

HOUSEHOLD SAVINGS IN RURAL PAKISTAN

empirical and conceptual issues

Doctoral Dissertation
submitted for the degree of Doctor Agricultural Sciences
of the faculty of Agricultural Sciences

Georg-August-Universität Göttingen (Germany)

by

Shahina Waheed

born in Rawalpindi

Goettingen, December 1996

D7

1st examiner: Prof. Dr. Dr. Dr. H. c. Frithjof Kuhnen

2nd examiner: Prof. Dr. Dr. habil. Winfried Manig

Date of oral examination: 06 Feb. 1997

*„Eat and drink, but waste not by excess, for God
loveth not wasters“ (The Holy Quraan XIV:14).
„Verily Spendthrifts are brothers of the Evil Ones;
And the Evil One is to his Lord ungrateful“
(The Holy Quraan XVII:27).*

***To the rural Women in Pakistan
in sympathetic reminiscence of their miseries***

Abstract

Shahina Waheed Household Savings in Rural Pakistan conceptual and empirical issues

The present study analyses some conceptual and empirical issues of the saving behavior of the rural population in Pakistan. The major emphasis of the study is to answer the following questions: What are the different types of saving of rural households? What is the magnitude of saving in rural households? How are savings kept? What are the different decision making strategies for income management within a household? What is the difference between saving and investment priorities among different social strata and what are its reasons? What are the socio-economic factors influencing the form and extent of this saving?

The study area lies 50 km northeast of Sargodha District in Tehsil Bhalwal of Province Punjab in Pakistan. Empirical evidences reveal four direct saving acts such as saving in cash, saving in bond holding, saving in agricultural products, and saving in livestock. The quantitative analysis of the saving composition proves saving in kind as the most stable, preferred, profitable and flexible method in almost every stratum. Besides these direct saving acts, the rural community practices some indigenous traditional saving arrangements on the basis of cooperative type traditional institutions such as *Sep* relation (a bank of labor), *Wanghar* (a bank of labor), Share leasing of livestock (saving in livestock), Rotating saving system (a bank for cash), and *Vartan Bhanji* (a bank for cash and kind).

The saving methods practiced in rural Pakistan are determined by a number of socio-economic, socio-cultural, psychological and institutional factors. Empirical evidences prove indigenous saving mechanisms as more purposeful for the rural population, because saving is generated in the form it is required for the satisfaction of needs. The direct saving, however, has mostly to be converted into cash or exchanged against other items before its utilization. The lack of access to and information on the market compels rural savers to sell and exchange their commodities with the village shopkeepers or livestock dealers at comparatively much lower prices. The ultimate benefit of saving to the saver is of considerable importance because it acts as an important incentive to save.

The question of how to make these savings more productive for the saver is one of the biggest challenge for the policy makers. The ultimate solution can be a linkage of the formal and the informal financial sectors, since both sectors follow their set priorities and function independently in Pakistan, so far. A 'bottom-up strategy' would be the most feasible to establish an indirect link between rural households and banks through a third intermediating agency. The present study recommends the establishment of an indigenous based private voluntary organization as an intermediating agency and proposes a linkage model in this regard.

Abstrakt

Shahina Waheed

Household Savings in Rural Pakistan conceptual and empirical issues

Die vorliegende Studie analysiert einige theoretische und empirische Aspekte des Sparverhaltens der ländlichen Bevölkerung in Pakistan. Der Schwerpunkt der Studie ist die Beantwortung folgender Fragen: Auf welche Art und Weise sparen die ländlichen Haushalte? In welchem Umfang wird in ländlichen Haushalten gespart? Wie werden die Ersparnisse aufbewahrt? Welche unterschiedlichen Spar- und Investitionsprioritäten haben verschiedene gesellschaftliche Schichten und was sind die Gründe für diese Unterschiede? Welche sozioökonomischen Faktoren beeinflussen die Art und der Umfang dieses Sparens?

Das Untersuchungsgebiet liegt 50 km nordöstlich des Sargodha-Distrikts im Tehsil Bhalwal der Punjabprovinz in Pakistan. Empirische Daten zeigen vier direkte Spartätigkeiten wie Bargeldsparen, Wertpapiersparen, Sparen in Form von landwirtschaftlichen Produkten und Viehbestand, und viele andere herkömmliche Sparmaßnahmen auf der Basis traditioneller Einrichtungen. Die quantitative Analyse der Zusammensetzung der Ersparnisse beweist, daß das Sparen in Form von Naturalien die stabilste, bevorzugteste, gewinnbringendste und flexibelste Methode für fast alle Schichten ist.

Die Sparmethoden, die im ländlichen Pakistan angewandt werden, sind von einer Anzahl von sozioökonomischen, soziokulturellen und institutionellen Faktoren bestimmt. Empirische Daten zeigen, daß herkömmliche Sparmechanismen zweckmäßiger für die ländliche Bevölkerung sind, weil die Sparformen sich an den Bedürfnissen orientieren. Das direkte Sparkapital muß jedoch meist in Bargeld eingewechselt oder gegen andere Gegenstände umgetauscht werden, bevor es genutzt werden kann. Mangelnde Informationen über den Markt zwingen ländliche Sparer dazu, ihre Güter bei den dörflichen Ladenbesitzern oder Viehhändlern zu vergleichsweise niedrigen Preisen zu verkaufen oder zu tauschen. Der Enderlös des Sparens ist von großer Bedeutung für den Sparer, da er als wichtiger Anreiz zum Sparen dient.

Frage, wie diese Ersparnisse für den Sparer produktiver gemacht werden können, ist eine der größten Herausforderungen für die Entscheidungsträger in der Politik. Die Lösung kann eine Verknüpfung der formellen und der informellen wirtschaftlichen Sektoren sein, da beide Sektoren ihre festgesetzten Prioritäten und Funktionen in Pakistan bis jetzt unabhängig verfolgen. Eine 'von-unten-nach-oben' Strategie wäre am besten durchführbar, um eine indirekte Verbindung zwischen ländlichen Haushalten und Banken durch einen dritten Vermittler einzurichten. Die vorliegende Studie empfiehlt die Einrichtung einer privaten freiwilligen einheimischen Organisation als Vermittler und schlägt ein entsprechendes Verbindungsmodell vor.

Foreword

The special role of savings for the development process and its actual realization is barely treated in most of the relevant literature. Development literature mainly stresses the rate of capital formation but rarely goes into the technical or practical aspects of its actual generation, especially concerning savings' mobilization in rural areas.

The present study is designed, therefore, to provide some fundamental information on rural saving behavior at household level, which is different from that of urban attitude towards savings. The problem of the rural poor is not saving as such, i.e, the decision whether to consume income or to accumulate capital for future consumption or investment. Saving is a necessity as a form of protection against risk, particularly when income is uncertain and irregular. The saving behavior is, therefore, determined by the nature of the individual's future needs. The major concern of the study is to comprehend the situation of rural savings from its socio-cultural aspect at household level.

The research and analysis reported here is a result of years of rigorous work. A collective effort of a great number of people belonging to various spheres of my life rendered valuable support and facilitated the task considerably by the grace and considerateness of their friendly cooperation. The study could not have been successfully terminated without their collaboration. The following list, however, is merely illustrative, not exhaustive.

My deepest gratitude goes to my supervisor Prof. Dr. Dr. Dr. h.c. F. Kuhnen, who inspired the approach and contributed constant encouragement, constructive criticism, guidance and keen interest throughout the pursuit of the study. His untiring intellectual aid and thought-provoking discussions helped in choking my conceptual understanding and removing tactical defects of the intellectual merit it tends to evoke. I owe a deep sense of gratitude to the second examiner Prof. Dr. Dr. habil. W. Manig for his continuous inspiration and readiness to discuss the deficiencies, in spite of his busy schedule. His empathy facilitated considerably the preparation, execution and evaluation of the field study.

The involvement and sympathy of Prof. Dr. H. Inhetveen has been a constant source of encouragement which is gratefully acknowledged. My heartfelt thanks to Prof. Dr. J. O. Mueller for his untiring optimism and valuable suggestions in the sociological domain. Warm appreciation is expressed for the support of Dr. E. G. Jentzsch, who tirelessly went through the final manuscript. The inexhaustible help of Mrs. M. Decotter, who bore the brunt of correcting the draft in the final stage is to be particularly acknowledged. I am grateful for her hard work, care, and dedication put into getting the camera-ready manuscript out within the limited time given to her. I feel greatly indebted towards the entire institute for providing an amicable environment.

My debt to my husband is immeasurable. The field work experience was shared by him, who was also doing research for his dissertation. Not only was he an indefatigable field assistant but my partner in overcoming all sort of difficulties during the entire process of empirical survey. Data collection was thus a joint effort from which this thesis has benefitted enormously. I express my deepest thanks for his forbearance and support given unstintingly throughout the research and writing. Indispensable to the entire study was the support of our families, who have been unfailingly helpful at all times. Their patient concern and constant support contributed considerably towards the successful realization of the dissertation.

I owe special thanks to our host family in the study area, who treated us both as if we were part of their family and who frequently let their own work slide in order to be of help. I would like to thank all interviewees, especially the key informants for their outspoken comments, which have given impetus and justification for this study.

Anyhow, all friends, colleagues and professional acquaintances, who assisted in this work, are in no manner to be implicated in the faulty or incomplete thinking that remain. All defects or deficiencies in the analysis, if any, are entirely attributable to me.

This study is a small persuasion for a big movement. On a wider scale, professionals are searching for more cost-effective, productive, equitable and stable ways of mobilizing rural savings. One cannot know how successful the research will be. The advancement in this field, however, depends on extending the boundaries of normal professionalism, and this depends upon the decision and the action of the people.

**Let me end with the hope that what is written here will be able to convey
what needs to be done and can be done in future.**

Shahina Waheed
Goettingen, 12th December 1996

Abbreviations

ADBP	Agricultural Development of Pakistan
APRACA	Asian and Pacific Regional Agricultural Credit Association
APS	Average Propensity to Save
BMZ	Federal Ministry of Economic Cooperation
CDAWN	COASE, DEMSETZ, ALCHIAN, WILLIAMSON, NORTH
CDD	Community Development Department
CDNS	Central Directorate of National Savings
DFI	Development Finance Institution
FAO	Food and Agriculture Organization
FIA	Federal Investigation Agency
GNP	Gross National Product
GTZ	German Society for Technical Cooperation
HH	Household
HIES	Household Income and Expenditure Survey
IDBP	Industrial Development Bank of Pakistan
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
MCO	Mobile Credit Officer
MPS	Marginal Propensity to Save
NGO	Non-Governmental Organization
NIE	New Institutional Economics
NSO	National Saving Organization
PCG	Production Credit Groups
PFCs	Private Finance Corporations
PFCs	Private Finance Corporations
PLS	Profit Loss Share
RDC	Rural Development Committee
RDP	Rural Development Program
RoSCA	Rotatory Saving and Credit Association
RSG	Rotatory Saving Group
SCARP	The Salinity Control and Reclamation Program
SHG	Self-Help Group
SPSS	Statistical Package for Social Sciences
UN	United Nations
WRDC	Women Rural Development Committee

Measures and Weights

Rupee (Rs.)	1 DM = 11 Rs. (at the time of survey)
1 Acre	0.04047 ha.
1 kilometer (km)	3.280 feet
1 kilogram (kg)	2.2046 pounds
1 deciton (dt)	100 kg, quintal (224 lb., Am. 200 lb)
1 seer (2.057 lb)	0.933 kg or 2.057 lb
1 maund (md mds)	37.324 kg or 40 seers
1 Tola	11,66g

Glossary

<i>Aqeeqa</i>	Ceremony on the seventh, ninth, or eleventh day after the birth of a child
<i>Baraat</i>	Wedding procession
<i>Chaudhri</i>	An honorific term of address for a landowner. A village notable
<i>Eid</i>	Muslim religious celebration at the end of <i>Ramazan</i>
<i>Eid-ul-Ezha</i>	Muslim religious celebration one day after the <i>Haj</i> , when a sheep/goat is sacrificed
<i>Ghee</i>	clarified butter
<i>Gur</i>	Lumps of brown sugar
<i>Haj</i>	Pilgrimage to Mecca
<i>Imam</i>	Officiating priest of a mosque
<i>Izzat</i>	Prestige, esteem, honor
<i>Kammi</i>	Occupational specialist, who is traditionally in a dependent relationship with cultivators and provides services in return for a customary portion of the crop, such as Barber, Carpenter. See also, <i>Sepi</i>
<i>Khara</i>	Ritual bath taken by bride or bridegroom
<i>Kharif</i>	Summer cropping (mid April to mid October)
<i>Maiyun</i>	Ceremony of tying a bracelet of colored thread around the bride's or the bridegroom's wrist
<i>Mehndi</i>	Ceremony of putting <i>henna</i> on the bride or bridegroom
<i>Nanki chak</i>	Gift brought to the bride by maternal relatives for her dowry
<i>Neondra</i>	Money given to parents of bridegroom by relatives
<i>Numbardar</i>	Also lambardar, the person responsible for collecting and forwarding to the government the land revenue and irrigation fee. He is always a landowner. The position is hereditary by primogeniture, subject to government confirmation.
<i>Purdah</i>	Seclusion and veiling of women
<i>Rabi</i>	Winter cropping (mid October to mid April)
<i>Ramzan</i>	Month of fasting, ninth month of the Muslim calendar
<i>Sep</i>	Labor relation between landowners and craftsmen
<i>Waleema</i>	A feast organized usually on the second day of <i>baraat</i>

Table of Contents

Abstract.....	4
Abstrakt	5
Foreword.....	6
Abbreviations	8
Measures and Weights.....	9
Glossary.....	10
List of Tables	15
List of Diagrams.....	17
1. Introduction.....	18
1.1 The Problem.....	18
1.2 Dualism of the financial sector.....	20
1.3 Objectives of the study.....	21
1.4 Structure of the study.....	22
2. Theoretical and Conceptual Framework.....	24
2.1 Origin and behavior of saving.....	24
2.1.1 Origin of saving - historical perspective.....	24
2.1.2 Saving motives as an expression of behavioral principle.....	29
2.1.2.1 Ethical impulse to save.....	31
2.1.2.2 Economic impulse to save.....	31
2.1.2.3 Cultural impulse to save.....	32
2.1.3 The act of saving.....	34
2.1.3.1 Saving Potential.....	34
2.1.3.2 Saving incentives.....	35
2.1.3.3 Saving intention.....	36
2.1.4 The interpretation of saving behavior from different viewpoints.....	36
2.1.4.1 Saving from the economic viewpoint.....	36
2.1.4.2 Saving from the Islamic viewpoint.....	39
2.1.4.3 Saving from the sociological viewpoint.....	41
2.1.4.4 Saving from the psychological viewpoint.....	42
2.1.4.5 Saving from the educational viewpoint.....	43
2.2 Household income and its distribution.....	44
2.2.1 Household.....	44
2.2.2 Household income.....	45
2.2.2.1 Consumption.....	46
2.2.2.2 Saving - Concept and classification.....	47
2.2.2.2.1 Household saving.....	48
2.2.2.2.2 Institutions and transaction cost approach.....	49
2.2.2.2.3 Saving value of hoarding.....	52
2.2.2.2.4 Financing Investment.....	53
2.2.3 Household's decision-making for income distribution.....	55
2.2.3.1 Conceptual framework.....	55

2.2.3.2 Symbolic Interactionist Approach.....	56
2.3 Segmentation of financial sector.....	58
2.3.1 Informal financial sector.....	59
2.3.2 Formal financial sector.....	61
2.3.2.1 The concept of Islamic banking.....	63
2.3.2.2 A linkage of formal and informal financial sectors.....	67
2.4 Analytical base of the study.....	70
2.5 Summary.....	71
3. Savings in Pakistan: growth and organization.....	72
3.1 Statistical overview of the growth rate of saving in Pakistan.....	72
3.2 Average and marginal propensities to save in rural areas.....	74
3.3 Organization of Saving.....	79
3.3.1 Commercial Banks.....	81
3.3.2 Specialized Banks.....	82
3.3.3 Federal Bank for Co-operatives.....	83
3.3.4 Post Offices.....	83
3.3.5 Central Directorate of National Savings (CDNS).....	83
3.3.5.1 Saving Certificates.....	84
3.3.5.2 National Saving Accounts.....	84
3.3.5.3 Prize Bonds.....	85
3.3.6 Life Insurance.....	85
3.3.7 Private Finance Companies.....	85
3.3.8 Rotating Saving and Credit Associations.....	85
3.4 Summary.....	87
4. Socio-economic framework for the mobilization of saving in Pakistan.....	88
4.1 Developmental political aspects.....	89
4.1.1 The development politics of Pakistan.....	89
4.1.2 Deregulation of the financial market.....	93
4.1.3 Islamization of the financial sector.....	98
4.2 Socio-cultural aspects.....	102
4.2.1 Socio-cultural background of the community.....	102
4.2.2 Traditions, values and norms.....	103
4.2.3 Human action.....	104
4.2.4 'Biraderi' (Brotherhood).....	107
4.3 Summary.....	109
5. Household Saving in Rural Pakistan - empirical analysis.....	111
5.1 Research Methodology.....	111
5.2 Socio-economic characteristics of the sampled households.....	117
5.2.1 Caste groups.....	117
5.2.2 Landholding.....	118
5.2.3 Income sources.....	119
5.3 Household income and its utilization.....	124
5.3.1 Cash income.....	124
5.3.2 Income in kind.....	127
5.3.3 Consumption.....	129
5.3.3.1 Basic Consumption.....	130
5.3.3.2 Ceremonial Consumption.....	132
5.4 Forms and extent of household saving.....	133
5.4.1 Cash saving of the sampled population.....	134

5.4.1.1	Generation of private cash.....	138
5.4.1.2	Discretion in cash saving.....	140
5.4.2	Saving in bond holding.....	143
5.4.3	Saving in agricultural products.....	145
5.4.4	Saving in livestock.....	147
5.4.5	Quantitative analysis of saving composition.....	150
5.5	Indigenous saving arrangements.....	152
5.5.1	'Sep relation' - A bank of labor.....	154
5.5.2	'Wanghar' - A bank of labor	157
5.5.2.1	Occasions of 'Wanghar'	159
5.5.2.2	Significance of 'Wanghar'	160
5.5.3	Share leasing of livestock.....	163
5.5.4	Rotating saving system - A bank for cash.....	164
5.5.5	'Vartan Bhanji' - A bank for cash and kind.....	165
5.6	Hoarding of Gold/Silver.....	168
5.7	Investment.....	171
5.8	Summary.....	175
6.	Factors Influencing Form and Extent of Saving.....	177
6.1	Economic Factors.....	177
6.1.1	Choice of the variables for the quantitative analysis.....	177
6.1.1.1	Income.....	177
6.1.1.2	Age of the household's head.....	178
6.1.1.3	Age composition of household members.....	180
6.1.1.4	Education of household's head.....	180
6.1.1.5	Number of educated males.....	182
6.1.1.6	Years of Household Existence.....	182
6.1.1.7	Family size and saving.....	185
6.1.1.8	Hypotheses.....	187
6.1.1.9	Results of the Correlation Analysis.....	187
6.1.2	Qualitative analysis.....	190
6.1.2.1	Annual Production Cycle.....	190
6.1.2.2	Other economic factors.....	192
6.2	Psychological Factors.....	192
6.2.1	Typology of savers.....	192
6.2.2	Sense of honor (Izzat).....	194
6.2.3	Conflict situation of income distribution.....	198
6.3	Socio-cultural Factors.....	200
6.3.1	Extravagance.....	200
6.3.2	Decision making.....	205
6.3.3	Gender-specific saving.....	209
6.3.4	Social niche.....	211
6.3.5	Family Type.....	212
6.4	Institutional Factors.....	215
6.4.1	Law and order.....	215
6.4.2	Access to saving institutions.....	215
6.5	Summary.....	217
7.	Conclusion and Recommendations.....	219
7.1	Conclusion in the perspective of hypotheses.....	219
7.2	Recommendations.....	224
8.	Summary.....	231

References.....	240
Appendixes.....	253

LIST OF TABLES

Table 1. Historical overview of the saving motives.....	30
Table 2: Percentage Distribution of Households by Income Groups in Rural and Urban Areas during 1990-1991.....	73
Table 3: Average and marginal propensities to save in the rural areas of Pakistan.....	74
Table 4: Net Household Savings Rates.....	76
Table 5: National Savings Rates.....	76
Table 6: Marginal propensities to spend out of transitory shocks disaggregated by the direction of the shock.....	77
Table 7: Loans obtained from the informal sector, by expenditure quintile.....	79
Table 8: Migration and Growth in Remittances between 1975 and 1979.....	94
Table 9: The Size Structure of PFCs - June 1979.....	96
Table 10: Comparative Data on Scheduled Banks in Pakistan.....	96
Table 11: Rates of Return on PLS Deposits (% per annum).....	99
Table 12: Sources of income in the sampled population (adult men).....	122
Table 13 Sources of income (adult women).....	123
Table 14: Cash income (farm and non-farm) of 12 case study households in 1991-92..	125
Table 15: Income in kind of 12 case study households in 1991-92.....	128
Table 16: Basic consumption expenditures of 12 case study households in 1991-92....	131
Table 17: Ceremonial consumption expenditure in 12 case study households in 1991-92	132
Table 18: Cash saving in the case study households in 1991-92.....	135
Table 19: Saving in Bond holdings in the case study households in 1991-92.....	143
Table 20: Saving in agricultural products in the twelve case study households in 1991-92	146
Table 21: Saving in livestock in the twelve case study households in 1991-92.....	148
Table 22: Amount of different saving types in case study households.....	151
Table 23: Some examples of <i>Wanghar</i> from twelve case study households.....	162
Table 24: Possession of gold in twelve case study households.....	170
Table 25: Investment expenditure in 12 case study households in 1991 -92.....	172
Table 26: Disinvestment in 12 case study households.....	173
Table 27: The influence of age of household's head on the composition of total saving in twelve case study households.....	179
Table 28: The influence of education on the composition of saving in twelve case study households.....	181
Table 29: The influence of the number of educated male adults on the composition of saving in twelve case study households.....	182
Table 30: Total years of establishment of a household and different forms of saving in twelve case study households.....	184
Table 31: The influence of family size on the different forms of saving in twelve case study households.....	186
Table 32: Bivariate correlation coefficients for saving and their related variables.....	189
Table 33: Dissaving in 12 case study households.....	205
Table 34 Family type and different forms of saving in twelve case study households...	214
Table 35: Domestic and Foreign Financial Institutions in Pakistan.....	253
Table 36: Distribution of Financial Institutions in the Rural Areas by Type of Institutions (1970, 1975 - 1982).....	254
Table 37: Number and Distribution of Financial Institutions by Rural and Urban Location, 1970, 1975-82.....	255
Table 38: Distribution of Total Monthly Receipts Utilized by Household for Expenditure and Savings for all Groups (Pakistan & Punjab).....	256

Table 39: Distribution of Total Monthly Receipts Utilized by H.H for Expenditure and Savings by Income Group (1979).....	257
Table 40: Foreign Remittances of Rural Areas and their Investment.....	258
Table 41: Total Investment from the Foreign Remittances of Rural Areas as Percentage of Non-Farm & Farm Incomes.....	259
Table 42: Rural Income, Share of Agricultural Income in Gross Domestic Product and Investment from the Foreign Remittances of Rural Areas.....	260
Table 43: Investment Made for Different Purposes by All Farm Households.....	261
Table 44: Percentage Distribution of Expenditure per Household on Miscellaneous Items by Income Groups 1990/91	262
Table 45: Distribution of total monthly receipts utilized by households for expenditure and savings by income groups (rural areas), 1990/91.....	263
Table 46: Different Saving Schemes Offered by Saving Institutions.....	264
Table 47: Gross/Net Investment of National Saving Schemes (Million rupees).....	265
Table 48: Remuneration to a Carpenter by a Landlord Household on Different Occasion.....	270
Table 49: Remuneration to a Barber by a Landlord Household on Different Occasion.....	271
Table 50: Exchange Relation in <i>Vartan Bhanji</i>	273

LIST OF DIAGRAMS

Diagram 1: A comparative description of the Islamic and modern banking.....	65
Diagram 2: Factor influencing human action.....	105
Diagram 3: Map of Pakistan Showing the Study Area.....	115
Diagram 4: Caste composition of the sampled population.....	118
Diagram 5: Mode of cultivation in the sampled population.....	119
Diagram 6: Income composition of the twelve case study households in 1991-92.....	129
Diagram 7: Consumption expenditure in twelve case study households.....	133
Diagram 8: Trustworthy relations for depositing cash savings.....	141
Diagram 9: Exchange relation in <i>Sep</i> system.....	156
Diagram 10: Exchange relation in <i>Wanghar</i>	158
Diagram 11: Exchange relation of share leasing of livestock.....	164
Diagram 12: Exchange relation in <i>Vartan Bhanji</i>	167
Diagram 13: Net investment expenditure in twelve case study households.....	173
Diagram 14: Age of household's head and total saving.....	179
Diagram 15: Education and saving.....	181
Diagram 16: Development of labour units in the life cycle of a rural nuclear family household.....	183
Diagram 17: The relation between family size and saving.....	186
Diagram 18: Different forms of saving in the annual cycle of production.....	191
Diagram 19: Accumulation and impact of honour in rural sphere.....	197
Diagram 20: Conflict situation of income distribution.....	198
Diagram 21: The cycle of socio-economic expenditure of a household.....	201
Diagram 22: The three spheres of decisions in the rural sphere.....	208
Diagram 23: Model proposed for the linkage of formal with informal finance in Pakistan.....	231
Diagram 24: Graphical representation of the income distribution in twelve case study households	266

1. Introduction

1.1 The Problem

"For rural developers and others concerned with rural welfare in developing countries, perhaps the most important philosophical implication of the argument is that it is not very helpful to view rural people as financial basket cases, as "poor." Rather, it is obvious that rural people do save, and that the development challenge lies in the design of financial technology to serve the saving needs of rural people" (PISCHKE 1978:55).

NURKSE (1953) emphasized the lack of capital accumulation in the early 1950s as being responsible for a country's poverty. According to him, „a country is poor because it is poor.“ He elaborates the viewpoint on the basis of the existence of two vicious circles in a country.

On the supply side, there is a poor capacity to save, resulting from the low level of real income. The low level of real income reflects low productivity, which is, in turn, due largely to the lack of capital. A lack of capital is the result of the poor capacity to save, and, thus, the circle is complete. On the demand side, the inducement to invest may be low because of the people's limited purchasing power, which is again an outcome of their small real income due to low productivity. The low level of productivity, however, has its roots in the small amount of capital used in production, which may, at least partly, be caused by the poor inducement to invest.

The above-stated circular relationships indicate a common problem of the low level of real income, which reflects low productivity. Furthermore, it shows that poverty in a country is attributable to a larger extent to the lack of adequate capital equipment, which can be due to the poor inducement to invest as well as the limited capacity to save.

The importance of savings for economic development can hardly be overestimated. The major part of financing must be internal, which, in itself, is a prerequisite for attracting foreign participation. All development requires the involvement and support of the people in the developing country, and it is therefore a logical approach in development that a country should demand sacrifices and co-operation of its own citizens. This requirement cannot be limited to a small share of the population, i.e., to those who earn the highest incomes or who live in urban areas. The great majority of the total population in developing countries lives in rural areas and is poor. Not only the poverty but also the consumption pattern of these households are seen as a major obstacle to a rapid increase in domestic savings. Very naturally, therefore, a strong inclination to consume more when income increases is noticed. The poorer sections of the population usually follow the consumption habits of those with greater means or who live in the cities and, to continue this trend, habits from the developed world are the ultimate desire.

The situation may be improved if saving is given special consideration in developmental research in the developing countries. The scarcity of information on rural savings in Pakistan is a basic handicap when trying to remove the obstacles in the way of saving mobilization. Especially the questions: How should rural household savings be defined? Who are those among the rural population who could save and who would save? Why would they save? What motivates them to save? How could these savings be mobilized? are hardly dealt with extensively.

„The poor are not unproductive. In truth, they are the more productive segment of the population. But unfortunately, the fruits of their labour are usurped by the better off segment of the population through economic, social, and political manipulations. All these manipulations find their strength in their control over financial resources“ (YUNUS 1988:7). The old assumption that poor people are unable to save is no longer realistic; poor households do have the intention and potential to save, and when put together, the amounts they save are substantial (FERNANDO 1992:130). There are, however, cases, where people, in spite of their willingness, cannot save if they want to survive and there are certainly cases where people saved, though they would well need the money for meeting their immediate survival needs.

Household savings in rural areas appear to be a difficult variable to measure. They are not always quantifiable. Saving methods are practiced according to the need for ensuring a long term security of the households. One must, therefore, differentiate between the saving potential of the rural community in cash, kind or livestock etc. If saving potential other than cash is also considered, it has to be clarified whether these savings are monetized through sales or remain as temporary savings in kind. Since the definition of saving is not consistent in formal and informal sectors, it is necessary to comprehend what rural savings are and what causes them to vary. It is essential to consider at least two distinct patterns in this regard (APRACA¹ 1985:19).

1. Savings made from absolute surplus, which the saver can spare beyond his budgetary allotments for fulfilling his day-to-day needs. The duration of these savings is usually undetermined.
2. Savings as temporarily postponed consumption, which cannot be spared beyond a certain limit and are therefore not real surpluses. Instead, these are just protected from a premature alternative use. In this case, a saver just imposes a constraining act upon himself.

Incentives to save could encourage or strengthen savings behavior, but one has to make a clear distinction between the direction of initiating factors (APRACA 1985:20):

1. „The environmental demands of subsistence and lowest income groups which make a budgeting or savings behavior in the - broadest sense - mandatory for survival.
2. The incentives set to make savings eligible as a form of budget allocation - as one form of substitution to immediate consumption.“

Apart from this, in low income societies in which the status of women outside the house is given little, if any, recognition and they are obliged to turn over to her husband or the head of family any cash income they generate, ‘women saving’ also represents an important aspect of rural savings. This ‘underprivileged’ sex saves discretely to cope with its economic misfortunes. „Most of these women must be considered as living below the statistically determined subsistence level by their own income standards or as living at subsistence level considering their total family resources. Yet they save. They do so not because they can afford it beyond their immediate consumption needs but as the only possible form of protecting their income from any undesired take-over from among their own family members“ (APRACA 1985:21). Although savings generated by women is again utilized in the household economy, yet the possibility of making independent decisions for its allocation acts as an incentive for them to save.

¹ Asian and Pacific Regional Agricultural Credit Association (APRACA).

Another more relevant question, though difficult to handle, is how the marginal savings can be mobilized and made more and more beneficial for the rural sector in general and for the development of the economy in particular. That is, how can immediate and fringe benefits from savings be introduced and be made appreciable to the potential savers. The strategies and conditions through which rural savings may be tapped by the formal sector still have to be unveiled.

1.2 Dualism of the financial sector

Income saved or invested represents an increase in wealth from the perspective of the individual, but implies an increase in the productive potential of the whole economy. Every saver does not have the best investment opportunities; therefore, savers place their funds at the temporary disposal of those who can invest them. „Monetarization facilitates the exchange between savers and investors considerably if the monetary system of a country functions properly. However, even if money is a medium of exchange, the direct exchange between savers and investors is cumbersome, time consuming and problematical for a number of reasons“ (SCHMIDT/KROPP 1987: 5). The presence of an efficient financial infrastructure can mitigate the problem and act as a ‘go-between’ between savers and investors.

The financial sector of most of the developing countries shows a dual character and may be classified as a modern (formal) and an indigenous (informal) sector. The interest in the informal financial sector arose in 1950s, and the picture became clearer in the 1980s. Recent research shows that informal finance makes a larger and more positive contribution to development than many of us thought (WAI 1992:338). The new ideology considers both sectors as complementing each other, „**As long as informal and formal, indigenous and modern institutions remain apart, far-reaching development processes are unlikely to result**“ (KROPP/MAR/PRAMOD/QUINONES/SEIBEL 1989:4).

The discussions in **the Third International Symposium on the Mobilization of Personal Savings in Developing Countries**, organized by the United Nations in December 1984, centered on the following issues (KROPP/MARX/PRAMOD/QUINONES/SEIBEL 1989:4):

- Developing finance through external credit or internal savings mobilization?
- State controlled ceilings of interest rates or market rates?
- Higher efficiency through centralization or decentralization of financial institutions?
- Progress through joint or separate development of formal and informal financial institutions?

In their final resolution, the participants of the UN symposium agreed that:

- internal savings must provide the basis for credit programs;
- state control of interest rates must be relaxed in favor of market or near-market rates (‘deregulation’);
- for effective service, financial services need to be more decentralized;
- both formal and informal financial institutions are necessary for the financing of development;
- linkages between formal and informal financial institutions seem to be more promising than separate development.

The overall conclusion was that:

„the main means of improving the performance of the non-institutional sector were policies directed to enhancing its links with the institutional financial sector“ (UN 1986:13).

National and international consultations within and between agencies such as United Nations, the World Bank, FAO, BMZ, GTZ and others resulted in an international policy climate, and the activities at the level of the United Nations were paralleled by new endeavors at national levels. „Asia Pacific Rural and Agricultural Credit Association (APRACA) took a vigorous move to promote financial self-reliance among its members institutions through the mobilization of rural savings in the early 1980’s“ (MARX/QUINONES 1992: 1).

The ‘linkage-programs’ that emerged during the second half of the 1980s are composed of a number of elements, some of which include: (MARX 1992:67)

- co-operation between banks and existing self-help groups;
- promotion of savings;
- provision of credit only on the basis of previously accumulated and regular savings at various savings : credit ratios (financial linkages);
- a dialogue and communication process between different actors as the main tool to institutionalize the linkages, in which each partner respects and ensures the autonomy of the other partners.

At present, apart from Indonesia, the program is being pilot tested in the Philippines, Thailand, Nepal and India (KROPP/QUINONES 1992:xvii). Unfortunately, Pakistan has not yet been subjected to new approaches, mainly due to:

- a lack of grass-root information on the saving behavior of the rural households;
- no clear policy framework specifically for saving mobilization from the rural sector;
- unacquaintance with the socio-economic factors influencing the extent and form of savings.

Keeping this lack of grass-root information in view, the present study is designed to provide some fundamental information on rural saving behavior at household level, framework of saving mobilization, socio-economic factors influencing this behavior and the characteristics of modern and indigenous financial institutions. Finally, the study proposes an area-specific linkage model between the formal and informal financial sectors within the boundaries of the community’s socio-cultural framework.

1.3 Objectives of the study

The study seeks to analyse the saving behavior of the rural population in Pakistan on the basis of an empirical research conducted at household level in a village of Province Punjab. The data on income, consumption and saving is recorded for a period of one crop year. The major questions on which the study will concentrate include:

- the different types of saving of rural households;
- the magnitude of saving of rural households;
- different ways of keeping it;
- decision making for income management within a household;
- the difference in saving and investment priorities among different social strata and its reasons; and,

- the socio-economic factors influencing the form and extent of saving.

The theses will be:

- The farmers save a nominal amount of their income because of their non-businesslike attitude towards life, religious habits, and undue expenditure on ceremonies, etc.
- There exists no proper provision of sustained incentives to save in rural areas. According to our hypothesis, the ratio of saving may well be stimulated in time by the knowledge that attractive, safe and profitable outlets exist for the employment of saving.
- Saved resources are not converted into durable assets and, therefore, do not aid the production resources, which means that, even if the rate of saving is considerably increased, the direction of investment will not be productive, unless the underlying factors are explored.
- The socio-cultural parameters in rural areas include the dominant structures, traditions, norms, social hierarchies and social dependencies which cannot easily be changed through government measures, no financial policy can be successful unless existing traditional structure of the community receives proper consideration.
- The lack of coordination of savings services with credit services and the overused practice of 'spoon feeding' with loans from government agencies is inducing a 'charity recipient mentality' among rural population.
- The services of financial institutions do not correspond to the demands and needs of the target groups.
- Informal financial structure is more trustworthy for the rural population in comparison to the formal one. An organizational support which may serve to strengthen financial self-help groups and to link them with the formal financial infrastructure may contribute to saving mobilization.
- Political instability brings changes in the state's financial planning at short notice, this prevents the people from making any long term saving or investment planning;
- The central problem in the mobilization of local resources and their efficient use is the lack of a 'bottom up development approach.'

1.4 Structure of the study

Chapter 2 outlines the conceptual model of the household saving, its historical evolution and its orientation in different schools of thought, and an insight of the consumption and investment concepts. The chapter as a whole draws a theoretical and conceptual framework for the empirical analysis of saving, consumption and investment model of the households in a rural sphere.

Chapter 3 presents the statistical and organizational evidences of household saving from Pakistan. The secondary data give facts and figures on some selected topics such as the overall saving situation, the average and marginal propensity to save and the financial technology available to facilitate transactions for savers in the rural areas of Pakistan.

Chapter 4 describes the socio-economic framework which shapes and formulates the saving behavior of an individual in rural Pakistan. It concentrates upon developmental planning as well as on the policies of Islamization and deregulation of the financial sector in the last two decades. The community's traditional setup, which shapes the ideology of an individual, is discussed as a dominant factor.

Chapter 5 submits the empirical results, which present the formal and informal forms and extent of saving, decision making strategies, and investment priorities among rural

households belonging to different economic strata. The quantitative analysis is done on the basis of twelve case studies carried out within a period of one crop year in the research area. Special consideration is given to the saving activities on the basis of traditionally evolved cooperative type institutions.

Chapter 6 deals with the social, psychological, cultural, economic and institutional factors influencing directly or indirectly the form and extent of saving. In addition to it, a correlation analysis supports the qualitative description of the factors.

Chapter 7 covers the concluding discussion and recommendations. The study proposes an area specific linkage model between the formal and informal financial sector, within the boundaries of the socio-cultural framework of the community.

And finally, the study is summarized in **Chapter 8**.

2. Theoretical and Conceptual Framework

The chapter intends to present a theoretical framework of all possible functions of households' income, i.e., saving, consumption and investment, along with a conceptual background of household decision making procedures, which lead to this division of income in rural areas.

2.1 Origin and behavior of saving

2.1.1 Origin of saving - historical perspective

The history of saving is as old as the history of mankind itself. Primitive civilizations engaged in a manner conceptually similar to that of individual and family units of modern times. Hunting and gathering tribes developed strategies for accumulating and allocating food so that resources could be used in pursuits other than food collection. Thus, in a very real way, the notion of saving has preceded modern man. Therefore, the logical division of the available food over a specific period, in order to create a store of surplus for rainy days, is very old. Hunters and gatherers were replaced by mercantilism and the master guildsman/apprentice system with the advancement of civilization. Yet, saving still took the form of stored necessities, preservation remaining a key component of rationing consumption over time. Saving and housekeeping are not very different from one another in their literal meanings. This sense of housekeeping actually holds a basic character of a crossing-over from hunters and gatherers to the settlers' state, when agricultural economy compelled that the planning period should exceed one crop year. Before a crop failure occurs that may lead to further economic problems, grain should have been stored with a view to overcoming such emergencies.

The question about merits and demerits of saving has already been raised in ancient times. In old Greek literature, saving appears to be an ethical feeling and someone's duty towards oneself, friends and state. Old teachings of economics, therefore, claim the need of a housekeeper who may be able to keep the assets and reserves of the house in a perfect order (ARISTOTLE 1953:17). This household can be symbolized as the main key for keeping and building assets. **In ARISTOTLE's as well as XENOPHON's (1956:238) ancient writings, a sense of housekeeping is considered as a base for developing saving ability and forming assets.** XENOPHON addresses the women specifically within this context and says:

" you are responsible for the planning of household's income and consumption process, you should be very careful about surplus in the household that the reserves for one year may not be finished within one month "(XENOPHON 1956:262).

This sort of housekeeping helps to develop a sense of contentment which helps further in controlling everyday expenditure. The so-called '**Hausväterliteratur**'² considers individuals in the sense of their activities and duties corresponding to their position in the household; the father as the head of the household, as the representative to the outer world, the mother as a competent person within the household, and similarly children and other household members according to the position assigned to them.³ The main emphasis

² 'Hausväterliteratur' appeared as a base of the ancient economy in the seventeenth century and at the start of the eighteenth century in the sphere of German language. See TSCHAMMER-OSTEN (1973:5f, 40-43).

³ See also RÄDER (1993:107ff).

in housekeeping is on the acquisition, storage and utilization of goods and other possessions. The main theme, in this regard, is the satisfaction of the needs of the household, i.e., it deals more with the utilization of capital instead of the way to increase it. The actual purpose of housekeeping, according to the 'Hausväterliteratur,' is the provision of means for the stability of the household unit and its members, on the short as well as on the long term basis. The latter, however, is only possible when a part of the income is kept aside (RÄDER 1993:109). Thriftiness, therefore, is a housekeeper's customary virtue, and a desire to generate some surplus is considered a basic principle of economic transaction in a household.⁴ The ultimate objective of housekeeping, in the 'Hausväterliteratur,' is to maintain a (constantly changing) balance between consumption and production of available resources.

At the micro level, this behavior fulfilled the need for security; at the macro level, people were encouraged to allow others to use the stored funds for a specific price (interest). Yet, the appropriateness of storing and saving money was the focus of theological thought. This socio-religious context made saving a cornerstone of the prevailing economic system. The saving concept has always been awarded a significant position in the classical teachings of religions, e.g., Islam presents a complete package of the Islamic Economic System about income distribution, consumption, saving and charity in the Holy Quraan. Major emphasis is laid on always spending less than the available resources. It does not recognize the pure materialistic bent of excessive consumption. Necessities should be supplied, but it is advised to control luxuries. Even when resources increase, **Islamic teachings prevent the accumulation of wealth and does not allow its utilization for luxuries and comforts.** To save money, and to prevent its concentration in a few hands, there are some specific rules. Limited consumption and charity are the components on which major emphasis is put in Islamic economic behavior.

Similarly, the **teachings of Christ tell us about the virtues of saving and contented behavior not only for one's own household but in the form of charity which may be helpful for neighbors and the society** (DOMELA-NIEUWENHUIS 1889:48ff). Social aspects are preferred to economic aspects, here. The followers are advised to work hard to be able to acquire sufficient provisions for themselves and other poor fellows, and not to depend upon the Church. These teachings of the virtues of saving by Church fathers (2nd - 7th centuries) were further modified by scholars later on (12th -14th centuries). It preserved its significance till the late Middle Ages and kept spreading among the individuals through the influence of the Church, and, later on, became gradually rooted in the general "customary laws" of the society. This new realization provided a base for amassing huge treasures and brought about a significant development in the productivity of manpower, hence resulting in renunciation, which represented an ideal over a period of one century. "Only the internal reorganization of the psychological forces and an outer limitation of the luxurious objects can lead to a proper life" (PASCHKE 1961:25f). The notion of setting money aside for later or earning money with money (interest) was taboo. Economics as such was subordinate to the Catholic Church, which was considered the great pillar of stability in an age of disorder. TAWNEY (1926:31) captures the basic thought of the period:

„.... that economic interests are subordinate to the real business of life, which is salvation, and that economic conduct is one aspect of personal conduct, upon which, as on other parts of it, the rules of morality are binding.“

⁴ See HOFFMANN (1959:189), who defines surplus as a difference between yield and the cost of total input in farm and household.

Any money that might enter into a saving stream was, therefore, to be given to the Church for the cause of religious propagation and to ensure one's place in eternity. The view on the merits of moderate spending kept its significance stable, even in the Reformation Period, as one of the basic ethics of Christianity. Incipency of saving behavior as known today succeeded transition of society from a non-market, largely non-monetized economy to one in which market and money were dominant. A change in the religious climate accompanied this shifting economic sentiment. John Calvin (a Protestant reformer during the mid sixteenth century) challenged the theological validity of the role of economics in religious thought. The conception of the 'Protestant work-ethic' complemented the theological beliefs with respect to worldly requirements of life. Diligence and ambitions became the ideal categories acting as an essential prerequisite for the success of one's development process of life. Thrift became a virtue according to this work-ethic, as HEILBRONER (1962:55) states:

"Calvinism promoted an aspect of economic life of which we have hitherto heard very little: thrift. It made saving, the conscious abstinence from the enjoyment of income, a virtue. It made investment, the use of saving for productive purposes, an instrument of piety as well as profit."

According to WEBER, the underlying rationality of Calvinism produced a mental atmosphere that was conducive to the growth of capitalism in the Protestant countries of Europe. The rational attitude towards life and the cosmic world was a prerequisite for the development of science and the technological revolution (LOOMIS/LOOMIS 1969:XV).

The universality of the phenomenon of saving is evident in other religious philosophies as well. The religious beliefs of **Hinduism**, for instance, were strongly associated with material desires; this was shown in the very mundane nature of rewards prayed for (RADHAKRISHAN 1952:41), and this value placed on mundane happiness strengthened the attitude towards greater consumption on rituals. On the whole, however, religion in this early Vedic period discouraged saving and investment. This traditional notion of Hinduism modified its Vedic ritual, the Brahmanic supremacy, and other worldly tendencies in the period between 300 and 500 AD. **In fact, Hinduism influenced saving motives adversely (i) in its attitudinal aspect, mainly through the interrelated beliefs in the doctrine of transmigration, the law of *karma*, etc.; (ii) in its institutional aspect, mainly through the caste system, etc. As regards the law of *karma*, taking material advantage as an ideal presupposes an interest in the present rather than in the next life.** The knowledge that the course of life has already been determined by past actions and that there is no scope for bettering one's next life would generate, in most people, no incentive to save (and, indeed, would generate a disincentive) and to improve material conditions (MISHRA 1962:202). Asceticism obviously generated greater savings which may be utilized for greater investments, but asceticism merged in other worldliness; not only did it put material objective at a discount in favor of other worldly objectives, but any savings resulting from asceticism are utilized for unproductive consumption. In the Hindu institution, the caste system is by far the most important factor for an individual's saving efforts. A much graver implication is related to the incentive aspect of the caste system. The caste system has a social as well as an economic aspect. The social status determined by birth represents a great disincentive for saving in order to enhance one's social position, because upper castes always remain at a higher social level.

