

Small Savings Schemes in India and the Saradha Scam

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One of the features of the current [Saradha scam](#) which is distinct from other such scams like the Sanchayita, in West Bengal, is that majority of the people who deposited money in Saradha are rural poor people. Why did rural poor people keep their money in fraudulent companies like Saradha and not in small savings schemes of the government? This is a very important question which needs to be looked at to pin point the role of the central government and state governments in facilitating the activities of companies like Saradha.

If we look at the savings portfolio of the household sector in India we will find that between 2000-2005 financial assets consisted of 12.8% of GDP while physical assets accounted for 12.9%. However between 2005 and 2010, the financial assets increased to 15.6% of GDP while physical assets decreased to 11.8% of GDP. In other words there was a greater degree of financialisation of savings in the second half of the last decade. Within financial savings bank deposits accounts for the largest share 51.6% (2005-10) increasing from 37.8% in 2000-2005. The share of life insurance fund and share of shares and debentures also witnessed significant increase. However, there was a drastic fall in the share of claims on government which decreased from 19.5% in 2000-05 to only 2.6% in 2005-10 (All data quoted from Report of the Sub-Group on Household Sector Saving during the Twelfth Five-Year Plan (2012-13 to 2016-17) (Planning Commission)). Now, this claim on government category is mainly the small savings schemes. The amount of net collection of small savings, at the all-India level, fell from Rs 67570.68 core in 2005-06 to (-) 15283.20 core in 2011-12 (Indian Public Finance Statistics, 2011-12). In order to get a comparative picture of the reduction in small savings, the following table shows the growth rate of bank deposits and growth rate of small savings.

Table 1: Growth Rate of Bank Deposits and Small Savings Deposits (in %)

| Year | Bank Deposits | Small Savings Deposits |
|---------|---------------|------------------------|
| 2002-03 | 16.1 | 19.8 |
| 2003-04 | 17.5 | 19.4 |
| 2004-05 | 13 | 22 |
| 2005-06 | 24 | 16 |
| 2006-07 | 23.8 | 9.3 |
| 2007-08 | 22.4 | -0.2 |
| 2008-09 | 19.9 | -1.4 |
| 2009-10 | 17.2 | 8.8 |

Source: Report of the Committee on Comprehensive Review of Small Savings Fund, 2011

This huge decline in small savings holding is because of two reasons, (a) a decline in the interest rate of these schemes (b) the availability of other financial instruments in the market with the policies of liberalisation, according to the Planning Commission Sub Group on Household Sector Saving for the 12th Plan. In other words therefore this huge decline at the all-India level of the collection of small savings was policy induced; the policy of reducing the interest rate on small

savings. Successive committees on small savings scheme like the Reddy Committee and the Rakesh Mohan Committee advocated that the interest rate on small savings scheme should be reduced and aligned with the market. [The Shyamala Gopinath committee on Comprehensive Review of the National Small Savings Fund, 2011](#) reiterates this view.

The extent of reduction of the effective interest rate on small savings schemes is shown in the following table.

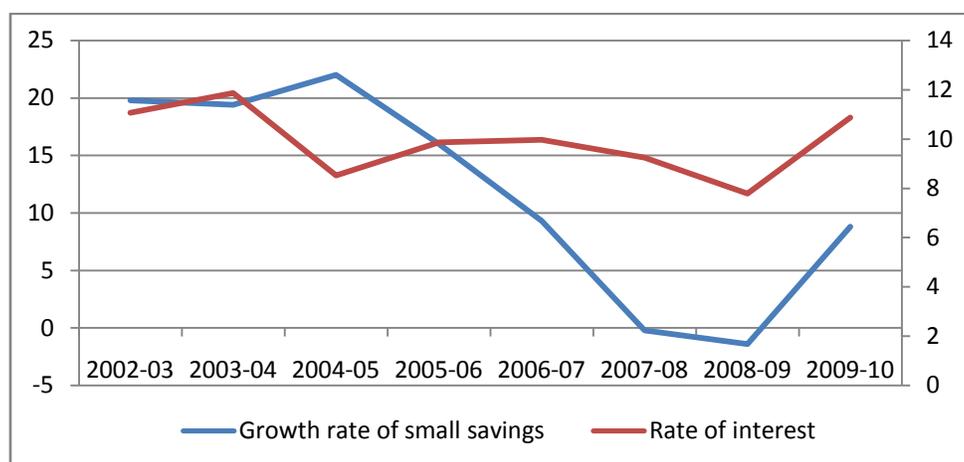
Table 2: Effective interest rate on small savings schemes (in %)

| Year | Effective interest rate |
|-----------|-------------------------|
| 1999-2000 | 11.46 |
| 2000-01 | 12.27 |
| 2001-02 | 9.82 |
| 2002-03 | 11.06 |
| 2003-04 | 11.86 |
| 2004-05 | 8.53 |
| 2005-06 | 9.86 |
| 2006-07 | 9.97 |
| 2007-08 | 9.25 |
| 2008-09 | 7.79 |
| 2009-10 | 10.87 |

Source: Report of the Committee on Comprehensive Review of Small Savings Fund, 2011

The correlation between the rate of growth of deposits in small savings schemes and the effective interest rate is clearly visible in the following chart.

