently that savings have been given an equal place with credit in development finance. To rectify the balance, a “no credit without prior savings” approach to development finance came into being, best . Under this approach members have to establish a prior history of savings, and the amount of credit extended by the bank is geared to the amount of savings. Savings already account for about one third of the funding base of Bangladeshi Micro Finanace Institutions.

Evidence shows that the poor will hold savings accounts with financial institutions if the savings facilities meet their needs. To encourage deposits, institutions must have the characteristics that clients value. They must:

- demonstrate that the institution is a safe place to store deposits;
- provide clients with quick access to deposits;
- provide a range of services (e.g., clients also value longer-term accounts, for example, for old age or widowhood);
- have low transaction costs. The cost of making a deposit and of liquidating it should not be higher than the benefit;
- provide a real interest rate on savings

Ways to Save

Managing money well begins with hanging on to what you have. This means avoiding unnecessary expenditure and then finding a safe place to store whatever money is left over. Making that choice—the choice to save rather than to consume—is the foundation of money management

You can choose to save through formal, semi-formal or informal institutions, and in the form of cash or non-cash.

Non-cash forms of saving are assets, such as jewelry, consumer durables, or livestock that can quickly and easily be converted to cash and generally retain their value. Land is also an asset in which you can invest and hold your savings; it retains its value but is less liquid than livestock.

Informal savings include saving cash at home, which keeps your cash very accessible and allows you to avoid the transaction costs associated with saving at formal savings institutions. This form of informal savings has two significant disadvantages: the temptation to spend the money and the risk of theft. You need strong discipline to both avoid spending these savings yourself and deny the pleas of other family members. Furthermore, money saved at home does not earn any interest, and thus may lose value over time. Saving in-kind (gold, livestock or land) is another form of informal savings.

Semi-Formal savings encompass deposit collectors and group savings mechanisms, including rotating credit and savings associations (ROSCAs), village banks, solidarity groups and self-help groups. Familiar and simple, the group mechanism encourages discipline, scrutiny and support among members.

The advantage of ROSCAs is that each member receives a lump sum of money at one time, with no loan or interest payments. However, a corresponding limitation is that members typically do not earn interest on money they have saved. Members of self-help groups borrow from their collective savings with the obligation to repay with interest, but they also receive periodic dividends. Limitations of group savings include instability of the groups, disagreements among members, and limited access to funds.

Formal savings involve financial institutions, including banks, credit unions, cooperatives, post offices or development finance institutions, and offer another widely used option for saving cash. Savings in these financial institutions are generally safe and earn interest. They offer a range of savings accounts tailored to different financial needs.

Savings Options at Formal Financial Institutions

Formal financial institutions offer a wide variety of savings products.

Regular or passbook savings is the most widely used type of account for regular transactions because the timing and amount of deposits and withdrawals are flexible .Account transactions are tracked through a passbook, and a minimum deposit is generally required –though now zero based accounts for are allowed in some cases -in order to open the account. This account is appropriate when you need to make regular deposits and withdrawals, and require easy access to your savings. The Post Office Saving Bank (POSB)which has the largest network of post offices offers 4% interest and as the village post office is generally manned by village staff , the atmosphere is conducive to the villagers specially as many are illiterate .

Contractual savings are an alternative form of savings that require you to deposit a fixed amount on a regular basis over a pre-determined period of time. Although contractual savings can be structured in many ways, access to savings often is restricted until the contract is fulfilled, and you will be charged a penalty for withdrawing your funds early. This type of account will be useful if you have a regular source of income that enables you to meet a commitment to save at regular intervals for future goals. In the POSB the Monthly Income Scheme and in the banks the Term Deposits scheme can be availed

Time deposits require a fixed sum to be deposited for a pre-determined amount of time and interest rate. They are not accessible during this period of time, but generally yield a higher interest rate than regular or contractual savings. You may be interested in this account if you receive a lump sum of money that you do not need immediately. To save for a future goal and earn maximum interest, you can use this account to place that money out of reach for a pre-determined amount of time. You choose how long that period will be based on your estimation of when you might need the money. Time deposits vary from six months to five years, and typically, the longer the time period you choose, the higher the interest rate will be. The Post Office has a number of Time Deposit schemes and so do the . The Post Office also has a number of Saving Instruments such as National Saving Certificates , which besides being eligible for tax exemption offer 8-5 % interest for five years and 8,8 for 10 year certificate and can be used as collateral security for loan .

Considering the importance of savings in bettering the life of marginalized groups , the government machinery , self help groups and various NGO’s should make all out effort in creating awareness and cringing about financial inclusiveness.