



### A Study of the Chars Livelihood Programme in Northern Bangladesh

*The temporary islands and embankment areas, or chars, of the Jamuna River in northwest Bangladesh are home to three million people: poor and isolated, these rural communities face multiple livelihood challenges. Opportunities to smoothen irregular household cash-flow are limited and households in the region regularly adopt severe coping strategies – such as the distress sale of assets and reduced food intake – to meet consumption and emergency needs. The Chars Livelihood Programme (CLP) aims to ensure that most poor char dwellers in the Jamuna River Basin have access to appropriate financial services through Savings Groups.*

#### Savings Groups

Savings Groups (SGs) refer to self-managed community-based groups that provide their members access to basic financial services. SGs are composed of 15 to 25 self-selected individuals who meet regularly (usually weekly or fortnightly) to save and, if desired,

borrow for short periods, paying monthly interest at a rate set by the group. After approximately 12 months, all savings and earnings are distributed back to group members (often referred to as a share-out). The earnings usually are distributed in proportion to their savings. SGs respond directly to the unmet financial services needs of the remote and rural poor by providing: i) a secure place to save; ii) the opportunity to borrow in small amounts and on flexible terms; and iii) affordable basic insurance services. SGs aim to increase household financial assets and to decrease household vulnerability to financial and other shocks.

SGs are a simple, transparent, cost-effective and sustainable means of providing entry-level financial services to people who are too poor or isolated to be served by other financial service providers. For this reason, they are being actively promoted by leading international development agencies including CARE, Catholic Relief

Services, Oxfam America, the Aga Khan Foundation (AKF), PLAN International and others including national and local partners. The number of SG members has grown rapidly to about three million people at the end of 2009, mostly in Africa, but with increasing numbers in Asia, including Central Asia, and a few in Latin America. Savings Groups are complementary to other financial services; some SG members also use financial services from other providers.

#### Learning Initiative Objectives

This research study is one of a series of studies sponsored by AKF's Savings Groups Learning Initiative funded by AKFC and The MasterCard Foundation. The Initiative examines how SGs are used as a *platform* for development activities and how *linkages* to other services take place and with what benefits to group members. It considers how financial services combined with other development activities add value for individual members of the groups, for

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the groups as entities in themselves, for the agencies facilitating SG development and offering the linked activities, and for the wider community. The Initiative also explores the sustainability and replicability of SGs, thus examining long-term access to financial services for the poor.

### Context

The economy of the Jamuna River Basin is highly dependent on agriculture, resulting in few local employment opportunities for char dwellers. The period between planting and harvesting the rice crop is characterised by seasonal hunger for many households. In years of drought or flood, destruction of the rice crop further prolongs and intensifies the period of seasonal unemployment and subsequent food shortage. For the poorest households, this seasonal decline in employment can often lead to the sustained reduction of income, assets and consumption.

The Chars Livelihood Programme (CLP) of the Department for International Development (DFID) focuses on improving livelihood security and reducing the physical vulnerability of island char dwellers through an intensive package of investment capital, basic infrastructure, training and financial stipends.

### Asset-Transfers and VSLAs

The CLP's centrepiece activity is the Asset Transfer Programme (ATP), which provides investment assets to the 55,000 poorest char households in the working area. Beneficiary households receive a package of physical assets (mainly livestock) and an 18-month cash stipend worth a total of about Tk.20,000 (US\$300), the equivalent of roughly

one-year's household income. CLP also provides each household with a package of social, livelihood and market development inputs and training worth a further Tk.20,000.

CLP estimates that only 10 percent of its beneficiary households have a savings account with a bank or MFI, and formal insurance services are completely nonexistent in the chars. As a result, opportunities to smoothen irregular household cash-flow are limited and households are forced to regularly adopt severe coping strategies to meet their needs. In 2006, the CLP piloted SGs, referred to as Village Savings and Loan Associations (VSLAs); in 2007, CLP began facilitating VSLAs amongst the ATP groups.

CLP's initial approach to introducing VSLAs to pre-existing ATP groups proved problematic. Many of these ATP groups, especially in the earlier phases of the programme, were composed of individuals from different villages. The geographical dispersion of members led to an increase in the costs of participation (travel time and costs) and reduced the attendance and participation of members residing farther from the VSLA meeting site. These groups also lacked the trust and social cohesion of the pilot groups, which were composed of self-selected members.

CLP revised its mobilisation strategy; instead of using pre-existing ATP groups, the programme promotes VSLAs at the village-level on the basis of voluntary participation and member self-selection. As well, the inclusion of non-ATP beneficiaries in VSLAs has transformed the ATP groups from a group of individuals organised for the discrete purpose of an asset-transfer to

an inclusive community institution that will likely generate social and economic benefits long after the withdrawal of CLP from the area.

