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# Informal Saving Mechanisms of the Poor: An Analysis of Household Participation of the Nawabs of Lucknow in the Informal Savings Sector

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The global recession might end soon, but there are no signs of the woes of the poor in third world countries settling down. The impact of the recession is huge- there are definite signs of job losses, loss of income, high expenditures and an unusual increase in food prices. It then becomes just unimaginable when we take into account the poor from the third world countries, whose lives depend upon earnings which are vulnerable to economic fluctuations and seasonality. This dilemma of poverty becomes more pathetic when these earnings are just less than $2, working for more than eight hours a day. How can one survive in such conditions of haplessness and misery? Do they compromise on the education of their children or do they make compromises on the health front? To an extent yes - families reeling under extreme poverty make compromises on all fronts- education, health and the quantity of food stuff they eat daily. Every day of their lives is spent struggling to earn a living, so that the children at home don't sleep hungry and hence the big question remains, what keeps them afloat?

The answer lies somewhere in their social structure, which helps in maintaining strong social networks and ties among the members of the neighbourhood and sometimes even employing financial tools, many linked to informal networks and family ties, which according to Coleman (1990) is the *social capital* of the society - a 'glue' that binds people together (Putnam, 1993; Putnam, 1995; Portes, 1998; Shuksmith, 2000). Social capital consists of norms, networks and horizontal associations (Putnam, Leonardi and Nanetti, 1993), that have important economic consequences for development outcomes including growth, poverty and poverty alleviation (Gootaert, 1996).

The networks formed as a result of social capital are structures of relationships linking social actors—and are ubiquitous in contemporary society, especially among the poor in third world countries. They regulate the flow of information, the formation of social norms, the establishment of authority and the administration of sanctions against anti normativebehaviour, and trust plays a fundamental role in these processes (Coleman, 1988; Burt, 1993; Lin, 1999; Putnam, 2000).

Networks not only provide emotional support in times of crisis, but are also, an instrumental aid for individuals whose social and economic disadvantages place them "beyond the frontier" of formal finance (Von Pischke, 1991), successful financial intermediation is often accompanied by social intermediation. Social intermediation prepares marginalised groups or individuals to enter into informal networks often known as Rotating Services and Credit Associations (ROSCA's) which are groups developed by their members at the grass root level. They bear different names in different countries, for example, in West

Africa they are *tontines, paris, or susus;* in South Africa they are*stokvels;* in Egypt they are *gam'iyas*; in Guatemala they are cuchubales; in Mexico they are *tandas* (Krahnen and Schmidt, 1994), *hui* in Taipei (Armendariz de Aghion and Murdoch, 2005) and in Lucknow, India they are ***Beesi***. As Geertz (1962) points out, these associations serve as efficient institutions for amassing savings for small capital expenditures- an important aid to economic development.

**Beesi Savings Committees Among the Poor**

*Beesi*are informal savings committees structured like ROSCAs, as discussed and analyzed by Besley et al. (1993, 1994). Individuals voluntarily form groups and meet at regular intervals. At each meeting, members contribute a fixed amount to a central pot, and take turns receiving the pot. The order of receipt is determined either by lottery or through agreement of the members. One motivation for such committees is as ashort-term accumulation instrument to facilitate the purchase of durables. Besley and Levenson (1996) discuss the role of the *hui*in Taiwan in the accumulation of durable goods. With repeated participation, or very large groups, these committees can also function as a longer-term savings instrument. For instance, in Lucknow, the mean group size is around 20 (*bees* is the Urdu word meaning twenty) and most groups meet monthly. Thus, some members wait nearly two years before they "withdraw" their deposits from the committee. Late recipients are typically compensated for their delay, and thus many individuals purposefully view these committees as savings instruments that may yield high returns. While the order of receipt is typically determined in advance, exceptions to the ordering may be made when a member has a specific need, enhancing the liquidity of what is otherwise a fairly rigid instrument. However, covariant shocks among group members make it likely that a time of need for one member will also be a time of need for other members. Thus, security is more of a concern for depositors to *Beesi*savings committees.

One additional important characteristic of *Beesi*is that they tend to form around social groupings, with members of a given group typically residing or working near each other. These connections allow the groups to overcome problems of information and enforcement. However, it is precisely this "closeness" that renders these committees vulnerable to group-wide income shocks that cause members to default and threaten the solvency of the committee.

**Beesi Networks of Nawabs of Lucknow**

The word *Beesi* comes from the word Urdu word '*Bees*' meaning twenty participants who have agreed to pay a certain sum in instalments to an Organiser, who himself/herself is one of the participants in the network. But these days these *Beesi* networks need not have twenty participants. There can be many more participants according to the amount of money being invested and the duration of the *Beesi*. The mean group size of the *Beesi* network is 23 Nawab families in Ghazi Mandi while it is 60 in RaeesManzil. Out of these 60 members only 37 members belonging to the Nawab families were involved in *Zardozi* were researched upon. The Ghazi Mandi groups meets at an interval of one month and the instalment for each participant of the network is Rs 1000 ($20.83) receiving Rs 23000 ($ 479.166), while the RaeesManzil*Beesi* network has 60 members who meet every week for a draw and saves Rs100 $ (2.08) per week, each member getting Rs 6000 ($ 125). This weekly draw, according to the participants, creates a sort of interest among all the participants who are interested in the pot. In both cases the draw of the recipients is done in front of all the members present through a lottery.