The period from 1500 to 1750, however, may be denoted as an era of acceptance of innovations, of flexibility as well as rigidity within the context of consumption and saving.

Thus, Hinduism could accept the doctrine of *ahimsa* and the institution of *mahanthas* (religious leaders owning large property) which followed a Buddhist pattern; but it had nothing to do with any innovation that could threaten its caste system. „Modern capitalism undoubtedly could never have originated from the circles of the completely traditionalist circle“ (WEBER 1962:113). In most cases, given adequate propagation, any profitable innovations have generally been adopted, openly or discretely, by Hindus. Hindus usually sold their old cows to Muslim purchasers who ultimately slaughtered them for commercial purposes. The religious conscience thus found satisfaction in the explanation that they (the sellers) were not responsible for what the purchasers did with the cows (MISHRA 1962:61). Such ideological innovations and a contact with secularism provided a sound base for an individual's betterment by accumulating wealth and investing it in a productive way. **A strong concept of saving started in the Vaishya (the traders) caste group, who, being traders, started lending money on interest. Locally, they were known as Baniya and are considered as pioneers in introducing new ways of saving in cash and kind.** To conclude the above-mentioned facts, it may be stated, that, in comparison to other religions, Hinduism took a quite longer time to prescribe thrift as a virtue and to condemn prodigality as a vice.

Not only Hinduism, but **Buddhism as well stressed an appreciable increase in rationalistic thinking around the period of 300 BC. The period witnesses a favorable influence on the propensity to save and invest by improvements in the techniques of exchange.** Buddhists completely denounced the supernatural and the sacrifice ritual and believed in the doctrine of transmigration. They also practiced asceticism, which was consistent with their business philosophy in the sense that it strengthened their already high propensity to save and invest (MISHRA 1962:24f). Thus, asceticism as well as rationalism tended to encourage the economic application of knowledge by reducing the importance of ritual and priestly classes, which led to a reduction in waste and unproductive consumption and encouraged saving.

Whatever the undercurrents, the most conspicuous elements in religion during that period were the spirit of reason and rationality, on the one hand, and the stress on certain ethical codes of individual and social behavior, on the other. There were elaborate religious regulations relating to debts and mortgages (BASHAM 1954:221-2). Moreover, the forbidding of beef eating in conformance with *ahimsa* (non-injury to men and animals) further restricted the pattern of consumption expenditure. In 100 AD the religious philosophy of Buddhism emphasized that the secrets of all achievements, including spiritual achievement, lay in a healthy economic background and that accumulation of wealth and economic development are the perennial source of all *dharma* (religious life) (MISHRA 1962:27f).

In other words, with the idea of worldly requirements, a stage was set for the impending introduction of capitalism to human societies. Later on, the 'founding father' of modern capitalism, SMITH, wrote exclusively in the 'Wealth of Nation', within the context of an interplay of capital formation and saving. According to SMITH (1961:437), capital is increased by parsimony and diminished by prodigality and misconduct. The saved revenue adds to the saver's capital, who either employs it himself or lends it on interest to have a share of profit. If the capital of an individual can be increased only by what he saves from his annual gains, the capital of a whole society may also only be increased in the same manner.

MULLIS (1984:3) perceives this treatise as a foundation upon which all capitalistic nations based their economic perceptions. Perceptions of potential problems with the equilibrium

of saving and investment developed in the 1930s, when instability in many economies in the world became a challenge for the economists, and they began trying to unravel the problems, creating havoc in the economic structure.

2.1.2 Saving motives as an expression of behavioral principle

The dogmatic history shows a complete picture of the building of motives and driving forces of saving which gives an idea of the respective historical situations and modifications in the ideology of the savers with the development of culture in different eras.

PASCHKE (1961:54ff) has presented a list of the changing nature of saving motives over a period of one and a half centuries, as indicated by the renowned scholars of that time.

The historical overview in Table 1 shows a sequence of change in the motive consciousness of societies with changing levels of cultural and economic development. Major motives are mentioned separately and are divided into ethic and its metaphysically associated factors such as, cultural development respect to social and economic driving forces. Every motive is awarded a valuation according to its historical significance.

Historical observation reveals that saving has always been a complicated process and saving motives have always remained under the influence of general standards in a society. Ethics have kept losing their significance with respect to society and economy throughout the period, major attention is diverted to economic factors.

Thus, a motive increasingly influenced by religious and ethical teachings remain most of the time no longer logical when exposed to the cultural renaissance of rational, economic and societal development and when experiencing an expansion process. The logic of the new trends affects the behavior of the individual, and the consistency and security of traditionally existent moral code are no longer valid. An everlasting theoretical description or development of an absolute theory of the saving problem is, therefore, impossible.

The motivation of saving is usually based upon the following four principles:⁵

Saving decision is a reaction of an individual's objectives, a desire of possessions in life; a saver possesses a variety of driving forces absorbed from all sides, which determine his behavior;

the saving process is an outcome of the economic attitude and the ideology of a person; socio-cultural development shapes the ideology of the saver which becomes visible in his saving behavior.

⁵ See also PASCHKE (1961:55).

Table 1. Historical overview of the saving motives

Scholars	Saving motives	Major motives		
		Ethic	Society	Econom y
Xenophon	Capital stock, honor	x		x
Aristotle	household duties, state respect	x	(x)	
Assisi, F.	discipline, limitation of luxurious life	xx		
Calvin	success, predestination	xx		
Hobbes Th.	moderation	xx		
Mandeville, B.	vanity	x		(x)
Justi, J. H. G.	prosperity, self-sufficiency	x		(x)
Quesnay, F.	precautions	x		(x)
Mercier de la	precautions in income management	x		(x)
Turgot, A. R. J.	self-denial, carefulness, betterment in status, interest	x	(x)	(x)
Hume, D.	usefulness	X		(x)
Bentham, J.	desires, usefulness	(x)		(x)
		x	x	(x)
Smith, A.	sympathy, blissful happiness, betterment of social standard	x	x	(x)
Ricardo, D.	profit			xx
Malthus, Th. R.	profit	(x)		x
Rae, J.	intellectual insight, public character	(x)	x	
Mill, J. St.	desire of capital, development, profit	(x)		x
Jevons, W. St.	future worries	(x)		(x)
Hermann. F. B.	self interest	(x)	(x)	
Schmoller, G.	natural condition, social strata		xx	
Domela -Nieuwenhuis, A.	mental and social development, profit expectation		x	
Manteuffel, C.	moderation, instinct, future worries, capital increase		xx	(x)
Böhm-Bawerk, V	interest comparison, psyche	(x)		x
Wicksell, K.	future utility, interest, age, family size, income	(x)	xx	x
Schumpeter, J. A.	interest rate	(x)		xx
Cassel, G.	usefulness, interest, income, future worries, standard of life	(x)	(x)	xx
Clark, J. B.	interest, income, habits, social standard,			xx
Marshall, A.	love for the family		x	x
Stackelberg, H.	limitation of consumption, betterment in the living standard	(x)		
Reichenau, Ch.	social standard consumption habits, worries of children, cultural development		x	xx
Voigt, F.	personality forms, income, standard of life	(x)	xx	xx
Keynes, J. M.	real income, social and institutional framework		(x)	xx
Samuelson, P. A.	disposable income			xx
Smithies, A.	standard of life, income distribution	x		xx
Pigou, A. C.	assets, prosperity		(x)	x
Ackley, G.	future prospects		(x)	xx
Hamburger, W.			(x)	xx
Duesenberry, J. S.	feeling of insecurity, group belonging, high income, standard of life	(x)	x	xx
Katona, G.	a huge variety of the psychological socio--psychological and economic influences	(x)	xx	xx

(x) = weak influence

x = medium influence

xx = strong influence

Source: PASCHKE (1961:54ff)

2.1.2.1 Ethical impulse to save

SMITH's (1961:29ff) economic theory of human behavior takes sympathy feelings and blissful happiness as important determinants of human dealings in everyday life. The basic principle, in his opinion, is that inner satisfaction determines outer fortune and happiness. Inner satisfaction comes from the proper management of resources to acquire a better life. Outer happiness, however, seems to be hidden in the bodily comforts.

SMITH relates these moral basics to the economy. As social beings, human beings carry a mutual responsibility for the society. **Every spendthrift member appears as an enemy and every thrifty person as a well-wisher of the fellow members of the society.** This idea actually represents the cultural - ethical basics of SMITH's economy. This is the leading thought in all of his works. BENTHAM (1823:1, 49f) goes back to the discussion of human dealings and says that the individual psyche is naturally oriented towards easiness, avoiding torture and agony. Individuals collect comforts in order to satisfy their psyche, saving can be considered as a secure way leading to this goal. According to WEBER (1950:166-174), the distinctive sets of dominant sentiments emerge out of one's belief system. This belief system of an individual restricts some ways which are actually desired by human nature. **Such beliefs usually powerfully act against the spontaneous enjoyment of possessions; it restricts consumption, especially of luxuries and approves only the rational and utilitarian uses which shape the thrifty behavior and generates saving.**

BENTHAM's cultural teachings have been taken as a point of departure by JEVONS (1924:30f) who views that anticipation of feelings has a significant effect on the economic transactions of an individual, e.g., in most of the cases education level or race determines the horizon of one's foresight. A strong feeling of future security can be taken as a strongest incentive for hard work and careful spending. He considers the 'expectations' especially responsible for the act of saving.

2.1.2.2 Economic impulse to save

The economic process has a significant influence on the whole cultural and political process of life. Changing economic conditions always brings new problems in almost every aspect of life. Economic behavior and its related saving behavior are mostly determined by pure economic criteria. Profit, interest and income are three central saving motives whose fluctuations influence the economic behavior of the individuals in pure economic science.

BÖHM-BAWERK (1921:136ff, 362) considers **saving to be a result of the comparison of benefit of the current goods with future goods. Saving is also termed a "psychic process" in his work, which is an emotional dealing and mostly a tiring process realized only after long thoughts and fights against many factors.** CASSEL (1932:214-218) includes profit interest and income as important determining factors but considers 'future provisions' as major motives in his investigations. The point of departure in his analysis is the worry that future provisions should not be worse than the present. Saving stabilizes the better future provisions for a long period of time and helps to keep the same standard of life constant in future as well. According to him, upper classes save more than lower ones. Therefore, an important saving impulse can be seen in the way of income differentiation. Individuals become more incited to save with the increase of income. The

greater the income differentiation among different strata of the society, the more the upper classes struggle to maintain this differentiation.

Within the context of interest rate as a motive to save, CASSEL (1932:217) observes that **the effect of interest fluctuation is very low at a low level of its fluctuation range. A small amount of income can hardly create considerable capital. The greater the profit on capital is, the greater will be the drive towards it. The desire to save declines accordingly with the decrease in profit.**

With respect to profit, MILL (1873:31f) is strongly influenced by RAE's ideas (1905:65ff, 136ff) and views that the public starts thinking about saving when cultural development achieves a certain level of development. The prerequisite for voluntary saving activity is an intellectual ideology which never develops in all sectors of a society at the same time. It only develops after a gradual process when cultural development reaches a certain level. HAHN (1930:153.) proves the importance of credit in the mobilization of household savings in his work, "Economic Theory of Bank Credit." He considers capital formation not as being a result of saving but of credit distribution. Credit expansion leads to higher saving deposits, which determine the purchase power of a household. Credit brings a change in the distribution and movement of prosperity in a saver's life, which is a strong prerequisite for voluntary saving. But he does not overlook the consequences of such a saving process for the structure of assets.

2.1.2.3 Cultural impulse to save

Most of the economic factors function in relation to cultural factors. Cultural stratification is, for example, linked with economic strata and may also act as an impulse to save (ROSCHER 1906:683). Middle and lower classes have to save more to compete with the upper strata.

MANTEUFFEL (1900) distinguishes the saving motives from saving conditions. To him, economic behavior and an expectation of profit count as saving motives, while the inborn instinct to save, upbringing and training to save from childhood constitute the saving conditions. In other words, motives represent the inner driving forces, while conditions represent the outer ones. MARSHALL (1905:259) also holds similar views and see love in and affiliation with the family as a major inner drive which arouses a sense of development, as the expectation and progressiveness to come forward in life to ensure a better future to the family. **The influence of culture is specially emphasized because he views the sense of saving as developing along with the development of culture. This is the reason why the saving rate is higher in developed countries** (MARSHALL 1905:28ff.).

Within the same context, VOIGT (1950:200ff, 219) emphasizes the significance of the forms of personality, which are modified during the development of cultural processes. He stresses that terms of maximum profit, comparison of profit with respect to saving fluctuations, propensity for the amount and respective size of saving cannot be explained on the basis of national economy alone. **Saving is not only a function of income; it is determined by components of the personality as well. DOMELA-NIEUWENHUIS (1889) links this saving impulse directly with the mental state of an individual. Saving may itself be a source of extra income which needs, however, rationality in dealings and thoughts.** Saving means a surplus of production over consumption, which can be achieved in two ways: either by reducing consumption or by increasing production. The

former way is a result of the 'inner drive' while the latter is a result of the "outer drive" of saving.

2.1.3 The act of saving

The act of saving is not an impulsive behavior, it is mostly a result of some motivation (EGNER 1976:245). Saving is actually motivated by an inclination not to consume the whole income as soon as it is earned. A given saving potential causes an individual to confront two major types of motives: original and cognitive. **Original motives** represent future uncertainties. **Cognitive motives** are more of a social nature such as acquisition of prestige, demonstrative consumption, etc.

HUHLE (1958:91ff) defines this act as an outcome of three subphenomena: 1) saving potential; 2) saving incentive; and 3) saving intention. Saving intention and potential are both highly interdependent. Intention to save tries to create an ability to save. As the saving potential cannot be realized without the presence of an inner desire (WISSMAN 1960:77), **the incentive to save builds a bridge between the two. A strong incentive may arouse a strong will to save, which may create a saving ability in the individual.** Both features should appear simultaneously because those who save but do not want to do so build capital in the same way as those who are prepared to save but are not in a position to do so. **Voluntary saving may only be generated if all three subphenomena interact in absolute harmony.**

2.1.3.1 Saving Potential

BURGHARDT (1977:95ff) classifies this potential into objective saving potential and subjective saving potential.

Objective potential means the saving ability of a person if the per capita liquid income is sufficient to allow part of it to be deducted from consumption expenditure, without leaving the elementary needs of the household members dissatisfied. This saving potential can be calculated from income size, which is fixed and socially neutral. The elementary needs, however, vary from person to person in different social strata. Every elementary need can be considered as a social variable which, along with so many other socio-economic factors, determine the saving potential in a particular social system.

Subjective potential can be understood as an individual's specific saving propensity, which deals with his saving decisions - save or not - and to select a certain form of saving, i.e., cash or kind. The inclination to save or not to save depends primarily on an already available saving potential as well as the readiness to defer the use of money till a certain period. In such a case, present profits are valued lower than those that can be achieved in the future.⁶

The saving potential is strongly influenced by the fluctuations in a household's demands in different biological processes and developmental stages of the family. A household where income remains constant but the family increases comes exactly into the category of households where the family remains constant but income decreases. Saving efficiency reaches its maximum after a one person household has been established.

⁶ A higher income may result in a lesser saving ability than the lower income level. Most of the expenditures which are considered as "must" in the upper strata of society come into the category of "luxury" in lower income groups. A comparative insecurity of and worries over the future are another major reason for the greater saving motivation in lower income groups.

In the case of a family, however, the saving efficiency reaches its climax after the establishment of a household, but before the expenditure for the children's upbringing starts in its real sense. The increasing costs of the family's development phase reduce the saving efficiency to a minimum, and it reaches a climax again after this critical phase.

Apart from these micro changes, a household's saving efficiency may also be influenced by some macro factors (HUHLE 1958:91ff):

- economic situation of the state;
- standard of technology and organization;
- level of education and training;
- level of prosperity and productivity of economy;
- economic politics and economic constitution.

GASSER and MAYER (1952:35) suggest that the following factors mainly influence the saving rate:

- 1) disposable income of the household;
 - amount (total) of income
 - distribution of income
 - regularity of earned income
- 2) structure of the household
 - composition of the household
 - family size
 - age composition of family members
- 3) individual's sense of progressiveness for professional or social promotion
- 4) currency regulation
- 5) development level of saving organizations
- 6) tax system

2.1.3.2 Saving incentives

The decision to save is always a result of some incentive. The extent and intensity of this motivation are usually a result of varying personal and economic conditions. Any single saving decision may also be a result of a number of motivations. A saving incentive can be an efficient bridge between saving potential and saving willingness.

HUHLE (1958) classifies saving motives into: 1) endogenous saving incentive and, 2) exogenous saving incentive.

Endogenous saving motive is seen as being identical to the subjective saving drive. It can be defined as the fixation of a specific goal according to circumstances. Experiences and observations have proved that savings planned on the basis of chance and accidents, unforeseeable at the time of decision, are hardly ever able to meet the goal. Endogenous saving motivation is a result of a strong inner drive to reshape strategies in the face of changing circumstances. For example, a saver may reduce consumption expenditure further to keep the surplus constant, in case of any unexpected reduction of income.

Exogenous saving motivation, on the other hand, comes from outside. The willingness to save is not a result of the saver's inner drive. Some handsome profit or a sudden betterment

in the economic conditions may result in unexpected savings. The interest on saving deposits offered by the bank may also be counted in the category of external drive. Apparently, such saving processes seem to evolve from an inner desire, but this temporary feeling dies out as soon as the promised benefit has been reaped.

Endogenous and exogenous incentives may act separately or in combination. This combination results in a saving intention which creates saving in presence of saving potential. The volume of saving may be determined by the intensity of the willingness to save.

2.1.3.3 Saving intention

The intention to save is the force which compels an individual to postpone consumption temporarily. Personal characteristics play a decisive role in developing this orientation. The saving urge may be target oriented or just precautionary in nature. Personal characteristics as desire of getting power and authority, speculative nature and eagerness to possess capital, etc., help in the struggle of increasing income to produce more surplus. Among others, income also plays a decisive role.

2.1.4 The interpretation of saving behavior from different viewpoints

Saving has been a real private matter for a long time in history. It has remained a household's personal affair without the least consideration of the surroundings. Since the period of the world economic depression, credit and investment have become a burning issue in many countries of the world. This was the time when saving was also considered a base providing finance for credit. The major focus at that time was to observe the structure and influence of macro economic aggregate saving on capital distribution in the state.

The questions as to who saves, how much is saved, how it is saved and why the saving behavior varies in different societies became the matter of common interest in those days; the answers to those questions were of great significance for the economic development of a nation. The answers are sought in related disciplines such as economics, sociology, anthropology, psychology, etc.; every discipline tried to interpret the logic in its own perception.

The following discussion includes the multi-disciplinary viewpoint of an individual's saving behavior to develop a framework for the analysis of empirical data.

2.1.4.1 Saving from the economic viewpoint

Economic theory defines saving as every share of income which is not consumed. Similarly, enterprises' saving is defined as the firm's undistributed profit which is again invested in it. In connection with private households, the non-consumed share of disposable income is considered as saving. Saving may further be classified as net and gross saving. The net volume of saving is calculated by subtracting gross saving from credit taken by the household during a specific period, while gross saving represents the total volume of saving (SOCHER 1977:81-94).

Economists do not recognize the virtues of saving in every case. **The mercantilistic view**, for instance, concentrates upon an active trade balance to provide money for the state's prosperity. **Mercantilists prefer spending a maximum amount of money in favor of the state's economy instead of hoarding or saving.** The same opinion is held by the **physiocrats**, who do not stress the virtue of saving strongly, as money saving does not comply with the circulation theory. QUESNAY (1894) is of the view that landowners and

other similar occupations do not like 'sterile' saving methods which may withdraw a share of their income from circulation and distribution.

The Classical school of thought also shows no consensus on the virtues of saving. The majority of the Classical authors considers saving as a means to prosperity for an individual as well as the whole nation, as SMITH (1812:149) emphasizes: **"Parsimony and not industry is the immediate cause of the increase of capital."** The danger Classical see is the ultimate fall of purchase power and overproduction as a consequence of an extraordinarily higher saving quota. MALTHUS (1936:8f, 363) holds a special position among Classicals; SMITH also realizes the worth of saving but still keeps the expected risks of an extraordinary higher saving rate before his eyes. According to MALTHUS, underconsumption by capital owners and landowners causes a compelled underconsumption of workers and disturbs the production and distribution sectors of the economy.

HESSE (1982:12-13)⁷ considers capital formation and technical development as a central condition to increase the per capita production in a country, because technical advancement also requires a net investment. In spite of the drastic change in the position assigned to real capital formation within the context of short-term development politics and the strong emphasis laid on a few other factors such as behavior, attitudes, institutions etc., the significance of capital formation for the increase of per capita production remained unchanged.

There exist many interesting correlations between income, saving and consumption. **KEYNES (1936) in his "Absolute Income Hypothesis" observed that the saving quota depends upon the household's consumption habits.** On the average, every human being tends to increase his consumption expenditure, even when his income increases slightly only. This increase, however, is not always equal to the increase in income. Consumption takes some time to change. It does not increase immediately after the fluctuation in income; the short period between income increase and consumption increase may result in saving. Similarly, consumption expenditure tends to remain the same in the case of any unexpected reduction and prevents saving.

DUESENBERY (1949) emphasizes the relative place of the income receiver in the income pyramid as a decisive base to determine his saving rate in his "Relative Income Hypothesis." A household's saving behavior is always influenced by the consumption quota of the other households of the same income stratum. In his view, if all households achieve the same increase in income, they will also tend to retain the saving quota. In the case of any attempt to increase saving, one has to consume less than the other members of one's social strata, which means spending less than the standards by the society. The behavior shows that saving volume and form do not vary considerably within one stratum. He also developed a **"ratchet effect"** that people strive for higher standards of living; therefore, even when income recedes, they are reluctant to return to a lower level of consumption, thus, consumption and saving are a function of past peaks.

According to **the overinvestment theory**, a lack of saved capital leads to the generation of credit to effect required investments. **The expansion of such subsidized credit is the actual cause of economic crises in a state** (RAAB 1966:22). In a situation when overconsumption causes undersaving, theorists prefer the mobilization of saving as a

⁷ For further details, see HESSE (1982:17;41;64)

positive instrument for harmonizing the economy instead of feeding extra capital, which may enhance consumption and disturb further the ratio of saving and investment.

Three factors are considered decisive in determining economic growth according to **the modern theory of growth**: population number, improvement of technical know-how and expansion of real capital. The modern theory of growth concentrates upon these major influencing factors. Theorists like PETER (1960:46ff) and MEINHOLD (1955:340ff) hold the view that saving stabilizes the value of money and its related questions of income and capital distribution in a growing economy with a higher employment rate and a fully utilized production capacity.

Saving is not considered as a definite prerequisite for the grant of credit through credit institutions in **the modern theory of credit** (GESTRICH 1957:19; HAHN 1930:127ff). The intention of credit institutes to disperse more credit depends upon their liquidity status and not on the amount of available deposits. **Although modern theorists do not see any direct relation between saving and credit, they limit their theory that a balance between saving and credit is vital for a smooth process of economic growth.**⁸ Similarly, the interest rate of credit is not determined by saving, it depends rather upon the readiness of banks to grant credit and the intention of the borrower to accept credit at the claimed interest rate. The traditional theory of credit calls for an increase in saving as a consequence of the expansion of credit dispersion at a low rate of interest. The modern theory, however, rejects the old view with regard to this point and suggests that a higher interest rate increases the saving rate, while a low interest rate reduces it.

Political economics observes saving from the viewpoint of political goal settings. The classical national economy saw the most important factor of growth in saving, since the time of ADAM SMITH, because saving builds capital and capital acts as a limited production factor. **The antagonistic view of saving** is best described in the works of BÖHM-BAWERK. He shows in his 'Positive Theory of Capital' (1921) how capital goods can be produced with the saving in consumption goods. A fundamentally negative assessment is then done in the works of KEYNES (1936): **The increased rate of saving does not induce an automatically higher rate of investment. First of all, it increases the supply of saved capital and reduces the interest rate, which may decrease the saving rate by increasing hoarding. Ultimately, capital available for the investments decreases more than its expected volume. The hard core of the theory lies in the view that an increase in saving does not always lead to the achievement of these goals.** In political economy, saving may be advantageous for the achievement of a goal but not for others. A number of goal settings remain in conflict. If all these goals are organized in hierarchical scale to analyze the amount of saving required for an optimum achievement of each goal, optimum saving politics may be formulated.⁹ Anyhow, even in the presence of an optimum saving level, the instruments utilized to achieve a goal have to be selected by politicians. From the viewpoint of political economy, every instrument of saving politics cannot be determined in accordance with the stable economic theory of politics. In most of the cases, **the saving rate is kept at a limit if it comes in conflict with the principles of free income utilization of the market economy. The decisions of politicians depend upon such goals as winning maximum votes and obliging the majority of voters for the preparation of the next election.**

⁸ The idea has to be understood carefully; such an independency of credit from saving should not be understood as the material insignificance of saving for credit.

⁹For further details, see SOCHER (1977:81-94).

2.1.4.2 Saving from the Islamic viewpoint

Islamic teachings link saving with economic development not through the differential rates of interest, but through co-operation.¹⁰ „Niggardliness is condemned in the Quraan (Surah IV. 37). The other extreme, extravagance, is equally condemned. Even when giving to, or sharing with others, a person should not go so far as to render himself in turn an object of charity (Surah XVII. 29). Therefore, when unnecessary consumption retards the process of economic development, the Islamic state can intervene to control such consumption and direct control of investment policy“ (MANNAN 1986:368). **A balanced use of money is the sixth rule of the *Shariah***, that is, the owner of the property should be neither prodigal nor parsimonious in its use. The Quraan says: „Make not thy hand tied like a niggard's to thy neck, nor stretch it forth to its utmost reach (extravagance). So that those become blameworthy and destitute (XVII:29).“ Again, the Holy Quraan says: „For God loveth not the arrogant, the vainglorious; (Nor) those who are niggardly or enjoin niggardliness on others, or hide the bounties which God hath bestowed on them; for We have prepared, for those who resist Faith, a punishment that steeps them in contempt“ (IV:36-37).

The ideal pattern of Islamic belief contains enough motivational properties which influence the actual pattern of Muslim behavior. The Islamic way to motivate economic achievement accelerates economic development through psychological training. **Islam has made a framework of saving by presenting a concept of healthy society.** The Islamic society establishes a balance of wealth, opposes destitution, establishes responsibilities between the rich and the poor and develops a sense of mutual relationship and help¹¹. The Quraan summons men to help the weaker ones before the opportunity is lost: „.... do good to parents, kinsfolk, orphan, those in need, neighbors who are near, neighbors who are strangers, the companion by your side, the way-farer (ye meet) and what your right hands possess; for Allah loveth not the arrogant, the vainglorious“ (iv 36, 37).

Apart from a central fund of *Zakat*¹², the Quraan makes it the responsibility of the society, as a whole, to see that the basic needs of all individuals in society are well guarded. There exists a number of Hadiths describing the actual code of life regarding money accumulation and its dispersion: "He who has abundance of profit, let him use it on behalf of one who has none." "He who has food for two, let him take a third man with him; and he who has food for three, let him take a fourth." "He has no faith in me, who sleeps replete, while his neighbor beside him is hungry, and he is aware of the fact" (MUSLIM, ABU DAWUD, cf. QURESHI 1979:78).

¹⁰ Human behaviour which determines the allocation of available resources plays a crucial role in the Islamic system. Economic development in Islam is not simply material development. The spiritual and moral phases are assigned great importance. The method of financing development is somewhat similar in both systems; the difference lies, not only in its emphasis but also in its methods of utilizing resources and achieving targets.

¹¹ It was IBN KHALDUN who saw the interrelationship between economic, social and ethical factors. Although his celebrated 'al-Muqaddimah' deals with these factors separately, he considers them as inter-linked „aspects of civilization that affect human beings in their social organization. See MANNAN (1986:24); ROZENTHAL (1967) for further discussion on the viewpoint of Ibn Khaldun.

¹² *Zakat* is one of the five pillars of the Islamic faith. In the economic sphere it is a voluntary submission to God's will. The doctors of conventional law generally divided property on which *Zakat* was to be applicable into four categories: 1) gold and silver as 2.5% of the total value, 2) cattle and other domestic animal, the percentage is approximately the same as in the first category, 3) agricultural and farming produce with a proportion of one-tenth of the rainfed land and one-twentieth in the case of artificially irrigated land, 4) mines and treasure-trove, one-fifth of it.

It must be noted here that the property which is subjected to *Zakat* must be that which is in excess of the basic needs of the owner and of what is required for his bare livelihood.

There is no concept of absolute economic equality in Islam. Islam defines two types of values, "true values and economic values." True values means sympathy, love, care, help. Since different individuals have different opportunities, occupations, talent and means of earning their livelihood, as well as being different in strength and in endowment. The Quraan says: „God has distinguished you from one another, in (your capacities to earn) sustenance. Some can earn more than others, but it does not so happen that those who are more favored give away (their extra earning) to those who depend on them, although they are all equal sharers in (the earnings). Then, are not such failing to acknowledge the favor of God?“ (XVI:71)¹³. „There is no literal equality of wealth, because the distribution of wealth depends upon man's endowments, which are not uniform. Hence, absolute justice demands that men's rewards be similarly different and that some have more than others - so long as human justice is upheld by the provision of equal opportunity for all" (MUSLIM, ABU DAWUD, cf. QURESHI 1979:83).

The human mind is advised to be free from the tyranny of the purely economic values; therefore, social classification on the basis of origin, race or class is highly discouraged. **Islam even forbids the accumulation of unbridled luxuries, which creates social divisions and classes. „Islam believes on an equitable distribution of wealth and does not countenance the idle hoarding of the Napoleons of finance and others of their ilk who profiteer at the cost of others. But unlike communism, Islam does not hold rich men under a sentence of death.** It permits the holding of what is known as functional property and encourages the productive and beneficial use of capital“ (MANNAN 1986:359).

The Islamic system seeks to discourage hoarding and stimulate spending. But stress is laid on socially beneficial spending only. Lest it should be misinterpreted, God warns against ostentatious extravagance and reckless spending. The Quraan says, "**Eat and drink, but waste not by excess, for God loveth not wasters**" (XIV: 14). „**Verily spendthrifts are brothers of the Evil Ones; And the Evil One is to his Lord ungrateful**“ (XVII: 27). Thus, we see that niggardliness is condemned as a negative and destructive quality. The other extreme, extravagance, is equally condemned. Again, „**hoarding is absolutely prohibited because it puts wealth out of circulation and deprives the owner as well as the rest of the community of its beneficent use**“ (IX:34). At an other place, „**Who hoard their wealth and enjoin avarice on others, and hide what Allah hath bestowed for disbelievers We prepare a shameful doom**“ (IV:37). The Quraan warns especially against the hoarding of gold and silver: There is a strict warning against hoarding of silver and gold: "**and there are those who bury gold and silver and do not spend in the way of God; announce them a most grievous penalty on the day when heat will be produced out of that (wealth) in the fire of Hell, and with it will be branded their foreheads, their flanks, and their backs that this is the (treasure) which ye buried for yourselves: taste ye, then, the (treasure) ye buried** (IX. 34, 35). The major theme is to disfavor the monopoly of resources by only one stratum. The Quraan says: „**In order that it (wealth) may not (merely) make a circuit between the wealthy among you**“ (LIX:7).

¹³ MANNAN (1986:78) comments on the exposition of MAULANA ABUL-KALAM AZAD on this verse: „Quraan accepts the position that people are not alike in their ability to earn and consequently some possess more and some less; but the Quraan does not accept a situation in which some have too much and some nothing at all. [...] though the better off among them do not give away all their earnings to those who are poor, yet they never become so unconcerned about the welfare of the poor but of them as to let them starve“.

Thus, it may be concluded from the above stated discussion that Islamic teachings give a lesson of saving indirectly by discouraging hoarding and extravagance. The main stress, however, is not just on saving the surplus, but rather on spending it in the way of God as *Zakat* which is compulsory and as *Sadaqah* which is voluntary financial help for the poor.¹⁴ Saving as an individual's accumulation of capital is a major cause of economic stratification in a society.

2.1.4.3 Saving from the sociological viewpoint

Saving behavior is considered to be a standpoint in the sociological analysis of saving. It becomes evident in some recognizable social regularities, i.e., a specific set of actions performed in a specific situation as dictated by tradition, norms and values of the society. 'In sociological understanding, saving behavior is not an individual's autonomous behavior pattern (individual interpretations), but a result of individual disposition shaped by a social milieu (society and saving institutions). Saving institutions are intentionally emphasized, because their presence may exert a stimulation effect to modify the saving behavior' (BURGHARDT 1977:95).

Sociologists consider the act of saving as a result of a specific learning process. This learning process could be understood as a permanent reception and under certain circumstances as utilization of information. The community acts as a receptor and accumulates a stock of practicable information in the form of a 'data bank', which later makes it possible to make cognitive decisions to achieve the desired goal. In general, the grade of information correlates with the apparent grade of success which may be achieved in compliance with that information. It depends upon the quality of pre-knowledge an individual already possesses. The new information may have a more or less stimulating character, behavioral hypothesis explains this action as '**Stimulus-Reaction-Model**' (BURGHARDT 1977:100f). Similarly, rumors and misinformation act as a disincentive and destimulate the saving behavior, which complicates the anticipation of saving behavior by the saving institutions. Past experiences also play a decisive role in the formation of new strategies. A past saving success strengthens the belief in the method used so far, a past failure causes an '**Effacing Effect**' (BURGHARDT 1977:102).

Desire to save is mostly an outcome of the desire of achieving a particular motive in life, a long-run future planning or a short-term objective. The nature of this motive may classify the saving activity in the following major groups.

- a) Real capital saving, if activity is oriented towards capital formation. The saved sum is either invested productively or deposited in some credit institute to be invested by somebody else.
- b) Precautionary saving, if saving is seen as a security measure for the future, but which can be utilized in case of any urgent need. This can be done without having any specific objective at the start.

¹⁴ There is a large number of verses in The Quraan in this regard, "for those who give in charity, men and women, and loan to God a Beautiful Loan, it shall be increased manifold (to their credit), and they shall have (besides) a liberal reward" (VII. 18). At another place, "the parable of those who spend their substance in the way of Allah is that of a grain of corn: it groweth seven ears, and each ear hath a hundred grains. Allah giveth manifold increase to whom He pleased" (II. 261-263). In connection with the demonstration of charity, it is further explained, "if ye disclose (acts of) charity, even so it is well, but if ye conceal them, and make them reach those (really) in need: that is best for you" (II. 271).

- c) Objective-oriented saving, if the saver has a concrete objective ahead and saves till he achieves the required amount.
- d) Compulsory saving such as participation in rotatory saving groups.

The following objectives usually act as motives stimulating saving:

- precautionary saving for old age
- in case of any illness or hard luck in future
- financial security for other family members
- purchase or construction of a house
- desire of building capital with an expectation of betterment in the future, etc.

In contrast, BUTSCHKAU (1952:11) suggests some factors discouraging saving such as:

- fear of war
- mistrust of financial institutions
- fear of the devaluation of money.

2.1.4.4 Saving from the psychological viewpoint

STEINER (1977:105-114) proposes four major psychological motives which may arouse an urge to save in an individual in traditional societies.

a) Primary and secondary communication

An individual is exposed to two types of communication: primary communication (direct communication) and secondary communication (indirect communication). Primary relations comprise personal relationships between you and me, e.g., friendship, which represent a voluntary acceptance of each other. Personality is the major binding force in primary relations. In contrast, secondary communication is based upon material status and common goals. Individuals need and experience secondary relations and, therefore, have to save for maintaining monetary communications.

b) Ease in primary relationship

Altruism provides a sphere of primary relations in societies, where neither the state nor any other institutional network offers insurance against the uncertainties of life. The family household itself fills the vacuum by providing food and shelter. In such a situation, every household member who is too old or unable to work automatically becomes the responsibility of family members. Most of the time, precautionary savings are done to avoid bothering the family in old age, especially in the financial sphere.

c) Conformity to a social stratum

In general, a specific material status limits or promotes some specific social relationship. This material status usually reflects one's standard in a certain social stratum. Any rise and fall from a certain level may be punished by the deprivation of those contacts. Many people are scared of a low income level just because they might lose contact with the better off. However, many people may prefer the low standard of life in order to maintain their current contacts. This situation of acquiring a higher income level but avoiding a higher status results in saving.

d) Protection in secondary relationship

It is quite difficult for a layman to move around in the world of secondary communications. As he is unaware of the possibilities and limitations, mistakes may easily

be done at various points. Such mistakes may be avoided by engaging the services of some specialist in the respective field, e.g., a lawyer in the case of legal affairs. Even in the case of some violation of the criminal code, imprisonment may be replaced by fine. Money is saved to buy such secondary services.

2.1.4.5 Saving from the educational viewpoint

SCHMÖLDERS (1966:60) recognizes the role of economic theory in modifying human behavior. Primarily it deals, as far as money is concerned, with the readiness to utilize money and, secondarily, with saving. While saving in this case means a difference of balance between income and expenditure over a specific period, MANN (1962:6) defines saving behavior as a special form of economic behavior shaped by economic education.

Children usually inherit the saving attitude from their parents. Every sort of economic education starts in the family. The learning process of the saving and consuming behavior starts from childhood. Parents can expect their children's expenses to be as purposeful and sensible as their own. GRATZENBERGER (1962:36) writes: Every child unconsciously experiences the economic situation of his family and observes the economic behavior of the elders in a specific situation, as he grows up. This continuous experience shapes his personal behavior for the future. In the households where parents share their professional and financial problems with the children and let them participate in their planning for the future, the atmosphere for learning process improves greatly. The child gets an early initiation into housekeeping. A child involved in some small purchases and in the management of pocket money given to children from early age may easily modify their future saving behavior. The pocket money should just be sufficient for their needs, so that even a child belonging to the upper middle class may not acquire the habit of extravagance. He should also be persuaded to put some of this pocket money aside to get a basic orientation of saving. Briefly speaking, a sensible training in saving may develop confidence to manage one's own resources properly. This is possible only when the elders of the family are able to analyze this training program and are well aware of the aftereffects. A realistic and sensible saving education, according to GRATZENBERGER, should impart confidence regarding personal possession and the joy to add to it.

The above-mentioned **schools of thought show their relevance to the saving situation in Pakistan** on the following basis.

On the one side, a lack of access to cash restricts saving education to being part of the socialization from childhood. Moreover, the social network of traditions and norms dictates extravagant expenditure as a way of winning prestige in the society. Consequently, saving, if done, is usually aimed at maintaining and buying secondary relationship. **The formal sector usually overlooks the requirements of traditional community when working out financial strategies; this led to the evolution of social institutions based upon social interaction and face-to-face relation among rural households.** Such mechanisms have substituted the formal financial sector and have blocked the transfer of saved capital to the national economy.

On the other side, in compliance with the **Overinvestment theory**, development policies in Pakistan since independence have been trying to complement the lack of saved capital by credit. Since saving is considered a consequence of the expansion of subsidized credit (Traditional Theory of Credit), the concerned authorities are stressing credit disbursement much more than saving mobilization efforts.

Hence, a basis of the empirical analysis of saving in rural Pakistan in the present study will be an integrated approach of the afore-mentioned four schools of thought. Every school of thought emphasizes a new orientation of human saving behavior, hence, it cannot be ignored altogether. This integrated approach may be summarized as follows:

Saving or consumption decision is a consequence of individual motivation, a desire of possession in life (social or material capital). This tendency is neither inborn nor is it a mechanical reaction, it is rather created during some specific learning process one gradually and unconsciously experiences from one's surroundings. The hypothesis of human behavior (Stimuli-reaction model) proves that the ability to absorb information is not uniform; it varies from person to person, depending upon past successes and failures.

2.2 Household income and its distribution

This section deals with the concepts of household, household income, and the distribution into consumption, saving, hoarding and investment.

2.2.1 Household

The household is taken as the basic unit of analysis in this study and defined according to its function of income generation and distribution (RÄDER 1992:31ff):

- household is a functional unit of consumption, production and reproduction of its members. Its production means production for sale, exchange and subsistence, independent of the monetary or non-monetary value of these goods or services;
- the household unit should be considered as a heterogeneous combination of individuals, who interact with each other and whose dealings are oriented towards common as well as individual interests.
- a household and its members cannot be seen as isolated units, they have to be seen in relation to their surroundings, as a component of other small and bigger social groups (*biraderi*, village organizations, etc.)

The definition of household is reconceptualized for its purposeful utilization in the empirical analysis of this study. The definition is formulated with a major emphasis on household income and its management. Households are not seen as a determinate set of people but as a set of relationships that impose a mutual obligation to pool resources. People with such close contacts¹⁵ put their resources together, create an atmosphere of personal and economic co-operation in the consumption and production sphere, usually live together and co-operate with each other in further activities.¹⁶

Household income is considered equal to the sum of its parts. Each component of the total income is treated as having a definite and individual value quite independent of the other

¹⁵ The word 'close contact' has intentionally been used instead of familial relation, because a household is not always constituted by a family (blood line).

¹⁶ The definition is reformulated from the views of FRIEDMAN (1984:48), POLANYI (1966:70), BOHANNAN/BOHANNAN (1968:13ff), SAHLINS (1972:94), ELWERT (1984:684), SPIJKERS-ZWART (1980:71), and EMGE (1981:19).

Further activities may be defined as mutual help in other tasks such as daily household management, cooking etc.

forms. FRIEDMAN (1984:46) proposes five sources to be pooled into the household's collective consumption fund: 1) wage in cash or kind; 2) salary from regular job; 3) petty commodity; 4) contractual relationships over the use of land, animals, equipment, etc. that lead to rental income; 5) transfer payments (gifts, subsidies, etc.). The present study also takes these five sources into account.

Quite often ¹⁷ it is misinterpreted that **household and family refer to the same social unit or, at the most, refers to different aspects of the same unit. The household may be termed as a physical and co-residential unit (although not in every case), while the criterion for the family remains kinship or biological ties.** „While both households and families are culturally defined, the former are task-oriented residence units and the latter are conceived of as kinship groupings that need not be localized“ (LINTEN 1936:152-59).¹⁸ There are numerous cases where families (as kin-related units) do not share households (as co-residential units) and many more cases where households are not composed of families,¹⁹ although both concepts are so integrated that the formation of one is usually complemented by the formation of the other.

The present study is supposed to delimit the boundaries of both units to grasp the nature of income pooling relationships. Family may or may not imply some sharing obligations as household. Since the household is conceptualized as a set of relationships that impose the mutual obligation to pool resources, income pooling obligations clearly extend beyond biological kinship and may bind individuals who are dispersed geographically.²⁰

Despite the above-mentioned differences, household and family are closely linked. Indeed, it is evident that income pooling requires a certain co-operation, and this collective consumption fund requires administration. A proper household functioning in such a fashion can only be based on a structure of authority derived from specific forms of family structure.²¹ The stability of the household as a unit of consumption and reproduction thus rests to a large extent on the acceptance of an unequal distribution of consumption goods (SEN 1984:377) and ultimately on the unequal access to productive resources, best exemplified in patriarchally organized nuclear or extended families (WONG 1984:58).

The present study takes the family household²² (household composed of familial relationship) (LASLETT 1972, HAMMEL/LASLETT 1974) as the unit of analysis. Income pooling and its management, which needs a stable household administration and which can be achieved in a family are the major concern of this study.

¹⁷ For further references see FRIEDMAN (1984:47ff).

¹⁸ See also MANIG (1993:25).

¹⁹ Non-relatives who live together, as well as servants and lodgers who cooperate in some common activities, are household members, whereas nonresident kin are usually (but not always) affiliated principally with other households.

²⁰ Reformulated from FRIEDMAN (1984:48). As far as common residence is concerned, some household members are not co-residential, still contribute regularly and are considered regular household members.

²¹ WONG (1984:57).

²² MÜLLER (1992:85) also observes in rural Bangladesh (whose culture is similar to Pakistan's) that the membership in a household is usually defined in terms of the geneological relation with the head of household. The analysis of these relations shows that households are almost exclusively based upon blood and marital relations. The share of non-relatives in a household is hardly 2,8 percent.

2.2.2 Household income

The present study defines household income as material return in cash or in kind in exchange for goods and services.²³ Cash income is acquired through wages and salaries, pensions, contributions by boarders and lodgers, interest and dividends, earnings from agricultural activities, business, commercial and industrial undertakings, land rent and other property income, and remittances from other household members, who are permanently absent. Income in kind means farm produce, animal products and natural produce received in exchange and transfers.