## Programme Outcomes

A quantitative study which surveyed 540 CLP beneficiary households found the average monthly household savings of ATP beneficiaries not participating in VSLAs is Tk.40 (\$0.58), the equivalent of half the local agricultural day wage. First-cycle VSLA members report an average monthly household savings of Tk.184 (\$2.70); while second- and third-cycle VSLA member households report to have saved an average of Tk.218 (\$3.10) and Tk.209 (\$3.00), respectively. Nearly all VSLA member households reported saving during the month of monitoring, while only 28 percent of non-VSL participants reported saving.

Participation in a VSLA also changes the *manner* in which households save. Non-VSL participants hold 70 percent of their savings in the form of cash in the home and deposit more than 20 percent of their savings in various insecure options such as village savings clubs. In contrast, VSLA members deposit an average of 50 percent of their household savings in their VSLA, holding only 33 percent in the form of cash at home. Accordingly, 85 percent of members surveyed report that the VSLA has provided them with their first opportunity to save securely.

Survey results show that the household income of VSLA members increases significantly over the first two savings cycles and then appears to stabilise. While the notable increase in income cannot be attributed exclusively to

participation in the VSL Programme, the significantly greater income of members, compared with non-VSL participants who received the same ATP package, suggests that participation in the VSL Programme has a positive impact on household cash income.

VSLA members also experienced improved coping mechanisms. Access to grants and flexible interest-free loans from the VSLA emergency fund allows members to manage food scarcity. VSLA members are significantly more likely to feel respected in the community than non-members. Lastly, participation in a VSLA appears to have significant impact on the household decision-making process. In male-headed households, female VSLA members report playing a greater role in household decisions related to consumption and a significantly greater role in financial decision-making.

## Sustainability

*Programme Sustainability:* An independent survey of 280 VSLA participants in February 2009 estimates an 86 percent survival rate of VSLAs promoted in 2007, similar to the actual survival rate after three years of 84 percent measured in the VSL pilot groups (started in 2006).

*Impact of CLP Stipend Withdrawal:* One would expect that the end of the 18-month stipend period would have an impact on the VSLA activities of ATP beneficiaries, particularly on savings mobilisation. However, the survey found that the end of CLP stipend support did not appear to have an immediate outcome on savings mobilisation, providing evidence that the withdrawal

*Through increased operational and budgetary efficiency, CLP and its partner NGOs have demonstrated that it is feasible to provide basic financial services to the very poor and remote populations of its target area.*



Access to grants and flexible interest-free loans from the emergency fund allowed VSLA members to manage food scarcity. Members record savings and loan disbursements in their passbooks.

Following monsoon flood seasons, the period between planting and the harvest of the aman rice crop from September to November is characterised by seasonal hunger (monga) for many households.



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of the cash stipend does not adversely affect the performance of active VSLAs.

*Security of VSLA assets – Resistance to Flood and Theft:* Over the past three years, VSLAs have demonstrated resiliency to severe floods and extremely low vulnerability to theft. Floods in August 2007, reported to be the harshest in the country in over half a century, suspended economic activity completely for nearly one month and displaced many char dwellers. In some areas, VSLA activities were temporarily suspended for up to a month, but all resumed normal activities shortly after flood waters subsided. After the floods, there were reports that VSLA cash-boxes were fastened to roofs, moved to neighbouring villages and even buried to protect them. Not a single VSLA failed or lost assets due to the floods. In three years, among the 1,270 VSLAs promoted by CLP, only three have experienced a theft or loss of funds.

savings and decreased expenses on debt repayment. There is also a clear substitution effect in that VSLA members replace various informal financial services with services from their VSLA. VSLAs provide easy, flexible access to credit in small amounts appropriate for the poorest. Savings invested in VSLAs have historically generated an average return of 38 percent per annum. Savings in VSLAs are also more secure than cash saved in the home or a village savings club. Finally, participation in VSLAs results in decreased dependence on restrictive (and sometimes exploitative) informal financial services, thereby reducing household vulnerability.

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### Lessons Learnt

Compared to ATP beneficiary households that have not participated in the VSLA Programme, VSLA participants appear to earn greater incomes. The opportunity to save created positive new financial behaviour such as increased

*Brief based on research and case study sponsored by the Aga Khan Foundation's Savings Groups Learning Initiative, written by David Panetta of VSL Associates Ltd. and Kate Conroy of the Chars Livelihoods Programme (DFID) in October 2009.*

The Aga Khan Development Network (AKDN) is a group of private development agencies working to empower communities and individuals, often in disadvantaged circumstances, to improve living conditions and opportunities, especially in Africa and Asia. Its agencies work in over 30 countries for the common good of all citizens, regardless of their gender, origin or religion. Its underlying impulse is the ethic of compassion for the vulnerable in society.

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