**The need to save money**

According to Shafia (BeesiOrganiser) people put money in *Beesi* because they need someone to save money for them and here they are under obligation to save money as instalments, which otherwise they are not bound to do so. Participants use their money for their daily use, buying jewellery, education, building a house and most importantly for repaying debts etc. Many women who participate in my *Beesi* seek to get money out of their household without letting their husband know about it and they find putting money into *Beesi* more profitable rather than saving in the bank.

The beauty of saving through *Beesi* is that it empowers people with a mechanism which is simple and does not require any collateral. Women particularly feel empowered as it can help them save sums of money in secret which are not possible to obtain from their husbands. It is a boon for the poor who need lump sum amounts for making large purchases, by translating small bits and pieces of their hard earned money into a large chunk that can be used to fund a major purchase.

Sultana (BeesiOrganiser from RaeesManzil,Husainabad) says "I don't keep members who live far away from RaeesManzil. Almost all the members are from RaesManzil and neighbouring localities. If any of the members are unable to give their instalments on time then a fine of Rs 5 ($ 0.10) is imposed per day and that money is transferred to the member who gets the pot that month. Fines are given by the members and in case the instalment comes and the fine doesn't then in that case I put in some Rs.5-Rs.10 ($0.10-$ 0.20) if I know that the household paying out the fine is poor and doesn't have much monetary resources in hand then sometimes I payout the fine by letting them know about it. Most of the members here in RaeesManzil are poor *Zardoz* who earn very little on a weekly basis. Hence, keeping in mind the weekly payment system of the *Zardozi* occupational group, I have started organising the *Beesi* where the payments of the pot are distributed on weekends and this suits their lifestyle. We have to use the *Beesi* money for paying out the debts of the members as many have defaulted and left the network.. From the money which I saved for *Beesi* I have arranged for the dowry of my two elder daughters for their marriage. I have also fixed some money in 'Marriage Endowment Policy' for my younger daughter Daisy (17) and also have kept additional money for her education...."

Sultana knows the behaviour of the people in her neighbourhood for they are poor and can default. Many people from her neighbourhood have defaulted after getting the *Beesi* payments, due to which debts of Rs.1.5 lakhs ($3125) have accumulated on her shoulders to be paid to the members. She is paying her debts through the *Beesi*, but remains silent on the names of these people for she follows strict principles, and never leaks any information of her members to anyone. She refuses the absconders and defaulters from access to future cycles of *Beesi*.

People turn up in anticipation of the pot which according to Anderson, Baland and Moene (2003) is the "early pot motive" for ROSCA (Rotating Services and Credit Association). According to Beatriz Armendariz de Aghion and Morduch (2005), the assumption of impatience also matters to the early pot story; otherwise households would be content to save up on their own.

**Conclusion**

The narratives presented through this research paper are evocative and tend to present before us real life experiences and situations which have been a part of one's life. The hard realities are mind boggling and are a representation of how people fight with poverty and forge ways to survive in even the harshest of conditions.

We have seen that there is a sense of a strong social capital is found among the members of the Nawab community and other poor living in the same neighbourhood. Beesi is such an example where people come forward and manage their financial resources with outmost responsibility.

Disappointment with the effectiveness of 'formal' financial systems in fostering economic growth has led to a reevaluation of the role of informal finance. One of the most ubiquous 'informal' institutions is the so-called Rotating Saving and Credit Association

(Roscas), here in this case is Beesi.

The Zardoz Nawabs households face challenges of poverty that impact not only their livelihoods but make them suffer on many fronts – literacy, health, income. Having been left with little choice on their economic front, they remain unaware of how to save money and which financial instruments to use for their small savings. Without access to proper savings instruments and financial literacy, they remain at risks. For instance, when health crises strike which leads to broader economic problems, they have rely on friends, neighbours and relatives for small sums of money. The results also show that the poor have room in their budget for savings and understand the need to save and its prime example is the use of *Beesi*, which gives them the opportunity to save over a long span of time. The lump sum amounts received through *Beesi* are well planned for spending on various needs ranging from small day to day needs to life cycle needs, emergencies and investment opportunities and of course in their religious life. *Beesi* tend to blur the distinction between saving and borrowing. Members are transformed , one by one from net savers into net borrowers. This happens because the basic mechanism is the intermediation of a series of small pay-ins into a single large payout, and this mechanism is true for savers and borrowers.

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