2.2.2.1 Consumption

Consumption behavior can be understood on the basis of a generalized preference system. An individual possesses an ordered set of preferences, not only for different combinations of goods for himself but for other people as well. A psychological analysis can be helpful to understand the behavior. The analysis of the consumption behavior should therefore be based upon the socio-psychological analysis of the preference system of individuals belonging to different strata.

The viewpoint of the preference theory or marginal utility theory explains human desires as desires for specific goods, but nothing is said about how these desires arise and are influenced. **DUESENBERRY's theory of consumer's behavior** (1949:18ff) which analyzes the nature of these desires and preferences in detail appears to be more complete and workable in our case. He sees a full recognition of the social character of consumption patterns as a prerequisite to understand the problem of the consumer's behavior. The question which arises is why do consumers desire the things they buy?

Certain goods are bought to maintain the physical existence or comfort. While certain activities are an essential part of our culture, or if not essential, at least a part of it, still others are undertaken merely for pleasure. Almost all kinds of activities in which people engage are determined by culture. DUESENBERRY (1949:22) builds a theory of consumption around four pre-positions in this connection:

- physical needs and the activities required by the culture require the consumption of certain kinds of goods, which are determined by culture;
- each of the needs, whether physical or social, can be satisfied by any of a number of qualitatively different types of goods;
- these different types of goods, or, in the broader sense, ways of doing things, are regarded as superior or inferior to one another;
- there is a generally agreed-upon scale of ranks for the goods which can be used for any specific purpose.

These approaches are very general, but lead to detecting the differences in consumption patterns, not only in the amount but in the qualities of goods consumed. The psychological point of view, an improvement in the living standard, means the satisfaction of one's needs in a better way. This may involve consuming more of something, but it very often means consuming something different.

²³ A similar definition of household income is used by the HIES (Household Integrated Economic Survey 1990-91).

The major problem in this regard is to explain the resolution of the conflict, i.e., the struggle between desires to increase expenditure and desires to save or balance the budget. An analysis of the nature of forces on both sides is equally important (DUESENBERY 1949:25). Within this context the following paragraphs will concentrate only upon the question, **what makes people increase their consumption at a given level of income?**

PASCHKE (1961:67) considers the determination of status by lavish expenditures as the major cause of such a desire. **The standard of living, instead of depending upon an individual's income is determined by the upper class.** A household in given circumstances manages to achieve a compromise between its desires for increased consumption and its desires for saving. The nature of this compromise depends upon the frequency of contact with the demonstration of higher consumption (demonstration effect). 'Need' usually has its absolute definition in such societies, everyone tries to attain the best position in the social pyramid. The decisions about saving or consumption are not made simultaneously, they are not always a result of rational planning. The process of habit formation is a genetic one which begins in childhood.²⁴

The basic elements of the process of formation of a consumption habit, according to this theory, are:

1. the basic physical or social needs which can be satisfied by the acquisition of goods or services;
2. experimental behavior;
3. to experiment a higher consumption pattern, in some cases, to regret that certain expenditures were made;
4. learning that a certain pattern is successful in the sense that no expenditures are regretted.

2.2.2.2 Saving - Concept and classification

"Virtually everyone saves, saving is a fundamental aspect of the human condition" (PISCHKE 1978:55). Assets accumulated through saving are commonly used to finance further consumption or investment. The utility of this finance arises from the lack of simultaneity between the realization of income and the act of spending. The interval between these two types of events is normal and virtually universal. FURNESS (1972:9) lists four reasons why flows of receipts and flows of payments may have differing time patterns. His points, viewed from the rural development perspective, may be summarized as follows:

- Many commodities are characterized by indivisibilities. They are costly in relation to income earned over a short period, and their purchase requires a build-up of wealth or payment out of expected future income. To use a rural example, the purchase of a cow or a tractor requires a much larger amount of funds than those involved in everyday transactions in the rural economy. Such large purchases are financed.
- Flows may vary over life cycles. With reference to individuals, accumulation in the economically most productive years or periods is a rational response to the probability of diminished real income in the future due to illness, advanced age and the uncertainty of employment, etc.

²⁴ See 'Saving from educational viewpoint', Section 2.4.4.

- Time periods required for production may not coincide with the time periods applicable to the producer's consumption and other needs. Roundabout methods of production involve long gestation periods, while consumption has to be financed during this period. The lack of simultaneity of these two processes can also be easily illustrated by an agricultural economy in which harvests occur once or twice a year while consumption of agricultural produce occurs simultaneously.

These three examples show that abstention from consumption is a normal characteristic of economic activity. Abstention may be for only a very short period as well as for a longer period. **Economists have not specified what the minimum holding period must be for funds not spent to be considered as being saved. They consider any income that is not disbursed the instant it is received as saved until such time as it is disbursed.** It is important to understand that the definition of saving as abstention from consumption does not in itself prescribe any minimum period over which abstention has to occur or funds must be held. The present study will follow the same concept in the empirical analysis. The study concentrates rather upon the purpose of abstention; **most of the time, kind or cash kept aside is abstention from consumption but still cannot be classified as saving.**²⁵

Saving may be classified into four types: domestic, corporate, foreign and contractual and household saving.

Domestic saving is the difference between current revenues and current expenditure.

Corporate saving is defined as the difference between private and personal saving and measured by the volume and level of retained earnings (undistributed profits) of companies. This type of saving can easily be derived from published and company accounts and statements filed with supervisory and tax agencies (CHANDAVAKAR, 1993:14)

When the national saving rate in developing countries is overall less than its investment ratio, i.e., they have been net importers of the capital from developed countries in the form of development aid or credit, the imported capital is defined as **foreign saving**, which always correlates negatively with the **domestic saving** (CHANDAVAKAR, 1993:15).

Contractual saving can be compulsory (e.g., National Provident Fund, pension funds, social security schemes) or voluntary (e.g., private life insurance, repayment of housing mortgage debt and consumer durable) (CHANDAVAKAR, 1993:15).

2.2.2.2.1 Household saving

The empirical analysis of household saving in the present study will be based on the following two concepts:

- 1. Household saving is the difference between the household's current income (cash and kind) and expenditure over a specific period, or, in other words, saving represents the non-consumed income (cash and kind) of a household.²⁶ It may be divided into the following types:**

²⁵ See Section 5.4-5.5.

²⁶ The rural society undertakes a number of informal transactions which result in varying types of informal saving strategies. The strategies are determined by the specific cultural network which is modified when the needs of the society change. Apart from cash deposit and bond holding, the two commonly practiced forms include livestock saving and saving in kind, which may be converted into cash when needed.

- **Saving in cash** - when money is saved directly and kept at home, deposited with some trustworthy relative or in the bank.
 - **Saving in financial assets/bond holdings** - when saving takes the form of "Prize Bonds" or saving certificates etc. which offer interest on a yearly basis.
 - **Saving in agricultural products** - when material goods (crop grains, cotton seeds, fertilizer, etc.) are stored directly or surplus cash is converted into goods before saving, since these goods can be exchanged for other goods or cash when needed.
 - **Saving in livestock** - when livestock is kept like money because of its liquidity value in case of any urgent need of cash in the family.
2. **Saving on the basis of traditionally evolved cooperative type institutions**, which offers an arrangement for the deposit and withdrawal of cash, kind and labour among households without any involvement of the formal financial institutions. All households keep an up-to-date record of the services performed by other households and are ready to repay when needed. Some of these arrangements are as follows:
- A bank to exchange labour for cash and kind in sharecropping.
 - A bank to exchange labour for socio-economic security in *Sep* relation.
 - A bank to exchange cash and kind in *Vartan Bhanji*.
 - A bank for cash in rotatory saving associations.

These institutions offer an alternative to the formal banking system and provide their services at a minimum possible transaction cost. The cost-minimizing function of these traditional institutions may better be discussed within the context of institutional economics,²⁷ which explains the ways to minimize the actual cost of many essential tasks in the rural sphere with the help of traditional institutions.²⁸ **Such an arrangement is usually based upon personalized relations between two or more parties.** The following paragraphs define the basic concepts and the functional basis of such institutions.

2.2.2.2 Institutions and transaction cost approach

There exists no consensus on a standard definition of institutions. Every author formulates the definition according to aspects and characteristics embedded in the context. "Among these characteristics and aspects which vary are the degree to which they are: (a) organizational i.e. the extent to which organizations and institutions coincide, (b) formal, (c) created at specific time and place by a specific means, (d) embedded in, as opposed to differentiated from, other institutions, (e) universal, as opposed to particularistic, in the interest they serve, (f) creating, as opposed to simply maintaining a certain public good, and (g) technology linked" (NABLI/ NUGENT 1989:1334). **MANIG (1992:6) defines such institutions as stable regulatory and organizational principles and rules which govern interaction processes between the people themselves and in their relation to**

²⁷ Institutional economics has introduced itself as a modified form of neo-classical economics in the second half of this century, although many authors find its elementary features responsible for the expansion of traditional discipline in the work of COASE. The central theme of the so-called 'Coase Theorem' is the costs of carrying out market transactions. These 'transaction costs' can be lowered by substituting market by a firm whose internal administrative decisions are less costly. NABLI/NUGENT (1989:1336) define NIE as an attempt to modify or broaden the mainstream toolkit and then to use this broaden analytical framework to explain phenomena that had previously seemed impenetrable.

²⁸ For instance, institutions based upon 'mutual co-operation' and 'patron-client relation.'

the environment and which are recognized and sanctioned by the societies in which they are found.

The above discussion shows a disagreement as to whether institutions can best be understood from the behavioral perspective, in which "institutions are complexes of norms of behavior that persist overtime, by serving collectively valued purposes" (UPHOFF 1986:9) or "rules of a society or organization that facilitate coordination among people by helping them to form expectations which each person can reasonably hold in dealing with others" (HAYAMI and RUTTAN 1985:204). Regarding this fact the cultural anthropologist MALINOWSKI (1949) already indicated that institutions are a significant, rather elementary component of the culture (Cf. RIEKEN 1994:398). NABLI and NUGENT (1989:1334) relate it to the level and sequence of analysis. For example, at a relatively 'low' level of analysis such as that of contractual arrangements, the rules' characteristics may dominate but at a relatively 'high' level of analysis, such as that of cultural values and mores, the behavioral norms definition seems more relevant. For the present study therefore, **institutions are defined as a "set of constraints on behavior in the form of rules and regulations; a set of procedures to detect deviations from the rules and regulations; and, finally a set of moral ethical behavioral norms which define the contours that constrain the way in which the rules and regulations are specified and enforcement is carried out."** (NORTH 1984:8), and the regularities in repetitive interactions among individuals which provide a framework to determine confidence on the outcome of a task (NORTH 1986:231).

Another ambiguity which should be clarified before proceeding further is the distinction between institutions and organizations. **"Institutions are not the name of the material infrastructure of institutions (building, machines, etc.), it is rather the whole complex of regulative mechanisms"** (LÖFFLER, 1992:39).²⁹

Organizations should not be confused with institutions. **Organizations and associations are indeed part of the institutional framework of a society in the sense that they, as executive organs, put into practice and enforce institutional regulative principles; they should not, however, be regarded as institutions themselves.** The interactions between the members of the organizations within the organizations and externally are, however, subject to the general societal regulatory principles and the institutionalized behavior and interaction pattern (MANIG 1991:18). Organization itself may be understood as the operationalization of institutions (DANIEL, 1982:839).³⁰

Apart from a trustworthy indigenous arrangement, the special preference of such saving institutions lies in the transaction cost minimizing function of such institutional arrangements.³¹ Transaction costs contain several different but interrelated themes.³² WILLIAMSON (1975, 1979, 1981) has combined the concepts of bounded rationality and opportunistic behavior. The general hypothesis is that **institutions are transaction cost-minimizing arrangements which may change and evolve with changes in the nature**

²⁹ See also KÖNIG (1967).

³⁰ DANIEL (1982:834-845)).

³¹ The New Institutional Economics is not a homogenous and monolithic body of knowledge. Being micro-economic in its perspective, it includes various approaches, each with its own techniques and concepts and advantages and disadvantages for analyzing institutions. Two broad approaches in this regard are transaction and information costs, on the one hand, and the theory of collective action, on the other. See also, POLLAK (1985) and LÖFFLER (1992).

³² For instance, MATHEWS (1986) and NORTH (1981, 1986a).

and sources of transaction costs and the means for minimizing them.³³ It explains vertical integration as a response to the difficulties of regulating ongoing relationships by means of contracts.³⁴ Thus, contracting difficulties - the problems of negotiating, writing, monitoring, and enforcing agreements - are central instances of transaction costs. BÖSSMAN (1982:664) includes information costs, costs of specifying and enforcing contracts and the costs of coordinating with formal market. She uses the term 'coordination costs' in the sense of coordinating economic activities. **The present study will also discuss transaction costs as coordination costs**³⁵.

According to the CDAWN³⁶ school, transaction costs and the institutions that evolve to minimize these costs are the key to the performance of economies. These costs include those of information, negotiation, monitoring, coordination, and enforcement of contracts. In a small, closed, face-to-face peasant community, transaction costs are kept low because opportunistic behavior (cheating, shirking, moral hazards) is controlled through the personalized exchange process of the small community. In the case of impersonal exchange process (Western societies), some complex structures such as elaborately defined and effectively enforced property rights (formal contracts and guarantees, corporate hierarchy, vertical integration, limited liability, bankruptcy law, and so on) are established to constrain the participants to reduce the uncertainty of social interaction in general, to prevent the transactions from being too costly.³⁷

The village community develops saving arrangements by coordinating the use of scarce resources through customary rules and local institutions. NORTH (1986:231) discusses the formation of organizations to capture gains arising from specialization and division of labor, within this institutional framework. Individuals may form contracts which specify the terms of exchange with each other, either voluntarily or through coercion. "Such 'collective actions' stem to a large extent from pervasive production externalities. By nature, agricultural production activities are strongly interdependent due to the ecological interdependence of biological processes" (HAYAMI, KIKUCHI, 1981:12). Mutual-help relations such as labor exchange³⁸ and exchange of other factors such as draft animals are developed under this ideology. Indeed, clear expectations for the mutual observance of reciprocal rights and duties developed from close social interactions are the basic condition for mutual help and 'patron client relationship' led by traditional and charismatic domination³⁹ (WEBER 1968:226 and HAYAMI; KIKUCHI 1981:17)⁴⁰.

³³ For some limitations on this hypothesis as well as a more complete discussion, see AKERLOF (1970, 1976), BASU (1984), FIELD (1981) and DOW (1987).

³⁴ See also WILLIAMSON, O. E.: (1975, 1979, 1981); SIMSON, A.: 1957; GOLDBERG, V. P.: (1976); KLEIN, B.: GRAWFORD, R: G.; ALCHIAN, A. (1978).

³⁵ See LÖFFLER (1992:52).

³⁶ An abbreviation for the neo-classical authors famous for their work on transaction costs: COASE, DEMSETZ, ALCHIAN, WILLIAMSON and NORTH.

³⁷ For further details, see BARDHAN (1989:5).

³⁸ See Section 5.5.2.2.

³⁹ WEBER distinguishes three ideal types of legitimacy upon which a 'patron-relationship' may rest: traditional, legal and charismatic. **Traditional authority** is based upon the belief in the sanctity of age old rules and powers. In the most elementary kinds of traditional domination, those who rule have no specialized administrative staff through which they exercise their authority. Within the context of the present study, such an authority is held by village elders: those who are oldest are considered to be most steeped in traditional wisdom and thereby qualified to hold authority. A second form of traditional domination, which in fact often exists in combination with gerontocracy, is patriarchalism. In this form, which is normally based upon a household unit, the head of the household possesses authority which is transmitted from generation to generation by definite rules of inheritance. Weber sets out the pure type of **legal authority** as an individual's authority, who does so in virtue of impersonal norms which are not the

2.2.2.2.3 Saving value of hoarding

Hoarding is usually practiced in the case of money, material goods and gold. Saving and hoarding have always given rise to a conceptual confusion among scientists. Some of the authors, for instance, EUCKEN (1954:150ff), sharply differentiate between saving and hoarding. To them, saving is the sacrifice of current consumption in favor of future investment or to enhance the saving potential in the future. Hoarding, on the other hand, represents a form of "stunt saving" which is not oriented towards investment in the future. Any liquidity or investment division in the case of hoarding can only be a result of some extremely unfavorable conditions. Similarly, PASCHKE (1961:122ff) visibly differentiates saving from hoarding and justifies his view by differentiating between the determining grounds in both cases. Hoarding may also be perceived as a '**superficial saving**', which is kept in the saved form but is not invested productively to increase the household's production potential or at least is not intended for a certain investment.

Other authors like GESTRICH (1957:19f) include hoarding into saving without any hesitation and without paying any attention to the influence of increased interest rate and its related benefits. The Encyclopedia of Money-Bank-and Stock Exchange (1957:808) considers hoarding, on the one side, as the stocking of resources into a sterile stock and, on the other side, as a most usual form of capital formation in the countries lacking a widespread banking network. **FORSTMANN (1952:293) explains 'cash hoarding' as 'capital hoarding' when the hoarder keeps some of his cash aside because of future uncertainty and expects benefits on this deposit.** The hoarder is a saver insofar as he has postponed his current consumption in favor of the future; the difference lies in the question as to whether he makes his deposit available to the national economy through the formal financial network or not. Another attempt to differentiate the two has been made by taking the duration of hoarding as a decisive factor. One of the major shortcomings in this method was the specification of a fixed duration for a certain saving or hoarding act, which has to be quite flexible in the case of traditional societies.

The present study differentiates saving from hoarding with respect to its economic significance for the national economy. **Any accumulation of cash or material goods which hinders the circulation of money in the country and is not intended for productive investments, whatever the time span may be, is considered as hoarding.** In contrast, the saving process adds to the investment funds of the state to cause economy to flourish. The practical application can be observed in the hoarding of gold ornaments, which are not intended for sale either for consumption or for investment. These ornaments remain hoarded even after generations and hinder the circulation of money. The same applies to cash buried or stored, which may be destroyed by insects.

Hoarding may be classified according to the hoarded objects and their monetary and non-monetary value.

residue of tradition, but which have been consciously established within a context of either purposive or value rationality. Subordinates obey not because of any personal dependence on him, but because of their acceptance of the impersonal norms which define that authority. **Charismatic domination** is wholly distinct from the other two. Both traditional and legal dominations are permanent systems of administration, concerned with routine tasks of everyday life. Charisma is defined by Weber as a certain quality of an individual personality, by virtue of which he is considered extraordinary. Whether a man 'really' possesses any or all of the characteristics attributed to him is not at issue; what matters is that extraordinary qualities should be attributed to him by others. Charisma is a driving creative force which surges through an existing order. It is, according to Weber, a specifically irrational phenomenon (GIDDENS 1971:156-160).

⁴⁰ See also 'Sep system' Section 5.5.2.1.

Monetary or '**cash hoarding**' means cash buried or stored in other places for a long time without any productive purpose. Such an act withdraws cash from circulation at the level of the national economy. It is quite common in underdeveloped economies because of its higher liquidity value.

Non-monetary or '**hoarding in kind**' means a withdrawal of precious material objects from the general circulation. These can be different valuables such as coins, antique items, etc. Such items not only hinder the circulation of money but their hoarding requires extra costs of storage and maintenance as time passes. Moreover, such a hoarding has a very low liquidity value.

Precious metals such as gold and silver are renowned items of hoarding. Such metals are advantageous neither to the hoarder nor to the state. These are saved to satisfy many socio-psychological needs which may enhance an individual's social capital.

2.2.2.2.4 Financing Investment

Investment is the utilization of the saved part of available income (monetary or non-monetary) to improve or add to the productive potential of the household. This signifies an increase in the technical and material capacity of an agricultural household and is not always equal to the volume of saving of a household. Saving may be utilized for pure consumption purposes postponed due to some reason or invested productively to form assets.

Assets are the sum of all material goods which serve as means of production, in which an agricultural household directly invests its money or own labour. Investment activity can be understood as a bridge between saving and asset formation.

Major sectors of investment are not very large and are mostly of the same nature as those in the farming communities of developing countries:

- a) Gross addition to the farm assets
 - agricultural instruments and machines including instruments/apparatus for irrigation, plant production;
 - farm building, infrastructure, fodder house
 - cattle (plow cattle, slaughtering and small cattle)
 - buying of land and building
 - to make new land cultivable, rehabilitation of land, reclamation, land betterment, irrigation measures
 - to establish orchards
 - vegetable gardens
- b) Gross addition to the running capital
 - for example, material goods, raw material for farm or non-farm rural industry, etc.
- c) Gross addition to financial assets
 - deposit with banks, credit associations, saving institutions or other similar organizations
- d) buying of saving certificates, prize bonds
 - buying of shares

- e) Gross addition to valuable metal and cash increase in the amount of gold and silver
- f) Investment in training and education equal to human capital building

KROPP's (1976:29) empirical observation in the Indian farming community indicates the following as the main sources to finance saving and investment activities in the rural sector:

- a) Sale of some valuable item or profit.
- b) Past or current reduction in consumption expenditure.

LÖFFLER (1992:230-240) also observes the off-farm income as a major source to finance capital formation in north-west Pakistan. His results prove a constant decline of the share of agricultural capital in the total capital of a household. It was not more than 18 percent of the total capital at the time of his empirical survey.⁴¹

- c) Credit
 - from credit institutes
 - from private donors
 - from relatives

LÖFFLER (1992:230-240) views the official financial sector as insufficient to meet the needs of small farmers. Especially the participation of agricultural households has not increased to the expected extent. For example, the households with agricultural income only (with the exception of traditional landlord-households) have almost no access to these facilities. The prerequisites in this regard can be fulfilled only by some better-off classes who already possess sufficient means to invest. This strategy showed strata-specific influences. He observed the highest level of investments in landlord-tenant villages, where landlord households offer private credits to the tenant households to win prestige and show alliance. This transaction requires a 'social' rather monetary interest in the form of obligatory relationship. The majority of poor rural people without any security or personal contacts with bank officers have no access to bank credits and have to seek credit in the informal sector represented by friends and relatives. Private credits are usually associated with many social obligations, and demands or expectations of the donor, and are, therefore, usually not demanded for productive investments.

Even after the introduction of the so-called 'Islamization of the economy', the local 'Zakat Committees' also represent the usual complex landlord-tenant relationship, and the local chairman of this committee usually uses these official means to strengthen his own position.

- d) Direct investment of family's own labour
- e) Gratis transfers
 - subsidies from state
 - gifts

⁴¹ LÖFFLER (1992:230-240) presents a comparative analysis of the change in the capital formation and its use in rural Pakistan in the last twenty years. The empirical observation reports that villages with a majority of landlords and tenants showed an increasing trend of business.

The possibility (a) deals with a purely active exchange, i.e., some of the assets are sold and a part of this capital is again invested to buy some other kind of assets. This cannot be considered as capital formation or any productive investment by this family because only the form of asset is changed. The only positive effect may be that the new form is more productive than the older one. Sometimes this exchange may be an exchange of some assets such as land and cattle between the two forms.

Some monetary investments are also essential in most of the cases. Especially when industrial finished goods such as apparatus, machines, etc., need to be bought, monetary savings are required for investments. Sometimes, when such capital is not available, this may be financed through long-term credit.

Similarly, traditional investment activities (land betterment, to make new land cultivable, cattle keeping, etc.) claims an investment of physical labour. If instead of family labour some outside labour is employed, one has to mobilize saved money or it is financed through credit, till some extra income is produced.

Credit as a source of financing investment can be fruitful, if this addition in income is sufficient to repay the credit and its interest. For example, when it is employed for betterment, rehabilitation and reclamation of land and not purely for the ownership of non-reproducible items of the household, investment ought to be productive. But if it does not result in a better productivity or the yield is lesser than the expected one, the income range will decline further, because this income has to be utilized to pay credit as well. If land is mortgaged, there exists a danger of losing it.

Apart from this, credit types and conditions of repayment play a basic role in determining the outcome of any investment activity. Credit institutions may also direct the investments in any specific direction by offering interest releases for some specific investment activities and can naturally influence capital formation.

There is another way of building real farm capital without being involved in the monetary cycle and without sacrificing any sort of consumption expenditure. The following three prerequisites are of basic importance in this regard:

- a) family's manpower should be ready to be invested within the period of one economic year;
- b) this family labour must increase the capital stock of the family and must add to the productive means of an agricultural farm to increase its productive capacity;
- c) increased investment in labour should result in the expansion of the household's productive capacity without being complemented by any sort of monetary expenditure to modify the conditions of labour investment.

A fundamental relation between the productive level, work productivity and the potential to finance investment constitutes a vicious circle of poverty for the rural population. When the production volume is small, work productivity is also near the subsistence minimum, the flow of income is also quite weak, only a little can be saved resultantly. As a consequence, capital formation remains at a low level, development of production remains limited and people remain poor and, here, the sphere closes itself.

2.2.3 Household's decision-making for income distribution

2.2.3.1 Conceptual framework

According to HILL (1961:63ff), the decision making process of a family is influenced by three dimensions of increasing complexity:

1. the changing developmental tasks and role expectations of the parents, both mother and father, in their capacities as providers, homemakers, spouses and persons;
2. the developmental tasks of the family as such, which flow from the cultural imperatives laid upon it at each stage of growth, and
3. the implications of the personal developmental requirements of each child and parent for the family.

In the analysis of a family's decision-making process, three approaches are viewed as being of basic importance. HILL (1961:63f) has tried to compare them clearly by including rich concepts and theories into the research: the structure-function, the symbolic-interactionist, and the family development approaches.

He describes the **Structure-Function Approach** as being helpful for the macro and microanalysis of a family. The approaches concentrate mainly upon the transactional behavior of the nuclear family unit, especially in the case of intergenerational transfers, gift giving and receiving, etc. It provides descriptive categories to observe the interplay between family and larger systems such as community and society, between family and collateral systems and the transactions between family and its smaller subgroups - the husband wife dyad, the siblings' cliques and the individual personality system of family members.

The **Symbolic-Interactionist Approach** views the family as a relatively closed system of interaction. Three orders of concepts are illustrative: 1) status and interstatus relations, which become the basis for authority patterns and initiative-taking; 2) role, role conception, role expectation, and role differentiation; and 3) processes of communication, conflict, compromise, consensus, problem-solving; decision-making and action-taking. It concentrates mainly upon decision making and goal setting which helps to comprehend internal family organization.

The **Family Development Approach** views the family as a small group system, organized internally into paired positions of husband-father, wife-mother, son-brother, and daughter-sister. The role behavior of these positions specifies how these relations are to be maintained and how role behavior changes as the occupants of these positions grow older. The family is considered to be a group of interacting personalities with compatible or non-compatible relations, depending upon their diverse development strivings.

Although all three approaches try to interpret the decision-making strategies of a household, the major emphasis is different in each case. The structure - function approach, for example concentrates mainly upon macro- and microanalysis of a family by observing an interplay between family and larger system, which is more than required in this study. The family development approach, on the other hand, considers the family a group of interacting personalities with compatible and non-compatible relations, which is insufficient for the detailed analysis of the income distribution strategies in a household. This is the reason why a symbolic interactionist approach has been selected as analytical base for analysing a household's decision-making strategies for income distribution in this study. The following section focuses on the theoretical details of the selected approach.

2.2.3.2 Symbolic Interactionist Approach

MORGAN (1961:65f) defines household decision making as a network of strategies to make choices for the future in order to cope with the demands of the community and of individual members. **As the family develops in stature and competence from the wedding day on, it builds a history of problem solutions, a pattern of decision-making, and a set of rudimentary family policies, through which choices can be made**

about the family's future and through which actions can be judged. These policies, moreover, include the family's time schedule for reaching important goals and objectives. Knowledge about methods of problem solving or rational decision-making may be expected to be unevenly distributed in a household. The skills of management may be transmitted, as are other cultural traits, from the parental families. The knowledge about the way in which problems should be solved runs in families like speech forms.

A household must be a well-organized team, especially the nature of the relationship between spouses is very significant in this case, so that every member may discuss, perceive and arrive at a consensus. Normally, rural households differ in power structure, in the openness of channels of communication, in adequacy of communication among members, and in accuracy of the wishes and desires of other members. These are the illustrations of the action potentials that are brought to bear when a household is viewed as an organization meeting problems and taking actions.

So far, no theory of individual motivation and personality exists which could determine individual feelings for a particular course of actions to be taken as urgent, acceptable or opposed strenuously. MORGAN (1961:84ff) views that each individual possesses certain stable characteristics that affect his decisions of preferences and that can be classified as physical and social needs.

At the physical level, one can think of an individual's physical needs, e.g., shelter, clothing, in degrees that are determined both by his physiology and by his education in appreciation. In a dynamic world, however, future needs require some present economic security, e.g., through saving.

At the social level, personality psychologists attach major importance to three major factors, i.e., achievement, affiliation and power, which determine the desires of an individual.

Achievement - a disposition to overcome obstacles by one's own efforts, to solve problems, to get ahead, in order to experience pride in the successful exercise of talent.

Affiliation - the disposition to belong, to be loved by others. To the extent that one wants to "belong" to a group in society and does so voluntarily, this would appear to be what the sociologist means by "perceived role" or "reference group" behavior. However, when we look at the household as a group, this motive would also appear to be the major path through which the desires of others in the family would become part of the desires of each individual in it.

Power - the disposition to influence others and to resist being subject to their will. Upward mobility and drives towards social status may be an expression of the need for power, but this may also result from a need for achievement. This may also lead to some conflict in the household, to be resolved by compromise, division of spheres of influence, or a pattern of dominance.

The socio-psychological approach of MASLOW's (1954:80-92) theory of Sequential Development of Needs, classifies needs into five major forms: **1) physiological needs;**⁴² **2) safety needs;**⁴³ **3) social belongingness and love;** **4) social esteem and;** **5) self-actualization**, according to which, an individual classifies his goal in such an order of priority, depending upon his past experiences, in a sequence from elementary to higher or

⁴²For example, food, shelter etc.

⁴³ For example, material, legal and political security.

differentiated needs. In the course of time, however, goal system changes with a change in the cognitive system and environmental factors. The cognitive system changes with the change in the individual's knowledge and perception through his own experiences and through the observation of others' experiences. These experiences are stored in a long term memory, and can be recalled under the influence of a specific situation for a limited time,⁴⁴ besides, natural local characteristics such as family, household shape the priority pattern of goals in different phases of life. In the case of the family, for example, family status, family size, and life cycle are the potential factors mainly responsible for the differentiation of goals. Hence, the theory explains why different social groups within the same society show a different pattern of decisions.

MORGAN (1961:84ff) is of the opinion that these basic personality dispositions may well not be conscious desires or, if they are, may not be expressed in verbalized attitudes. Also, one cannot tell by observing an act which personality needs are being satisfied, and there may be several different acts that are functionally equivalent in satisfying a particular need. MASLOW (1954:108ff) further elaborates these conscious and unconscious desires in terms of final goals and sub-goals. Sometimes, an individual is either not at all conscious of these goals, i.e., these are merely latent, or shyness or fear prevent their conscious formulation, and can only be aimed at secretly (e.g., influence or power), but their realization needs some specific publicly accepted sub-goals, e.g., good harvest with a high acreage and employment of non-family workers.

In accordance with MORGAN's analysis, decision making about saving cannot be investigated by measuring the intensity of individual desires and actions. One needs to know the degree to which he or she is concerned (a) with the desires and feelings of others in the family, or (b) with exerting power over the family, independent of the content of the particular decision.

The desire to exert power over others in the family arises from the strength of a basic personality disposition, but the exercise of power presumably also depends on the way in which the situation is perceived by the individual and on his ability to exert power. Usually this depends on one's contribution (economic or other) to the group, but it may also depend on the degree to which others have opposing preferences, one's expertise, the culturally determined role.

To conclude, each individual has his own needs and preferences, his information and expectation. When decisions are made, whether ostensibly by an individual or "by the family," some implicit or explicit process should be involved to consider the desires of each member. If overt discussion is involved, individuals may actually learn more about the feelings of others which may influence their own preferences. In an on-going group like a household, there is a vast reservoir of experiences which may act as a guideline for certain decisions.

2.3 Segmentation of financial sector

The financial market is segmented into formal, informal and sometimes semi-formal sectors in developing countries.⁴⁵ „Financial markets in developing countries are basically segmented into formal and informal financial markets; to this dual segmentation, a third

⁴⁴ See particularly KIRSCH's (1971:101-103) 'decision theory for individual goal formation.'

⁴⁵ For a similar classification, see KROPP/MARX/PRAMOND/QUINONES/SEIBEL (1989:26).

sector, that of semiformal financial markets, has to be added in some countries“ (ADAMS 1992:12). In this sense, institutional⁴⁶ resources include:

- self-help groups with primary financial functions (financial self-help groups)
- self-help groups with secondary financial functions (occupational associations with savings and credit function, RoSCAs⁴⁷)
- sophisticated but unregulated NGOs (Finance Corporations) (ADAMS 1992:8)
- private voluntary self-help promotion organizations (financial intermediaries)
- governmental self-help promotion organizations (financial intermediaries)
- banks and national saving organizations.

The following sections reveal relevant details on the formal and informal segmentation of the financial market.

2.3.1 Informal financial sector

The informal financial sector usually consists of informal groups of savers who design their saving strategies by themselves and regularly or irregularly deposit funds with a group leader (MALONEY/AHMED 1988). In most cases, these groups are formed spontaneously depending upon the need, but sometimes the state plays an important role in organizing them.⁴⁸ The primary function in this case is just to pool the savings and in many cases to deposit mobilized funds in banks. Funds are collected regularly but are not distributed among members through any systematic rotation.

ADAMS (1992:12-13) also reports some groups collecting funds periodically from members and returning the amount to savers at the end of a given period; these are usually a part of contractual saving programs. Instead of being returned to members, funds may be used as emergency loan funds or reciprocal credit facility. Various forms of such groups can be found in most low income nations, but they are especially important in Africa and in Islamic countries. Another arrangement in this regard is to deposit mobilized fund with some money guard, a responsible person who agrees to safeguard cash for individuals. MALONEY/AHMED (1988) also find them in Bangladesh, and BOUMAN/HOUTMAN (1988) report similar arrangements in India. These deposits earn no interest; there are no restrictions on the uses money guards may make of deposited funds.

Among saving and credit self-help groups, **Rotating Saving and Credit Associations** are particularly interesting because they explicitly pool savings and tie loans to deposits. „In a number of areas more individuals participate in RoSCAs than have dealings with formal financial institutions. Recent research by SCHRIEDER (1989) in Cameroon suggested the volume of deposits moving through RoSCAs larger than the amount held in banks“ (ADAMS 1992:13). RoSCAs are a primary way of raising funds to make large business investments⁴⁹ (WU 1974).

⁴⁶ The term ‘institutional’ is being used in this case by KROPP/MARX/PRAMOND/QUINONES/SEIBEL (1989:26) in a wider, sociological sense, referring to both formal and informal resources as long as they are defined as a part of the social-economic system

⁴⁷ Rotatory Saving and Credit Associations

⁴⁸ As in Thailand, a government agency - the Community Development Department - plays a role in organizing such groups (ADAMS 1992:12).

⁴⁹“It is surprising how often RoSCAs are found even among the employees of formal financial intermediaries: in the National Credit Union Federation in Chocabama, Bolivia; people working for the Development Finance Corporations in both Belize and St. Kitts/Nevis; numerous employees of commercial banks and central banks in Belize, Philippines; and in 1987 there was even a ROSCA operating among employees of the International Monetary Fund in Washington, D.C., all of whom had doctoral degrees in economics and finance“ (ADAMS 1992:13).

RoSCAs solve the saving security and loan collateral problem by enrolling only members who have mutual confidence in each other or by choosing an organizer who guarantees the performance of individuals. Loan recovery is no problem because every defaulter is not only expelled from the association but may also be shunned and experience a loss of social and business ties with the group.

In many countries, various types of organizations provide credit and saving services but are only slightly regulated by a government entity. Regulation may be limited to a simple license with little subsequent supervision. Credit unions, indigenous banks, pawnshops, and finance companies are examples of such organizations that are only cursorily regulated in certain countries. There may also be some **non-governmental organizations (NGOs) providing financial services with tacit governmental approval but with only slight regulation**. Several countries like the Dominican Republic, Guatemala, Pakistan, and India report the emergence of such sophisticated organizations that are informal in the sense that they are not regulated. They mostly act like commercial banks that appeal to middle and upper-class clients, and exist primarily to avoid taxes or regulations. In some cases, they may be affiliated with banks through joint ownership or holding companies (ADAMS 1992:8). Several studies suggest that these unregulated organizations charge reasonable interest rates and operate with modest transaction costs (VOGEL 1988; and NAYAR 1982; cf. ADAMS 1992:8). Such organizations belong neither to the formal nor to the informal sector. Not being placed under the central bank's supervision but under the supervision of the governmental organizations does not mean that the institution is beyond state's control and has no access to state goods and services. Therefore, a third category of semiformal organizations has to be introduced; they are semiformal when they operate outside the control of state laws but under the control, and with the consent, of other state institutions. The **Grameen Bank** of Bangladesh is another example of a successful semiformal organization for saving and credit.

According to KROPP/MARX/PRAMOND/QUINONES/SEIBEL (1989:26) **private or governmental self-help promotion organizations (financial intermediaries) emerge from linkages between formal and informal sectors**. For example, the Community Development Department (CDD) of the Ministry of Interior in Thailand promotes the establishment of Production Credit Groups (PCG) which are based on rural savings mobilization (SAKUNTHASATIEN 1988:21-24). The CDD belongs to the formal sector, but the informal and unregistered PCG, however, is legitimized by virtue of its natural affinity with the CDD. Neither CDD nor PCG belongs to the semiformal sector in their independent institutional capacities. It is the interrelationship between both which constitutes the semiformal sector.

The ultimate objective of this discussion is to work out **what distinguishes the different actors in the financial markets**. The above facts refer to the different types of control over organization in different markets: „the formal ones being under the control of the central bank and /or ministry of finance, the semiformal ones being under the control of specialized state agencies whose primary concern is not compliance with financial laws, and the informal ones usually not being under the control of any government agency. What distinguishes them is the fact that their access to goods and services distributed by the state or the political system is different“ KROPP/MARX/PRAMOND/QUINONES/SEIBEL (1989:28-29).

KROPP/MARX/PRAMOND/QUINONES/SEIBEL (1989:29) are of the opinion that this sectoral relationship between the state and informal organizations resembles a two-way

patron-client relationship: the access to goods and services remains limited or nil till the informal sector functions independently and is open only when the state steps in and exercises control.

2.3.2 Formal financial sector

The formal financial market usually consists of central banks, commercial banks, development banks, saving banks, cooperative banks, etc.

Central banks are the highest monetary control agencies and function as supervisory bodies for the formal financial system of the country, directly or through some secondary or primary banks.

Commercial banks carry out savings and credit transactions⁵⁰. The emphasis on credit usually predominates in their efforts to mobilize saving. They usually get a fixed annual target to allocate a certain proportion of their lending portfolio to some specific fields such as small industry or agriculture. Their credit programs require substantial collateral and are usually oriented towards big clients.

During the first decade of the century, **Postal banks** were the first formal financial institutions in most of the developing countries. Their major function is to mobilize saving from small savers through a decentralized network of post offices in rural as well as urban areas without offering loans of any other banking services. Since the biggest incentive to save, the expectation of loan, is absent, the performance of these banks has never been impressive. Some countries have offered tax exemptions for income from post offices saving accounts, a few other countries have taken a further step towards the transition to regular banking by allowing post office savings banks to give loans to other financial institutions or by introducing some limited, well defined programs such as loans to public servants. Some countries have converted them into savings and credit banks offering full banking services to all groups of clients, especially in the lower income brackets. In a third group of countries, saving and credit banks have been created as independent institutions to supplement the post office savings bank system.

Cooperative banks which are part of the banking system are usually secondary or tertiary-level institutions and are usually not directly accessible to everyone for saving or credit. They act as refinancing institutions of primary and secondary cooperative societies. „The cooperative and Commerce Bank Nigeria (Ltd.), for example, has been transformed into a regular bank with full customer services. The Bank Umum Koperasi Indonesia (BUKOPIN), on the other hand, has recently served neither cooperatives nor individual clients“ (KROPP, MARX/PRAMOND/QUINONS/SEIBEL (1989:35). On the whole, cooperative banks have played a rather limited role in financing development.

Development banks are specialized banks which are created in order to compensate for the lack of available capital, which is considered a primary obstacle to development in developing countries. The banks' target is usually to facilitate the implementation of modern production techniques and thus serve the ultimate aim of increasing production. **The present study perceives all types of specialized banks, rural banks, cooperative**

⁵⁰ SCHMIDT/KROPP (1987:82) mention commercial banks involved in promotion programmes for self-help groups in some countries. This is the case, for example, when an NGO guides the organization of a rural self-help group which, in turn, sets up a savings account and then a credit account at the commercial bank. A loan is paid out by transfer or check only after a bank account has been opened. Setting up an account is intended to promote the practice of discipline on the part of the self-help group.

banks and savings banks as development banks, „as every efficient financial institution in rural areas is, in effect, a development bank“ (SCHMIDT/KROPP 1987:78).

SCHMIDT/KROPP (1987:76-77) view that development strategy tied to the concept of development banks did not result in improving the living conditions of broad segments of the population. Consequently the tasks and the target group orientation of some development banks were redefined in the 1970s. Apart from a few notable exceptions, they have not been able to reach their new target groups. In many countries only agricultural development banks have a relatively broad network of branches in rural areas but are limited to the provision of credit. However, in order to become a vital component of the rural financial infrastructure, it would be necessary for them:

- to expand the scope of their own savings mobilization efforts as an area of business activity in order to achieve a greater degree of autonomy and to develop more strongly in the direction of becoming full-service banks;
- to reshape their activities according to the clients’ needs rather than according to program directives from their respective governments;
- to be self-sustainable by maintaining a business policy which is free of direct government influence, by consistently gearing their activities to cover the costs of their operations and by mobilizing savings;
- to offer a broader range of products or services and especially safe and lucrative saving incentives for their clients.

It still remains questionable whether the measures listed above would also be sufficient to make them efficient, to provide them access to the target group and to ensure that they are accepted as a trustworthy and efficient financial institution.

Even if they want to retain their identity as a special type of bank, SCHMIDT/KROPP (1987:79ff) propose ‘**three strategic options**’ for them.

1. They should function as **institutions which promote innovation at all levels** and which support all of the dynamic components of the rural economy.
2. They should design and structure their products and services in such a way that they may attract only those clients they are willing and able to serve. This implies that **banking services be provided without appraising the clients’ personal and business credentials**, and, in turn, that the kind of products offered be restricted to deposit business, complementary services, and virtually risk-free credit business.
3. They should gear their activities to **financing - or rather, refinancing - informal and formal self-help groups**, to offer them investment opportunities and services without instrumentalizing them for a prescribed ‘top down’ policy. „In this way the development banks would serve to promote innovations, as in the case of Option (1); however, these innovations would not be technical, but rather institutional-organizational in nature. And, as in the case of Option (2), Option (3) would enable a ‘democratic’ form of credit to be created, since the task of selecting the ultimate beneficiary would not be left to the development bank, but rather placed in the hands of the target groups, which would thus assume a share of the risk as well“ (SCHMIDT/KROPP 1987:81-82).⁵¹

„Independent regional **rural banks** form the ‘financial flank’ of regional planning and regional development programs as well as for initiating of ‘bottom up’ development

⁵¹ A further explanation of the above listed three options is beyond the scope of this chapter, because the study is designed to lay greater emphasis on informal finance.

efforts, thus providing the necessary complement to development banks; however, in some countries, such as the Philippines, the stability of rural banks, and thus the security of the funds deposited with them, poses a problem“ (SCHMIDT/KROPP 1987:82). Many development banks have also run into severe financial difficulties because of low repayment rates, scarce national and international credit lines and internal regularities. They have, therefore, begun to take up savings and deposit transactions apart from credit transactions, thus offering saving facilities to the groups which hitherto had little access to banks. Simultaneously, there has been a trend towards decentralization in order to grant more direct access to the masses by opening temporary offices or operating mobile services.

The above-mentioned banking network recently included a relatively new concept of ‘Islamic banking.’ The following paragraphs reveal some relevant aspects of this innovative model.

2.3.2.1 *The concept of Islamic banking*⁵²

Islam does not view money as a commodity which produces interest or profit. ‘*Riba*’ (interest) is prohibited in Islam. **The basic principle of Islamic banking lies in the belief that interest does not influence in any way the volume of saving.** The relation of an Islamic bank with its client is seen as that of a partner, investor and trader. Islamic banking is based upon the universally recognized principles of ‘*Shirakah*’ (partnership): a whole system of banking in which the shareholders, the depositors, the investors and the borrowers participate on a partnership basis. This system works through the application of another principle, *Mudarabah*, where labour and capital can be combined as working partners. This is not merely a partnership, it is rather a code of economic ethics combining the material and spiritual values for the conduct of its economic system. *Mudarabah* functions as a contract under which banks provide the capital and the clients their expertise, and the profits are shared according to an agreed ratio. Within the framework of *Murabaha* operations, the clients ask the banks to purchase a certain commodity according to certain specifications and require the bank to deliver them on the basis of a certain mark-up according to the initial agreement between the two parties. Under *Musharakah*, both the banks and the clients enter into a partnership by contributing capital in various proportions for a limited period of time and agree upon a share of profit in advance.