Chart 1: Rate of growth of Small Savings Deposits and the Effective Rate of interest (in %)



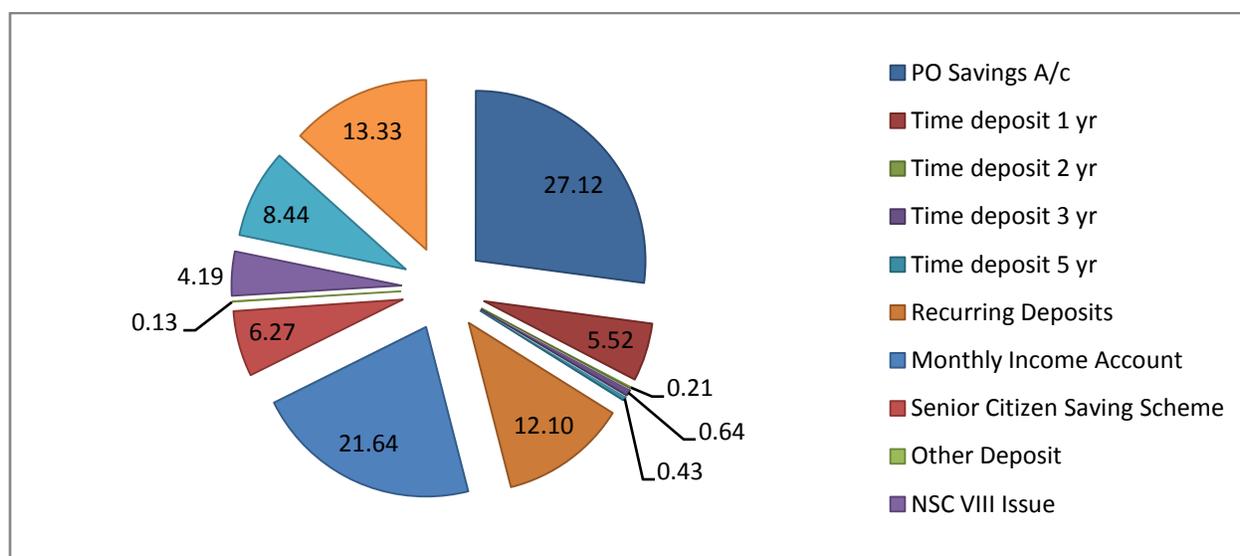
Source: Same as Table 2

Note: Rate of interest is measured on the right axis

It is therefore clear from the above that the small savings scheme deposits have a direct relation with the rate of interest offered on the schemes. There are however a few more issues regarding this which needs to be looked into to get a complete picture.

The composition of the overall small savings deposits into various schemes is shown in the following chart.

Chart 2: Composition of Small Savings Schemes Deposits (in %)



Source: Same as Table 2

From the above it is seen that Post office savings account for 27% of the total deposits followed by the Monthly Income Account, followed by the recurring deposits in post offices. The rate of interest on all these schemes over the last three years is shown in the following table.

Table 3: Rate of Interest on Various Small Savings Schemes

| Schemes | 2011 | 2012 | 2013 |
|------------------------------|------|------|------|
| Savings Deposits | 4 | 4 | 4 |
| 1 Year Time Deposit | 7.7 | 8.2 | 8.2 |
| 2 year time deposit | 7.8 | 8.3 | 8.2 |
| 3 Year time deposit | 8 | 8.4 | 8.3 |
| 5 year time deposit | 8.3 | 8.5 | 8.4 |
| Recurring Deposit | 8 | 8.4 | 8.3 |
| Senior Citizen Scheme | 9 | 9.3 | 9.2 |
| 5 Year Monthly Income Scheme | 8.2 | 8.5 | 8.4 |
| 5 Year NSC | 8.4 | 8.6 | 8.5 |
| 10 year NSC | 8.7 | 8.9 | 8.8 |
| PPF | 8.6 | 8.8 | 8.7 |

Source: Press Release of Finance Ministry, Government of India, available at <http://www.finmin.nic.in>

From the above table it is seen that there are fluctuations in the interest rate offered on the deposits on small savings schemes. Such fluctuations in interest rates act as a deterrent to keep the money in these schemes.