The whole mechanism of Islamic banking is supposed to be interest free. This banking scheme has two types of depositors. Those belonging to the first type may withdraw their deposits without any notice. This type of depositor favours safe deposit only, not investment in any productive activity where risk is involved. The bank may recover ‘Zakat’ and service charges from such deposits. This taxation on idle funds is justified, because it checks the tendency to hoard cash in idle form and provides a stimulus for investing in productive activities. The second type of depositors cannot draw their surplus without notice; their surplus may be invested on short term basis. The bank will not deduct any charges from them, they will rather be eligible to share the profits of the bank proportionately, in the form of dividends which may be worked out at the end of the financial year. The Islamic banks may raise funds by inviting investment for a period of one year to five years or more. „As regards a bank’s relations with depositors and entrepreneurs it may be said that a bank in relation to depositors has been considered the operator or business manager and the depositors deemed capitalists. In relation to the entrepreneurs, however, the bank may be taken to be the capitalist and the entrepreneurs,

⁵² The concept of Islamic banking mainly draws upon the views of AHMED (1983); AL-NAGAR (1978); HUQ (1982); IMAMUDDIN (1961); MANNAN (1980); QURESHI (1979, 1974); UZAIR (1978).

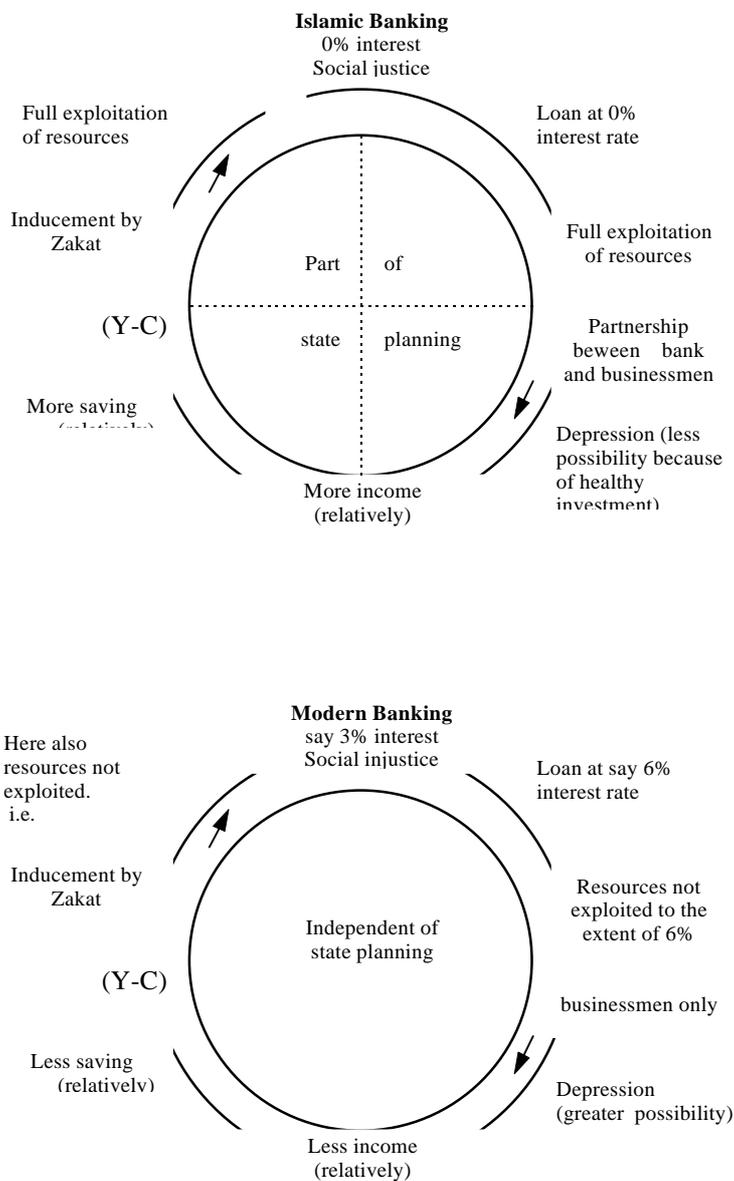
the operators. In this, the conditions governing a capitalist's rights and an operator's obligations shall apply. Any profits realized by the entrepreneur, the operator in this case, shall be shared with the bank as the capitalist in the agreed proportions" (MANNAN 1986:179).

Furthermore, MANNAN (1986:179) presents a **comparative account of Islamic and modern banking systems**. According to him, the superiority of the Islamic concept of banking over modern banking lies in the fact that Islam has eliminated the tyranny of interest. Islam has prohibited interest because it has no influence on saving, and mainly because it encourages the unequal distribution of wealth.

Interest and its influence on saving has been a conflicting factor in classical economics as well. MARSHALL (1905, cf. MANNAN 1986:162) and other leading classical economists view saving and interest as interlinked. Since the rate of interest is one of the most important factors which govern the volume of savings, the higher the rate of interest, the larger the reward for saving, the higher the propensity to save and vice versa. Thus, according to them an increase in the volume of saving means an increase in investment. These classical analyses are refuted later by KEYNES, who casts serious doubts on the efficacy of the rate of interest in influencing the volume of saving. According to him, the volume of saving depends upon the volume of investment. A higher rate of interest will damp down the volume of investment; as a result, development will be adversely affected and the aggregate money income will shrink. Since savings depend upon the money income of the people, the volume of savings will automatically be reduced.

Similarly, **Islamic banking believes that the rate of investment determines the rate of saving**. As Islam prohibits interest and encourages investment, one may argue that if no interest is paid on deposits, then the people may be tempted to keep their deposits idle and hoard them. It is here that *Zakat* plays a very significant role in penalizing those who keep their money idle. MANNAN (1986:172) concludes that Islamic banks are superior in comparison to the capitalist concept of banking on the basis of the following two circles of economic activity.

Diagram 1: A comparative description of the Islamic and modern banking



(I = Investment; Y = Total Income; C = Consumption; S = Saving)

Source: MANNAN (1986:172)

The practical application of the phenomenon of the Islamization of banking, however, fails to depict such an optimistic theoretical picture. A recent example from Pakistan, where a mix of both Islamic and modern banking was introduced in 1985, distinguishes between three groups and twelve modes of financing (STOCKHAUSEN 1987:60f).⁵³

(A) Financing by lending

- 1) Loans not carrying any interest on which the banks may recover a service charge not exceeding the proportionate cost of the operation, excluding the cost of funds and provision for bad and doubtful debts. The maximum service charge permissible to each bank is determined by the State Bank from time to time.
- 2) '*Quard-e-Hasan*' interest free loans given on compassionate grounds and repayable if and when the borrower is able to pay.

(B) Trade-related modes of financing including the following:

- 1) Purchase of goods by banks and their sale to clients at an appropriate mark-up in price on a deferred-payment basis.
- 2) Purchase of trade bills.
- 3) Purchase of movable or immovable property by the banks from their clients with Buy-Back Agreement or otherwise.
- 4) Leasing
- 5) Hire-purchase
- 6) Financing for the development of property on the basis of a development charge.

(C) Modes of financing investment include the following:

- 1) *Musharika*
- 2) Equity participation and purchase of shares.
- 3) Purchase of participation term certificate and *Modaraba* certificates.
- 4) Rent-sharing.

„These modes of financing are by no means Islamic by definition. They contain aspects which can easily turn them into usurious transactions“ (ZAIDI 1985:37). STOCKHAUSEN (1987:61) elaborates further that, „a bank may participate in a project through hire purchase agreement with collateral securities for performance of the contract by way of promissory notes provided by the partners of share-holders. Both transactions, considered separately, would appear to be valid, but taken together the contract may be designed to ensure that, in case of default, the bank receives its full investment via the promissory notes and mulcts the client with all the losses. To make hire-purchase Islamic, some sort of protection of the shareholders is necessary.“

The development of a viable and stable banking structure which is conducive to the Islamic economic structure is a challenge for Pakistan's economy. No blue-print of an Islamic economic structure has been worked out in Pakistan so far. The *Naqui* Report on Islamization published in May 1980 states that nothing more than a mere smattering of vague ideas of *Zakat* and *Ribah* (interest) have been formulated. **Purely Islamic banking is not seen to be sufficient, firstly, because people are more concerned with their material well-being than with moral values, and secondly, because of the moral hazards or because of the problems of dishonesty on the part of the entrepreneurs borrowing funds from the financial institutions** (ZAIDI 1985:34). Since Islamic and modern banking systems are two independent concepts opposing each other in many respects, a mix of both systems is difficult, if not impossible.

⁵³ See also ZAIDI (1985:27-28); HABIB (1984:21-23); STATE BANK OF PAKISTAN (1984:3).

2.3.2.2 *A linkage of formal and informal financial sectors*

„As long as the two markets (formal and informal) continue to be rigidly separated, the financial sector will be severely limited in its contribution to the transition from a static to a dynamic economy. In order to exploit the potentials of each sector and to optimize their contributions towards this transition, the two or the three sectors⁵⁴ have to be linked“ (KROPP/MARX/PRAMOD/QUINONES/SEIBEL 1989:31).

Several decades ago, various terms such as organized/unorganized and institutional/non institutional were used to define formal and informal finance. Further research has shown that many forms of informal finance are not only well organized but some of these are deeply entrenched social institutions. This led to the changes in terminology. The application of terms **formal and informal have hinged on regulation by some central monetary state authority. If the financial transactions were subject to regulations, the terms formal was applied and all other financial transactions are termed as informal (WAI, 1992:338).**⁵⁵ As stated, formal finance means formal saving organizations or state operated saving organizations such as commercial banks, post offices, National Saving Organization (NSO) etc., while informal finance means self-help groups, small saving organizations based upon personal relations, rotatory saving groups, etc., within the context of the present study. On the average, informal finance comprises small and short-term transactions that are based upon personalized interactions; the arrangements are highly flexible, adapt to the economic changes, are innovative and involve low transaction and information costs because they reach the client. In contrast, formal finance usually handles larger and long-term transactions that are often quite impersonal, the transactions are complicated, involve a higher grade of bureaucratic procedures and a substantial amount of paper work; apart from this, transaction costs are usually high, because in most cases transactions take place in the office of the financial intermediary and clients have to reach it.

KROPP/MARX/PRAMOD/QUINONES/SEIBEL (1989:30-31) summarize the **strengths and weaknesses of both sectors**. In their opinion, each of the two sectors has its particular strengths: the formal sector excels in modernity, in access to national and international refinancing institutions and in access to other supporting institutions, none of which applies to the informal financial sector. The informal sector, on the other hand, excels in accessibility, popular participation, basic needs orientation, organizational flexibility, local adaptability, situational appropriateness and socio-cultural integration at the local or regional level, none of which applies to formal financial markets. Within the context of weaknesses, the formal sector comprises a powerful modern sector with the potential of contributing to the dynamic growth of the economy, but is limited to a few - and is therefore unable to initiate self-sustained development. The informal sector is open to all, but comprises a weak indigenous sector, contributing mainly to survival through self-help and to slow development on the local level.

⁵⁴ Third sector means a financial intermediary between formal and informal sector which forms a 'semi-formal sector.' These activities may be partially regulated by a government agency through licensing or supervision. See also SEIBEL/PARHUISP (1992:239-248).

⁵⁵ See, for instance, WAI (1992).

A number of policy implications are recommended by different authors⁵⁶ within the context of informal finance in different eras. The majority of them, however, is of the opinion that informal finance helps in improving the well-being of the poor. Some of them expect positive results in enhancing the performance of informal finance and learning from it rather than abolishing it. Others view the establishment of prudential regulations a proper means to organize a substantial amount of deposits. Many authors favor leaving it as it is. Under this strategy the main consideration is to avoid policies that inadvertently and unfairly hinder it. Another strategy involves learning from it, but not attempting to alter its activities through outside interventions.

The establishment of a closer link between the two sectors can be well understood on the basis of two renowned rural development strategies:⁵⁷

'**Top-down strategy,**' the basic theme of the strategy is to bring formal finance down to a lower level in order to establish a closer contact with informal finance that attempts to increase the access of self-help groups or informal lenders to banks. Several countries such as Indonesia (BOUMAN/MOLL 1992:209-224; SEIBEL/PARHUISP 1992:239-248), Sri Lanka and Malaysia (SANDERATNE 1992:85-102; BOUMANN/BASTIAANSEN 1992:181-194)) are experimenting this strategy.

A second approach is the '**bottom-up strategy,**' the basic theme of this approach is to help large informal groups in assembling sufficient funds to make a small informal bank-like organization, which may either be converted into a semi-formal or formal financial organization or may be linked with the formal sector through a mediator. The type of evolution in the former case has occurred in Cameroon (SCHRIEDER/CUEVAS 1992:43-56) and is also reported to have occurred in Japan.

Major constraints in the way of establishing such linkage with reference to rural areas of Pakistan can be:⁵⁸

- The difficulty in recognizing and understanding many financial transactions, which are financial in nature but are not manifest as financial. These are not some isolated phenomena, but occur rather as a part of a complex web of various relationships. For example, the complex arrangements of saving, investment, insurance and financing are difficult to differentiate.
- These interlinked transactions are based upon 'personalized interactions' and offer, therefore, a wider informal range of contracting possibilities. Such transactions usually involve the vested interests of both parties and usually result in some novel arrangements on a non-monetary basis. A financial transaction in such an atmosphere can be settled otherwise, instead of being repaid in cash. One may repay part of the debt in the form of labour or political loyalty, which makes the contract attractive for both sides. A formal sector cannot offer such alternative arrangements, since it is not a part of that complex web.

An attempt to convert informal into formal may be a danger for the stability of that informal group. If the knowledge of intragroup cohesion is incomplete and the extent of formalization is not controlled accordingly, such a link may cause the dissolution of the

⁵⁶ See for instance, ADAMS (1992); SHIPTON (1992); SCHRIEDER AND CUEVAS (1992); GRAHAM (1992); SANDERATNE (1992); NAYAR (1992); BOUMAN AND MOLL (1992); HOSPES (1992); SEIBEL AND PARHUISP (1992); WAI (1992); and ADAMS AND GHATE (1992).

⁵⁷ See also MOORE (1953:139-159), SEIBEL AND PARHUISP (1992).

⁵⁸ See, for further details on the topic, KROPP/SCHMIDT (1987).

informal group without establishing a link. SCHMIDT and KROPP (1987:98) mention the following risks in this connection:

- A higher degree of formalization may lead to more pronounced differences among the individual members, if, for example, some of them take the status of official.
- A preference for formal incentives regarding group needs may cause the group to dissolve. For example, despite an internal need for capital, the group's savings are deposited with a formal organization in the expectation of receiving credit which is then not paid out after all. This can be considered as being against the group sincerity which is the actual logic of forming such self-help groups.
- In the case of conflicts about the distribution of loan or interest which may have been received and especially if repayment problems arise.
- In the case of mediation through a third party, new dependencies may be created if advisory services are not particularly competent. Most of the time, such mediators or the people working in such mediating entities also have their own personal interests and goals in mind, and these are not always the same as those of the savers.

The linkage model has two key dimensions⁵⁹:

an institutional linkage dimension, encompassing a link between rural households and banks through a non-governmental organization;

a financial linkage dimension, encompassing a link between savings and credit.

This can only be possible through a third agency such as⁶⁰

- private voluntary organizations,
 - governmental organizations or
 - special programs or projects,
- as intermediary.

The intermediation may be of the following three types:

- financial intermediation, with the intermediary acting as a depositing and lending agency, or
- consultative intermediation, with the intermediary acting as an advisory body assisting rural households to link with banks, or
- financial as well as consultative intermediation.

The special Savings/Joint Enterprises scheme of the **Grameen Bank** of Bangladesh may be mentioned as a most successful example of the above-mentioned financial linkage with an opportunity to move on from individual loans to joint enterprises. These special savings are voluntary and may vary from one to five *taka* (local currency) per member per week. If members of a center intent on starting a joint enterprise such as rice-husking mill or leasing a field for cultivating tobacco, they must first demonstrate that they can save money for that purpose. The Bank then supplements these funds with a loan. As a general

⁵⁹ See also KROPP/MARX/PRAMOD/QUINONES/SEIBEL (1989:51).

⁶⁰ A similar approach is mentioned by KROPP/MARX/PRAMOD/QUINONES/SEIBEL (1989:55).

rule, the Bank does not extend a loan more than ten times the amount of the member's savings (YUNUS 1988:122).

2.4 Analytical base of the study

The following definitions act as **basic concepts** for the empirical analysis of the study:

- A household is seen as a set of relationships that impose a mutual obligation to pool resources. Household members put their resources together, create an atmosphere of personal and economic co-operation in the consumption and production sphere, usually live together and co-operate with each other in further activities.
- Household saving will be analyzed on the basis of two concepts: 1) saving as the non-consumed income of the household, and 2) saving on the basis of traditionally evolved cooperative type institutions which offer a traditional bank-like arrangement for rural savers.
- A basis for the empirical analysis of an individual's saving behavior will be an integrated approach of the afore-mentioned five viewpoints. This behavior is considered a consequence of individual motivation and a desire of possession in life (social or material capital). This tendency is neither inborn nor is it a mechanical reaction; it is rather created during some specific learning process one gradually and unconsciously experiences from one's surroundings. The hypothesis of human behavior (Stimuli-reaction Model) proves that the ability to absorb information is not uniform; it varies from person to person, depending upon past successes and failures.
- Consumption is the satisfaction of the basic needs of household members. A higher consumption level is considered as an outcome of the determination of status by lavish expenditures. The standard of living, instead of depending upon an individual's income, is determined by the upper class.
- Hoarding is considered as any accumulation of cash or material goods which hinders the circulation of money in the country and is not intended for productive investments, whatever the time span be.
- Investment is the utilization of saving to improve or add to the productive potential of the household.
- An analytical framework for the decision making process in a household considers a family household as a relatively closed system of interaction. The major components of the concept are:
 - status and interstatus relations, as a base of authority pattern and lack of initiative;
 - role, role conception, role expectation and role differentiation;
 - process of communication, conflict, compromise and consensus.
- The financial sector is segmented into formal and informal sectors. If the financial transactions are subject to regulations, the sector is formal, otherwise, it will be considered as informal.

2.5 Summary

The chapter presents an analytical framework for the analysis of empirical data. The major components of this framework can be summarized as follows:

Origin and behavior of saving envisage a historical overview of saving, which shows a sequence of change in the motive consciousness of societies under the influence of different religions and with changing levels of cultural and economic development. The **saving behavior of an individual** is explained with the help of an integrated approach of major schools of thought. Saving or consumption decision is considered as a consequence of individual motivation, a desire of possession in life (social or material capital). This tendency is neither inborn nor a mechanical reaction, it is rather created during some specific learning process one experiences gradually and unconsciously from the surroundings. Human behavioral hypothesis (Stimuli-reaction model) proves that the ability to absorb information is not uniform, it varies from person to person, depending upon past successes and failures.

Household saving is defined on the basis of two concepts: 1) saving as the non-consumed income of the household, and 2) saving on the basis of traditionally evolved cooperative type institutions which offer a traditional bank-like arrangement for rural savers. Accordingly, saving behavior will be analyzed within the framework of social institutions that are defined as stable regulatory and organizational principles and rules which govern interaction processes between the people and in their relation to the environment and which are recognized and sanctioned by the societies in which they are found. **Household saving is differentiated from hoarding** as any accumulation of cash or kind which hinders the circulation of money in the country and is not intended to be productively invested.

Household saving has two basic utilizations: consumption and investment. **Consumption** is defined as the satisfaction of basic needs of a household. A household in given circumstances manages to achieve a compromise between its desires for increased consumption and its desires for saving. **Investment** is the utilization of the saved part of the available income (monetary or non-monetary) to improve or add to the household's productive potential.

The **decision making process of a household** is considered as a relatively closed system of interaction. The major components of the concept are:

- status and interstatus relations, as a base of authority pattern and lack of initiative;
- role, role conception, role expectation and role differentiation;
- process of communication, conflict, compromise and consensus.

The financial sector is segmented into formal and informal sectors. It is formal if its financial transactions are subject to regulations by some central monetary authority, otherwise, it is informal. The chapter gives a detailed account of the possible forms of both sectors functioning in developing countries.

3. Savings in Pakistan: growth and organization

The growth rate of rural savings [in Pakistan] has never been so promising as it should be in the case of a developing agricultural economy. Pakistan's domestic saving rates as a ratio of GDP was 9.1% in 1986-1987 which is one of the lowest as compared with that of the neighboring developing countries where the saving rates in 1985 were 21% in India & Thailand, 14% in Burma, 13% in Sri Lanka⁶¹ and 16% in Egypt (KHALID 1988:7).⁶²

3.1 Statistical overview of the growth rate of saving in Pakistan

The section intends to present a statistical overview of the saving situation in Pakistan, in general, and of the rural areas of Pakistan, in particular. Although households savings are notoriously difficult to measure (KOZEL 1987), yet an understanding of savings behavior is essential, as it contributes to an understanding of household welfare over and above its contribution to modeling aggregate investment behavior (ALDERMAN/GARCIA 1993:34).⁶³ Most commonly in household studies, savings are taken as the residual between observed expenditures and observed income. If households are more likely to underreport incomes than expenditures, savings are probably underestimated (VISARIA 1980). Moreover, incomes are subjected to seasonal and occasional fluctuations in an agricultural-based economy, consequently, „in any given year, it is possible that a large percentage of a community will have negative savings (dissavings), although this is unlikely to persist over many years“ (ALDERMAN/GARCIA 1993:34). Since rural saving is a difficult variable, on which up-to-date authentic information is not readily available, the data presented in this chapter has been summed up in a logical sequence from some fragmentary information. The chapter deals mainly with the presentation of information from secondary sources. The statistical data predominantly deals with:

- 1) Household income and its sources
- 2) Distribution of household income between consumption expenditure and saving

The discussion may be started from the distribution of households by income groups in rural and urban areas. The statistics compiled by the Household Integrated Economic Survey 1990-91 (1991) are reproduced in Table 2. The results of the survey reveal that 54.7 percent of households in Pakistan earn up to Rs. 2500 monthly, 31.9% earn between Rs. 2501 to RS. 5000 monthly, and 13.4 percent earn more than Rs. 5000. That means, the majority of the rural population fall in the income group category earning from Rs. 1000 to Rs. 2500.

⁶¹ „Children from the age of 7 or earlier are taught to deduct part of their daily ration of school biscuits for a savings fund rather than eat them“ (MALONEY/AHMED 1988:22).

⁶² See also BOUMAN 1979; GEERTZ 1962; WEERASORIA 1973; DESAI 1967.

⁶³ The literature in developing countries recognizes the importance of savings in both macro- and microeconomic concerns. „At the household level, for example, savings are a buffer to help households cope with the uncertainty of both income and needs. This motive for saving is particularly important in the absence of adequate credit and insurance markets“ (ALDERMAN/PAXSON 1992; DEATON 1989; PAXON 1992; ZELDES 1989).

Table 2: Percentage Distribution of Households by Income Groups in Rural and Urban Areas during 1990-1991

Income Groups (Rs.)	(% of all households)		
	Pakistan	Urban	Rural
All Groups	100.0	100.0	100.0
Up to - 1000	9.46	5.46	11.24
1001 - 1500	15.91	9.25	18.88
1501 - 2000	16.00	14.43	16.69
2001 - 2500	13.28	13.94	12.99
2501 - 3000	9.77	12.08	8.74
3001 - 3500	8.25	9.57	7.66
3501 - 4000	6.24	7.47	5.70
4001 - 5000	7.58	9.28	6.82
5001 - 6000	4.77	5.57	4.41
6001 - 7000	2.97	4.38	2.35
7001 & above	5.71	8.52	4.46

Source: HIES 1990-91(1991:20-21)

With respect to sources of income,⁶⁴ the majority of the rural population is engaged in agricultural pursuits and nearly 70 percent of the total rural labor force directly or indirectly derives their livelihood from agriculture. This implies that land is the major source of income in the rural areas. According to the Census of Agriculture 1990, the total number of privately operated agricultural farms in the country is 5.08 million covering an area of 47.43 million acres. The average farm size in the country is nearly 9.4 acres of farm area and 7.6 acres of cultivated area. Besides the farming class, wage labor, businessmen, artisans, barbers, cobblers, carpenters, etc. are the professions that supply services to the agricultural sector.

The IFPRI survey of 1986-89 (ADAMS, JR./HE 1995:10) classifies the total income sources of rural Pakistan into five kinds:

1. „Non-farm income includes wage earnings from nonfarm labor, government, and private-sector employment, plus profits from nonfarm enterprises;⁶⁵
2. Agricultural income includes net income from all crop production, including imputed values from home production and crop by-products plus wage earnings from agricultural labor;
3. Transfer income includes internal and international remittances, government pensions, cash, and *Zakat*;⁶⁶

⁶⁴ The International Food Policy Research Institute (IFPRI) Rural Survey of Pakistan, 1986/87 - 1988/89 (1995) in five districts (Attock, Faisalabad, Badin, Dir, Mastung/Kalat), „for the entire sample, crop profits combined with livestock earnings accounted for only 44 percent of earnings plus transfers and 54 percent exclusive of transfers. Nonfarm wages and enterprises were 41 percent of income (excluding transfers). From another perspective, only 14 percent on the households in the entire sample failed to earn at least 20 percent of their income outside of agriculture and animal husbandry“ (ALDERMANN/GARCIA 1993:7). The small share of total income from agricultural wages reported in Table 3 is in contrast with the observations reported by other researchers from other parts of the subcontinent, e.g., NABI, HAMID, AND ZAHID (1986:47), report about a major structural change in Punjabi agriculture between 1960 and 1972, leading to an increased emphasis on wage labour (ALDERMANN/GARCIA 1993:7).

⁶⁵ Government and private employment are included in nonfarm income, regardless of whether the person earning that income is employed full- or part-time.

4. Livestock income includes net returns from traded livestock (cattle, poultry) plus imputed values of home-consumed livestock plus bullock traction power;
5. Rental income includes rents received from ownership of assets including land, machinery (tractors, threshers), buildings, and water“.

Within the context of income utilization, the Household Integrated Economic Survey 1990/91(GOVERNMENT OF PAKISTAN 1991:155) shows a break-up of the consumption expenditure and saving by income groups among rural households. Table 45 (Appendix) shows a utilization of the largest part of household budget on consumption expenditure and a very small saving rate in all income groups. Table 44 (Appendix) further classifies this expenditure and shows a largest part of the household budget spent on the purchase of non-durable items and miscellaneous expenditure.⁶⁷ A common observation from both tables can be that almost all types of the consumption expenditure tend to remain constant and show no variation among different income groups; this brings lower income groups in a vicious circle of low income and low saving and compels them to borrow.

3.2 Average and marginal propensities to save in rural areas

Average and marginal propensities (APS & MPS) are two very important parameters for analyzing saving patterns. The limited availability of some authentic data from rural areas compels us to rely upon some fragmentary evidence in order to reveal an approximate picture. APS & MPS 1969-79 calculated by QURAIISHI (1985:288) are reproduced below:

Table 3: Average and marginal propensities to save in the rural areas of Pakistan
(in Rs.)

Year	No. of H.H. Surveyed	Average Disposable Income	Average Consumption Expenditure	Average Savings	APS	MPS	Average Saving as % of Average Disposable Income
1969	112	577.157	367.002	210.1552	0.364	0.725	36.4
1970	112	617.662	378.995	238.667	0.386	0.677	38.6
1971	112	656.659	444.659	212.008	0.323	0.637	32.3
1978	114	2,624.78	2,157.70	467.08	0.323	0.634	17.8
1979	30	8,308.65	3,403.14	4,905.51	0.178	0.170	59.00
					0.590	0.680	

Source: QURAIISHI (1985:288)

Average Propensity to Save (APS) and Marginal Propensity to Save (MPS) quoted from different studies⁶⁸ which gave APS figures of 0.364 in 1970 and 0.323 during 1971.

⁶⁶ Transfer income includes income earned from seasonal migration, both within and outside Pakistan. Income earned from the first kind of seasonal migration is treated as internal remittances; income from the latter as external remittances;

⁶⁷ Miscellaneous expenditure in HIES 1990/91 (1991) is almost the same as ceremonial expenditure in the study.

⁶⁸ See QURAIISHI (1985) and other references quoted in the article.

Another study showed a very low APS of 0.178. During 1979, it was 0.590, which shows that an average rate of saving ranges from 0.178 to 0.59 rupees, from every rupee of disposable income.

For **MPS**, however, Table 3 shows the values of 0.725, 0.170 and 0.680 during 1969, 1978 and 1971 respectively. Values vary in different studies, e.g., a study conducted in 1978 reports a nominal value of 0.680 that is similar to previous results. This means that **the saving out of every additional rupee of income earned is in the range of 0.170 to 0.725 rupee.**

Table 3 shows an almost stagnant rate of APS and MPS from 1969-1971, because households were having hardly any access to income sources outside rural areas. From 1975 onwards, with the manpower transfer to the Middle East countries and Gulf states, rural areas of Pakistan got an access to new income sources (Table 8). Although this revolutionary increase in household income induced an increase in savings, it did not keep pace with the increase in income. For example, Table 3 shows a sudden rise in APS from 1971-1978, i.e., from 0.323 to 0.178. Even at such a high income level, almost 80 percent of the rural households were not saving from 1971-1979. The rural households' marginal propensity to save (MPS) was negative for the low income group earning Rs. 271.74 p.m., in 1971-72, and Rs. 600.00 p.m., in 1979. The marginal propensity to save did not show a continuous rising trend with the increase in rural income. The ratio of saving for a household's monthly income level of Rs. 339.1 was 5.3 percent, whereas, at the income level of Rs. 448.8, Rs. 578.8 and Rs. 854.2, the ratio of saving was 2.95 percent, 6.0 percent and 28.6 percent, respectively. The ratio of saving to income was 20 percent at the next higher level of a household's monthly income level of Rs. 1198.6. It was 43.8 percent at the next higher income level of Rs. 2676.2. A considerable declining trend of the savings rate has been observed during the following years. This may be a result of the heavy expenditure on innovative technological items such as improved inputs, irrigation and mechanical devices like tractors, implements and other farm equipment.

The official statistics of Pakistan (e.g., KHALID 1988 & QURAIISHI 1985) also supports the above-mentioned facts, „although large amount of remittances in the last decade could be diverted into monetary assets. "In the absence of facts and figures on monetary assets and deposits statistics with rural urban breakup, it is difficult to arrive at a meaningful conclusion. It is believed that about 40% of country's investment is being channelled in rural areas, whereas the share of rural areas in domestic savings is hardly about 15%" (KHALID 1988:8).

The factors like a higher rate of public investments in agriculture, a constantly increasing flow of concessionary agricultural credit and more remunerative prices of agricultural crops played a very important role to bring a revolutionary change in the household income in the rural sphere, but its contribution towards increasing household savings remained very low. The savings rate was 12.1% in 1985-86, and 14.2% by 1986-87 (KHALID 1988:7). Table 4 shows the net rate of household saving as percentage of disposable income, and Table 5, national savings as % of GNP, which supports the above-mentioned statement.

Table 4: Net Household Savings Rates

As Percentage of Disposable Income			
Year	Pakistan	Rural	Urban
1968/69	0.2	0.7	2.3
1970/71	0.3	1.4	1.9
1971/72	0.3	1.5	2.2
1979/80	7.6	3.8	11.3
1984/85	7.7	6.6	9.5

Source: KHALID (1988:8)

Table 5: National Savings Rates

(Rs.)				
National Savings (as % of GNP)				
Year	Overall	Public	Private	National Savings (as % of GNP)
1981/82	11.8	3.1	8.7	4.8%
1982/83	14.0	1.2	12.9	4.7%
1983/84	12.5	1.9	10.6	4.2%
1984/85	10.7	0.4	10.3	3.5%
1985/86	12.1	1.5	10.6	5.4%
1986/87	14.2	0.4	13.9	9.1%

Source: Khalid (1988:8)

The reasons why the increased rural income is not resulting in a substantial increase in the savings rate are due to a number of factors, among which extravagance in status-oriented demonstrative consumption and mistrust of financial institutions, which led to the purchase of real estate by way of transfer payments and avoided investment in financial assets, should specifically be mentioned. An acute lack of authentic statistical data further hinders the formulation of any proper strategy for the future. "According to a survey conducted by the Pakistan Institute of Development Economics in 1981 although this increased income has resulted in a tremendous increase in consumption expenditure in the rural areas, little of it is saved. The rate of financial savings, however, has remained particularly low, mostly because of the lack of access to financial institutions. 22 % of migrants' remittances are diverted to real estates, 11.5% to agricultural and commercial investments and only 1.5% to financial assets" (QURASHI 1985:289).

Besides, the above-mentioned facts about the saving and income situation in rural Pakistan, **the IFPRI survey of 1986-89 presents a more detailed analysis of five districts in rural Pakistan.** Some of them are as follows:

- Low-income populations face more credit and liquidity constraints and, therefore, cannot fully adjust consumption in the face of negative shocks. Similarly, a tendency to consume income from positive shocks is observed at extremely low levels of income.

Table 6: Marginal propensities to spend out of transitory shocks disaggregated by the direction of the shock

Variable	Positive Shocks	Negative Shocks
Current expenditure	0.131 (2.38)* *	0.163 (5.26)** 0.455
Physical savings	0.516 (3.15)* *	(4.89)** 0.296 (3.25)**
Financial savings	0.149 (0.93) 0.034	0.059 (4.92)** 0.026
Medical expenditure	(1.61)* 0.170 (2.10)*	(0.96)
Ceremonial expenditure	*	

Notes: The figures in parentheses are t-values.

a) A positive coefficient of a negative shock implies that when income declines, expenditure also declines.

b) Construction capital and other capital are combined.

* Significant at the 10 percent level.

** Significant at the 1 percent level.

Source: ALDERMAN/GARCIA (1993:45) based on IFPRI Rural Survey of Pakistan.

Table 6 shows the amount of different kinds of savings as a result of **positive shocks** (increase in income) and then the utilization of this surplus and amount of debt (when it is insufficient) in the case of **negative shock**. In the case of physical saving, for example, a marginal propensity to save out of a positive shock is 0.149, but households increase their debt by 0.296 when incomes temporarily decline. There exists, in addition, a surprising difference in the tendency to increase ceremonial expenditures when incomes increase, yet not to appreciably reduce them when incomes decline⁶⁹ (ALDERMAN/GARCIA 1993:44). It is also noteworthy that households in all but the wealthiest quartile increase their consumption with positive transitory incomes but do not decrease their consumption with an income decline.

- **The poorest households allocate all of their negative income shocks usually to financial dissavings.** Restated in more intuitive terms, these households increase their debt when incomes decrease. They have relatively few assets to sell and, therefore, cannot dissave in terms of physical assets as the wealthier households do.
- Contrary to the popular notion that **remittances are primarily used to raise consumption**, the marginal propensity to save out of external remittances is 0.84. Most of these savings were either in the form of bank deposits or in paid-off loans.

⁶⁹ ALDERMAN/GARCIA (1993:44) observe that some ceremonial expenditures - for example - may correlate with negative individual income shocks, but such shocks are not included in the transitory income as measured here.

- **Pensions are saved in much the same way as remittances from abroad.** Many of these pensions are lumpsum payments on retirement and are apparently viewed as transitory.
- **The marginal expenditure on construction out of international remittances is less than it is out of domestic remittances or transitory income.** The tendency to use international remittances for immediate construction is not different from that of other transitory sources. It should be noted, however, that the study deals with remittances per se, not retained earnings of returned migrants. Moreover, if remittances are initially banked and withdrawn in a subsequent year, the use of remittances for construction would not be directly apparent⁷⁰.
- **Domestic remittances are not treated in the same manner as international remittances and pensions.** According to these results, marginal consumption out of local remittances is higher than out of other transitory sources, a result that holds even for low income groups. Nevertheless, these local remittances are utilized mostly for physical and ceremonial expenditure.⁷¹ These remittances appear to encourage financial dissavings in the form of increasing net debt.⁷²
- A comparatively higher coefficient of local remittances for medical and ceremonial expenditures could indicate transfers effected by the local family and friends when household expenses for medical care and ceremonies increase. Local remittances, then, may fulfill a risk-sharing function.⁷³
- Credit may be considered as a subset of the category of financial savings in this study. **More than 90 percent of the households in the survey reported obtaining informal loans in a given year.**⁷⁴ Village shopkeepers, for example, extend credit (the functional equivalent of credit cards in developed countries) routinely to obtain an advantage over larger market centers. According to the results of IFPRI Rural Survey of Pakistan 1986/87-1988/89 (ALDERMAN/GARCIA 1993), eighty percent of the annual loans obtained by the survey households were from the informal sector (90 percent of the total number of loans). Of these, 40 percent came from shopkeepers, and 45 percent from relatives and friends.

⁷⁰ These results on spending out of international remittances are somewhat at odds with previous studies on average spending out of remittances (AMJAD 1986, for example). The study differs, in part, in the method of measurement; the marginal savings are measured here as a part of an entire household accounting, which is more accurate than recalling the spending out of a particular income source that is fungible over all resources. Moreover, financial savings (including net debt) are included in this study, which proves to be a major share of all uses of remittances. The results also differ from the analysis of aggregate data by BURNEY (1987). In part, the difference is based on the types of data used and conceptual issues; households sales and purchases of assets or contraction of debt may either increase or reduce the individual savings position in accord with the desire to smooth consumption, yet have a small impact on aggregate savings.

⁷¹ Remittances are taken as exogenous in this study. There is, however, some element of causality in that relatives may increase transfers when a ceremony occurs.

⁷² Since the share of informal-sector loan is predominant in the total credit flow, the source of credit may be the same as the source of remittances. Some double counting or even misclassification is possible.

⁷³ See ROSENZWEIG (1988).

⁷⁴ Although this finding is hardly acceptable to the conventional wisdom regarding credit constraints.

Table 7: Loans obtained from the informal sector, by expenditure quintile

Expenditure Quintile	Loans Obtained			Net Increase of Debt*		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
	(Constant Rs.)					
1	6,811	6,887	5,434	3,581	4,757	3,011
2	6,887	8,879	5,429	5,482	3,841	2,853
3	7,722	9,020	4,662	3,534	3,590	2,092
4	6,903	9,709	6,545	1,508	3,969	1,904
5	8,063	12,131	5,752	4,028	5,199	2,826
Total	7,278 (9,048)	8,333 (2,230,5)	5,561 (1,119,1)	3,628 (1,593,6)	4,266 (1,923,4)	2,535 (1,320,4)

Source: ALDERMAN/GARCIA (1993:49) based on IFPRI Rural Survey of Pakistan, 1986/87-1988/89.

Note: The figures in parentheses are standard errors.

* includes formal and informal loans

- Table 7 shows that a **substantial amount of the total credit is obtained from the informal sector**. During the survey period, however, the net increase in loan (including formal and informal loans) was more than half the value of loans. The percentage of loans taken during a year and that remains outstanding at the end of the year (two months after the *rabi* harvest) is roughly half as large for shopkeepers as for friends and relatives. This implies that loans from friends have comparatively longer-term conditions or are implicit transfers.⁷⁵
- **More than 14 percent of the households are reported to have domestic bank accounts.**⁷⁶ The percentage was highest in Attock and lowest in Badin.⁷⁷ The average of all annual gross deposits was Rs. 1,600 in the first year, rising to Rs. 2,000 in the second year, and nearly to Rs. 2,600 (constant) in the third year.

3.3 Organization of Saving

"The manner in which the financial sector creates, collects and processes money is broadly referred as financial technology" (PISCHKE 1978:49). There are two fundamental processes of savings mobilization - either through fiscal policy by budgetary surpluses at macro level, or through accumulation and concentration of private savings through saving organizations at micro level. The function of financial institutions is to link

⁷⁵ Although this study does not explain the reasons of increase in debt every year, the credit breakdown supports the findings that savings partially explain the relative constancy of consumption.

⁷⁶ Although these services are more often used for long-term loans in asset accumulation or for the purchase of inputs (MALIK 1989). The formal banking system, however, provides a means of smoothing consumption via savings. This form of savings, which is generally believed to be underused in rural areas, also has the potential to contribute to resources mobilization throughout the economy.

⁷⁷ Probit regression analysis (not presented here) of the survey indicates that much of the difference in the probability of having an account across districts is explained by the effects of the variables for number of migrants, income, and education; increase in all of these factors increase the probability that a household will have a bank account. A larger amount of travel time, for example, decreases the probability of having a bank account as well as total annual gross deposits. The number of migrants abroad or returned also influences total deposits, mainly through the probability of having an account. International remittances, but not domestic remittances, were banked at higher rates than other income, consistent with earlier results. Households with more children and adolescents placed more money in the bank than other households.

potential savers and investors. The efficiency of financial institutions lies in two interrelated features: their ability to attract and mobilize domestic savings and their adequacy in channelling funds towards productive use. In the capital deficient economy of Pakistan, meagre savings cannot be channelled in a productive manner until a sound financial system exists. Saving organizations offer attractive and lucrative incentives such as security of capital and a handsome rate of return as a reward to the public for postponing consumption expenditure.

The total number of financial organizations involved in the mobilization of saving makes it clear that the number of such organizations has increased to a large extent in a shorter period. This led to claim a simplification in saving opportunities in the banking spheres in 1978:

The number of these institutions should be reduced, as it results in unnecessary overlapping of similar functions. Moreover, the schemes offered should also be simplified, as there is considerable confusion in the minds of the saver as to what scheme one should choose. „A large expansion of rural branches is discouraged because a large accumulation of overdue loans and high operational costs make their function uneconomic“ (ABBOT 1985:413).

Financial organizations may generally be classified on the basis of the following criteria:

- the extent and capability of communication at grass root level;
- rate of return on deposits;
- types of services (saving schemes etc.) offered;
- overall profitability of the institution to retain the confidence of the depositors and the morale of the employees.

The financial sector of Pakistan⁷⁸ is composed of a variety of formal and informal⁷⁹ organizations:

1. The central bank 'State Bank of Pakistan', which issues the currency and supervises other financial organizations
2. Money transfer intermediaries such as commercial banks, etc.
3. Organizations which work closer to the public primarily by accepting deposits such as postal saving services, private finance corporations and saving centers working under a 'Central Directorate of National Savings (CDNS)' etc.
4. Specialized banks which directly serve the public primarily by issuing loans in the agricultural sector, i.e., the 'Agricultural Development Bank of Pakistan' and,
5. Informal self-administered saving groups such as 'Rotatory Saving Organizations' (RoSCAs).

The following discussion presents relevant details of the formal and informal financial organizations in the above-mentioned order. Unfortunately, the importance of different institutions cannot be judged fully because of the unavailability of up-to-date information on the business of all institutions. Nevertheless, **a comparative account of the overall performance and the amount mobilized by different institutions in different years assigns a leading position to the National Saving Organization.**

⁷⁸ For a list of financial organizations and their role in the mobilization of saving, see KHALID (1988:9ff).

⁷⁹ The present study defines formal saving organizations as organizations fully or partly controlled by the government, whereas informal saving organizations include self-help saving groups in rural areas.

3.3.1 Commercial Banks

At present there are twenty domestic commercial banks with 7,825 branches and 21 foreign banks with 66 branches in operation in the country (ECONOMIC SURVEY OF PAKISTAN 1993/94:59).⁸⁰ Five of these scheduled banks - the National Bank of Pakistan, United Bank Limited, Habib Bank Limited, Allied Bank Limited and the Muslim Commercial Bank - are nationalized commercial banks and have regularly functioning branches in rural areas (up to 2,000 inhabitants). Two other specialized banks are also working exclusively for the rural sector. The Pakistan Banking Council functions as a mediator between these commercial banks and the federal government to coordinate banking with national development objectives.

As stated, since independence the rural areas remained a declared non-commercial sector from the banking point of view. The banking reforms of 1972 can be considered as a concrete step towards accelerating bank efficiency in the rural sphere. Afterwards, nationalization in 1974 aimed specifically at mobilizing domestic resources for greater self-reliance and channelling the domestic resources towards more productivity. The State Bank's new licensing policy, in a way, compelled to open 2 to 3 rural branches in an *unbanked* area in order to get one city branch sanctioned. "There were 1173 branches of nationalized commercial banks in operation in 1970. The number increased to 2,729 in 1981-82, which is 2.3 times more than in 1970." (Table 36 & 37 Appendix) (QURAIISHI 1985:281)

The trend of national saving, undoubtedly, remained upward during that period. According to banking official statistics, the share of commercial banks was 90.9%, the share of specialized banks 0.5% and that of post offices, saving centers and life insurance, 1.6%, 6.4% and 0.6% respectively, while the average rate of savings from 1970 to 1982 were 10.53%. A comparative look at two periods before and after nationalization shows a marked increase in the working cost in opening new branches and a decline in the share of national deposits of commercial banks from 95.7% in 1970, to 90.9% in 1982, although in absolute terms, the deposit increased by about 46.6% during the same period. ECONOMIC SURVEY 1993-94 (1994:59) reports deposits mobilized by commercial banks aggregating to Rs. 48.98 billion during the first nine months of 1994 as compared to Rs. 47.78 billion in the same period in 1993, indicating a marginal rise of 2.5 percent.

Two major flaws in launching the new strategy of rural saving mobilization include: Firstly, the classification of areas as "rural" and "urban" was done on the basis of the number of population, without differentiating between rural and urban traits and their respective requirements. A large number of branches have been opened in areas with a population of 5,000 and below as "rural branches." Afterwards, in 1976, such areas were termed as "towns" and areas with a population of 2,000 and below as "rural." The major concern was that the situation may be improved by the very presence of a bank branch next door, as this could give confidence to the rural population. Secondly, an overemphasis on quantity rather than quality hampered the achievement of desired results. The speed at which new branches were opened did not keep pace with the rate of savings. The bank staff was not properly trained for rural transactions and this hindered the function of a

⁸⁰ The total paid up capital of domestic scheduled banks amounted to Rs. 39.06 billion as on 31st March, 1994 as compared with Rs. 33.86 billion on 31st March, 1993. Their total assets amounted to Rs. 1283.66 billion on 31st March, 1994 as compared with Rs. 1084.77 billion on the corresponding date last year (ECONOMIC SURVEY OF PAKISTAN 1993/94 (GOVERNMENT OF PAKISTAN 1994:59)).

branch in a different cultural context. This resulted in attractive statistics of the number of rural branches, not of their deposits.

According to a survey conducted by the Institute of Bankers in Pakistan (ZAIDI 1985:27f), one of the major constraints viewed by rural branches (38%) was the **"lack of saving habits of rural people due to their traditional customs."** Among other major constraints, **"low income level in the area" (17%), "distances of the branches from the main market of farm products" (9%), "low literacy level, low rate of interest on deposits" and "non-availability of proper infrastructure and lack of training of staff"** should specially be mentioned. **An overwhelming number of rural branches (51%) reported "lack of publicity in the area."** The institute had recommended a **multi-dimensional approach through more personal contacts, direct staff visits to the village leaders, through incentives such as gift schemes on deposits, by making the conservative and rigid procedure easier for a new account applicant. 13% of the branches suggested a linkage of agricultural credit with deposit mobilization. The high cost of the collection of rural savings was also cited as one of the reasons for lack of deposit mobilization efforts on the part of banks.**

3.3.2 Specialized Banks

„Specialized financial institutions in the country perform their investment and saving mobilization activities under a liberal economic atmosphere. During 1993/94, the Government introduced some discipline in the sanctioning and disbursement procedures of banks and other financial institutions in order to avoid major defaults in the system (ECONOMIC SURVEY OF PAKISTAN 1993-94, GOVERNMENT OF PAKISTAN 1994:60)⁸¹. Two types of specialized banks with their branches in rural areas include: 1) the Agricultural Development Bank of Pakistan (ADBP) and 2) the Federal Bank for Co-operatives.

ADBP was specially designed to provide credits to the agriculturists at grass root level and the persons engaged in small rural industry. **Although the bank was also authorized to accept deposits, the matter was never given the needed attention since its existence.** The Bank is a joint venture of the Government of Pakistan and foreign donor agencies such as the World Bank and the Asian Development Bank. Donors provide loans and credit for the disbursement of credit to rural areas through ADBP, to the Government of Pakistan on a prefixed interest rate. Every credit project in Pakistan has therefore to follow the strategy laid down by donors. ADBP envisaged a rural saving mobilization policy for the first time in 1988, when donors launched a **"saving led credit policy"**. The new policy divided the total cost of the project in three parts, contributed by the donors, by the Government of Pakistan and by ADBP through the deposits mobilized from rural areas. Every rural branch opened a deposit counter and accumulated a target deposit volume till the end of the year to submit an attractive saving statistic to the donors as a prerequisite of their approval. A quite attractive volume of deposits was mobilized in a very short period to ensure the donor's contribution.

Unofficial discussions with bank employees and "Mobile Credit Officers" (MCOs) concluded that the majority of these deposits were actually credit volumes sanctioned for the people who were willing to redeposit this amount as saving at the bank's saving counter, till the 30th of June (end of financial year), which means practically no deposit.

⁸¹ In 1993/94, Development Finance Institutions (DFIs), Investment Banks and Specialized Banks were allowed to work independently as free market conditions postulates. This apparently created some problem of adjustment to the system resulting in a reduction of loans.

According to their views, donors either smelled these strategic manipulations or believed that the process would perpetually function by itself in the future. Whatever the case, rural savings were no longer emphasized, neither by donors nor by the bank. The informants declared that honest rural deposit mobilization was an extremely tough task. According to them, the bank cannot compete with other rural institutions especially designed for saving mobilization due to insufficient rural branches. A door-to-door service through MCOs (Mobile Credit Officers) seems to be impossible because one MCO is usually responsible for a cluster of 25 villages. They are not authorized to carry a cash amount beyond a specific volume while in the field. In the case of credit, people seek and contact them personally, while saving mobilization needs a canvassing campaign, which is not only highly time consuming but MCOs are not trained for this task.

3.3.3 Federal Bank for Co-operatives

The Bank is owned by federal and provincial governments and the State Bank of Pakistan jointly to provide credit facilities to provincial co-operative banks and regulate their operations. The bank has one regional office in each province. The provincial offices, however, are authorized to open more branches wherever they deem applicable. The major function has always been credit distribution in rural areas. Although the bank is allowed to accept and mobilize rural deposits, it has been neglected altogether.

3.3.4 Post Offices

Post offices act as saving banks for lower and middle income classes, in urban as well as rural areas. **More than 70% of post offices carry out the function of a bank as well.** Three types of saving accounts can be opened in these offices: saving accounts, fixed savings accounts and seven-year profit-cum-bonus accounts. A saving account can be opened with Rs. 2, while fixed savings and profit-cum-bonus accounts with at least Rs. 100. The rate of interest is usually higher than that paid by banks and ranges from 7.5 to 10 percent.

The deposits under the profit-cum-bonus scheme earn, in addition to interest, a bonus which starts with the fourth year and increases as follows (ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND PACIFIC 1975:53):⁸²

Before 4 years 6% p.a.
 After 4 years 6% p.a. + Rs. 20
 After 5 years 6% p.a. + Rs. 30
 After 6 years 6% p.a. + Rs. 42
 After 7 years 6% p.a. + Rs. 56

There is no relation between the amount of saving and the amount of bonus; only duration is important in this regard. The above-mentioned postal saving schemes are the same for the urban as well as the rural areas.

3.3.5 Central Directorate of National Savings (CDNS)

The Savings Directorate has been working since independence (1947) under the name of the National Savings Central Bureau. In 1953, the CDNS was set up under a Chief Director. Initially all schemes were operated through post offices and canvassers acting as agents. In January 1972, the Central Bureau was converted into saving banks, the strategy of collecting savings was changed by abolishing canvassers and authorizing post offices as their agents.

⁸² Interest has been abolished, under 'Islamic banking' the existing system includes a profit/loss share (PLS).

The National Savings Organization (NSO) has three components, namely; the Central Directorate of National Savings, the Directorate of Inspection and Accounts and Training Institute, for refresher courses of employees and the National Savings' Field Organization (Table 46 & 47). There are 319 National Savings Centers (in 1984/85) working throughout the country. The National Savings (NS) schemes are also sold through the network of commercial banks and post offices. These centers were established to highlight the importance of financial assets. The growth in the overall savings rate by the Directorate from 1947-48 to 1976-77 was a compound rate of 9.9% p. a. The new schemes introduced in 1970, the Rs. 11 Prize Bonds, etc., showed an increasing growth in deposits. **Since the return on schemes by CDNS is generally higher than that of commercial banks and the profit is tax free, it has attracted more savers.**

The ECONOMIC SURVEY 1993-94 (GOVERNMENT OF PAKISTAN 1994:59) reports a record performance of the organization during the first nine months of 1993-94. It has mobilized net savings worth Rs. 25.85 billion as against a net annual target of Rs. 24.83 billion, surpassing the target by 4.1 percent. This was more than the total net amount mobilized during the last three years ending June 1993. The improvement in savings mobilization was mainly due to the increase in the rate of profit on Savings Accounts, Defence Saving Certificates and Special Savings Schemes. The gross saving mobilized through various schemes during July-March 1993-94 amounted to Rs. 70.99 billion. The combined share of the three afore-mentioned saving schemes mobilized the bulk of the savings in 1994. Their combined share amounted to Rs. 18.22 billion which constituted 70.5 percent of the total net receipts mobilized during the first nine months.

The national Savings Organization (NSO) offers the following four categories of saving incentives:

3.3.5.1 Saving Certificates

Three types of certificates in the denomination of Rs. 5, 10, 100, 500, 1000. 5000. 10,000. are offered. These are available at all National Savings Centers, scheduled banks and post offices in urban as well as in rural areas. These can be pledged as security, can be transferred to some other name and place and the profit earned is free of income tax.

- i) Defence Savings Certificates, in function since 1966 with an average profit rate of 32.6% on a maturity of ten years.
- ii) National Deposit Certificates, introduced in 1973, offer an average profit rate of 25% after seven years.
- iii) Special Deposit Certificates, introduced in 1973. Maturity period is three years but the deposit can be encashed after one month. The profit rate is 15% p.a. for the 2.5 years and 17% p.a. for the last six months, which is payable half yearly.

3.3.5.2 National Saving Accounts

They consist of two types:

- Special Deposit Account: a saving account which can be opened with just Rs. 2 at a profit rate of 10% p.a., profit may be drawn on a monthly basis or redeposited.
- Mahana Amdani Account (monthly income account): introduced in 1983, it offers a rate of profit of 20% after completion of a 5 years' *period*.

3.3.5.3 Prize Bonds

Prize Bonds are a Federal Government security issued in a form notified in pursuance of the Public Debt Act, 1944, available for Rs. 50, 100, 500, 1000. These were introduced in 1981 and are available in National Savings Centers, scheduled banks and post offices. Prizes are decided on the basis of a common draw system every month and are different for Prize Bonds of different values.

3.3.6 Life Insurance

Life Insurance schemes represent socially desirable and economically beneficial functions. They help to mobilize household savings and to channel them into nationally desirable areas. Unfortunately, they did not achieve the required popularity in rural areas. The very long duration of regular payments is not attractive to the rural population. The schemes showed a steady uptrend until 1969. They suffered a temporary setback in 1970-71 because of the Indo-Pakistan war and were nationalized in 1972. The State Life Insurance Corporation of Pakistan was also established in 1972 to take over the business of life insurance. Later on, in the 1980s, after heavy losses, the business was taken over exclusively by the Postal Life Insurance. The scheme is running on a no-profit, no-loss basis. Profit earned is distributed in the form of bonus among policy holders. The rate of profit is equal for all of them.

3.3.7 Private Finance Companies

"The explicit purpose of the private finance companies and investment corporations is to create investment funds by tapping the small savings of rural investors" (HAMID and NABI 1986:1289). **In 1977-79, Pakistan experimented with the 'deregulation' of the financial sector by creating new financial organizations in the private sectors to attract the untapped savings of the rural areas.** This was done in a dual approach, i.e. informal organizations complementing formal organizations. During that period, there was a boom in remittances (mainly from the Middle East) and a sharp increase in the number of Pakistani migrant workers in rich oil countries.

Unfortunately, the idea was hijacked by some swindlers who turned a productive approach into failure and disappeared with millions of deposits⁸³.

3.3.8 Rotating Saving and Credit Associations

Such associations are formed by a group of individuals who agree to make regular contributions to a fund which is given, in whole or in part, to each contributor in rotation. The basic principle upon which a group is organized is that a fixed amount of money is collected from each participant and is given to the participants in turn. In its simplest form, it consists of a certain number of participants, depending on whether the contribution is made monthly, bi-weekly, or weekly. Apart from a full share, there may be 'effective shares' in the sense that if two persons want to participate but cannot individually afford to contribute a full share, each contributes a certain fraction of the share. **Such groups are administered by an organizer, who is usually the person who initiates the activity and selects the participants. These participants are almost always people whom the organizer knows and trusts.** Personal knowledge and trust are said to be imperative, since there is no written document and the association operates on mutual trust and understanding. The organizer is bound to ensure that all the participants duly pay their contribution. Lots are drawn at the first meeting in a way that each and every participant, barring the organizer, receives only one lot. The number in the docket indicates the month

⁸³ For a detailed description on the establishment and fall of the PFCs, see Section 4.1.4.

in which the particular participant would receive the entire pool of contributions. The group is officially dissolved when the entire group has received the contribution. Usually, new entrants replace some old participants and the process continues.

3.4 Summary

The chapter concentrates upon two major aspects - statistics and organization - of saving in Pakistan.

A statistical overview of the growth rate of savings in Pakistan reveals that saving rate has never been as promising as it should be in the case of a developing agricultural economy. Pakistan's domestic saving rates as a ratio of GDP were 9-1% in 1986-1987 which is one of the lowest in the neighboring developing countries. A higher rate of public investments in agriculture, an ever increasing flow of concessionary agricultural credit and more remunerative prices of agricultural crops are additional factors to bring about a revolutionary change in the household income in the rural sphere, yet its contribution towards the growth of household savings remained very low.

The reasons why increased rural income has not resulted in a substantial increase in the savings rate are due to a number of factors, among which **extravagance of status-oriented demonstrative consumption and mistrust of financial institutions** - which led to the purchase of real estate by way of transfer payments and avoided the investment in financial assets - should specifically be mentioned.

The empirical survey from rural Pakistan reports that low-income populations face more credit and liquidity constraints and, therefore, cannot fully adjust income in the face of negative income shocks. Similarly, a tendency to consume income from positive shocks is observed at extremely low levels of income, this leads not only to the consumption of past savings but also to dissaving.

The financial sector of Pakistan is composed of a variety of formal and informal organizations to create, collect and process financial assets:

- a) The central bank 'State Bank of Pakistan', which issues the currency and supervises other financial organizations
- b) Money transfer intermediaries such as commercial banks, etc.
- c) Organizations which work more closely to the public, primarily by accepting deposits such as postal saving services, private finance corporations and saving centers working under a 'Central Directorate of National Savings (CDNS); etc.
- d) Specialized banks which directly serve the public, primarily by issuing loans in the agricultural sector, i.e., the 'Agricultural Development Bank of Pakistan' and,
- e) Informal self-administered saving groups like 'Rotatory Saving Organizations.'

Unfortunately, the importance of different institutions cannot be judged fully because of the unavailability of the up to date information on the business of all institutions. Nevertheless, a comparative account of the overall performance and the amount mobilized by different institutions in different years assigns a leading position to the National Saving Organization.

4. Socio-economic framework for the mobilization of saving in Pakistan

The chapter concentrates on the generally existing socio-economic conditions in Pakistan which play a fundamental role in hindering or promoting the rate of household saving in the rural sphere.

Pakistan is mainly an agricultural country with more than 70 percent of its population living in rural areas and therefore, directly or indirectly dependent on agriculture and its allied pursuits as a means of livelihood. The country spreads over an area of 796,095 square kilometers. The total agricultural area, according to 1987-88 statistics, was 57,780,000 hectares. Its population, according to the 1981 census⁸⁴, stood at 84.254 million, while, in 1992, it was estimated to be 117.32 million with an average population density of 147 persons per square kilometer (THE ECONOMIST INTELLIGENCE UNIT 1993:2). "Pakistan can also be considered as a land of villages. According to the basic village statistics of the Central Bureau of Statistics, Pakistan has 45165 villages with 9.07 million households" (KHAN 1988:87). The total rural population according to 1981 census was 60.412 million. Cultivable landholdings are predominantly small, 5.26 hectares are considered to be the average farm size.

The average monthly income of the rural households was Rs. 234.43, as calculated by the Household Income and Expenditure Survey of 1971-72, conducted by the Federal Statistics Bureau of Pakistan. It increased to Rs. 835.65, in 1979, and varies between Rs. 600 to 5000 monthly according to the Pakistan Statistical Year Book 1991. The considerable change during the last three decades could mainly be attributed to the breakthrough in technology and production in the decade of the 1970's.

Since partition, Pakistan has been caught into the vicious circle as identified by NURKSE (1953) "The less developed countries remain poor due to domestic obstacles. These obstacles act and react upon one another in such a way that they form a vicious circle. They keep the country in a perpetual low level of development." The average growth rate of the country is around 6 percent per annum. Low income means little ability and incentive to save, investment is bound to be low at a small saving rate. Low investment leads to low productivity. With a low productivity level, the income is bound to be low. People, as such, remain poor and the circle closes. Apart from this, the unequal distribution of wealth has given rise to a significant social stratification in every walk of life. This is a major cause of social tension and hindrance for the productive investment of the saved resources.

Hence, the only reliable solution to the problem is to manage the available resources in such a way that the proper distribution and utilization of a household's income result in a reduced level of consumption and an increased saving rate, with an identification and control of its determining factors. Especially in a country like Pakistan, the major problem is not only a low level of per capita income but the way in which it is utilized. A consumption-oriented ideology is causing the economic situation to worsen.

The past and present socio-economic framework for the mobilization of saving in Pakistan may be differentiated as 1) developmental political aspects, and 2) socio-cultural aspects.

⁸⁴ The last census survey in Pakistan so far. Statistics after 1981 supply the estimated value.

4.1 Developmental political aspects

4.1.1 The development politics of Pakistan

The low level of domestic savings in Pakistan is a reflection of inadequate suitable financial arrangement and the lack of incentives to save. The urban and industrial orientation of almost all financial institutions is another major drawback. The reason lies in the early development strategies of the country. Pakistan had a stagnant agriculture⁸⁵ but a dynamic industrial sector in the early period of the 1960's,⁸⁶ which led to a planning of growth strategy according to the industrial model of development of the developed countries. **„The basic objective of the planning strategy during the decade of the 1960s was to achieve a high growth rate of gross national product (GNP) within the framework of private enterprise. The investment targets were to be achieved on the basis of the doctrine of ‘functional inequality.’⁸⁷ This meant deliberately transferring income from the poorer sections of society, who were thought to have a low marginal rate of savings, to the high income groups, who were expected to have a high marginal rate of savings“⁸⁸ (HUSSAIN 1985:215).⁸⁹ At that time, it was thought that such a concentration of income in the hands of the rich could raise domestic savings,⁹⁰ and the gap between the target level of investment and actual domestic savings would be filled by a large inflow of foreign aid. It was thought that this strategy would make the country independent of foreign aid by the end of 1985.⁹¹**

The above strategy showed an impressive performance in terms of aggregate growth rates⁹² but „this particular growth process generated four fundamental contradictions: 1) a dependent economic structure and the resultant high degree of dependence on foreign aid; 2) an acute concentration of economic power in the hands of 43 families and the resultant gulf between the rich and the poor in urban areas; 3) a growing economic disparity between regions; and 4) a polarisation of classes in the rural sector and a rapid increase in landlessness“ (HUSSAIN 1985:216). The industrial sector became the leading sector in those days, **„all economic measures of state ignored the agricultural sector and concentrated upon developing infrastructure and industry during the first decade of development“ (LÖFFLER 1992:70). Consequently, the financial institutions were designed according to the principle of mobilizing savings in the growing urban sector and channelling them into industry.** The policy of distributing income in favour of the

⁸⁵ For further details on the reasons of stagnation, see KUHNEN (1988:51ff); AHMED/AMJAD (1984:64ff); BAUER (1986:38ff).

⁸⁶ LÖFFLER (1992:70) denotes this first decade (after independence) of Pakistan as ‘stagnant phase.’

⁸⁷ See CASSEL (1932:214-218).

⁸⁸ „It is clear that the distribution of national product should be such as to favour the saving sectors“ Government of Pakistan Planning Commission, The Third Five Year Plan, 1965-70 (GOVERNMENT OF PAKISTAN, 1965:33).

⁸⁹ Cf. KHAN (ed.) (1986).

⁹⁰ „Savings are a function not only of the level of income but also of its distribution“ (HAQ 1963:30).

⁹¹ Government of Pakistan, Third Five Year Plan

⁹² „For example, the growth rate of GNP was 5.5% per annum; manufacturing output increased by an average annual rate of about 8%, with large-scale manufacturing increasing at over 10% per annum. However, this impressive performance was accompanied by an economy which became structurally and financially so dependent on the foreign aid, furthermore, the nature of the growth process generated such acute inequalities between regions that the internal cohesion of society began to be seriously eroded“ (HUSSAIN 1985:215-216).

industrialists succeeded, but it has not added to the saving rate as expected.⁹³ Instead of an expected increase in the savings rate up to 25% of GNP, the actual savings rate never rose above 12% of GNP and in some years remained as low as 3% to 4% (GRIFFIN 1974:41-42). During the decade of the 1960s, the low domestic savings caused by the failure of the capitalists to save⁹⁴ out of their increased income resulted in growing dependence on foreign aid.⁹⁵

„The agricultural sector, especially during the fifties, contributed greatly to capital formation in the non-agricultural sector“ (AHMED/AMJAD 1984:109).

The physical and institutional infrastructure inherited at the time of independence in 1947 was insufficient to fulfill rural requirements. Furthermore, the agricultural sector has never been an interesting feature for development planners as an instrument to be developed. Income level in the rural sphere remained predominantly low because of low output, lack of incentives and access to income generating opportunities.⁹⁶ **At that time, it was thought that agriculture had very little potential to contribute to the national economy⁹⁷, and that there was no need for excessive investments to tap savings from this sector, or whether this sector had to be taken into consideration, the first attempt should be to develop the required infrastructure to improve the income level which was considered to be a great burden on the economy still at infancy level.** Though in the 1960s, financial infrastructure is spread in the rural areas, the primary purpose of this strategy was a smooth flow of credit to the agricultural sector and not the mobilization of the small amounts (LÖFFLER 1992:181), as Pakistan has also been a victim of the ideology, that „[...] low-income and rural households could not save“ (ABBOT 1985:412). This sort of analysis leads to the channelling of all efforts in the direction of tapping saving from the urban industrial sector.

After a few years⁹⁸, the so-called 'Green Revolution' altered the situation altogether. The introduction of high-yield fertilizer-responsive varieties of rice and wheat improved considerably the output level. Unfortunately, political and economic unrest exerted a negative influence⁹⁹ on the industrial sector by slowing down its rate to a considerable extent. Now the new model of development was exactly the opposite. A substantial

⁹³ GRIFFIN (1974:133) points out that 15% of the resources annually generated in the rural sector were transferred to the urban industrialists, and 63% to 85% of these transferred resources went into increased urban consumption.

⁹⁴ The model of development Pakistan adopted during the second and third Five-Year Plans relied on income inequalities to generate surplus from higher income groups and to make growth rapid enough to percolate through to the lowest income strata of society. Both were false presumptions and were repudiated in the Pakistani context (NASEEM 1986:58). For further criticisms on development strategies pursued during the period, see NASEEM (1973); HAMID (1973).

⁹⁵ According to Government of Pakistan figures, foreign aid inflow increased from \$373 million in 1950-55 to \$2701 million in 1965-70 (Pakistan Economic Survey 1973-74 1974:133).

⁹⁶ The government of Pakistan followed a policy which reflects the 'early phase of LEWIS's Model.' Some important goals in this phase were as follows:

- low food prices for industrial workers
- provision of cheap agricultural raw material
- transfer of resources from agricultural sector to the other sectors.

⁹⁷ See also LÖFFLER (1992:70).

⁹⁸ The new government of Ayub Khan at the end of the 1950s and start of the 1960s stressed mainly the development of the agricultural sector, for further details see: AHMED/AMJAD (1984:117ff); KHAN (1986:175ff); BAUER (1986:93ff).

⁹⁹ 1970/71 war with India, 1971/72 and 1974/75 drought; 1973/74 flood, etc., see also HUSSAIN (1985:46ff).

increase in income was reported in the agricultural sector, with a visible declining trend in the industrial sector. Most of the better income strata evolved in the agricultural sector and became the potential source of substantial savings, while the institutions to tap these savings were located in the urban areas and were industry-oriented. Even the structure of private large-scale industries was breaking into public sector and small sector industries. The financial infrastructure became insufficient to cope with this changing situation, this seriously limiting the availability of funds which could be invested.

Another flaw in the development planning of the 1960's was to offer privileges to the already privileged class earning better incomes. Pakistan's economic policy-makers decided to increase the income of those who had the capacity to save. Direct benefits of economic growth were directed to this privileged group, thus making an already uneven income distribution more uneven. Available data within this context appear to be insufficient to prove whether this strategy really helped and resulted in an overall improvement of the household savings rate, but it certainly resulted in a social and political upheaval in 1968 and showed a mass discontentment. **The experience of Pakistan has suggested that concentrating upon only one stratum, with a comparatively higher marginal propensity to save, is not a viable solution for the overall economic growth of a state.**

Pakistan inherited a weak banking system at the time of independence. Banking statistics by NASIR/HYDER (1991/92:193) report a total number of 3146 branches including 98 head offices of scheduled banks in undivided India, out of which Pakistan got 620 and 13, respectively. As regards non-scheduled banks, there were 2205 offices including 619 head offices. The number of branches situated in the area later called Pakistan was 411 offices and 157 head offices. Furthermore, the entire banking business was controlled and managed by non-Muslims. The Muslims were deliberately kept out of the financial affairs by the wealthier Hindu community. Apart from this, mass scale migration of non-Muslims from Pakistan to India in August 1947 caused a drain on the bank deposits. The non-scheduled banks also suffered a severe jolt, and their number decreased from 487 to 69.

The newly established Government of Pakistan took some effective measures about rules and regulations of bank properties of non-Muslims¹⁰⁰ to rehabilitate commercial banking. An Inter-Dominion agreement was reached between both countries in April 1949.¹⁰¹ The period from 1950-55 can be signified as the most important in the economic history of Pakistan, when financial policy was rationalized and geared towards industrial effort. Banks developed and took long strides in building up deposits, advancing loans, opening new branches and generally promoting the banking habit and, instead of people coming to the banks, the banks went to the people. Some other specialised banks like the Agricultural Development Bank and the Industrial Development Bank of Pakistan also came into action in 1952, to assist development through the granting of loans.

The Development planning by different governments in Pakistan within the context of rural saving mobilization during a period of 1947-1993 is as follows: ¹⁰²

¹⁰⁰ For further details, see NASIR AND HYDER (1991/92:194).

¹⁰¹ For the main provisions of the agreement, see NASIR AND HYDER (1991/92:195).

¹⁰² For a detailed description of Pakistan's development planning in different plan period, see NASIR AND HYDER (1991/92:276, 285, 287, 297, 304 and 307).

The First Five Year Plan (1955-60) emphasized specially a rise in national income and in the population's standard of living. Top priority was given to the village aid in the agricultural sector, without touching saving mobilization possibilities in the rural sector.

The Second Five Year Plan (1960-65) planned to increase the average rate of domestic saving to 10% of the national income and the marginal rate by 25% of domestic saving, but concentrated only on urban areas.¹⁰³

The Third Five Year Plan (1965-70) envisaged a rise in the average saving rate from 10% in 1964-65 to 13.6% by the end of the plan period. For the first time after partition, household savings were expected to be mobilized from the agricultural sector during these five years. The third plan was not able to achieve the set targets due to multiple factors such as the Indo-Pakistan War in 1965, suspension of U.S. aid, drought, floods, cyclones, etc. Therefore, the marginal rate of saving did not come up to the estimated level. It was little over 6% as compared to the plan target of 20%. The drastic fall in domestic saving led to increased deficit financing, which was an important factor in the partial failure of the plan.

The Fourth Five Year Plan (1970-75) did not touch the issue of household saving. The plan could not be implemented because of the second Indo-Pakistan War in 1971, and the secession of East Pakistan.¹⁰⁴

The Fifth Five Year Plan (1978-83) showed an increase in household (rural and urban) saving rate to 8% of GDP against a plan target of 12.5%.¹⁰⁵

The Sixth Five Year Plan (1983-88) did not take household saving into consideration. The level of private and public saving remained low and the country had to continue to rely on borrowed resources.

The Seventh Five Year Plan (1988-93) also did not realize the basic importance of household saving mobilization, as both former plans, but at the end of the plan period, national saving was estimated to be 13.4% of the GNP. The plan was implemented with the financial help and guidance of I.M.F and the World Bank, but political instability in the country made it more dead than alive.

All seven development plans emphasized primarily four basic tasks: (1) increase in national and per capita income level, (2) provision of employment, (3) building infrastructure, (4) population control. The country's own resources have never been able to finance even these basic tasks. The Development planning has therefore, to rely heavily on foreign capital in the form of development aid, project assistance, commodity assistance, etc. The Economic Survey of Pakistan (1991) reports a total commitment of foreign loans and grants of 43.3 billion \$ by June 30, 1991. Debt servicing as a percentage of the GNP on outstanding debt was 33.5 billion \$ and debt servicing as a percentage of foreign exchange earnings was 14.5 billion \$.

The above details illustrate that saving mobilization, in general, and rural saving, in particular, are never considered as an important instrument of development in the development politics of Pakistan. No plans are envisaged and no actions are taken to

¹⁰³ KUHNNEN (1989c:509) calls it (the period from 1947 to 1965) a period of stagnating agriculture or a 'traditional phase,' when the development process, the structure of the country's elite was a determining influence.

¹⁰⁴ The period from 1965 to 1977 is considered a period of progress in agricultural production. KUHNNEN (1989c:522) calls it a 'transitional phase' which led to biological-technical as well as mechanical-technical progress in the agrarian sector.

¹⁰⁵ KUHNNEN (1989c:514) calls the period from 1977 onward a period of externally stimulated development. Although Pakistan's economy made remarkable progress during the last ten years, it appeared that this was not so much the result of internal economic development but was mostly dependent on foreign influences.

implement them. Two further attempts to modify the financial sector: 'Islamization and deregulation' ended in failure which blocked the way of innovations.

The following sections aim to present a brief view of the Islamization and deregulation of the financial sector.

4.1.2 Deregulation of the financial market

The decision about the regulation or the deregulation of the financial sector is another important issue of a country's development politics. **Highly regulated financial markets have important consequences for the economy; the complex procedures, usually inadequate branches, and barriers to entry discourage potential small savers, particularly in rural areas, from inculcating the 'banking habit'** (HAMID/NABI 1989:1289). To remedy this, Pakistan experimented a deregulation of financial market over a certain period, like many other LDCs. **Deregulation means to allow privately-owned financial institutions to compete with those run by the public sector.** The section presents direct evidences from Pakistan on the complex issues involved in allowing new entrants, and analyzes their impact on the financial market and the savers.

Although actual 'deregulation' or 'liberalization' started in 1973, history shows that some small-scale efforts had been made a long time ago. The history starts from the establishment of "Helping Committees" in the 1950s¹⁰⁶, with a regular membership, as with an informal club. Every member was supposed to contribute five rupees on a monthly basis, a draw decided the winner of Rs. 1000 every month, and the end of his further membership. It also happened that someone paid just once or twice but won Rs.1000. The committees received a real warm welcome among the community's poor and middle strata. Offices were established overall in the country, people were quite optimistic and enthusiastic to participate. The committees were legally registered and were allowed to practice. In 1955, however, the government suddenly banned the committees, and declared any further dealing with committee offices illegal, without making these offices liable to reimburse the deposits. If the measure was justified, the committee's accounts were to be frozen to make repayments possible under strict official supervision. Consequently, the offices were closed and officials disappeared with millions of deposit. The situation was beyond the grasp of the public, but no official justified the measure.

The secret revealed after two years was that the growing success of the Committee's business had made some ministers and other higher officials jump to it. They also established big offices, accumulated large deposits and placed a sudden ban on further dealings by making an illegal use of their powers which brought them benefits of millions of rupees. The order affected other honestly functioning committees as well. Since they were not bound to repay either, they took it as a golden chance to disappear with the deposits.

In the 1970s, a renowned bank started a new type of "**Lottery**", which drew the names of all account holders and distributed a large number of prizes costing millions of rupees among the winners. The media publicized the incentives on a very large scale in urban as well as rural sectors. The public rushed to open new accounts, but the promised draw was never held, although prize publicity continued for a long time.

In 1973, just after the nationalization of the scheduled banks, all banks acquired the traits of typical government offices by losing the grade of their performance to a considerable extent. The public being tired of the new situation, lost interest in depositing their savings

¹⁰⁶Historical data are mostly based upon different press information.

in banks. Some business groups took advantage of the vacuum and introduced themselves as finance companies and private banks. The public, already looking for some new alternatives, trusted them and handed over what they had. After collecting target capital, these **finance companies and private banks** declared themselves bankrupt and disappeared. Thousands of poor and middle class households were financially ruined, but nobody cared.

The same event repeated itself under a new title after a short interval. The whole country got showered by the offices of "**Investment Corporations.**" The new registered corporations acted in the same way with the public as the institutions mentioned above. This was former President ZIA's "Marshal Law regime," which handed over the case to FIA (Federal Investigation Agency) for further investigations. The FIA Director, himself, lost Rs. 1,8 million in the same business. Neither Marshal Law nor FIA could help the public.

In 1977-79, Pakistan experimented a more concrete form of the deregulation of the financial sector by creating new financial institutions in the private sectors to attract the untapped savings of the rural areas¹⁰⁷. That was a dual approach, i.e., informal institutions complementing formal institutions. This was the period during which there was a boom in remittances (mainly from the Middle East) and a sharp increase in the number of Pakistani migrant workers in rich oil countries. „The oil-producing countries provide work to million of young foreigners, a large number of whom comes from Pakistan. These workers' remittances - more than 2 billion US-dollars per annum for some time - not only solved the country's foreign exchange problem but also brought much purchasing power to the country, especially to the rural areas (KUHLEN 1989:514). Table 8 shows a sevenfold increase of the migrant labour from Pakistan and a sixfold increase in the household income during the period of 1975-1977:

Table 8: Migration and Growth in Remittances between 1975 and 1979

Year	Net Migration from Pakistan (Number of Workers)	Net Factor Income from Abroad (US \$ million)
1975	23,077	201.21
1976	41,690	553.54
1977	140,522	1226.16
1978	130,525	1467.88
1979	125,507	1846.87

Source: HAMID/NABI (1989:1290)

Migrants were mostly from the poor rural strata, leaving their immediate families behind as the the main beneficiaries of these remittances. **According to official statistics, two-thirds of the total remittances which could be mobilized were directed towards the rural sector.**

Moreover, the existing financial sector was in a bad shape. The nationalization of the scheduled banks had brought deterioration in their services and morals. A limited number of rural branches was a further obstacle in the way of proper rural communication. The ideological state of the public had also become distorted. "Interest on capital" was the

¹⁰⁷ The details about "Private Finance Corporations" (PFCs) are based mainly upon the views of a comprehensive report on the emergence and fall of PFCs submitted to the Asian Development Bank by HAMID/NABI (1989:1289-1297).

burning issue in financial intermediation overall in the country. Islamic economy was at its lowest ebb and the whole institutional system needed to be modified. This new Islamic consciousness gave rise to a large number of religious-minded people who no longer wanted to be a part of a deeply entrenched interest system. The Government was committed to abolish the interest system as well as to impose a centralized *Zakat* system. Overall frustration rose when the government imposed an annual *Zakat* deduction system on savings deposits without abolishing the interest system completely. This was not accepted by the general public. The situation had disillusioned many depositors who were in search of some alternative institutions. This transitional state of the rural financial infrastructure stimulated the emergence of "**Private Finance Corporations**" (PFCs).

As publically stated, the objectives of PFCs were best suited to the country's prevailing economic and ideological situation. Some of these objectives were stated as being:

- the creation of a large pool of investment funds by tapping the savings of small rural investors;
- investment of these savings in new as well as ongoing industrial projects, agroindustry, agricultural land, urban real estate, transport and travel agencies and to finance trading on the domestic as well as the international market;
- creation of an interest-free financial sector in priority and to become forerunners in instituting the Islamic concept of "**Mudarabah**", i.e., a principle of productive linking of human capital with financial capital. Surplus funds are made available by the owner and are put at the disposal of an entrepreneur for a productive investment against a predetermined share of the profit earned. The lender bears the financial losses exclusively and the borrower invests time and efforts in return.
- PFCs declared that they would help in establishing of schools, hospitals and printing presses.

A mushrooming growth of companies occurred and mobilized large amount of savings, particularly in the rural areas of Punjab. They successfully complemented the existing banking system and enlarged the financial sector.

The phenomenon of PFCs was just 18 months old by the middle of 1979 in Pakistan, when five largest PFCs together had 984 branches with total deposits of US\$ 37.78 million. All figures regarding employment generation, deposits mobilized and number of branches were highly impressive in relation to the time period. A comparative analysis between scheduled banks and PFCs shows that, between 1978 and 1979, the scheduled banks expanded their personal deposits by US\$ 0.6 billion, from US\$ 3.4 billion to US\$ 4.0 billion, while PFCs expanded from scratch to US\$ 0.05 billion over this short period, which means that about 8% of the personal deposits created in this period was seized by the financial corporations. Table 9 and Table 10 present the structural data of PFCs and their comparison with the structure of scheduled banks.

Table 9: The Size Structure of PFCs - June 1979

Size of the company	Total companies	Total employees	Total branches	Total value of deposits (US \$ million)	Value of deposits per branch (US\$)
Large	5	10,131	984	37.78	38,384
Medium	16	2,360	173	3.92	22,223
Small	49	1,376	133	4.48	33,333
Total	80	13,867	1,290	46.18	35,796

Source: The Pakistan Economist (June 23:1979)

Table 10: Comparative Data on Scheduled Banks in Pakistan

Number of Pakistani scheduled banks	Number of employees (1982)	Number of branches (1982)	Total Deposits (1979) (US\$ billion)
5	53,397	7,318	6.26 4.04

Source: State Bank of Pakistan (GOVERNMENT OF PAKISTAN 1983:28)
State Bank of Pakistan (GOVERNMENT OF PAKISTAN 1982:116)

The genuine companies were doing very well. The organizational structure was similar to that of the commercial banks. They started from rural areas and accumulated sufficient deposits to stand in the cities. Banking procedures were rudimentary because of untrained staff. They opened a large number of branches because of quick establishment wishes so that the branches did not even have a proper security system. They had to maintain accounts in nearby commercial banks before transferring them to the head office.

Despite showing a long series of positive results, PFCs never succeeded in winning the support of the Banking Council, which controls the nationalized banks in the country and took this rapid flourishing of PFCs as a threat against the monopoly of scheduled banks in finance. The Council complained to the government that companies were violating the banking companies' ordinance of 1973 and acted as private banks. The attitude of the Council remained hostile towards them throughout the period, and it looked out for any sign of mismanagement in their structure. Some weaknesses had really become evident meanwhile, when some swindlers jumped into the field and did not give the promised return on the deposits. Genuine companies began to appeal to the government for a direct regulatory legislation. The Banking Council never responded to recommending a regulatory framework for PFCs in the hope that they would destroy themselves if given too much freedom. This is what happened. Even the largest PFCs were on the brink of bankruptcy when, in October 1979, the government imposed a total ban on any sort of dealings with them without making them liable to repay the clients. The resulting chaos gave the companies the motivation to disappear with deposits, leaving the depositors high and dry.

The game was not over still; in 1988, several private financial institutions such as Bukhari Motors, Dada Bhai, etc., a total of 38 in number, deprived the people of their savings. The public still hears something about court proceedings against them but nothing concrete has been done as yet. Nobody has had the money repaid.

In 1990/91, lavishly decorated air conditioned offices of the "**Co-operative Finance Corporations**" attracted the public again through the good news that account holders would not have to pay *Zakat* on their saving accounts; it would be paid by the corporation directly to the government. The new incentive again victimized thousands of people. On 15 August 1991, the corporations stopped any further dealings with depositors. Influential people got their capital back before the corporation declared itself bankrupt or disappeared altogether. Those who suffered comprised widows, pension holders, etc. When the government issued "Show Cause Notices" to five big corporations, the others shifted their capital to "secure places" (foreign banks) and disappeared. 49 of these 101 Co-operative Finance Corporations were registered by the Federal Government, while the rest was registered by provincial governments. History repeated itself; corporations neither repaid depositors nor the promised *Zakat* to the government. A careful estimation of losses in the public's saving amounted to about Rs. 300 million.

In the case of millions of frauds by different labels of finance corporations, one could observe that they had felt the pulse of public and the existing state of the national economy. After getting fully acquainted with their weaknesses, they attacked at the right time, in the right way, and succeeded. Many open social imperfections such as:

- increasing unemployment;
- lack of motivation and proper guidance for the productive investment of saving;
- poor performance of nationalized scheduled banks and increasing annoyance of account holders;
- *Zakat* deduction, which further minimized the already low profit rate;
- loopholes in the Pakistani legal framework;
- the public's disappointment, mistrust and a feeling of insecurity against the government;
- day by day increasing destitution of the lower strata and eagerness to be wealthier overnight;

are not hidden from anyone.

Apart from these imperfections, the observed response had several other reasons behind success:

- the employment of a large number of unemployed educated youth, belonging to well-to-do and influential families from rural areas in rural branches and the use of a stronghold of *biraderi* system there; jobs were offered particularly to the sons of Numbardars (village heads) and Chaudhries (notables) at attractive terms and conditions. Employees were supposed to bring a target deposit to get a job as well as further promotion. Influential families made an extensive use of their power in the area and of *biraderi* solidarity to get deposits and provide employment to the young generation;
- the easy going and best suited banking procedures, designed specifically for illiterate people, and representation of rural branches by local employees in contrast to government institutions;

- the offer of high returns on savings, untainted by interest, respecting the public's religious sentiments;
- interest free loans for house building or motor cycle purchase to establish credibility;
- investment of deposits in visible ventures such as shopping plazas, housing colonies, transportation and trucking business, e.g., coach service for distant rural areas.

4.1.3 Islamization of the financial sector

The process of Islamization in Pakistan started in Bhutto era (1971-1977), who nationalized the industry and banks and declared Islam as a base for the socio-political program in the country, whose guiding principle was called 'Islamic Socialism'; this connection of religion with politics was an instrument to satisfy the fundamentalists in the country.

The ruling classes of Pakistan after the 1977 military coup have gradually turned the country into a feudal-comprador regime which has become more servile and subservient than ever before to international monopoly capitalism. Zia-ul-Haq proclaimed his regime as a new Islamic era for Pakistan. These ruling elites have ingeniously devised an 'Islamic Ideology' to conserve and justify social and economic relationship based on a status quo of feudalism and comprador capitalism.

Various ideological institutions helped the Government to reconstruct society on truly Islamic lines. Islamization means the transformation of society according to the basic teachings of Quranic Islam, but in actual practice Islam as introduced in Pakistan is more feudalistic Islam. '**Mudaraba**' (Profit sharing), for example, is being reinterpreted and projected as a sacred religious principle to justify the maximisation of profits under capitalism. A new Islamic enterprise, Islamic or 'interest free banking,' is being developed on the basis of the mediaeval concept of 'Mudaraba.'. The medieval concept of '**Muzara**' or share-cropping is interpreted to justify the present semi-feudal system of absentee landlordism. '**Zakat**' has become an instrument to tax the personal savings of the lower middle classes and agricultural produce (**Ushr**). Landed estates and capital gains have been exempted. '**Riba**' is interpreted sometimes as interest on loanable capital and sometimes as usury or unearned income in a broad sense, as was done under early revolutionary Islam. A deep analysis of the above-mentioned facts reveals another very different picture, as the real purpose of this political process of 'Islamization' is to develop a capitalist or bourgeois Islam in line with the principles of international monopoly capitalism.

The major problem with the Islamic Economics is that all Islamic Economists at national and international level have not been able to prepare a blue print of Islamic Economics to apply the age old concepts of Islamic Economics on the modern society of Pakistan, when desires and preconditions have been changed altogether.

Being aware of the attachment of masses to Islam, the ruling classes hope to secure a future for themselves by establishing an authoritarian and exploitative system, which they claim to be Islamic. Consequently, the political use of religion and the suppression of scientific and democratic processes have generated acute tensions, aggravated social and economic disparities and led to general disequilibrium in the Pakistani society. This process consolidated further the propertied classes, the encouragement of private ownership of basic means of production and the opening up of all sectors to the powerful multinational

corporations at the cost of genuine industrialization. This has strengthened the feudal reactionary elements and has resulted in a rigid and fossilized class structure. The contradiction between the capitalist mode of production of the urban sector, the tribal-feudal mode of production and social relationship of underdeveloped areas and the official process of Islamization under the aegis of international monopoly capitalism have resulted in a sharp and dangerous polarization of society. Most of the civil institutions - economic, political, cultural, educational and religious have been victims of corruption, shallow religiosity, moral decadence etc.

The purpose of this discussion is not to describe the whole process of Islamization in Pakistan, but to show its impact on rural savings. The following description, therefore, limits itself to the discussion of only two points, which showed their direct impact on rural savings:

1. Measures for interest-free banking
2. Measures for a centralized system of '*Zakat*' collection.

As a first step towards the Islamization of the economy, all branches of nationalized commercial banks started accepting deposits on a 'Profit and Loss Sharing' (PLS) basis from January 1981, and all Pakistani banks adopted the same procedure in the middle of 1985. All saving accounts were converted into PLS accounts. All banks declared their rates of profit on various types of PLS accounts on a half-yearly basis. "During 1984-85, deposits under PLS schemes showed a sharp increase of Rs. 16.0 billion compared with a rise of Rs. 7.9 billion during the preceding year. On the 30th of June, 1985, the outstanding level of deposits under PLS system was 27.6 % of the total deposits as compared with 18.7 % a year earlier. The rates of return on PLS deposits are given in Table 11.

Table 11: Rates of Return on PLS Deposits (% per annum)

Modes of Deposits	Six months period ended	
	Dec, 1984	June, 1985
Special Notice Deposits		
7 to 29 days deposits	5.20- 6.60	4.90 - 8.70
30 days and over deposits	6.15- 7.85	5.60-11.40
Savings Accounts	7.10 - 9.70	7.50-13.30
Term Deposits (Three months)	9.00-15.75	8.60-21.60

Source: STATE BANK OF PAKISTAN (1984-85: 84); cf. STOCKHAUSEN (1987:64)

The rates of return are compared with the rise of the wholesale price Index of 10.5 % in 1983-84 and 3.7 % in 1984-85.