Moreover, three important decisions by the Shyamala Gopinath committee have also contributed to the loss of attraction of these schemes in the recent period. Firstly, the committee has decided to discontinue the Kisan Vikas Patra. In 2009-10, the total gross collection at the all India level on account of Kisan Vikas Patra was Rs 21167 crore. This entire money has to find some new instrument as the KVP has been discontinued. Given that the rates of interest on other schemes are anyway not very remunerative, it is quite plausible that the money will find outlets in financial organisations like the Saradha. Secondly, the rate of interest on the monthly income scheme which accounts for around 22% of the total deposits has been reduced. The 5% maturity bonus that was promised in this scheme has been discontinued. This again makes this scheme less attractive. Thirdly, the commission of the agents has been reduced drastically. The commission on the various times deposits and national certificates has been reduced from 1% to 0.5%. Moreover, the commission on PPF (1%) and Senior Citizen Savings Scheme (0.5%) has been stopped. This has acted as a major disincentive for the agents to enrol people in the small savings schemes. Groups like Saradha have used this opportunity to target these agents, who already had trust of the people, to work as agents of Saradha, promising a much higher commission. These are the people who have been at the forefront mobilising money for Saradha.

It is in this overall context that we need to look at the issue of small savings mobilisation in West Bengal. The state was the frontrunner in mobilising small savings. With the changes in the policies of the central government in terms of reduction in the interest rate and commission to the agents, the net collections from small savings scheme decreased. This is shown in Table 4.

Table 4: Net Collection in Small Savings Schemes in West Bengal (Rs Crore)

| | |
|---------|---------|
| 1992-93 | 595 |
| 1993-94 | 1272 |
| 1994-95 | 2025 |
| 1995-96 | 2024 |
| 1996-97 | 2108.04 |
| 1997-98 | 3790.11 |
| 1998-99 | 4690.74 |
| 1999-00 | 5584.34 |
| 2000-01 | 6386.93 |
| 2001-02 | 6781.56 |
| 2002-03 | 7613.08 |
| 2003-04 | 8308.29 |
| 2004-05 | 9645.53 |
| 2005-06 | 9895.53 |
| 2006-07 | 6238.93 |

| | |
|---------|---------|
| 2007-08 | 490.64 |
| 2008-09 | 1133.1 |
| 2009-10 | 8985.38 |
| 2010-11 | 8409.45 |
| 2011-12 | -987.22 |

Source: Statistical Appendix, Economic Review, 2012-13, Government of West Bengal

It is clear that there was a significant drop in the net collection of small savings in the state from 2006-07. In 2005-06, the net collection was Rs 9895.53 crore, which decreased to Rs 6238.93 crore and further to only Rs 490.64 crore in 2007-08. If we compare this with the effective rate of interest on small savings given in Table 2, it is seen that there was a significant decline in the rate of interest since 2006-07. Between 2005-06 and 2007-08 therefore a large amount of money amounting to at least Rs 9000 crore went out of the small savings schemes in West Bengal. This huge amount of money must have found some alternative source of investment during the period between 2006 and 2008. It is therefore not a coincidence that the fraud financial companies like Saradha started their operations in and around this period.

Subsequently, again between 2010-11 and 2011-12, there has been yet another drastic fall in the net collection of small savings in West Bengal. During this period however, the rate of interest did not decrease. In fact it increased marginally on small savings schemes. But still the net collection fell drastically. The only change that West Bengal witnessed during this period was expansion and the change in government with the TMC assuming office. The apparent clout that Saradha has with the TMC (and vice versa) enabled Saradha to mobilise huge amounts of money with the active connivance of TMC leaders at various levels. The expansion and consolidation of groups like Saradha, began with the fall in the small savings between 2006-09, which was due to the faulty policies of the central government in terms of reducing the attractiveness of small savings by reducing interest rates on them. But with the TMC coming to power, this slide gathered pace and filled the coffers of Saradha-like companies.

In short therefore, it can be inferred that groups like Saradha benefited from the completely erroneous policies of the central government in terms of changing the incentives for small savings. This initial benefit was combined with lax regulation and evidence of a political-financial nexus that generated a gigantic scam with connivance of the TMC. Both the Congress as well as the TMC have a lot to answer to the people of West Bengal.

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