As to the question about the reaction of savers on interest abolition, FAKRUL AHSAN (1978:5) views deposits as not wholly or largely dependent on the rate of interest, but the consideration of safety, security, service and convenience plays a very important role in drawing the community's money to the organized banking system. There is no doubt that a fixed interest rate on deposits is mostly discouraged by the orthodox Muslim population." To a certain extent, this argument is empirically verified by a recent analysis of constraints faced by banks in deposit mobilization, placed in the North West Frontier Province (NWFP), where 12.5 % of the bank branches identified that interest on deposits is

conceived as un-Islamic (ZAIDI 1985:34). Every type of fixed interest is compared with the term 'Riba' (the Arabic term for interest) used in The Holy Quraan:

"O you who believe; do not devour riba (interest) doubling and redoubling and be careful of your duty to Allah that you may be successful."

(Sura Al-Imran-129)

The practical measures for financial transactions free of interest are not very different from those on which interest is claimed. Within the context of credit, for example, **interest is named as 'Mark up,' which still follows the old principles and differentiates itself on a very minor scale. „Mark-up loans may be defined as a sale in which the margin of profit is mutually agreed upon between the buyer and the seller and the agreed price of the item involved is payable on a deferred basis either in a lump-sum or in instalments“** (STOCKHAUSEN 1987:62).¹⁰⁸ Currently all 'interest credit schemes' are converted into 'mark-up loans' in Pakistan. Whatever the internal organization may be, one may say that the abolition of a fixed interest rate and its propaganda had really helped in attracting many small and big savers who did not want to use 'interest banking.'

The second step towards Islamization, i.e., **the establishment of a centralized system of Zakat collection, shows a pessimistic picture.** Although *Zakat* was a perfectly Islamic concept for the rural population, the centralized system to levy and manage it was not acceptable to a large majority of the population.

According to new measures, '*Zakat*' is levied on monetary capital deposited in banks, at a rate of 2.5%, when it exceeds a certain amount.¹⁰⁹ All other capital assets like jewellery, land property, foreign accounts, business goods, etc. are not considered under this system. *Zakat* money flows to a centralized '**Zakat fund**,' and is then distributed to the '**local Zakat Committees**.'¹¹⁰ The system showed the following major weaknesses:

- It contributed to the regional disparity, as the amount of *Zakat* money is distributed according to the population size in different areas, consequently Punjab (an already more developed province) receives about 59% of the total amount collected. The number of deserving people is not considered in this regard (LÖFFLER 1992:7).
- The local *Zakat* committees at village level correspond to the internal authority pattern of the village. *Zakat* money is distributed within a specific sphere and has created an atmosphere of mistrust of the system.

These and many other minor reasons are the actual weaknesses of the system so far, as people prefer to distribute *Zakat* by themselves directly to the deserving people. Many respondents mentioned this to be the major reason why banking services are not used now. Others who deposit money draw it back a week before *Zakat* deduction and deposit it again.

A thorough analysis of the above-mentioned Islamization process reveals that, neither introduction of profit and loss accounts, nor the *Zakat* system helped to abolish an

¹⁰⁸ According to Islamic principle in this case, it is necessary that the item should come in possession of the bank before being handed over to the other party for this purpose. For instance, if the current price of a bag of fertilizer to the bank is Rs. 50, the bank may sell it, through its agent, to a farmer needing bank finance at Rs. 55 subject to actual payment of this price after an agreed period. The bank would, however, pay Rs. 50 to its agent prior to or immediately after the supply of the fertilizer under the bank's instruction (STOCKHAUSEN 1987:62).

¹⁰⁹ In 1985 this level was 3,000 Rs.

¹¹⁰ See also GIERATHS/MALIK (1988:35ff).

exploitative socio-economic system or to reduce the level of poverty in the country. The system has become more exploitative and oppressive and the percentage of poor people in rural areas have increased to a large extent.

The existing interpretation of Islamic economy favours a capitalistic economy in every respect. A fairly large proportion of deposits in commercial banks belongs to the lower middle class, these depositors, theoretically speaking, will be paid no profit in the event of loss to the bank. In such a system, the investor can receive loans from banks at zero interest with nominal service charge and thus make large profits, while the profit to be paid to the depositors is determined by the bank's operations. In fact, investors borrowing from banks will be earning much larger profits than the depositors receive under the PLS system.

„The profit and loss system, if generalised, is likely to result in fraud on a large scale, as happened in the case of ‘Finance Corporations’ within the context of the ‘deregulation of financial sector,’¹¹¹ that sprang up in the country a few years ago, large amounts of money were embezzled and could not be retrieved by ignorant depositors. However, so long as the profit and loss system is confined to the nationalized banks and a couple of ‘Mudarba Companies’ are working, there is a little danger of depositors suffering a major loss. If this were to happen, the acquisitive spirit that has come to permeate a large section of society would compel people to think twice before entrusting their savings to the banks. It is probably because of the government's awareness of the possibility of widespread fraud, as well as the structural constraints imposed by the present structure of dependent economy, that it has adopted a rather cautious approach to the introduction of the profit and loss system of banking. It is evident that the profit and loss system has been introduced more as an eye-wash rather than as an overall system aimed at the abolition of exploitation and speculation“ (KHAN 1985: 149-150).

Although the government announced, in June 1984, that all interest-bearing financial instruments will be replaced by the profit and loss sharing system, a substantial proportion of the banking sector will continue to operate under the interest-based system. Especially dealings with foreign governments and financial institutions will continue to be operative in the case of large amounts of foreign exchange being lent to the industrial sector by state-controlled financial institutions such as the Pakistan Industrial Credit and Investment Corporation PICIC, ADBP & NDFC.

Some business sections are of the view that banks would tend to keep a close watch on the business community after advancing credit under profit and loss sharing basis. They would tend to interfere in the management of projects since the nationalized banks would, under the profit and loss sharing system, be partners in loss as well as gain. Such a system of lending may increase the control of bureaucracy over the economy, which may make the much publicized ‘liberalization’ of the economy, to which government claims to be committed, difficult to achieve.

¹¹¹ See Section 4.1.2.

4.2 Socio-cultural aspects

Socio-cultural factors play a significant role at early stages of development. They hold their dominance and keep on influencing every action of the individual even among transitory economies, when people start to adopt new innovations. An empirical measurement of the social factors presents grave problems, as they cannot be portrayed on a unit scale of an ordinal scale. However, an anthropological approach is an inductive approach. Theories are based on deep observations. An individual's saving behavior can be seen as a particular form of human action. Sociology considers individuals as mutually interacting groups and their behaviour patterns as a complex network of actions. Society has specific sanctions to limit the behavior of its members; the values an individual holds are, therefore, important determinants in formulating his perceptions which lead to further actions.

The saving behavior of the rural community in Pakistan is shaped more by the ideological structure, traditions, norms and values and the organizational structure such as *biraderi* instead of religion. The following discussion shows how traditions and *biraderi* shape the saving behavior of an individual living under their influence.

4.2.1 Socio-cultural background of the community

The present social and economic structure in rural Pakistan, as well as many of the supporting institutions, had their genesis during the Moghul empire and the British colonial rule“ (NASEEM 1986:12).

The existing saving attitude of the Pakistani community has its roots in the socio-political conditions of the Indian subcontinent before partition. The long history of the Moghul empire and its extravagant attitude towards allocation and utilization of resources can be taken as the nearest starting point in history which may elicit the current attitude of saving in the Pakistani community.

From 1500 to 1750, the Moghul society of the Indian subcontinent fell sharply into two main groups: the royal class, that lived a life of luxury and waste, and the great masses of the people, who had to console themselves with limited resources and insufficient income. „It is disputable how far the functions assigned by royalty and nobility and the higher officialdom of civil and military personages were economic in character. But in most cases the contribution of such people to economic productivity was nominal¹¹² and was by reckoning absolutely inconsistent with their share of economic returns“ (MISHRA 1962:61). They usually had a host of dependents to satisfy their sense of display and had no pressing urge to participate in the productive activities.¹¹³

The general mass of the people, however, were caught into the clutches of poverty; natural disasters, floods, droughts were quite common. In the Hindu period of Indian history, the kings generally took one-sixth of the produce, whereas Moghul rulers took no less than one-third of the total produce. There is little information about the number of free labourers and artisans during the period, but it is safe to assume that such people could not be expected to contribute much to the pool of savings of the community (MISHRA 1962:63). Even business classes did not enjoy an enviable status in that period. To a greater extent, the country enjoyed political security although things were not by any means tranquil throughout the Moghul period. The business classes were largely at the mercy of officialdom; wealth could be confiscated on one excuse or another. Therefore, savings took

¹¹² See MORELAND (1923:304).

¹¹³ See MORELAND (1923:302).

the form of hidden wealth; precious metals and stones which were not productively invested (MISHRA 1962:64). There is no evidence of the decline of businessmen's propensity to save; the main element was the diminished incentives and opportunities. The better-off classes even avoided lavish consumption or investment, as money consumed or invested is more exposed than that which is hoarded.

The end of the Moghul era brought about a marked fall in the level of luxurious consumption. But this fall was significant only among agricultural and craft-making classes, whose level was already very low. The business classes, however, increased their consumption level, once the fear of the Moghul bureaucracy had abated.

These historical evidences may be seen as the base of the existing lavish consumption and hoarding attitude of today's Pakistani community.

4.2.2 Traditions, values and norms

Religion and traditions are found to be in opposition to each other in rural Pakistan. **Contrary to the view of MARTIUS-VON-HARDER (1978:29) that, „in most developing countries, in contrast to industrial countries, religion has not yet lost its distinctive power on the institutions, attitudes, and norms of the people,“** religion has lost its primary importance in governing the income distribution pattern of rural households of Pakistan. In spite of all Islamic propaganda and attempts to adopt these teachings, **income management and saving at household level are rather predominantly led by traditions.**¹¹⁴ Islamic teachings, for example, present the concept of a healthy society by recommending a balance of wealth and an atmosphere of mutual help,¹¹⁵ which means a balance of wealth through saving by the well-to-do and its transfer to the poor strata. In contrast, the better-off members strive for a visible economic stratification in the society. Islamic teachings have strictly restricted the extravagance on rituals and other kinds of demonstrative expenditures as well as the hoarding of precious metals. Traditions, on the other hand, emphasize the acquisition of prestige and honour on the basis of extravagance and display of wealth as well as an extreme temptation to hoard gold and silver. The dogmatic history also proves that saving objectives have always remained under the influence of the general standards of the society and ethic kept losing its significance with respect to society and economy. Hence, it can be concluded that **traditions and not religious teachings are the major determinant of the financial attitude of the community concerned.**

Traditions may be viewed as the way in which society formulates and deals with the basic problems of human existence (FOSTER 1967:10). Especially the organization of scarce or prestigious items is always derived from past acts. The code of behavior of ancestors, an already defined good deed, is transformed into an informal rule for current practice and is termed as tradition. It is a way to legitimize one's actions in a particular situational flux. There are very few ancestors' traditions in the context of saving, except cash or grain storage at home or cash buried somewhere, almost all other traditions encourage conspicuous consumption which do not let surplus accumulate. Such a

¹¹⁴ WEBER also does not see an essential influence of the religious ethic upon the economic logic of the individuals. In his famous book, '**The Protestant Ethic and the Spirit of Capitalism,**' (1950), he does not imply that each of the sets of religious beliefs which he analyses contains an explicit and clearly formulated directive as to what sorts of economic activity are considered to be permissible or desirable. The focus of his attention is directed not upon the internal 'logic' as such of a given religious ethic, but upon the psychological and social consequences of the actions of individuals.

For a detailed discussion on the topic, see also GIDDENS (1971:169).

¹¹⁵ See Section 2.1.4.2.

repetitive practice of certain traditions made of them rules of conduct which are called **norms or values**.

Norms/values can be loosely defined as shared conceptions of appropriate or expected action. In other words, norms are rules of conduct; they specify what should and should not be done by various kinds of social actors in various situations (REDFIELD 1956). GIBBS (1960:94) defines norms as standards, patterns, statements or prescriptions that govern people's conduct to specify what people ought to do. The general perception of the practice of a norm includes the understanding that conformance to norms is rewarded while deviance is punished. These can be understood as a moral, legal, cultural and behavioral code of a society. Furthermore, norms determine ideological conceptions which may narrow the economic base of the household and may negatively influence the saving potential. For example:

- Land acts as a status symbol; therefore, the desire to buy more land in farming households is endless. Many households buy barren and useless land just to increase their total landed property, although this money may also be invested in some other productive activity.
- It is considered shameful for a farmer to buy grain from the market for domestic consumption. The notion is so strong among farming households that some of the land is always used to grow wheat and other crops for one's own consumption. In the study area, although the cultivation of wheat and fodder has a negative impact on a household's income, an intensive use of the total area for cash crops may bring much more money.
- Extravagance and ostentation at ceremonies bring honor to the household.
- Generosity is a reflection of the prosperity of a household.
- Household authority is the sole authority for decision making regarding financial affairs.
- The amount of dowry determines a bride's value.
- Thrifty behavior is a virtue of women's personality.

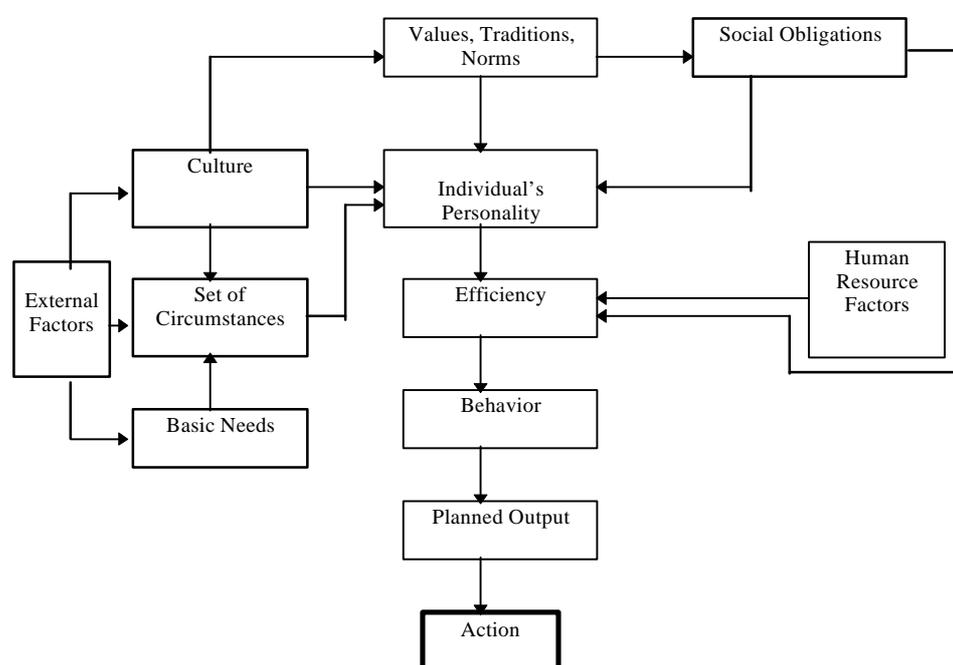
Deviant behavior is the failure of a person to conform to the specified normative expectations of other community or group members (FRANCESCA 1975:4). The measurement of the degree of deviance of an act depends on the definition of that act, formulated by socially significant groups of the community. An act cannot be deviant in its social consequences if no element of society reacts to it (BELL 1960:11), because these reactions serve to isolate, treat, correct or punish individuals' behaviour in that way. In simpler words deviance is subject to social control. Social control is a collection of procedures and processes which exert pressure on persons to conform to the society's existing norms (BERNDT 1962:11). The notion is concerned primarily with an understanding of: i) how society makes its members susceptible to its regulative system, and ii) how it makes them conform to it (LANDIS 1956:7). Hence, the above discussion proves the understanding of the sociological viewpoint, which perceives saving behaviour not as an individual's autonomous behaviour but as a result of individual disposition shaped by a social milieu (BURGHARDT 1977:95).¹¹⁶

¹¹⁶ See Section 2.1.4.3.

4.2.3 Human action

Traditional society is usually rigid and conservative by nature. In a highly stratified society, every individual receives a certain position at birth because of his family associations and faces the situations which may differ from individual to individual. Every action of the individual is tied into an obligatory network of other community members as well as of his own household members. These are two different sorts of obligations which he fulfills simultaneously. Such social needs and obligations form a system of social relations which has its impact on the economic functioning of the household or community. The following sketch (Diagram 2) is an attempt to describe the sociological network which neo-classical economists usually ignore.

Diagram 2: Factor influencing human action



Source: author's own survey

Every individual possesses a set of characteristics which is unconsciously designed by values and cognition of society. The actions of an individual may easily be differentiated on the basis of these characteristics. The effect of personal factors on human efficiency is difficult to quantify. Such an attempt is always open to criticism due to its arbitrary nature. Motivation and attitude also vary according to the personality. Personal motives are usually restricted to the prevailing standard.

According to WEBER's conception (GIDDENS 1971:163) of '**interpretative sociology**', the understanding of 'motivation' always relates a particular conduct to a broader normative standard according to which the individual acts. The interpretation of a given course of action is subjectively adequate (adequate 'on the level of meaning') if the motivation which is attributed to it accords with recognized or habitual normative patterns. This entails showing, in other words, that the action concerned is meaningful in that it 'makes sense' in terms of accepted norms.

In accordance with Weber's interpretation¹¹⁷ of the four types of orientation of social conduct, consumption-oriented income utilization and the urge to acquire prestige among individuals falls into the category of the 'value rational action' and the 'traditional action.' "Value rational action is directed towards an overriding ideal, and takes no account of any other consideration as relevant. All actions which are solely directed to overriding ideals 'honour' approximate to this type. On the other side 'traditional action' is carried out under the influence of custom and habit. This applies to the great bulk of all everyday actions to which people have become habitually accustomed...." (GIDDENS 1971:152).

Individuals not only deviate from one another in their personal make-up but face a differing set of circumstances which strongly affect decision making and their subsequent actions. This may be explained with the help of CHAYANOV'S MODEL¹¹⁸ of the farm family facing different circumstances in its life cycle and making alterations accordingly to cope with the situation. A similarity of circumstances also shows uniformity in the actions of individuals. New trends are usually exogenous, create instability in set patterns, bring variation in economic opportunity, hence affect decisions in everyday life.

Almost every type of socio-cultural factor appears to emphasize "utilization" more than accumulation and naturally "consumption" much more than saving. BENTHAM (1823:1, 49f) views individual's psyche as naturally oriented towards easiness, and avoiding torture and agony.¹¹⁹ According to a general widespread concept of native respondents, "consumption is a basic human need, expenditure on social festivities is a spontaneous learning process from childhood. Saving, however, is a logical planning of household income and cannot be done by everyone." **In a rural society, social status is measured by how much one gives away rather than how much one saves. 'Who does not wish to share surpluses with others- whether food or income - is considered rubbish. He is not respected or supported by his own clan members and others in the village.'** Such cultural values certainly exert a negative influence on saving motivation, which reminds HAHN's discussion (1920:120; 1930:53) that **voluntary saving activity requires an intellectual ideology in advance, which never develops in all sectors of a society simultaneously. It only comes after when cultural development reaches a certain level.**¹²⁰

Socio-cultural factors determine not only the extent but the pattern of saving. Culturally widespread and approved forms are always preferred, since other people have practiced it quite often and the expected risks and losses are already known. Innovations are usually implemented by big savers, small savers never dare risk their yearlong efforts. This may be seen as a big handicap in the way of saving mobilization, as small savers are in the majority; if they are not convinced, no scheme could be successful.

¹¹⁷ Weber explains four types of social conduct, 1) purposively rational conduct, 2) value rational action, 3) affective action, and 4) traditional action. In 'purposively rational conduct,' the individual rationally assesses the probable results of a given act in terms of the calculation of means to an end. In securing a given objective, a number of alternative means of reaching that end usually exists. The individual faced with these alternatives weighs the relative effectiveness of each of the possible means of attaining the end, and the consequences of securing it for other goals which the individual holds. In contrast, 'effective action' is carried out under the sway of some sort of emotive state, and as such is on the borderline of meaningful and non-meaningful conduct (WEBER 1968:25ff).

¹¹⁸ CHAYANOV (1966)

¹¹⁹ See Section 2.1.2.1.1.

¹²⁰ See Section 2.1.2.1.1.

4.2.4 Biraderi (Brotherhood)

„The social relationship of patrilineal close relatives (*biraderi*) builds a network of social security¹²¹ around an individual household, [...],but the membership in a *biraderi* demands a certain standard of expenditures in order to fulfill social norms (BERGER 1987:476).

The term is derived from a Persian word ‘biradar’ meaning brother. Biraderi literally means ‘brotherhood.’ It is generally an endogamous group of individuals who consider themselves related to each other through blood or marriage. The English synonyms are ‘kinship’ or ‘extended family’ (MIRZA/FREEMAN/ECKERT 1975:6).¹²² EGLAR (1960:75)¹²³ defines it as a patrilineage. Biraderi endogamy minimizes the personal, social and financial hardships for the members, as no public welfare or social security programs exist (MIRZA/FREEMAN/ECKERT 1975:6-7). These closely knitted personal relations are considered as a focal point which supersedes all other loyalties. „The formal rules and regulations of the official and non-official institutions and organizations are frequently ignored or violated. The claims of personal *biraderi* relationships, whether real or ‘synthetic,’ [...], supersede the observance of formal rules.“ ‘Biraderi’ may be defined as a corporate group of individuals who share the same ancestral line or at least the same origin (caste group). The group is supposed to be loyal and ready to give reciprocal help, especially in the case of conflict or other inter-*biraderi* clashes. The link is further strengthened by a strict observance of *biraderi* endogamy and ritualized exchange¹²⁴ on ceremonial occasions.

„There is a strong ethic of loyalty to one’s kinsmen: one ought to be prepared to make sacrifices for their benefit. Marriage within the *biraderi* - siblings and cousins exchange children - is intended to cement their affections and relationships.“ (MERREY 1986:40)

In connection with *biraderi*'s positive influence on saving, only 'Vartan Bhanji' (a bank of cash) may be considered as a mechanism to give the poor a possibility to deposit money in different households on different occasions and to draw it once on the same occasion organized by themselves.

A deep analysis of the mutual relationship among this group, however, shows a quite negative impact on the opportunities of an individual’s saving behavior. Despite the strong ethics of loyalty to one's kinsmen, which is further cemented by intermarriages, a strong competitive atmosphere exists at intra-*biraderi* level.¹²⁵

All patrilineal cousins with their families are signified as 'Sharika;' they are permanently engaged in minimizing each other's prestige. This prestige winning game creates an atmosphere of continuous competition and leads to demonstrative consumption being so high that the other cannot afford it.

¹²¹ Such securities are usually required against unexpected emergencies and economic troubles of individual households.

¹²² See also BERGER (1986:476).

¹²³ Cf. MIRZA/FREEMAN/ECKERT (1975:6).

¹²⁴ For further details, see Section 5.5.3.3.

¹²⁵ See also MERREY (1986).

„... despite the emphasis on loyalty to one's kinsmen, tensions among *biraderi* members are always present. Patrilineal cousins and brothers often have tense and competitive relationships and do not completely trust each other. One's brother's or cousin's personal *izzat* is not necessarily one's own; hence, a man is apt to be jealous of and feel threatened by a brother's success“ (MERREY 1986:409).

Many respondents have mentioned this competition as the major cause of borrowing for ceremonies. Since the average family size is quite big, every household has to be in competition with many households at one time.

The intra-*biraderi* marriage system results into a tightening of this network within the group. **Almost all *biraderi* men are knitted in some sensitive relation because of a strict endogamy and therefore, cannot show indifference.** A relatively better off household always remains the target of many needy relatives. Since savings can hardly be kept secret and intra-*biraderi* credit transactions are very common, an individual cannot retain his saving for a long time with him and once it is lent, he usually has no influence on repayment.

4.3 Summary

A socio-economic framework which plays a fundamental role in providing a base for saving is dealt with in this chapter. The discussion is divided in ‘developmental political aspects’ and ‘socio-cultural aspects;’

The developmental political aspects, which provided a policy framework for the management of the financial sector, are as follows:

- A very narrow economic base inherited at the time of partition brought enormous problems for maintaining a sustainable economic growth in Pakistan. Since then, the government has not succeeded to build a productive economic potential.
- At the start, it was thought that agriculture has very little potential to contribute to the national economy, and there is no need for excessive investments to tap savings from this sector.
- Another flaw in the development planning of the 1960’s was to offer privileges to the already privileged class. The economic policy-makers of Pakistan decided to increase the income of those who had the capacity to save. The immediate benefits of economic growth were directed to this privileged group which made an already uneven income distribution more uneven.
- The discussion of the Islamization of the financial sector is limited to the ‘interest free banking’ and the ‘centralized system of *Zakat*’ in the chapter. Interest free banking showed an overall positive impact in different regions of the country, but the centralized system of *Zakat* collection contributed to the regional disparity.
- The experiment to deregulate the financial sector had a negative impact on the financial market.

The socio-cultural aspects of the community, which provide a background to shape the saving behaviour, are as follows:

- The existing saving behaviour of the Pakistani community has been shaped by the socio-political conditions in an undivided Indian subcontinent under the Moghul empire and British colonial rule.
- The ideological structure of the society is led by the traditions, norms and values of a rigid and conservative social setup. In a rural society, social status is measured by how much one gives away rather than how much one saves.
- Every action of the individual is tied into an obligatory network of other community members as well as of his own household members. Such social needs and obligations form a system of social relations which has its impact on the economic functioning of the household.
- Almost all *biraderi* men are knitted in some sensitive relation because of a strict endogamy and, therefore, a relatively better off household always remains the target of many needy relatives. Since savings can hardly be kept secret and intra-*biraderi* credit

transactions are very common, an individual cannot retain his saving for a long time and once it is lent, he usually has no influence on repayment.

5. Household saving in rural Pakistan - empirical analysis

„On the theoretical side, there is a considerable body of hypotheses. Empirical knowledge about saving seems to lag considerably behind the theory, so that most of the implications of the theories remain untested. One reason is the relatively severe problems of measurement that make it difficult to investigate hypotheses about savings. Very simply put, saving is a difficult variable to measure“ (GERSOVITZ 1988:382).

5.1 Research Methodology

The present study is based upon an empirical survey¹²⁶ conducted in a village located in the district Bhalwal in Pakistan. Some **major socio-economic criteria to select the village** were as follows:

- irrigated cultivation
- better income level
- heterogeneous education composition
- visible social stratification
- formal saving institutions (bank, saving centers) in close vicinity

These criteria were selected for the following reasons:

- irrigated villages usually have a better capacity of absorbing their population into farm practices and, therefore, of retaining rural characteristics, whereas rain-fed areas are comparatively more exposed to non-farm employment and urban way of life;
- the community should have a least potential to keep some (cash or kind) aside;
- a heterogeneous education level and social stratification are beneficial to observe a variety of saving behavior;
- a visible social stratification may indicate varying decision making priorities in different classes or caste groups
- accessible saving institutions fulfill a prerequisite to ascertain whether the community is apt to use these services.

Rapport establishment was not difficult as some of the influential families of the village were already known and explained the reasons of the survey and convinced others before time. The only doubts left were the fear of government authorities being connected with this project, as agricultural taxation was a burning issue at that time. It was repeatedly asked whether the author was connected with government authorities. As the area had been selected as a model village for the Mona Reclamation Project and had therefore been subjected to many research programs, villagers had developed a better tendency to cooperate with researchers.

Participant observation was the very first technique that was applied. Experience has shown that it is a great advantage when residence and food are shared with a native family, it facilitates the process of participant observation. This same strategy was adopted throughout the field work; it gave many new insights into the community's latent

¹²⁶ From July 1992 to April 1993.

functions; this would not have been possible otherwise. Participant observation therefore "helps to observe unexpected things and thus leads to further inquiries and sometimes new concepts" (MANIG/HERBON 1988:34)

The survey was divided into two phases: the basic survey and the special survey. Field work was started with the **basic survey**, which consisted of a brief questionnaire to collect some basic socio-economic data on every household such as caste group, income sources, number of household members, their occupation, age, sex and education, etc. This method "offers the opportunity of informally acquiring, through incidental observation of work performance, daily routine or structures of interaction within the village"¹²⁷ (KORTENBUSCH 1994:21). The survey provided an opportunity to pay introductory visits and become personally familiarized with every household. Besides quantitative data, informal talks gave some general information on the socio-political status of the household which proved to be very fruitful for the selection of the sample afterwards. A maximum of two households could be visited per day due to peak summer time. Since villagers were usually busy in the morning, the only choice left was to visit them shortly before lunch or in the evening. This part of the survey took about two months to be completed.

A sample of sixty households was selected from a total of 150 basic survey households, with the help of a "**proportionate stratified sampling**" on the basis of caste groups: representation of a caste group in the sample according to its representation on the total households of the village.

An actual **empirical survey** started with the help of an already prepared **detailed standardized structured questionnaire** for quantitative data and an **open-ended interview guide** for qualitative information. Both questionnaire and interview guide were tested empirically with the "**cross test method**" and altered accordingly. This was the most rigorous task; in spite of being fully aware of the language and other local conditions, it was very time-consuming for the author to explain to the respondents the reason behind every question. Information reliability was another problem; "many respondents tended either not to mention all income amounts or to exaggerate expenses"¹²⁸ (RÄDER 1992:73). A regular cross-check¹²⁹ of information was therefore necessary. Since the main theme of the study focuses upon most sensitive aspects like income acquisition and its distribution in a rural household, hesitation in answering and cross-questioning on the part of respondents was no wonder. A few of them plainly refused to be interviewed, as they did not want to publicize their financial affairs. A questionnaire and interview guide could not be completed on the same day; usually, it took two days or more. The total time period utilized in this phase was about four months.

The "**special survey**" was conducted through the so-called "**extended case method**" to collect data on monthly income and expenditure in the last twelve months. Twelve case study households were selected from a sample of sixty, three from each caste group and one from each income stratum (upper, middle, lower)¹³⁰ within a caste group. Selected

¹²⁷ Translated by Mrs M. Decotter, Institute of Rural Development, Georg-August University of Goettingen.

¹²⁸ Translated by Mrs M. Decotter, Institute of Rural Development, Georg-August University of Goettingen.

¹²⁹ A cross check is made once by asking their total annual income (which was mostly wrong) and then by asking it separately from every monetary and non-monetary source on a monthly, bi-annual and annual basis.

¹³⁰ The categorization into three groups is based upon the total income of the household and not of landholding. As „it is misleading to consider those having absolutely no land as necessarily the poorest; many of them do not try to earn from land but have another occupation, and their income is also higher than those day labourers having only a little homestead land“ (MALONEY/AHMED 1988:12).

households were then observed keenly and interviewed with the help of a partly open, partly closed questionnaire. They were asked about their daily or weekly consumption under normal as well as special circumstances¹³¹, since it was impossible to obtain a direct account of their income and consumption expenditure in the last year. The collection of quantitative data created a very serious problem. Villagers are not acquainted with any bookkeeping; they usually rely on their memory which may fade quickly. The only help in recalling the expenditure was a different set of activities in different quarters of the year, depending upon their cropping pattern, and saving techniques were also highly influenced by the availability of income in cash or in kind in different months, rights of passage and other such ceremonies were also organized accordingly, which appeared to be a great help in recalling the activities.

It was felt during this phase that all households could not be contacted and interviewed simultaneously. It seemed to be an annoyance for the households when they were visited once every week or every two weeks. They repeated the last details every time. Carrying out one case study per week proved to be a much better method. The household members were contacted before time and asked when it would be convenient for them. They were, in this way, mentally prepared to co-operate for a week's study. The case study phase took about three months to be completed.

The information obtained was recorded and booked on open work-sheets, separately for male and female interviewees. The method of recording was similar to the ICRISAT's field research¹³². All non-monetary inter as well as intra-household transactions were valued by the actual market price of the goods at the closest market.

As stated, the questions regarding income and saving created some extraordinary hesitations as they touched upon a household's discrete matter. Moreover, a rural setup hardly allowed an isolated talk. It was very often that household members, relatives, neighbors and other spectators gathered around the interviewee to listen to his household details. Some of the case study interviews were therefore conducted discretely, at the author's place. It proved an extremely difficult problem, however, to get women's opinions only. Women usually do not answer in the presence of men. Men always dominate the discussion even regarding questions directly related to women. Almost all men tried to convince the author that women do not have enough knowledge to answer such difficult questions. The only chance the author could take was to sleep in the women's room and conduct informal talks before going to sleep.

Another problem in this regard was to obtain accurate information. The interviewees were quite used to either maximizing or minimizing their income level. The method therefore had to be altered, and they were asked more precisely about the cost of individual items consumed approximately in a week or a month. Questions as to income were also tackled similarly and total income and consumption were then calculated later.

Apart from false information, finding the right time for an interview was also a major difficulty. It was important not to irritate villagers during their daily activities. Sometimes a

IFPRI Rural Survey of Pakistan, 1986/87-1988/89 (ALDERMAN/GARCIA 1993:34-88) constructs nine different criteria for answering this question. Using income as a criterion, this study shows that households with temporary income shortfalls (due to weather or illness, for example) can be considered poor, even if their expenditures reflect their long-term income expectations.

¹³¹ Special circumstances means months with considerable income fluctuation, like October and January, when income shows a minimum or maximum level respectively.

¹³²See BINSWANGER/ JODHA (1978).

very smoothly running interview had to be postponed because of the sudden arrival of guests. Such incomplete information created problems. Misunderstandings and vague answers cannot be avoided on the part of the respondent, since those may only be detected afterward when checking answers. A revisit in such cases was also difficult to plan, as now the respondent knew how much time is taken up during such talks. The sensitive nature of the study also caused problems in the recording of interviews on audio cassettes. Villagers either refused or did not give correct answers as soon as they saw the tape recorder. Only a few educated household heads did not see any problem and co-operated fully in this regard.

Besides a structured questionnaire and an unstructured interview guide, some **non-systematic observations** were also recorded in the form of a daily diary, which consisted of almost all activities of the day, such as people come across, important events narrated, or some other incident which happened on that day. Although all such details had nothing to do directly with the topic of research, still it proved to be very helpful in integrating and explaining many answers of interviewees.

Apart from individual households, the institutional and organizational framework was also investigated to analyze the performance of organizations and associations. Some key persons at decision-making level and **executive organs of the regional administration** were also interviewed. These included the people holding important positions in ministries, universities and foreign development projects. **Secondary data** (official reports, regional statistical documents, district gazettes and census surveys, etc.) was also consulted, as far as possible, although it was not an easy task, "since a researcher did not occupy an obvious position in the hierarchy of the relevant organization, from which the question as to the obligation of supplying information and of co-operating results"¹³³ (KORTENBUSCH 1994:22).

The data is processed and evaluated using SPSS-WIN (Statistical Package for Social Sciences). The data is recorded for one agricultural year 1991/92 for a cross-sectional analysis. The conclusions are predominantly valid for the irrigated region of the central Punjab of Pakistan. Electronic data processing and an evaluation task were undertaken under the guideline of "research objectives" developed before starting the field work, "data processing which is not guided by hypothesis may lead into the trap of writing 'search-programs,' and that search may never end" (MANIG/HERBON 1988:54).

¹³³ Tranlated by Mrs. M. Decotter, Institute of Rural Development, Georg-August University of Goettingen.

Diagram 3: Map of Pakistan Showing the Study Area



The study area lies 50 km north east of Sargodha District in Tehsil Bhalwal of the Province Punjab in Pakistan. The selected village acted as a model village for the Mona Reclamation Experimental Project (MRE) initiated in 1965.¹³⁴ The village dates from the early 1900's when the lower Jhelum Canal was established. There are a few cultivators who lived in the area before the canal was constructed, all the others either migrated from Gujrat District or from other areas to this newly established region after the Indo-Pakistan partition. "With respect to origin, the village is constituted of 8.5% locals, 88.5% settlers and 3% refugees¹³⁵" (HUSSAIN/ALI/JOHNSON 1976:2ff). In spite of the overwhelming majority of settlers, the village population cannot be considered as a homogeneous group. In fact, the population is further divided into a number of caste groups like Arain, Rajput, Gujar, Gondal, Harral, Janjua, Malik, Raja, and Syed, of which only three are dominant in terms of landholding. 720 acres of the village, which represent almost 80% of the total land,¹³⁶ are owned by only three caste groups: Gujar, Syed and Malik.

The farms are predominantly owner operated. 84% of the total farms are owner operated, 12% tenant operated, 4% are leased out. It is important to mention that a great number of owner-cultivators perform agricultural activities with the help of permanently hired labor. This labor mostly performs the tasks which require exhaustive muscle exercise or which are socially low ranked. The type of land tenure correlates with the owner's social status: the castes possessing a better socio-political status prefer to hire agricultural laborers permanently, which satisfies their sense of authority as well. In the past, the land of only relatively larger farmers was cultivated by tenants or contractors. The trend declined considerably with the partial mechanization in the area. Currently, the tenure pattern of a farm is mainly determined by the labor and management factors. Small landholders are always eager to add in cultivable areas through tenancy or contract basis, but their desire cannot be fulfilled because of a limited offer. As a consequence of a progressive shrinking of landholdings in comparison to expanding needs, the logical tenure pattern that is emerging is self cultivation.

Cropping pattern and intensity underwent a series of changes in the course of time. The cultivation calendar is divided into two major groups: 'Rabi and Kharif'.¹³⁷ The dominant Kharif crops are sugar-cane, citrus and fodder with cotton and rice cultivated to a limited extent, while during Rabi wheat, citrus and fodder are the dominant crops. Citrus is a perennial crop, the same applies to sugar-cane but farmers count it among Kharif crops. The cropping pattern is mainly determined by the supply of water. Just after the rehabilitation of watercourses when canal and tubewell functioned well, farmers tried to cultivate rice, which they themselves abandoned due to the high unreliability in the operation of tubewells. Similarly, cotton cultivation was replaced by citrus due to its poor yield and depressed the market as a cash crop. These crops, if cultivated, now only serve for the farmer's domestic consumption. Currently, wheat, citrus and sugar-cane are the major crops in the area. Other studies conducted in the nearby districts also give similar evidence, e.g., BHATTI (1984:92) mentions for Faisalabad District that sugar-cane made

¹³⁴ The main objective of the MRE was to conduct field level research regarding the problem of irrigated agriculture in SCARP (The Salinity Control and Reclamation Program) areas to rectify waterlogging and salinity, on the one hand, and to improve the water use efficiencies at watercourse level, on the other. The studies conducted there provided the base for the present on-farm water management programmes all over the country.

¹³⁵ Settlers are the people who have migrated to the area before partition from a district which is now a part of Pakistan. The refugees migrated after the partition from India.

¹³⁶ Calculated from empirical data.

¹³⁷ The Kharif crops are cultivated in the summer season, from April to October, winter crops are termed Rabi and are cultivated from November to March.

the largest contribution to the household budget in the sampled households. In his study area, only 50 percent of the farmers sold wheat, as compared to the 96 percent who sold sugar-cane as standing crop to the village dealers or to the sugar mill or marketed sugar-cane products.

The area under citrus is increasing more rapidly. After rehabilitation there has been an increase of about 150 acres in the area occupied by citrus orchards.¹³⁸ The selection of citrus as a major crop is determined by many reasons: i) it does not require much labor, and it is easy to market, because it is sold directly to contractors at the flowering or budding stage; ii) the farmer's responsibility after the contract is reduced to irrigation and spraying the orchard, and finally iii) because of its higher value as a cash crop. The area under wheat remained, by and large, constant, due mainly not to its importance as a staple food but because of the social values attached to its cultivation. **It is considered to be highly disgraceful for a farmer to buy wheat for household consumption, although he may earn more by cultivating other cash crops. Such norms directly influence the availability of income along with a household's saving potential.**

Some institutional and organizational problems are also discouraging sugar-cane cultivation. The watercourse is in the mill area of a sugar plant at Bhalwal, and therefore, according to the Federal Sugar Act (1947), the farmers must market at least 80% of their sugar-cane at the mill. This legal privilege is being continuously exploited by the mill authorities since they consider this crop as a reserve to be bought at the end when the supply from all other areas stops. Due to these and other related factors such as transportation to the mill and fulfilling many lengthy bureaucratic procedures, the area under sugar-cane cultivation is decreasing considerably.

5.2 Socio-economic characteristics of the sampled households

The characteristics discussed in this section are selected on the basis of their relevance to household saving. Empirical investigation reveals three distinctions among households,¹³⁹ which are primarily responsible for the distinction in their saving behavior in the research area¹⁴⁰:

- membership in different caste groups
- land ownership
- structure of income (farm /non-farm).

5.2.1 Caste groups

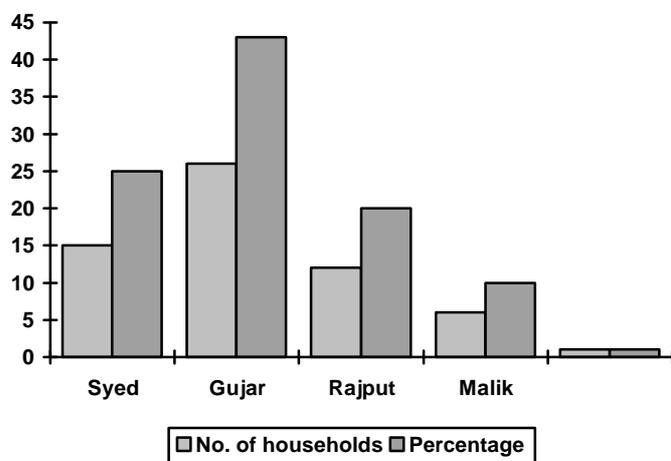
Caste structure can be taken as the most obvious segregation of the community in small groups. The most important social groups within the villages are the castes whose importance reaches far beyond the limits of the villages. Pakistan's castes are not identical to those of India, the neighboring country of Hindu culture. The most important characteristic of Pakistani castes are endogamy and patronage as well as the monopolistic exercise of certain professional activities. Syed, Gujar, Rajput, Malik, and Mughal are the five major caste groups. Diagram 4 shows the representative number of households from each caste group in 60 sampled households and their respective percentages in the total sampled population. Gujars are in numerical majority. Syeds are second, Rajput third, Malik and Mughal fourth and fifth in this hierarchy.

¹³⁸ Calculated from empirical data.

¹³⁹ Literature shows different methods for evaluating the economic position of households in the research area, e.g., for Pakistan, BHATTI (1984:135) selects house ownership and indebtedness as two major indicators in this regard.

¹⁴⁰ For a similar classification, see also KROPP (1976:247ff).

Diagram 4: Caste composition of the sampled population



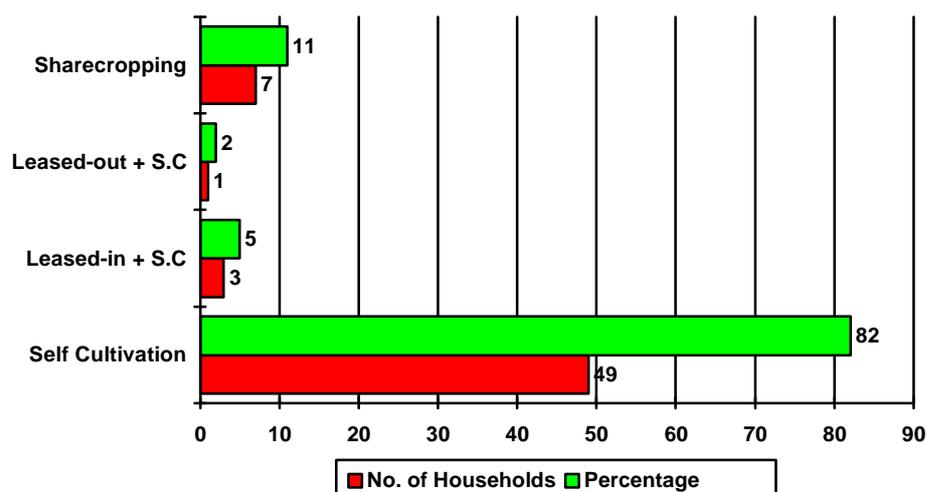
Source: author's own survey

5.2.2 Landholding

The sampled population consists predominantly of owner-cultivators. Diagram 5 shows that 81.7% of the total sampled population is mainly engaged in self-cultivation, because citrus - the major cash crop in the area - needs no extra time or labor. Before the fruit is ripe, these orchards are sold to the agents who manage further picking, processing and marketing. The majority of the owners do not take any risk of picking, packing and selling fruit. Citrus orchards constitute a major share of the total landholding, other crops are sown either under the citrus plants, i. e., double cropping, or assigned very small parcels if cultivated separately. This sort of cropping pattern usually needs no contract or sharecropping.

Sharecropping represents the second most practiced mode of cultivation. Sharecropping in citrus orchards makes absolutely no sense and no such example exists. 11.7% of the sampled population practice this mode in the case of wheat and sugar-cane, which represent the second most cultivated crops after citrus fruit. Only 5% are partly contractors and partly self-cultivators. These households own very small citrus orchards as their existence base and therefore sometimes take land on lease to cultivate wheat and sugar-cane, partly for household consumption and partly for sale. The cropping pattern and cropping intensity in the area does not allow anyone to lease out his land. There is a single example (1.7%) of this nature in the sample, because the household head was the single adult male in the household and was engaged in full-time non-agricultural urban employment. Even in this case, he was partly a self-cultivator and managed the citrus orchard by himself.

Diagram 5: Mode of cultivation in the sampled population



S.C = Self-Cultivation

Source: author's own survey

5.2.3 Income sources

„In Pakistan's Punjab, women have limited possibilities of making a living because of household tasks, cattle keeping and *purdah* rules. Thus, household income combinations in a marginal farm household are only possible when at least one male household member is employed exclusively or mostly in off-farm work and at least one other male household member manages the farm exclusively or mainly“ (KLENNERT 1988:157).

The community does not have many occupational choices at its disposal. Among salaried jobs, adult men educated up to twelfth or fourteenth grade are usually employed on regular basis in nearby urban offices. Urban wage laborers usually do not have regular work in cities, they work for daily wages. Army service is a third possibility. There is just one retired soldier in the sample village. Among village salaried jobs, teacher and Imam (religious leader) are the only regular jobs. Apart from agricultural labor, there are two cases of rural/urban business and seven cases of labor in oil states, in young age groups. As far as higher wages are concerned, labor abroad is preferred to every other earning opportunity among the young people.

ECKERT's (1972:61) survey villages also had a large number of households whose members had migrated temporarily or permanently. 22 percent of all the rural households surveyed in the district Faisalabad and 18 percent of all farm households surveyed in the five survey districts stated that they had members who had migrated. 82 percent of all migrants left their family in the village when they took up off-farm work in a town. The temporary migrants contribute to the household income combinations.¹⁴¹ AKHTAR (1978:67) also reports the significant off-farm employment of family workers from the same region, but he did not mention the nature of the off-farm employment.¹⁴²

¹⁴¹ Cf. KLENNERT (1988:157).

¹⁴² Cf. KLENNERT (1988:156).

Table 12 shows occupation categories by male age groups among 60 sampled households. The majority of the males are engaged either in urban jobs, rural agricultural labor or labor abroad.¹⁴³ 25% of the total adult males are found among non-farm occupation activities and 75% in farming. This means that only one-third of the sampled population has an individual income source.

Empirical observation also reveals a contribution of women to the household economy, which is not considered unless it is a regular job outside the four walls. Table 13 shows all possible categories of earning activities for women. Apart from teaching and midwifery, all other occupations are not counted as proper income-generating activities, although small activities such as the sale of milk and churned butter as well as tailoring and goat keeping helps to a great extent to fulfill women's own needs as well as those of the household economy. „Depending upon their other daily or seasonal activities, women from farm households have, from time immemorial, always been employed in non-agricultural activities within the farmyard and within their four walls“ (KLENNERT 1988:148-149).¹⁴⁴ Although these skills are only utilized for personal requirements,

„The women generally disapprove of selling something made with their own hands. When asked the reason for this the women replied, ‘we do not sell our skills’, or ‘people who sell their skills are kammies’“ (KHAN/BILQUEES 1976:255).¹⁴⁵

According to the definition of the Household Integrated Economic Survey (GOVERNMENT OF PAKISTAN 1990-91:9), „all persons who provide the household with material return in cash and kind,¹⁴⁶ for services rendered. [...], unpaid family workers (especially women) are considered to be earners, as their efforts result in an increase in household income.“ Table 13 shows 85% of the total women in the sample involved, in one way or another, in income-generating activities.¹⁴⁷ Only 15% can be considered as non-earning housewives. The empirical results of SAEED (1966:25)¹⁴⁸ from four villages of the district Faisalabad also report 84 percent of the interviewed women from farm

¹⁴³ The employment status, according to the Household Integrated Economic Survey 1990/91 (GOVERNMENT OF PAKISTAN 1991:9), „refers to the capacity in which a person works in his/her gainful occupation. A person is considered to be working if he/she worked for most part of the week preceding the enumeration. An employer is a person who owns an enterprise and works himself as well as employs for pay one or more persons to assist him/her in his/her enterprise. An unpaid family helper is a member of the family who worked in the family enterprise without pay or profit for one hour or more during the last month preceding enumeration.“

¹⁴⁴ KLENNERT (1988:149) observes in the tehsil Jaranwala of the district Faisalabad in Pakistan that half of the 63 women interviewed could spin, knit, crochet, weave ribbons, and plait straw baskets and containers. More than one-fourth of the interviewees knew how to sew and knit, and more than one-tenth mastered other skills.

See also, KHAN/BILQUEES (1976:255).

¹⁴⁵ Cf. KLENNERT (1988:149).

¹⁴⁶ Persons like landlords are also considered to be earners.

¹⁴⁷ However, in Islamic societies in particular, women's work in agriculture is limited. For example, „among the Hausa, a tribe with a majority of Muslims in Nigeria, only women belonging to natural religions work in fields, whereas hardly any Muslim women are met there“ (MARTIUS-VON-HARDER (1978:23). YOUSSEF (1974) reports in his study of seven Islamic countries that not more than 14 percent of women in rural areas are employed in agriculture; the minimum is 1.8 percent; up to 75 percent of the women are unpaid workers and these are mostly children or young girls. There are hardly any young boys of the same age who perform such work.

The evidence from Bangladesh (CHOUDHRY 1972:22) also supports these observations: „women can be utilized in kitchen, gardening, family, poultry and duck farming with proper motivation and training, however, not for outdoor agricultural work“.

¹⁴⁸ Cf. KLENNERT (1988:149).

households engaged in handicrafts such as spinning, weaving, sewing, etc. LÖFFLER (1992:68) observes a similar situation in north-west Pakistan: the women perform a variety of jobs within their four walls. Along with household work and child care, they do tailoring, knitting, etc. to add to the capital base of their household, even when the seclusion of women limits the chances of better education in professional training.¹⁴⁹ The seclusion of women limits the social as well as economic fields of their activities.¹⁵⁰ They are controlled by their village and by their family,¹⁵¹ „Women rarely contribute to the family’s cash income.¹⁵² However, by manufacturing household equipment and processing rice, they keep cash expenditure at a low level and thus indirectly improve their income“¹⁵³ (MARTIUS-VON-HARDER 1978:201-202).

¹⁴⁹ For further details on the variety of economic activities of women, see also TOMFORT (1990:61ff) .

¹⁵⁰ KAPUR (1970) is of the opinion (for India) that Indians are afraid of their wives, they are envious of the possible professional success of their wives and , in addition, they are afraid of losing their ‘autocratic power’ through the contacts which the women have with the outside world and their increased economic autonomy. It is also against the specific ‘ethos’ of men, who want to prove that they can support their family alone.

MIES (1973:38ff) writes: „ A man possessed a wife just as he possessed a field, and a fruit produced by that field belonged to the owner of that field, no matter who had sown the seed.“ In contrast to MIES, BERGER (1987:476) is of the opinion that a woman has a strong intrafamilial position but she does not expose herself in business affairs.

Another view in this regard is that women who work can no longer bear children or there is an actual fear that women who take up a profession can compete with men for already scarce positions (ELKAN 1956:45ff; Cf. MARTIUS-VON-HARDER 1978:201-24).

¹⁵¹ Women belonging to patriarchal families are subjected to a more or less intensive control throughout their lives. The smaller the family is, the less strict this control is. However, as the family becomes wealthier, the contacts with the outside world become more and more restricted. This system prevents the adoption of innovations by women in all fields of activities, since men are the bearers of information and control the nature and scope of this information.

¹⁵² Women belonging to below-subsistence and landless households can be employed as rural workers in wealthier households without infringing the ‘*purdah*’ rules and can thus increase the family income. According to the labour requirement and economic situation of the household, female rural workers are employed, or neighbours help each other, thus reducing cash expenditure (MARTIUS-VON-HARDER 1978:209-201).

¹⁵³ See also MALONEY/AHMED (1988:28ff).

Table 12: Sources of income in the sampled population (adult men)

S. NO.	Occupation	Groups						Total
		15-20	21-30	Age 31-40	41-50	51-60	> 60	
1	Urban Job		4 (8)	3 (11)	4 (19)	1 (6)		12
2	Teaching					1 (6)		1
3	Rural/Agri. Labor	3 (10)	5 (10)	3 (11)		1 (6)		12
4	Rural/Urban Labor		1 (2)	1 (3)	1 (5)			3
5	Labor abroad		5 (10)	2 (7)				7
6	Retd. Govt. Servant						1 (5)	1
7	Retd. Soldier		1 (2)					1
8	Driver				1 (5)			1
9	Imam				1 (5)			1
10	Business		1 (2)	1 (3)				2
	Total persons engaged in non-farming occupations	3 (10)	17 (35)	10 (36)	7 (33)	3 (19)	1 (5)	41 ¹ (25)
	Total persons engaged in farming occupations	27 (90)	32 (65)	18 (64)	14 (66)	13 (81)	20 (95)	124 ² (75)
	Total No. of men in the respective age groups	30	49	28	21	16	21	165 ³

All values in parentheses are the percentages in respective age groups.

1. Total number of male adults engaged in non-farming occupations and their percentage in total male adult population.
2. Total number of male adults engaged in farming occupations and their percentage in total male adult population
3. Total number of male adult population.

Source: author's own survey

Table 13 Sources of income (adult women)

S. NO.	Occupation	Groups						Total No. of women
		15-20	21-30	Age 31-40	41-50	51-60	> 60	
1	Teaching ¹⁵⁴		3 (10)	1 (7)				4
2	Midwifery				1 (5)	1 (8)		2
3	Goat keeping			1 (7)	8 (40)	4 (34)		13
4	Calf raising ¹⁵⁵	6 (30)	12 (36)	5 (36)	5 (25)	5 (42)		33
5	Poultry raising (1) ¹⁵⁶			1 (7)	1 (5)			2
6	Milk selling (2) ¹⁵⁷	2 (10)	9 (27)	3 (22)			5 (50)	19
7	Churned butter selling		2 (6)	1 (7)	3 (15)		4 (40)	10
8	Handicrafts making	2 (10)	1 (3)					3
9	Tailoring		2 (6)	2 (14)	1 (5)			5
10	Agri. labor (3)					1 (8)		1
11	Cotton picking				1 (5)			1
	Total women engaged in income generating activities + housewives (4)	10 (50)	29 (88)	14 (100)	20 (100)	11 (92)	9 (90)	93 (85)
	Non-earning housewives	10 (50)	4 (12)	-	-	1 (8)	1 (10)	16 (15)
	Total number of women in respective age groups	20	33	14	20	12	10	109 ¹

All values in parentheses are the percentages in respective age groups.

¹⁵⁴ Teaching and midwifery belong to those specific professions which can be performed without male competition and are, therefore, socially recognized.

¹⁵⁵ Similar results are shown by MARTIUS-VON-HARDER (1978:141) for Bangladeshi women: 50 percent of the women interviewed are responsible for the preparation of feed. In 39 percent of the cases, other women from the household - in addition to the interviewees - were responsible for this work. The women delegated this task to employees in only 11 percent of the cases, which is usually the case in surplus households. Older women may also delegate this work to their daughter-in-law or to other female members of the household. Compared to the women from better-off groups, the women from below-subsistence households most often tend cattle to support the household economy.

¹⁵⁶ MARTIUS-VON-HARDER (1978:144) also observes poultry raising as an important activity of women: 70 percent of the households keep up to ten chickens; the others keep up to 20 chickens (23 percent); and 7 percent keep more than 20. These households usually do not keep ducks, either because this is too expensive, or because a second generation cannot be properly bred.

It is exclusively the task of women to keep poultry, i.e., to feed and breed the birds and to keep them clean. These are usually kept in chicken coops built against the house for that purpose or in a box in the stable in the kitchen. Egg consumption is insignificant. MARTIUS-VON-HARDER (1978:145) reports that only 69 percent of the women who keep chickens stated that they occasionally eat eggs.

¹⁵⁷ Like the cleaning of stables, milking cannot be assigned to any one person in particular. In one-third of the cases, the work is done by whoever has time to do it, most often by a man. Sometimes, it is done by the milk retailer who buys the milk at the farmer's place.

1. Poultry raising is considered an earning activity when more than six hens are kept for selling eggs.
2. Milk selling is considered a female activity when females are responsible for its consumption and sale.
3. Agri. labor means labor against compensation in cash and in kind other than on one's own farm.
4. Housewives are usually the women from better-off classes who do practically nothing to contribute any cash or goods to the household economy.

Sources: author's own survey

5.3 Household income and its utilization

Since a detailed account of annual income¹⁵⁸, its composition and its utilization or saving of the total sample (60 households) appeared to be too large for an in-depth analysis, twelve case study households were selected with the help of a proportionate stratified sampling method. The new sample comprises two from the upper, five from the middle and five from the lower strata, classified on the basis of caste groups and annual household income.

5.3.1 Cash income

Cash income¹⁵⁹ in the study area is incurred mostly through a regular job, wage labor, cash crop sales¹⁶⁰, gifts, remittances from relatives employed abroad¹⁶¹ or in formal sectors and ceremonial exchange, whereas, **income in kind** includes animal products like milk, churned butter, natural addition in livestock number¹⁶² and farm produce like citrus, wheat, fodder, etc., as well as ceremonial exchanges in kind within family and clan members.

¹⁵⁸ A number of empirical studies in developing countries, using various techniques, have pinpointed the contribution of different sources of income to total income inequality. Studies on Pakistan include those of KRUIJK 1986; MOHAMMAD/BADAR 1985; and ERCELAWN 1984. Studies on other developing countries include those of GLEWWE 1986; NUGENT/WALTHER 1982; PYATT/CHEN/FEI 1980; and FIELDS 1979.

¹⁵⁹ IFPRI Rural Survey of Pakistan 1986/87 - 1988/89 (ADAMS, Jr and HE 1995:10) divides rural income into five kinds: 1) Non-farm income (wage and salaried jobs); 2) Agricultural income (net income from crop production); 3) Transfer income (internal and international remittances); 4) Livestock income; 5) Rental income (rents received from ownership of assets).

¹⁶⁰ In calculating the agricultural income, the prices used for crops were those received by the farmer. For crops not sold, mean village prices were employed. The value of by-products of crops like straw from wheat, barley, and maize was calculated by using average village prices.

¹⁶¹ „ In Pakistan, as in other developing countries, remittances can have a profound effect on rural income distribution. In these countries, rural incomes tend to be lower than incomes earned in the urban sector. It is this disparity between rural and urban incomes that causes villagers to seek work elsewhere, either in cities or abroad. And it is this disparity in income levels that should be of concern to policymakers and others interested in equity issues“ (ADAMS, Jr and HE 1995:34).

A different viewpoint is given by HAMID/NABI/and NASIM (1990:108-109) „Since sugar-cane production (in an area near a sugar mill is several times as profitable as any other crop, (farmers) would like to have sugar mill established in their area and often press this demand through various channels. Therefore, the decision to locate a sugar mill (in rural Pakistan) is more likely to be taken on political rather than economic grounds.“

¹⁶² The empirical survey gathered detailed data on purchase and sales prices of animals, milk production (consumed at home and sold), egg production (consumed at home and sold), and bullock plowing. Data were collected on value of fodder (own and purchased) and hired labor. From these output and input data, net livestock income was calculated. For a similar calculation, see IFPRI Rural Survey of Pakistan 1986/87 - 1988/89 (ADAMS, Jr and HE 1995:11).

Table 14: Cash income (farm and non-farm) of 12 case study households in 1991-92

Cases	Non-Farm Income /year (cash) ¹⁶³					Farm income /year (cash)					
	Regular job	Agri. labor	Pension	Labor abroad	Total	Citrus	Milk & Ghee ²	Sugar-cane	Wheat	Fodder	Total
Case study 1	-	-	-	-		3,40,000	25,050	1,60,000	-	3,000	5,28,050 (95.8)
Case study 2	10,800	-	-	-	10,800 (2.4)	3,25,000	7,000	-	7,500	-	3,39,500 (73.4)
Case study 3	-	-	-	-		2,55,000	-	20,000	-	-	2,75,000 (79.2)
Case study 4	-	-	-	-		1,55,000	35,000	-	15,000	-	2,05,000 (73.9)
Case study 5	-	-	-	-		1,50,000	28,400	-	-	-	1,78,400 (91.3)
Case study 6	-	-	-	-		30,000	-	1,60,000	-	-	1,90,000 (99.5)
Case study 7	19,200	-	5400	1200	36,600 (24.2)	60,000	-	24,000	-	-	84,000 (55.5)
Case study 8	-	-	-	-		10,000	-	-	-	-	10,000 (7.4)
Case study 9	-	18,000	4800	-	22,800 (17.9)	75,000	5,780	-	-	-	80,780 (63.4)
Case study 10	21,600	-	-	-	21,600 (27.6)	38,000	-	-	-	-	38,000 (48.6)
Case study 11	-	-	-	-		-	11,400	5100	-	-	16,500 (52.5)
Case study 12	-	-	-	-		2000	4800	13,600	-	-	20,400 (52.2)

All values in parentheses are the percentages of total income

1. Agricultural crop production is measured in two ways. Gross output is the value of a product reported by the farmer as its market value. Net output has been defined as gross output minus the costs of direct inputs, namely seeds, fertilizers, manure and pesticides and other expenditures such as equipment rental, irrigation water-rates and taxes, etc. The value of these direct inputs has been enumerated for each individual crop grown.
2. Churned butter

¹⁶³ The definition of non-farm income used here is narrower than the definitions employed in many other studies. For example, CHIN (1979) includes rental income in non-farm income, while MALTON (1979) includes livestock income.

3. The definition of non-farm income used here is narrower than the definition employed in many other studies. For example, CHIN (1979) includes rental income in non-farm income, while MALTON (1979) includes livestock income.

Source: author's own survey

Table 14 shows two major sub-categories of cash income in twelve case study households - farm and non-farm - which are further divided into respective components. Non-farm income plays a very important role in almost all economic strata of the village. „The majority of the farming households has multiple sources of income to secure their existence. Not only small landowners with insufficient landholding, but large landowners also practice it without any compulsion“ (KUHNER 1989b:3). Both categories are interdependent in the sense that income from off-farm employment contributes indirectly to the increase of farm income,¹⁶⁴ since not only is more money available to the household for consumption, but also for farm investments.¹⁶⁵ Non-farm cash income is mainly acquired from a regular job, agricultural labor, pension or labor abroad,¹⁶⁶ while farm income is usually an outcome of crop production and livestock.¹⁶⁷ Table 14 shows only four households, cases 2, 7, 9 and 10 earning non-farm incomes¹⁶⁸, which contribute just 2.4%, 24.2%, 17.9% and 27.6% of the total annual income respectively.¹⁶⁹ Besides, all households are engaged in farm activities which provide a major share of the household's actual income, in ten out of twelve households even more than 50%. **The population's involvement in non-farm income depends upon the age composition of the household members, size of landholding, cropping pattern and cropping intensity of the area,** which is further elaborated in the next chapter as an important influencing factor. Non-farm income represents 41 percent of the total household income in the villages surveyed by KLENNERT (1988:433) in Faisalabad District, „The non-agricultural income gives a greater social security to marginal farm households in case the farm's subsistence basis is destroyed, e.g., due to salinization/waterlogging of the farmland or the lessor claiming

¹⁶⁴ See also, BADIEL (1992).

¹⁶⁵ Cf. KLENNERT (1988:433).

¹⁶⁶ IFPRI Rural Survey of Pakistan 1986/87 - 1988/89 (ADAMS, Jr and HE 1995:20) decomposes the sources of non-farm income into five sources: 1) Self-employment; 2) Unskilled labour; 3) Government employment; 4) Private sector; 5) Other.

¹⁶⁷ In the past, the rural economy of the Third World was considered to be synonymous with agriculture. According to this view, rural households receive the bulk of their income from the production of food and cash crops. There has been a growing recognition, in the past few years, that the rural non-farm sector, which includes such diverse activities as government, commerce, manufacturing, and services, also plays a vital role in the economies of many rural Third World households. This changed view is largely due to the results of rural budget surveys in a number of developing countries. Using different definitions of non-farm income, it was ascertained that non-farm income represents between 13 and 67 percent of the total rural household income. For example, in their review of 13 rural household budget surveys, von BRAUN and PANDYA-LORCH (1991) find that the share of non-farm income in the total rural income ranges from 13 percent in Brazil to 67 percent in Burkina Faso. For other estimates, see HAGGBLADE, HAZELL, and BROWN 1989.

¹⁶⁸ A variety of income sources come into being when children also become productive. Mostly the father takes the responsibility of cultivation, in seasonal labour peak hours with the help of one or two sons. The sons usually take up non-farm jobs, usually migrate to the urban area or abroad, their wife and children, however, stay in the parental house, so that the family stays together and the earned income (in cash or in kind) flows back to the parental household. A variety in income sources imparts a secure existence to many households (LÖFFLER 1992:104).

¹⁶⁹ Other studies in Pakistan (KLENNERT 1986:45) claim that the non-farm income ranges between 36 and 43 percent. These surveys report a specially high contribution of non-farm income to the total rural household income in South Asian countries (like Pakistan), where unfavorable labor-to-land ratios severely limit income-earning opportunities in agriculture (ADAMS, Jr and HE 1995:10).

back the leased land which is necessary for keeping up the marginal farm“ (KLENNERT 1988:434).

Since only cash income is considered in Table 14, only those agricultural products are mentioned which contribute in cash. Among others, citrus contributes the largest share of the total cash income. Sugar-cane represents a secondary income and its products are a third good source of income.“ The higher proportion of income from livestock could be attributed to the better market for milk“ (BHATTI 1984:134).¹⁷⁰ Wheat and fodder, however, are cultivated only for domestic consumption or saving, and are only rarely sold.

5.3.2 Income in kind

The total income in kind represents a significant part of the household income. Apart from crop production, livestock and its products are very important sources within this context¹⁷¹. Wheat, fodder, natural addition in livestock, and ceremonial gift exchange are its major components.

Table 15 shows milk, churned butter and crop produce as the major contributors of income in kind.¹⁷² The products also represent major food contents, which are consumed every day in every household. Home production of such items saves higher costs of buying them from the market. Similarly, livestock addition represents a store of money at home,¹⁷³ which may help in any emergency.

Diagram 6 shows the level of cash income higher than income in kind in almost all case studies, which is a result of the cultivation and sale of highly valued cash crops like citrus and sugar-cane in the area.

¹⁷⁰ The results obtained by BHATTI (1984) reveal facts from an area at a distance of hardly 100 km from the research area of the present study.

¹⁷¹ Some researchers see the distinction between agricultural and livestock income as an artificial (empirically difficult) one within a rural subsistence economy, since outputs from one - such as straw and crop residuals from agriculture and draft power and manure from livestock - are used as inputs in the other.

¹⁷² Output and inputs need for livestock is calculated as follows:

Gross output = Growth of value of livestock + Value of milk, milk products (consumed at home and sold) + Value of bullock plowing (utilized on the farm and rented) + Value of chickens (consumed at home and sold) + Value of commercial poultry + Value of eggs (consumed at home and sold)

Input = Fodder (own and purchased) + Purchased feed + Hired labour.

¹⁷³ Recent work in several countries has shown that livestock is an important asset for the poor. Studies by LASSON (1981) in Bangladesh, JABBAR and GREEN (1983) in Bangladesh, and SHARMA (1982) in Nepal all show that there is an inverse relationship between farm size and livestock: small farms show a better tendency of keeping more animals per unit of land than large farms. As the agricultural sector will not be able to grow fast enough to meet the burgeoning income and employment needs of the rural population, livestock keeping may be an alternative income and employment opportunity. Another observation in these studies shows that the poor are heavily dependent on livestock income from female animal species (local cows and female buffaloes) and that livestock income from these two animals has a positive effect on income distribution. In contrast, livestock income from male buffaloes is monopolized by the rich and therefore has a negative effect on income distribution (IFPRI Rural Survey of Pakistan 1986/87 - 1988/89) (ADAMS, Jr and HE 1995:11).

SINGH (1990:206) also notes that male cattle are scarce and expensive because poor peasants cannot make heavy investments to raise healthy calves to get a return on this investment. WALKER and RYAN (1990) also note this phenomenon in India.

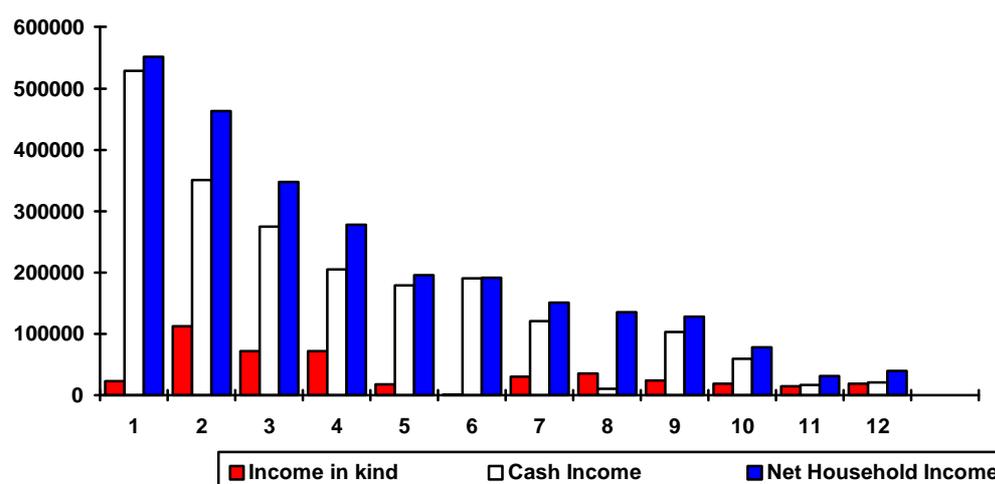
Table 15: Income in kind of 12 case study households in 1991-92
(Rs.)

Cases	Milk	Churned butter	Crop production	Natural * addition in Livestock	Wedding gifts	Contributions in cases of death	Total income in kind
Case study 1	8,100	2,800	9,000	2,000	1,200	-	23,100 (4.2)
Case study 2	35,040	7,000	67,620	2,000	800	-	1,12,460 (24.3)
Case study 3	14,400	11,200	42,400	3,000	1,000	300	72,300 (20.8)
Case study 4	25,600	12,000	33,400	3,000	150	100	72,250 (26.0)
Case study 5	8,000	2,800	6,400	-	-	-	17,200 (8.8)
Case study 6	-	-	-	-	1000	-	1000 (0.5)
Case study 7	7,200	5,600	15,400	2,000	250	200	30,650 (20.3)
Case study 8	7,680	11,200	13,800	3,000	-	230	35,910 (26.4)
Case study 9	8,580	2,100	12,200	-	1000	3000	23,880 (18.7)
Case study 10	6,400	5,600	5,350	1,000	200	-	18,550 (23.7)
Case study 11	3,200	-	8,102	2,000	1500	100	14,902 (47.5)
Case study 12	4,800	6,000	5,858	2,000	-	-	18,658 (47.8)

* Value of new-born calf is calculated according to the market price in 1991-92
All values in parentheses are the percentages of total income

Source: author's own survey

Diagram 6: Income composition of the twelve case study households in 1991-92



Source: author's own survey

5.3.3 Consumption

Consumption for satisfying the basic needs of the household members is the primary utilization of household income. KEYNES (1936) in his 'Absolute Income Hypothesis,'¹⁷⁴ observes that the saving quota depends upon the consumption habits of a household.

The Household Integrated Economic Survey 1990/91 (GOVERNMENT OF PAKISTAN 1991:12) divides the total consumption expenditure into four categories:¹⁷⁵ 1) household expenditure only; 2) consumption of wages and salaries in kind; 3) consumption of own produced goods; 4) consumption of cash assistance, gift, dowry, inheritance and from other resources.

The present study divides the total consumption expenditure of a household into two main categories: **basic consumption and ceremonial consumption**. The division of consumption expenditure into these two categories may be justified on the basis of the need of information required for further analysis in the subsequent chapters. Basic consumption includes, for instance, the expenditure on the household members' physical existence, food shared by guests and food and other items transferred to relatives, neighbors, beggars, etc. All these unavoidable expenditures can hardly be cut to increase a household's saving rate. The only exception may be the expenses on food shared by the visitors which could be minimized to a certain extent. It is included in the category of basic consumption, since it also represents a regular item of the household's monthly budget.

Ceremonial consumption includes the amount of household income consumed for the performance of different ceremonies and rituals. Since ceremonial expenditure is considered as a major cause of extravagance and low rate of saving, it is essential to know its actual amount in a household before discussing it as a considerable factor. This expenditure can be cut and may increase the saving of a household. It is kept in a separate

¹⁷⁴ For theoretical explanations, see Section 2.1.4.1.

¹⁷⁵ ALDERMAN/GARCIA (1993:39) divide consumption into two components, which, in keeping with earlier studies, are denoted as permanent consumption and transitory consumption. This latter category largely consists of ceremonies. It is included in their model of household savings to allow income to be fully spent, but it also needs to be distinguished from other consumption and savings.

category in order to differentiate it from the essential or somewhat unavoidable expenditures.

5.3.3.1 Basic Consumption

Basic consumption includes expenditure on food, fuel, transport, medicine, clothes/footwear, and hospitality, etc. and are put in the category of a household's unavoidable expenditure. Table 16 shows a quantitative description of basic consumption in the selected case study households in 1991-92.

Table 16: Basic consumption expenditures of 12 case study households in 1991-92

Cases	Net Income	Family size	Food 1	Fuel	Transport	Medicine	Clothes/Shoes etc	Food for guests	Misc. 2	Total transfers	Total consumption
Case study 1	5,51,150	5.8	70,000	4,800	2,000	6,000	9,000	25,000	43,700	6,350 (1.2)	166,850 (30.3)
Case study 2	4,62,760	10	80,000	6,000	1,500	2,000	15,000	20,000	2,400	3,205 (0.7)	130,105 (28.1)
Case study 3	3,47,300	11.8	85,000	6,000	2,500	8,000	16,300	23,000	11,000	3,035 (0.9)	154,835 (44.6)
Case study 4	2,77,250	4.5	70,000	8,000	8,000	5,000	18,000	50,000	20,000	5,705 (2.0)	184,705 (66.6)
Case study 5	1,95,200	4.8	75,000	8,000	7,800	1000	10,000	30,850	10,600	5,380 (2.8)	148,630 (76.2)
Case study 6	1,91,000	5.4	30,000	2,500	1000	800	8,000	5,000	8,000	5,180 (2.7)	60,480 (31.7)
Case study 7	1,51,250	6.0	50,000	3,000	500	4,000	7,000	10,000	6,000	2,511 (1.7)	83,011 (54.9)
Case study 8	1,35,910	8.8	50,000	5,500	6,000	2,000	10,000	20,000	3,000	7,455 (5.5)	99,500 (76.5)
Case study 9	1,27,460	4.4	40,000	4,500	1,830	800	6,000	15,000	6,000	2,731 (2.2)	76,861 (60.4)
Case study 10	78,150	7.8	35,000	4,000	3,000	2,500	10,000	10,300	4,300	1,905 (2.5)	71,005 (90.9)
Case study 11	31,402	7.0	30,000	2,300	700	2,000	3,000	10,000	4,500	725 (2.3)	53,950 (169.3)
Case study 12	39,058	7.4	20,000	2,400	500	550	2,000	5,000	2,000	565 (0.01)	33,015 (83.01)

All values in parentheses are the percentages of total income

1. In the case of food all home- and market products are taken into account.
2. Miscellaneous expenditure includes toilet articles, kitchen articles, furniture items, decoration items and many other items needed everyday in a household.

Source: author's own survey

5.3.3.2 Ceremonial Consumption

A household's own social expenditures along with exchange in cash and in kind exchange on rituals and ceremonies among biraderi members represent a major share of the total consumption expenditure. Table 17 shows a quantitative value of these expenditures under different heads.

Table 17: Ceremonial consumption expenditure in 12 case study households in 1991-92
(Rs.)

Cases	Wedding	Birth	Circum- -cision	Death	<i>Eids</i> 1	Charity	<i>Saddaqa</i> ²	<i>Shab- e</i> ³ <i>barat</i>	<i>Zakat</i> ⁴	Total
Case study 1	20,000	4,000	500	5,000	2,600	6,000	-	200	3,500	41,800 (7.6)
Case study 2	50,000	1,000	-	-	2,350	125	4000	200	3000	60,675 (13.1)
Case study 3	78,000	2,000	100	4,000	4,296	-	300	250	1000	89,946 (25.9)
Case study 4	18,700	500	200	10,000	1,550	4,500	100	200	400	21,450 (7.7)
Case study 5	15,000	-	150	-	1,620	1200	1400	150	500	20,020 (10.3)
Case study 6	10,000	300	-	4,000	1,095	300	200	150	-	16,045 (8.4)
Case study 7	30,000	-	-	2,000	980	500	1,200	200	100	7,980 (5.3)
Case study 8	2,000	20,000	-	5,000	680	-	-	100	-	2,868 (2.1)
Case study 9	-	-	-	-	1,650	2,000	500	150	-	4,300 (3.4)
Case study 10	500	200	-	-	972	-	-	-	-	1,672 (2.2)
Case study 11	-	500	-	500	614	100	50	100	-	1,864 (5.9)
Case study 12	9000	200	-	2,000	875	-	-	120	-	4,095 (10.5)

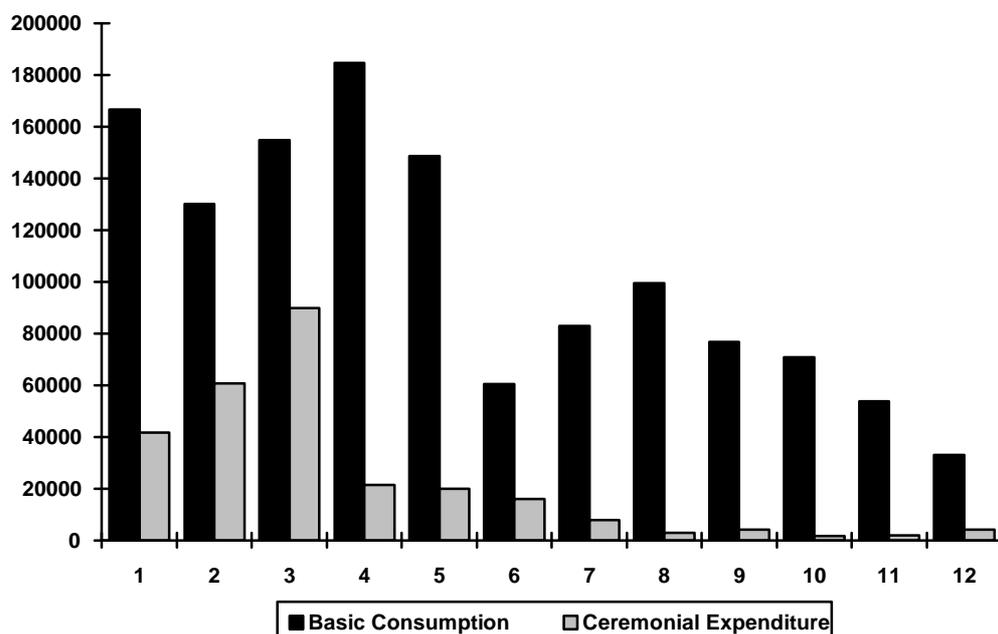
All values in parentheses are percentages of total income

Since we are concerned with the household budget of 1991-92, only that part of consumption is mentioned which has been taken from the annual income of that year. Money spent from past savings or credit is not considered.

1. Annual religious celebration
2. A form of charity
3. A religious night
4. One of the five basic columns of Islam. A system to take the surplus money from well-to-do members of the society and give it to the destitute and needy. The taxable limit is the possession by an individual for the continuous period of one year of 52.5 tolas (1 tola = 12 gms) of silver or 7.5 tolas of gold. It is also leviable on cattle, articles of trade and produce of the soil (SIDDIQI 1948:9ff).

Source: author's own survey

Diagram 7: Consumption expenditure in twelve case study households



Source: author's own survey

5.4 Forms and extent of household saving

Saving, i.e., the postponement of current consumption, is a behavior which is by no means novel to any household. Saving is security, and security is the first and foremost priority of every household, no matter how traditional or modern it is. Storing commodities dates back even to the contemporary hunting and gathering civilizations. Though the journey from barter economy to cash economy has altered the living conditions and their related aspects to quite an extent, the basic theme of future security has never lost its significance. It has rather become a matter of greater concern, as individualism develops in human relations.

Household saving behavior in rural Punjab sharply contrasts with well-known urban saving methods. It is not always directly the money which represents a sound security base in this setup. The chapter mentions four well-practiced direct saving acts¹⁷⁶: 1) saving in cash, 2)

¹⁷⁶ In contrast to these types, the estimations of saving (defined as equal to investment) reported by ALDERMAN/GARCIA (1993:34) are constituted upon four subcomponents: repairs and construction, other physical capital (including durables), financial savings, and medical expenditures.

saving in bond holding, 3) saving in agricultural products, 4) saving in livestock, along with some hoarding methods, which fulfill their saving functions only in drastically depressing conditions. All other methods mentioned in this section are indigenous saving arrangements, developed traditionally to fulfill the purpose of saving and future security.

5.4.1 Cash saving of the sampled population

Two types of financial savings - cash and bond holding - are discussed separately in this chapter, because the saver's attitude is different in each case. The present study defines cash saving as cash saved independent of the place of keeping it, i.e., in a bank or at home. The main consideration, in this respect, is that the saving remains in the form of cash which is available immediately in need. The saving in bond-holding, however, belongs to a different category, when cash saving is utilized to buy some bond holding (saving certificate or prize bonds) before keeping it for some time. This form of saving is not available like cash; bond holdings have to be converted in cash when needed.

Table 18 shows total cash savings of 7 (58.3%) out of the 12 case study households. The amount is the highest in cases 2 & 8 showing 13.0% and 15.5% of their total household income. Two households, i.e., cases 6 & 7 show a middle level of 5.0% and 2.6%, while the remaining three, cases 1, 3 and 5, show a lower level of 1.3%, 1.4% and 0.6% of total annual household income respectively.

2000-3000 Rs. are generally kept at home for everyday need.¹⁷⁷ An amount saved separately which is not utilized for every day needs may be termed a proper saving; for example, the people in case 2 intended to start a new business for their unemployed sons in the city. Cases 6 & 8 wanted to buy a refrigerator and a color television respectively. All the others had no specific objective.

Table 18 shows that only three out of seven households deposited a saved amount in banks. Cases 1 & 2 belong to the better-off strata and possess active accounts because of the large cash amounts they earn every year. They have good contacts with the bank officers and are in a position to take risks. Poor households, that save small amounts every year after very hard efforts, do not even think of taking a minor risk. The risk, in this case, may be expressed as a fear of losing money. The majority of the rural savers fear that formal institutions may disappear (as happened in 1970's) and that even government will not be in a position to help them.

Four out of seven preferred to keep money at home. Almost all of them mentioned the same major reason for not depositing money in the bank: saving cannot be kept secret when deposited in the bank and cannot be withdrawn in an emergency when the bank is closed for holidays. „The major motivation of hoarding cash at home is to keep the cash secret. The moment relatives know that cash has been deposited in the bank, they start asking loans in emergencies“ (LÖFFLER 1992:191). LÖFFLER (1992:188) describes the situation further for north-west Pakistan: rural people, if they want to use bank services, prefer city banks to local branches which may have more contacts with their rival groups.

¹⁷⁷ All types of household expenditure mentioned in Table 16 come under the category of everyday need. Money kept for everyday needs does not come under the category of saving. It is usually the money for basic consumption which usually remains with the household head and is given to other members depending upon their need. Most of the time their needs are fulfilled in kind.

The reasons given for depositing savings on bank accounts were as follows:¹⁷⁸

- the major reason usually mentioned is the safety of cash. Hiding money is not so easy in rural houses. Money kept in pots may be destroyed by insects; under the bedding or under the roof it may be discovered, or if it is kept on a person, it may be stolen or lost. And when these measures are not taken and it is accessible, it might be spent. Respondents mentioned many cases of money lost by neighbors, eaten by insects, etc.;¹⁷⁹
- Better-off businessmen often keep accounts so they can write overdrafts, a form of borrowing agreed upon with the bank. Farmers may keep accounts so they can quickly get crop loans or borrow in times of crop failure.¹⁸⁰

Table 18: Cash saving in the case study households in 1991-92

Cases	Net Annual Income	Cash Saving	Place of deposit	% of total income
Case 1	551,150	6,750	Bank	1.2%
Case 2	462,760	60,000	Bank	13.0%
Case 3	347,300	2,000	at home	0.6%
Case 4	277,250	-	-	-
Case 5	195,200	2,730	at home	1.4%
Case 6	191,000	9,650	at home	5.0%
Case 7	151,250	4,000	at home	2.6%
Case 8	135,910	21,042	Bank	15.5%
Case 9	127,460	-	-	-
Case 10	78,150	-	-	-
Case 11	31,402	-	-	-
Case 12	39,058	-	-	-

Source: author's own survey

Households with zero level of cash saving mentioned different reasons for it:¹⁸¹

- they had no surplus cash, even some essential needs are met by using past savings or credit;
- disinvestment rate was higher in the year of survey;
- cash saving is not preferred; surplus cash is converted into kind;
- cash saving creates conflicts among sons; they ask money for their activities;

¹⁷⁸ The results of the study by MALONEY/AHMED (1988:149) show 83% of the respondents keeping their money for safety, 13% for interest rate, 20% say bank interest is less than what they can earn themselves. Most do not know the difference between different types of accounts, and 45% say that they are not familiar with bank account procedures and with such documents. About 20% say it is a nuisance to go to the bank, it is not easy to take the money out, and the restrictions on days and times of withdrawal are inconvenient.

¹⁷⁸ See also MALONEY/AHMED (1988:147f).

¹⁷⁸ See also MALONEY/AHMED (1988:147f).

¹⁷⁹ See also MALONEY/AHMED (1988:147f).

¹⁸⁰ See also MALONEY/AHMED (1988:147f).

Two more factors 'interest rate and prestige' mentioned by MALONEY/AHMED are not found to be important in the research area. The knowledge about interest rate is very limited and a bank account does not enhance the local standing of the household. It is usually middle level, moderately prosperous and salaried people who open accounts in rural banks.

¹⁸¹ See also MALONEY/AHMED (1988:153ff).

- some potential depositors were uncertain about how reliable the banks are in keeping financial details confidential, firstly, because of the fear of tax officials and secondly because of the questions about the sources of income. Biraderi men, who are in good terms with the bank officials, may ask their balance and may request credit. The fears were usually based upon rumors and misinformation which acted as disincentive for the saving behavior ‘**Stimulus-Reaction-Model**’ and ‘**Effacing Effect**’ (BURGHARDT 1977:100f, 102).¹⁸²
- **Almost all of them had very little knowledge of interest rate. Only four out of sixty household heads knew the exact current interest rate on saving accounts. Even when it was known, it was insufficient to act as an incentive for cash saving.**
- Cash saving is difficult to keep at home as well as in the bank. Even relatives are not very trustworthy in money affairs.

In the case of women, however, the problems are of a different nature:¹⁸³

- most of the rural women lack motivation to use bank services;’
- they are usually escorted by a male relative when they go out, and, therefore, cannot do banking if they want to keep their financial affairs private;
- the fundamental constraint is not the restriction of women’s movement, but the division of activities of life into men’s and women’s domain, and banking falls into men’s activities;
- illiteracy and a lack of numeracy skills restrict women’s ability to keep records, they usually rely on males to deal with the mysteries of written documents;
- they suspect the confidentiality of an institution and are usually afraid of the disclosure of their financial secrets to their husband which may result into a marital conflict.

5.4.1.1 Management of cash in a joint household

The way cash is managed in a household plays a decisive role in determining cash savings. Saving in cash comes into the category of ‘**precautionary saving**’¹⁸⁴ but represents a relatively difficult form to practice¹⁸⁵ in a rural sphere. Since economists have not specified the minimum holding period for saving, any income not disbursed the instant it is received may be regarded as saved until it is disbursed.¹⁸⁶ Cash saving is usually a result of **exogenous saving motivation**. HUHLE (1958)¹⁸⁷ considers such savings to be hardly able to achieve the goal as a result of chance and accidents, which are unforeseeable at the time of decisions,. The major hindrances can be seen in the internal financial distribution and the lack of individual access to money in a rural household.¹⁸⁸ The complicated nature of such a traditional household pattern may well be analyzed with the help of the ‘**Structure-**

¹⁸² See Section 2.1.4.3 for the theoretical discussion of the sociological viewpoint of saving.

¹⁸³ See also MALONEY/AHMED (1988:155ff).

¹⁸⁴ See Section 2.2.2.2 for the theoretical classification of saving.

¹⁸⁵ Although respondents were fully aware of the importance of available cash in the case of short-term investment possibilities or financial bottlenecks.

¹⁸⁶ See Section 2.2.2.2 for the theoretical discussion of concept.

¹⁸⁷ See Section 2.1.3.2 for the theoretical explanation.

¹⁸⁸ In spite of similar constraints, MALONEY/AHMED (1988:9) reveal a very optimistic picture of household savings from rural Bangladesh. According to their results, the poor save/reinvest between 2 and 12% of their income, the rural moderately poor, an average of 20%, and the more prosperous, 25 to 40% or even more. The overall rate of household savings/reinvestment in the study was 19% of income. These results were more or less in line with savings as computed from the Household Expenditure Survey of Bangladesh 1978-79. For the economic top quarter of the population, it was 11 to 14%, and for the bottom quarter, 6 to 13%, depending on the method of calculation. The Rural Finance Project of Bangladesh, in its Finance Report, using the same data base, estimated that the rural upper 15% had a saving rate of 19.6%, and the urban upper 15%, a rate of 11.9%. It estimated that the overall household savings rate was 10%.

Function Approach’ and the **‘Symbolic Interactionist Approach**’ (HILL 1961:63f).¹⁸⁹ The household head enjoys absolute authority in such affairs.¹⁹⁰ Non-earning members, for example, women¹⁹¹ and children,¹⁹² are given limited rights and access to financial means. **The general traditional model of a rural household claims to pool whatever it possesses and discourages the emergence of individual pockets.**¹⁹³ Apart from one's daily legitimate needs such as transport cost to the place of job or daily entertainment such as tobacco, tea, etc., individual possession of money is highly discouraged. A share of individual earnings put aside as private saving is totally illegitimate. Every earning or non-earning person is supposed to put every need, its significance and urgency before the decision committee, which usually consists of father and elder brother. Even this system does not mean a similar strategy for everybody.¹⁹⁴ Approval or disapproval depends exclusively upon the principle: who has applied for what? In case of approval, the fulfillment of the need is financed from a communal pool, without any consideration of who has contributed what, or if the applicant has contributed enough to be granted the required amount.¹⁹⁵

In such a situation, the cash available is the joint cash of all household members. An extended family household has to face quite a number of complicated situations regarding the management of resources.

A head of household¹⁹⁶ with three married sons with joint resources narrated his example in this case. Since all of them have equal rights on resources, if any one of them needs some cash, the other two also demand the same amount. Every time cash reaches a considerable value, it has to be given to any one of them. The household cannot put some aside because of the sons’ competitive behavior.

¹⁸⁹ See also Section 2.2.3.

¹⁹⁰ „Head of the household controls the expenditure, for it is his role to earn and carry out all dealing with the outside world of business and public affairs. He traditionally controls the income of younger men in the household too“ (MALONEY/AHMED 1988:14).

¹⁹¹ Women’s involvement in the household chores prevents them from taking part in the economic process of money earning and management. They are prevented from doing this because of the danger that women, who are already responsible for the supply of food, become completely independent when they earn an income of their own. In spite of this fact, more and more women try to open up new sources of additional income by producing goods at home and selling them (MARTIUS-VON-HARDER 1978:22).

¹⁹² One of the major reasons for not getting proper economic education in childhood. According to the **Educational viewpoint of saving** (Section 2.1.4.5) a child gets early initiation into housekeeping if he/she is involved in small purchases and management of pocket money from an early period of his/her life.

¹⁹³ Households are not seen as a determinate set of people but as a set of relationships that impose a mutual obligation to pool resources. See Section 2.2.1 of the theoretical discussion of concept.

¹⁹⁴ The stability of the household as a unit of consumption and reproduction rests to a large extent on the acceptance of an unequal distribution of consumption goods DELPHY (1979), MILLER (1981); apart from this the unequal distribution of productive resources is best exemplified in patriarchally organized nuclear or extended families (WONG 1984:58).

¹⁹⁵ In a sample of 300 households in rural Bangladesh (MALONEY/AHMED 1988:14), the male household head brought in the main income in 224 cases and managed it himself. If a son brought in the first and main income, he managed it himself, especially when the father was old. But if a son brought in a second income, the father managed it, though he may send the son to make the purchases. If a younger brother brought in a second income, in two-thirds of the cases the money was controlled by the household head, though again the younger brother may make purchases.

¹⁹⁶ The situation is the same as that studied by MALONEY/AHMED (1988:9-10) in a typical family with at least a little capital assets, the earning man spends most of his time and energy thinking, planning, manipulating, and acting to optimally improve his situation.

Besides, rural households are not secure against robbery. It is, therefore, very difficult to keep cash at home. RÄDER (1988:91) shares the same view in her findings for rural Bangladesh:

"Because of the fear of robbery, which is frequent in the area, most of the families keep just a little money in their pockets and houses. Whenever there is a surplus of money, it is invested in animals, paddy stocks keeping or trade, which gives prospects of future profit. Normally when a larger amount of money is needed for investment for consumption purposes, the households tend to sell or mortgage capital items."

Police performance is quite poor in this regard. People prefer to hide currency notes in boxes, in walls, ceilings, or pots, which may be spoiled by moisture. "If current cash surpluses are kept in houses, it is put in different hiding places, under bed covers, in little pots or cups, in locked metal trunks ., (RÄDER 1988:92). Surplus cash may anytime be asked by some biraderi fellow and a refusal may lead to tussles and tensions among many related households. Even when it is lent, nobody is sure about its timely recovery, most of the time it is returned in easy interest-free installments.

A communal system does not promise to satisfy the desires of household members the way they want. This motivates individual members to seek other alternatives to generate **private saving acts**. Men and women both undertake some discrete measures to generate some cash which can be put aside.

5.4.1.1 Generation of private cash

In the male sphere, those engaged in off-farm occupations do not pool all of their income. The saved income is usually utilized for the urgent needs of their wife and children or their own everyday expenses. This cash is either kept by the wife or some other trustworthy relative. In a communal setup, private saving may also be seen as a preparation for establishing individual households. Couples save a long time before, discretely, and utilize their savings to meet the costs of establishing a separate household.¹⁹⁷

The case is somewhat different in the female sphere. **Women tend to save and employ a number of tactics and try to save even when there is no surplus.** These savings are small and short termed. The money spent for their personal needs (e.g., buying hair oil) from the household's monthly budget cannot be considered as a saved amount. Saving is done when some of the money is put aside for some time. Women are usually financially conservative, holding on to money for family security rather than risking it. **As a normal practice, rural women save rice. This means that they take out a handful each time they cook. Three handfuls a day accumulate enough to meet an emergency** such as medical expenses, or this may be given as a fund to the Islamic school, or may be sold for cash, but all these transactions are usually without an open acknowledgment by the husband (MALONEY/AHMED 1988:25).¹⁹⁸ They try to minimize male dominance over

¹⁹⁷ As long as the young couple lives with the patrilineal family, the husband's father has the right of decisions. Even if the families live in separate houses, the exercising of authority continues, but the husband has more rights of decision for his household in this situation (MARTIUS-VON HARDER 1978:75).

¹⁹⁸ A major reason of women's orientation towards saving is the economic insecurity of the family, possibility of the death of male earner or divorce, and the welfare of their children. According to an old Bangali proverb: „Womenfolk's treasury is not empty; if you want money from them it can be had“ (MALONEY/AHMED 1988:25).

money by hiding it.¹⁹⁹ Their savings, whether from their own earnings, gifts, or deductions from household expenses, are often not divulged to their husband. This is partly because of the lack of open conversation in many couples, but it is mainly because of the wife's fear that her husband could demand from her a 'loan' which would hardly be repaid. She rather invests this saving in goats or a cow, or in a local shop which at least yields good interest and remains beyond the reach of her husband (MALONEY/AHMED 1988:32). Such practices are much more widespread among low income households because of a greater probability of risk and uncertainties of income. **Women remain in a continuous search of social insurance as they are more at risk and require more security.** Some of the commonest practices are:

- Small goats with a very fast multiplication rate are kept and cared by women as their own asset. They are fully responsible for buying and selling these animals and for utilizing the money obtained from this transaction.
- Sometimes the buying and selling of very young calves also belong to a woman's sphere. Especially animals received with a dowry are considered their property which may be sold at any time.
- Households with limited manpower for animal keeping, i.e., feeding, preparation and sale of milk products, etc., entrust animal care to women. Although this money is added to the household budget, they always have a possibility to put some aside.²⁰⁰
- Women sell a certain amount of wheat or cotton and save cash. Certain amounts of lentils and such produce are separated from the total amount and sold or exchanged from time to time. In this way, nobody notices the reduction in the actual amount.
- Sometimes women save from the money they get to fulfill their basic needs, especially in the families where they are given a certain amount to buy seasonal clothes twice a year. They usually do not spend all the money. They do the same for other household items, e.g., they use some cheap chemicals or some wild plants for laundry to save the money given to them for purchasing detergents.
- A few women earn through regular jobs such as teaching, etc., and keep a certain share of their earnings.
- Some engage in wage-labor like stitching, knitting, handicrafts, and farm labor. They may effect saving in cash as well as in kind.²⁰¹
- Poultry keeping is another woman's task. Poultry breeding and sale of eggs and hens can generate cash.²⁰²

Women try to leave the money saved from different activities with their parents when they pay them periodic visits. As the money loses its value through inflation, they ask their parents or brother to buy land, gold or any other precious item and then inform their husband that it has been 'given' as a gift to them. When money for family food is

¹⁹⁹ This also explains the fact that, in most of the cases, the nature of the relationship between husband and wife is not so much an emotional, but rather an institutional one.

²⁰⁰ See also MALONEY/AHMED (1988:29f).

²⁰¹ See also MALONEY/AHMED (1988:29f).

²⁰² „Chickens and ducks are kept because they - and to a certain extent their eggs - can be sold and because poultry meat can occasionally substantiate the meals“ (MARTIUS-VON HARDER 1978:145).

insufficient, they may dip into their secret savings, pretend to have borrowed money from some neighbor, who wants to be 'repaid' soon (MALONEY/AHMED 1988:33). RÄDER (1988:96) obtains similar results for Bangladesh. Women, mostly those of middle class and richer households, are able to get cash by selling capital items which are in their possession, i.e. 1) mostly those inherited from their parents' house, 2) cows, goats, sheep, which are often the offspring of an animal obtained from their parents on or after marriage, 3) gold and silver jewelry and other valuable household items such as brass ware, which they received as wedding presents. However, all these bigger transactions cannot be managed by the women themselves. Their male guardians, usually husbands, perform them on their behalf and, in most of the cases, this money then stays with them. Apart from this, women openly and secretly obtain a current cash-inflow by themselves, e.g., by selling chickens and ducks, pigeons, geese, eggs, milk, vegetables, rice-husks and broken rice, rice or paddy from their own or the general stock. These transactions are mostly managed by the women themselves. They sell in the village, i.e., in their homesteads or through the children as intermediates. Sometimes they ask persons in their confidence to sell these items on their behalf on the markets. That person can be either the husband or the son or - if the transaction should be kept secret - another male person from the village or from the natal family.

This money secretly or openly saved by women mostly goes again to the household economy. The cash is utilized to buy those items which are especially discouraged by men. Most of the items are bought from hawkers or village shops. These items include clay, plastic or aluminum kitchen articles, cheap ornaments and cosmetics, etc. Whenever there is an opportunity to visit a city market in a group, some bigger items are also bought. Some women may secretly transfer a part of this saved money to their poor natal family.

5.4.1.2 Discretion in cash saving

To answer the question of how this cash is kept secret;²⁰³ there is always a possibility of hiding it somewhere in the household. Some women, for example a mother or her eldest daughter, may do it very well, because they always have access to every corner of the house and do not let everyone check.

In case savings are hidden at home, they are usually put in small holes in brick walls, in the wooden ceiling, under the mattresses, in pots and vases covered with some other things under the bed, or buried in the compound. „Favorite places are in the hollow of bamboo, in a pot in the ground, under the roof, or in a bedding. Instances are told of saved money being eaten up by termites“ (MALONEY/AHMED 1988:36).

Sometimes the savings are given to some local shopkeeper or some related and trusted businessman, who invests them and pays interest. This is usually practiced with trustworthy biraderi fellows. Most of the time, the lenders do not accept installments and prefer the whole amount in case of emergency.

²⁰³ This secrecy creates serious problems as far as the measurement of saved amount is concerned. An alternative to using residuals as a measure of savings is to take the sum of reported purchases and sales of capital goods and financial assets. Such observed savings (investment behaviour) have the potential of being divided into subcategories such as financial savings and physical capital. They may be either under- or overestimated, however, to the degree that cash flows are unreported. Savings under the mattress or purchases of gold are rarely recorded in a survey. The direction of the bias is indeterminate. For example, if such unrecorded cash holdings (lagged savings) are used to finance investments - as is often the case when credit markets are rudimentary - positive savings may be recorded when the actual household asset position has not changed. Alternatively, savings will be underestimated when proceeds from a good harvest are set aside in liquid but not recorded cash resources (ALDERMAN/GARCIA 1993:34).

Cash is deposited in advance with some jeweler, carpenter, blacksmith, etc., for the daughter's dowry. Money is never secure at home for such long-term planning. This reduces the burden of such expenditures when the occasion arises.

The most popular way, however, is to deposit cash with some trustworthy relative²⁰⁴, though this trust needs a specific nature of relation. These trustworthy people perform the function of an informal and highly trustworthy bank, where money can be deposited and withdrawn at any time.

Mostly female maternal relatives such as mother's brother, mother's sister, maternal grandmother, father's sister, younger sister and in-laws such as wife's mother, wife's mother's sister or wife's sister can also be trusted, but this is comparatively rare. Women are generally considered to be very careful in financial matters and in keeping secrets.

The selection of a person depends upon the nature of relations entertained with him/her, for example:

- Argumentation is easier in the case of affectionate relations;
- old women usually have very limited needs which minimizes the risk of losing savings;
- the relation or the source of this relation should not be authoritative, even this source can be used to argue if any problem arises. For example, a mother's brother is preferred to a father's brother, because not only is a father's brother an authoritative relation himself, but the original relation 'father' is also authoritative in every respect and cannot be used if the saver has any problem with his father's brother. On the other side, it is exactly the other way round, not only the mother herself but her siblings as well are loving, gentle and trustworthy in every respect;
- maternal relatives are generally preferred to paternal relatives in such affairs.²⁰⁵ Paternal relatives represent '*Sharika*'²⁰⁶ and therefore give rise to competition. Especially paternal cousins can never be trusted because one tries to hide every secret. The nature of relations is so uncertain that any conflict may break out at any time and these secrets and weak points can be disclosed to let others down;

the vertical line is always preferred to the horizontal line of relatives, i.e., paternal grandparents, maternal grandparents are the most affectionate and trustworthy relations and are always preferred to uncle, aunts and cousins in financial affairs.

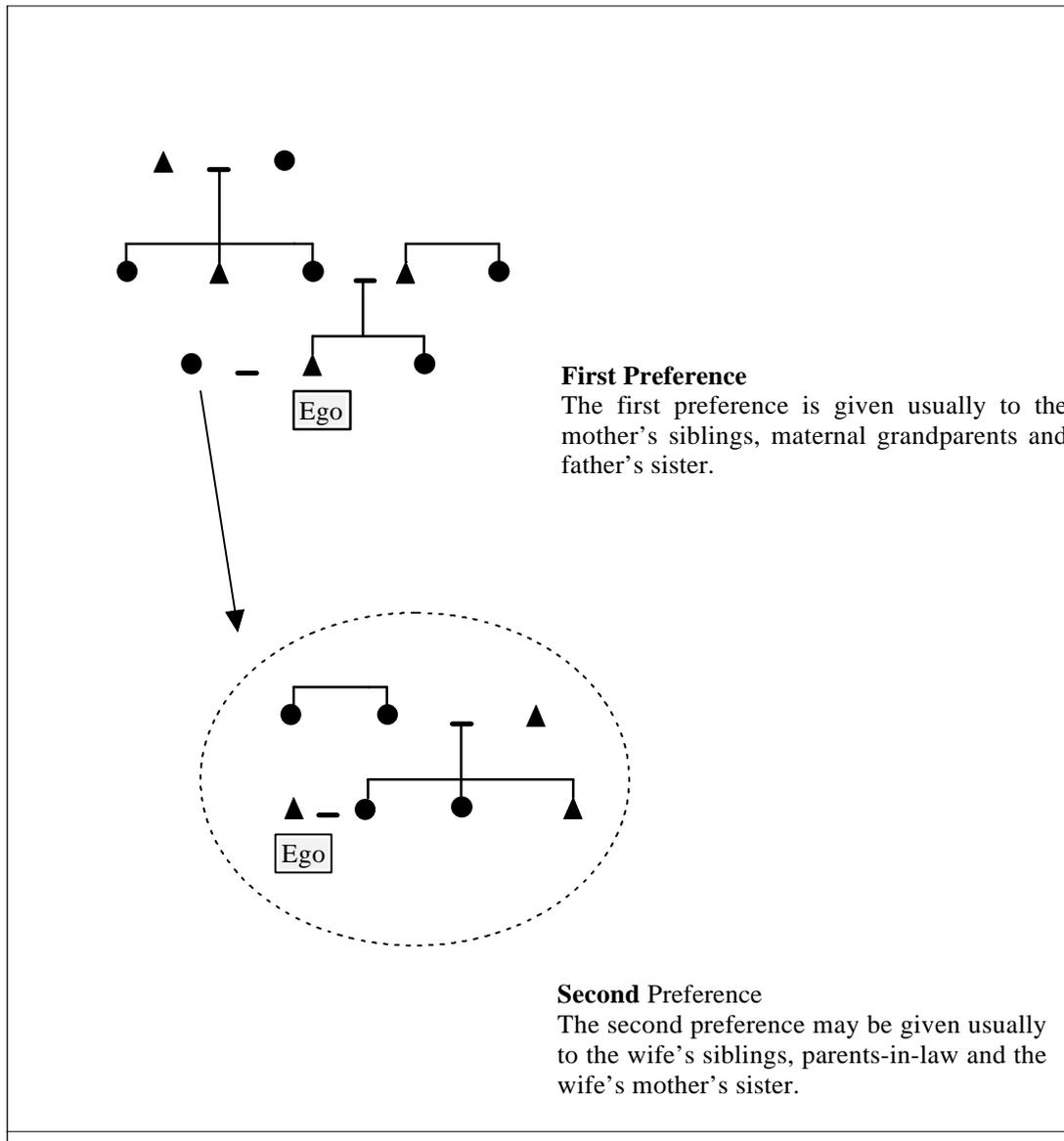
Diagram 8 shows first and second preference of a saver to deposit his cash saving with some trustworthy relative. Since women trust only their natal family in this regard, the diagram considers the case of saving by men.

²⁰⁴ See also SHIPTON (1992:29).

²⁰⁵ Although, this is not always the case. In contrast, preference is given to the patrilineal relatives in the case of marriage affairs. The son of the father's sister or brother is very often selected as a suitor, which strengthens the relationship within the patrilineal family.

²⁰⁶ '*Sharika*' includes paternal cousins and their families.

Diagram 8: Trustworthy relations for depositing cash savings



Source: author's own survey

5.4.2 Saving in bond holding

Bond holding is a type of saving which is rarely practiced in rural areas. Prize Bonds and Saving Certificates are two well known bond holdings. This urban-oriented saving method is specially designed for the literate population. Prize Bonds require the knowledge of getting and consulting monthly advertised winning lists. Otherwise, these prize bonds do not have more value than currency notes stored at home which keep devaluating. In addition, Saving Certificates need the knowledge of varying interest rates at different periods, etc.

Table 19: Saving in Bond holdings in the case study households in 1991-92

Cases	Types of bond holding	Value (Rs.)	Duration	Source
Case 2	Prize Bonds	2,000	Unlimited	Gift
Case 4	Saving Certificate	1,000	5 years	Saving Centre
Case 10	Prize Bonds	20	Unlimited	Gift

Source: author's own survey

Fewer than 15% of the studied households showed a rough knowledge of the different forms of Fixed Deposits, but none of them could mention the interest rate for different periods. The level of knowledge in this case is somewhat similar to that of the 300 households studied by MALONEY/AHMED (1988:149) in rural Bangladesh, where fewer than 20% have a distinct knowledge of them. Table 19 shows three case study households which possess bond holdings. Both households which possess prize bonds did not buy them on their own initiative. Case 2 got a prize bond from a relative living in the city on the occasion of a child's birth. Since then they have neither consulted any prize list, nor are they interested in doing this. They have kept it like other currency notes and know that one can get it cashed at the post office at any time. The prize bond possessed by case 6 is the gift of a brother who works in the city, to his sister. She knows that it is equal to 20 Rs., which she can get at any time. Case 4 is a single example of the possession of a saving certificate of five years duration and of a value of 1000 Rs. The certificate is owned by a married daughter living with her natal family after her husband's death. She is a teacher in the village girls' school and bought it at the motivation of her friend working in the saving center, who provided her all information in this regard.

Major discouraging factors appear to be the same as in the case of cash saving:

- money kept at home is a secret matter, buying and consulting prize bonds lists may disclose its existence;
- one is always dependent upon literate people;
- very few villages have Saving Centers;
- mistrust of financial institutions. An illiterate person does not rely on a piece of paper, which he cannot read, in return of his thousands of rupees;
- lacking facilities, for example, access to media such as newspapers and winning lists, and

- lack of appropriate counseling services and other motivation possibilities in the region.

5.4.3 Saving in agricultural products

A stock of agricultural products does not always represent saving; it may be differentiated as saving or investment, depending upon the purpose of storage. A crop stored with the intention of selling it when market prices are higher and the profit margin is the maximum represents an investment. Saving in kind is neither consumed nor exchanged during that period. Even if need arises, the household tries not to consume it. Saving in agricultural products may be considered saved when it is stored and seen as readily available cash at home, which does not require safety and secrecy like cash and is immediately liquifiable in the village when needed. According to the concept of hoarding used in the study, **there exist no hoarding of agricultural products.** Every sort of stock is utilized productively. It is either sold at a comparatively better price, exchanged against other items or consumed at some ceremony at some later date.

Saving in agricultural products is preferably practiced in rural areas and comes into the category of **‘precautionary saving’**, mainly because of the uncertainty and insecurity of cash kept at home, mistrust of financial institutions and the risk of its disclosure. The logic behind this special preference is its comparatively higher flexibility. Some crops such as wheat, rice, cotton and lentils are saved in kind. There are two possibilities after harvesting: either to sell the crop and save cash or to save the crop directly and sell it when needed.

- Pressed cotton seeds (*Khal Binola*) experience frequent short-term price fluctuations. They are bought at a low price during the season and stored till the price reaches its maximum. Apart from their liquidity value in need, their stock may play a multiple function of exchange for farm inputs in the absence of cash, thus representing a saving act.²⁰⁷
- Fertilizer storage has the same performance, can be sold at higher prices or may be exchanged at any time when farm inputs run short unexpectedly.
- Cotton is usually saved for mattresses, pillows and quilts for the daughter's dowry.
- Saving in agricultural products is preferred by women because stored crops are fully under their custody. Wheat and cotton are especially valuable in this case. As cotton cannot be stored over a long period, it is stored in limited amounts. Wheat is available almost throughout the year. Even wheat stored for the household's annual consumption is always kept in surplus. Women exchange it very often for shopping in nearby cities. Stored grain or cotton is a type of cash for which they are not answerable to anybody. Sometimes, when grains run short for actual household consumption, they may borrow it from neighboring women. This is a pure 'women's transaction' which is never entrusted to men. "In addition to saving cash, women are accustomed to putting a handful of rice aside before they cook, thus taking from the general household stock and building up a separate stock. This activity is considered as saving for periods when rice and money become scarce in the household. Most of the time, it is offered to their husbands to be sold when there is a good investment opportunity for the household and the husband is not able to generate sufficient money“ (RÄDER 1988:98).

²⁰⁷ MALONEY/AHMED (1988:148) also report on rural Bangladesh that rural people are reluctant to keep their savings in cash, they rather purchase some stock and sell it when the price rises One can earn 15% in 6 months, instead of 12 months as with a fixed deposit. Poor people usually invest in goats or a cow.

- Cotton crop when cultivated in small amounts is usually processed by women. They may exchange or sell it without being answerable to anyone.

Table 20: Saving in agricultural products in the twelve case study households in 1991-92
(Rs.)

Cases	Total income	Saving in kind		% of total income
		Item	Value*	
Case 1	5,51,150	Pressed cotton seeds	20,000	3.6%
Case 2	4,62,760	Wheat	15,000	3.2%
Case 3	3,47,300	Wheat	21,000	6.0%
Case 4	2,77,250	Wheat	16,500	5.9%
Case 5	1,95,200	Rice	10,100	5.1%
Case 6	1,91,000	-	-	-
Case 7	1,20,600	Wheat	5,250	4.3%
Case 8	1,35,910	-	-	-
Case 9	1,27,460	Pressed cotton seeds	14,350	11.2%
Case 10	78,150	Wheat	1050	1.3%
Case 11	31,402	-	-	-
Case 12	39,058	-	-	-

* Value is calculated at the market prices in 1991-92

The actual orientation to store this by product is investment, only that part of it is taken into account which is exchanged when urgently needed during 1991-92.

Source: author's own survey

Table 20 shows two cases of saving in pressed cotton seeds, five in wheat and the remaining one in rice. Wheat appears to be the most preferred crop for saving because of its easy storage. Pressed cotton seeds show second, and rice a third degree of preference.

Wheat, rice, and maize are usually stored in surplus. Such crops are seen as cash which is available at home because of their exchange value against other items of everyday use in village shops. This is a very flexible arrangement, especially for the women who do not have any access to cash otherwise, but enjoy a full control of stored crops. They exchange it through children. Grains or cotton act as pocket money for the children as well. They are usually given small amount of grains or cotton when they go to school and exchange these for sweets at school shops.

The rural community does not care about the devaluation of money. The major concern is usually the price fluctuation in the market. The surplus amount of crop is not sold just after harvesting, as the crop is plentiful in the market and prices are low. It is usually sold in hard seasons when the profit margin is the maximum.

5.4.4 Saving in livestock

„Because of their direct and indirect saving value, cattle especially buffaloes are cared extraordinarily²⁰⁸. People say ‘when a child dies, family members weep, but when a buffalo dies the whole family hungers’“ (KUHNE 1989a:8).

Saving in livestock represents the most practiced form. The possession of a large number of animals is not only a status symbol but a security in the case of crop loss or other unexpected emergencies. „Especially in rainfed areas, **livestock act as a saving bank** (LÖFFLER 1992:159). „**Besides land, livestock represents one of the popular means of production of rural households, which may be sold or bought when needed**“ (MÜLLER 1992:111, 319).²⁰⁹ In the case of an unexpected crop loss, cattle can be sold to secure the survival of the household. Even in peak cultivation seasons, the shortage of labor for livestock raising can be managed by women and children. This possibility to minimize the future risk may be understood as a major motivation for the relative higher amount of saving in this form. **Livestock is denoted as 'always available cash' at home;** because of their income generating value, animals are considered to be a strong economic base for poor families.²¹⁰

“The sale of milk and milk products (yogurt, cheese, and ghee) could supply to the households, which keep small animals and which have marketing opportunities, a constant and relatively regular income flow and reduce their dependence on their seasonal income and the harvest yields of crop products. [Similarly] The sale of the so-called animal by-products of sheep and goat-keeping (especially wool and hair, hides and skins) allows the producers to earn a side income and could acquire importance beyond the framework of the farm“²¹¹(ECKER 1978:23).

²⁰⁸ IFPRI Rural Survey of Pakistan, 1986/87-1988/89 (ALDERMAN/GARCIA 1993:50) shows a strong and positive correlation between ownership of female buffaloes and household income. Poor peasants prefer female buffaloes to cows because of the higher quantity and quality of buffalo compared with cow milk. Buffaloes milk has a higher fat content (National Research Council 1981), which makes it more useful as a supplement in poor diets and in the preparation of churned butter (ghee), which is itself a lucrative cash product. The data in this survey further shows that the three-year average household value of ‘milk and milk products’ for female buffaloes, is more than two and a half times higher than those of cows: Rs. 1,494 for female buffaloes versus Rs. 556 for cows. Poor rural households in Pakistan may well prefer female buffaloes but these are far more costly than cows: the average purchase price for a female buffalo is Rs. 4,516 versus Rs. 2,439 for a cow, and it is more expensive to feed. Annual fodder (own and purchased) and purchased feed costs for a female buffalo are Rs. 525 as opposed to Rs. 473 for a cow. SEABRIGHT (1991:69) also obtains similar results in his detailed survey of the livestock market in South India.

For further details on this point, see ADAMS 1986; and SHARMA 1982.

²⁰⁹ MÜLLER (1992) reports on rural Bangladesh that prosperity and influence of landowners was commonly determined by the number of animals one possesses. The amount of land had a limited significance in those days and landowners with one or two productive animals were considered poor (DATTA 1989:78).

²¹⁰ Other income (farm) generating activities also need not be negatively influenced by sheep and goat-keeping in the households of the rural poor. On the contrary, the keeping of these animals would even bring about yield increases (e.g., increase in the crop yields and maintenance of soil fertility on account of the high quality of these animals’ dung).

²¹¹ This does not only apply to marginal farm households, but also to agricultural labourers who earn better wages in the peak periods of work during the harvest as compared to their average earnings per annum as a result of the greater labour demand.

AJAM (1971:128) also reports for Pakistan that livestock keeping contributes a relatively higher amount of capital formation per land unit to small farmers and tenants as well as to the total capital formation of the household. This is especially true for the households with an agricultural income. In the case of agricultural households with secure non-farm income, the significance and share of livestock in the total capital formation of a household has been reduced to a larger extent. Table 21 presents a total value of the saving in livestock in twelve case study households. **“Livestock keeping usually performs the function of a saving bank. The higher amount invested in them remains saved till some emergency and capital scarcity, when it is again made available by the animals being sold”** (MÜLLER 1992:344).

Table 21: Saving in livestock in the twelve case study households in 1991-92
(Rs.)

Cases	Net income	Value of the animal saved*	% of total income
Case 1	5,51,150	-	-
Case 2	4,62,760	-	-
Case 3	3,47,300	-	-
Case 4	2,77,250	-	-
Case 5	1,95,200	-	-
Case 6	1,91,000	20,000	10.5
Case 7	1,51,250	-	-
Case 8	1,35,910	12,000	8.8
Case 9	1,27,460	8,000	6.3
Case 10	78,150	1050	1.3
Case 11	31,402	14,000	44.5
Case 12	39,058	10,000	25.6

* Livestock saving includes only those sheep, goat, calves and hens which are seen as saving and can be sold at any time.

Source: author's own survey

Livestock keeping has a dual impact on the household economy, firstly, as a source of extra income²¹² and, secondly, by acting as cash which is always available at home. The most commonly practiced methods are the following:

- Surplus cash, whenever available, is utilized preferably to buy a buffalo,²¹³ the most highly valued animal. The money invested remains saved until the buffalo is sold to get cash again. A buffalo represents not only a status symbol but a strong existence base²¹⁴ by representing a long-run addition in the household economy (KUHNNEN 1989a:7-8).

²¹² The results of IFPRI Rural Survey of Pakistan, 1986/87-1988/89 (ALDERMAN/GARCIA 1993:88) see both livestock raising and non-farm income sources as an instrument to reduce rural inequality. This implies that, if the equitable distribution of rural economic growth is an important objective in Pakistan, strategies to encourage the increase of non-farm income and livestock development would be desirable.

²¹³ A well maintained stock of buffaloes is usually considered a sign of a household's secure economic situation. See also HELMRICH (1986:4544f).

²¹⁴ ECKER also reports from the irrigated area of Pakistan's Punjab that it is only in exceptional cases that castrated buffaloes are used as draught and working animals in agriculture such as for ploughing rice fields or as draught animals for heavy loads. The main trend of production in buffalo keeping is the milk production. Thus, about 68.3 percent of the milk in Pakistan is produced by buffalo cows. Female buffalo calves are bred with special care. Male calves are considered to be a necessary evil and are often neglected.

- Parents usually gift a female calf to their daughter in dowry.²¹⁵ If her in-laws do not have enough place, it is left with her natal family. Not only are its products supplied to her regularly by her family, but it also represents her saved cash deposited with them, which keeps on increasing day by day and which can be claimed at any time. "Many women receive monetary or non-monetary transfers from their father's and/or brother's households. In addition to the 'marriage demand payment' that is received by their husband's family, at the time of marriage and afterwards, they personally receive bigger items such as animals or land" ²¹⁶ (RÄDER 1988:96).
- **Goats and sheep** represent another form of saving. „The size of their stock, their health and nourishment level is a decisive criterion to judge the social status and economic position of a household“ (MÜLLER 1992:109).²¹⁷ Small goats are usually bred by women.²¹⁸ They receive them usually as gifts from neighbors, relatives or their natal family. Sheep and goats count among the most important agricultural productive animals after cattle and buffaloes from the viewpoint of saving.²¹⁹ Women usually do not invest much in their breeding. As their multiplication rate is very rapid, goats increase in number in a much shorter time and at negligible costs. They are denoted as '**women's cash**' and are sold whenever cash need arises. This is an approved cash and can be spent openly.

As to whether **livestock keeping is a hoarding, saving, existence base or investment**, the concept of 'livestock hoarding' does not exist in the present study. Almost every type of animal keeping is of a productive nature. Animals can be converted into liquid assets, may generate cash when needed or may be consumed directly in case meat is needed. **Animal keeping is seen as money deposited in a bank and drawn whenever required without any risk of loss and formal procedures.** In the absence of proper access to the financial institutions and due to mistrust of their functioning, it seems to be the best possible arrangement to keep money under one's own control. „**Livestock keeping possesses a monetary and non-monetary effect on capital formation. Animal buying is an investment which simultaneously and indirectly expands the economic base of a household, [...], but it should be considered a 'middle stage'(saving) in the actual formation of capital, which is oriented towards buying of land by selling the animals**“ (MÜLLER 1992:329). Investment in cattle as well as in sheep and goats is just a 'protective strategy' for a surplus amount. The later sale of these animals is usually an already decided goal.²²⁰

Livestock keeping, however, does not mean saving for every economic stratum. The difference can be observed in the way of dealing with animals, input (total investment in

²¹⁵ Livestock is influenced more by the non-monetary transactions such as consumption on birth, death, religion, and gift exchange. Mothers usually gift some goats to their newly married daughters to make a basis for the woman in the newly established household (MÜLLER 1992:301).

²¹⁶ In the case of the community under study, however, such gifts include only animals, as there exists no example of land transfer.

²¹⁷ See HELMRICH (1986:453f) for the influence of livestock keeping on the socio-economic status of a household.

²¹⁸ See also MALONEY/AHMED (1988:28).

²¹⁹ MÜLLER (1992:96), for example, ascertains in rural Bangladesh that sheep and goat keeping is practiced by all income classes, and 80 percent of the stock is usually a result of breeding by the household. Goats are preferred to sheep, because these are not considered to be as clean.

According to MÜLLER's results, the size of livestock is directly proportional to a household's landholding; it decreases with the decreasing land size and increases with addition in land.

²²⁰ Plowing animals are again sold after the preparation of land, and this capital is invested in crop production to increase income (MÜLLER 1992:353).

food and labor) and output comparison of a specific animal species, its number and the social stratum of the owning household.

Cattle, i.e., cows, buffaloes, oxen and bulls are not intended to be sold in case of any urgent cash need. It represents an economic base in low income and small farm families. Cattle as one of the major source of income and food products cannot be sold in any emergency. Even in middle class households, where it represents a source of additional income, attempts are made to avoid risking this share of income. In such lower and lower middle strata, these animals are required for major agricultural tasks such as plowing, threshing, leveling, transport of goods, etc. and the sale of cattle results in a risk for the major income source (farm) as well. Cattle keeping serves as an existence base in this case, not as a surplus. Hence, it cannot be used for saving purposes.

In the upper middle stratum, however, where agricultural activity is mechanized and is sufficient by itself to provide a secure base to the household economy, livestock is usually kept either as status symbol or to get milk and homemade milk products for household consumption. Animal products are not a source of income in this class and, therefore, can eventually be sold when cash is needed and no other suitable alternative is at hand. The only reason which may hinder this act is the cultural sanction against its sale as in the case of jewelry. Only calves are bred with a saving orientation in this stratum. Very young animals are bred with the intention of selling them after one or two years at a better price. They usually do not represent an important component of the household's economic base and can be sold at any time. This is a method which is socially approved.

Kids represent a real possibility to save. They are kept only by women who want to save to fulfill their own occasional needs. Goats breeding is usually practiced in lower and middle class households. The sale of goats influences the household's economy positively. Poultry can also be counted in the same category.

In conclusion, animal keeping as a saving means can only be ascertained in a better-income class in the study area. This class owns farms of a sufficient size or earns a non-farm income and may buy animals to save surplus money and sell them without experiencing any fall in the household's economy.

5.4.5 Quantitative analysis of saving composition

Table 22 shows the individual and the total value of the four types of saving which could be calculated quantitatively. There exist seven cases of cash saving, six cases of saving in agricultural products, three of bond holding and six of livestock saving in twelve case study households. Despite many dislikes and hindrances, we found that cash saving was the most prevalent one. The result obviously negates the generally prevailing idea that rural folk do not save cash.

Table 22: Amount of different saving types in case study households
(Rs.)

Cases	Net income	Saving in cash	Saving in bond holding	Saving in agri. products	Saving in livestock	Total
Case 1	5,51,150	6,750 (9.4) [1.2]	-	20,000 (74.7) [3.6]		26,750 [4.8]
Case 2	4,62,760	60,000 (77.9) (12.9)	2,000 (2.6) [0.43]	15,000 (19.5) [3.2]		77,000 [16.6]
Case 3	3,47,300	2,000 (8.7) [0.57]	-	21,000 (91.3) [6.0]		23,000 [6.5]
Case 4	2,77,250	-	1,000 (3.6) [0.36]	16,500 (60.0) [6.0]		27,500 [6.4]
Case 5	1,95,200	2,730 (21.3) [1.4]	-	10,100 (78.7) [5.2]		12,830 [6.6]
Case 6	1,91,000	9,650 (32.5) [5.0]	-	-	20,000 (67.5) [10.5]	29,650 [15.5]
Case 7	1,51,250	4,000 (43.3) [2.6]	-	5,250 (56.7) [3.5]		9,250 [6.1]
Case 8	1,35,910	21,042 (63.6) [15.5]	-	-	12,000 (36.3) [8.8]	33,042 [24.3]
Case 9	1,27,460	-	-	14,350 (64.2) [11.3]	8,000 (35.8) [6.3]	22,350 [17.5]
Case 10	78,150		20 (0.9) [0.02]	1050 (49.5) [1.3]	1050 (49.5) [1.3]	2120 [2.7]
Case 11	31,402	-	-	-	14,000 (100) [44.5]	14,000 [44.5]
Case 12	39,058	-	-	-	10,000 (100) [25.6]	10,000 [25.6]

() = % of total saving

[] = % of total income

Source: author's own survey

Table 22 shows that saving in kind represents the highest percentage of total household income as well as of total saving. It represents the most stable, profitable and flexible method in this context. It fulfills even cash need, creates no conflicts, and is acceptable equally to men and to women. Cash saving proves to be the second most practiced form of

saving, mainly because the cultivation of wheat - the most preferred crop for saving - is quite limited in the area, while the two main cash crops - citrus and sugar-cane - are most prevalent and are a source of regular cash income.

IFPRI Rural Survey of Pakistan, 1986/87-1988/89 (ALDERMAN/GARCIA 1993:34-89) observes income, consumption and saving during a period of three years. The results show a fluctuation in the relative shares of different income sources due to weather and other factors. For example, remittances from abroad declined over the three years. It is less likely that traditional social networks will be successful in stabilizing consumption in the face of short-term shocks through sharing mechanisms (co-insurance) or through localized informal credit.²²¹ Moreover, households clearly use savings and credit markets to stabilize consumption. Households also save or draw on their savings as a result of transitory income fluctuations. On the average, 70 percent of the increase or decrease in income after a shock is either saved or spent, depending on whether the unexpected change in income was a positive or a negative one. Even low income households are observed to save 10 percent of their overall income. Remittances are mostly saved; households put half of the marginal remittances from abroad into financial savings (debt reduction, bonds, and bank accounts) and an additional 30 percent into physical property. Nevertheless, results show that more of the local remittances are used for consumption.

Only about 15 percent of the households used banking networks, indicating the potential for formal-sector resource mobilization. This probability increases with education and declines with distance from a bank. Informal lenders such as shopkeepers and relatives are still the main elements of the rural credit market in Pakistan, and limit the use of formal banks.

5.5 Indigenous saving arrangements

The regulative principles or rules sanctioned by the members of the community constitute a code of conduct for an individual and are termed **institutions**. These rules facilitate coordination and co-operation in the use of resources among people and offer traditional saving arrangements in cash, kind and labor without any incorporation of the formal sector.

In the traditional rural sphere of Pakistan, such institutions are found on the basis of mutual help and 'collective action approach'²²² as well as on the basis of 'patron-client relationship.' The institutions that govern the village economy are customary rules and moral principles rather than formal laws and contracts. HAYAMI and KIKUCHI (1981:16) explain:

"Production externalities are so pervasive and possible conflicts are so numerous and variable, that customs or accumulated precedents tend to be more effective means of settling the conflicts than the stipulations of formal laws. Because villagers' property, in the form of standing crops and grazing animals, is often left physically unprotected in the open fields, morals can be more effective means of policing."

These **customary rules and moral principles are enforced through social interactions in the village community**. BECKER (1974:1063-1093; cf. HAYAMI/KIKUCHI 1981:16) defines social interaction in terms of the utility function of a person to include other

²²¹ The results from this study indicates that, while some income fluctuations are explained by district variables, a far greater share of the variance is explained by village-level variables. Households can reduce their consumption risks through family networks that extend beyond the village as well as through income diversification that reduces income risks.

²²² For further details, see Section 5.5.2.

persons' reactions in his action (BECKER, 1974; 1976); for example, A's welfare depends not only on his own personal income and consumption level but very much on his impression on B. In order to enjoy B's goodwill, A may transfer part of his income to B up to a point where A's marginal loss of utility from the income transfer to B equals the marginal gain in A's utility due to the improvement in B's evaluation of A; at this point of equality A's total utility is maximized. Goodwill is the basic prerequisite for collective action or patron-client form of relationships.

HAYAMI/RUTTAN (1985:204) summarize the concept as the rule of a society that facilitates coordination among people by helping them to form expectations, which each person can reasonably hold in dealing with others. The institutions based on collective action co-ordinate the use of scarce resources, thus saving transaction costs. Such cooperative actions usually exist in kinship relations or because of the community tie, which is mainly based on the fact that villagers live together in the same location and have to cooperate for their security and survival in many ways.²²³ HAYAMI/KIKUCHI (1981:12) perceive them as an outcome of the strong interdependence due to the ecological interdependence of biological processes. These institutions have evolved as time passes to provide security to households, a function which is similar to savings. **Urban dwellers seek this security in independent saving acts through the formal financial network and the rural population, in mutual co-operation.**

These cooperative type institutions which may be divided into two main categories may be defined as a saving arrangement:

The **first category** includes traditional institutions which involve **direct saving acts** such as share breeding of livestock (saving in livestock) and rotatory saving associations as a self-imposed saving method, and *Vartan Bhanji* as an **'account of cash and kind,'** in other households. Cash and kind are deposited to help them on certain occasions and are withdrawn on some similar occasion in the depositor's household.

The **second category** deals with the institutions acting as a **traditional saving arrangement**, in which a saver (relatives, caste groups, etc.) deposits his labor with some needy household and may withdraw it whenever a similar need arises in his household. The person owing the labor is supposed to repay it if he wants to continue this labor account. Cooperative institutions such as *Sep*, for example, deal with the establishment of an **'account of labor'** of kammis with the landowner, where labor is not withdrawn as labor, but rather as a social and economic security. The institution of *Wanghar*, however, deals with the deposit of labor and its withdrawal as labor. **The reason, why these 'labor accounts' are established and preferred to other methods, is that they minimize transaction cost for the rural population. Since the cost-minimizing effect of these institutions increases a household's saving potential, the partition between them and other influencing factors becomes very transparent, and this leads to confusion. The difference lies, however, in the nature of the two. These institutions are not just cost-saving mechanisms which increase a household's saving potential, they represent rather a whole procedure of traditional saving method which may itself be regarded as a saving act.**

Sep relation should not be confused with a formal labor contract, except the amount of grains from landlord and professional services from *sepi*, as the nature and extent of the exchange of services is not strictly predefined between them. Because of its versatility, the

²²³ See Section 2.1.4.2 for the concept of cooperation in Islamic Economics.

relation can never become a formal one. The services of *sepi* usually cross the limit of his professional expertise and landlord also offer him many other type of 'fringe benefits' which does not fall under any formal contract like

- Landlord usually offers his piece of land to *sepi* for house construction;
- Landlord is usually responsible for settling *sepi*'s court and local police affairs;
- Landlord usually extend credits to his *sepi*;
- *Sepi*s usually receive cash from landlord and his relative on different ceremonies;
- *Sepi* may ask for fodder whenever needed;
- *Sepi* may borrow agricultural implements when needed, etc.

5.5.1 'Sep relation' - A bank of labor

The '*Sep* System' represents a form of 'patron-client' relation' in personalized market according to SCOTT (1972:8); this relation is defined as a special case of dyadic (two-person) ties involving a largely instrumental friendship, in which an individual of higher socio-economic status (patron) uses his own influence and resources to provide protection to a person of lower status (client). In the patron-client relationship, exchanges are multi-stranded and the balance is cleared in the long run.

Landowners and landless entertain a highly interdependent relation. Both constitute a production team. The economic transaction between both strata is called *Sep*. *Sep* represents a prefixed contract between both. Landowners cultivate or let their land be cultivated by others and the landless community serves them in farm and household affairs in every respect (barber, shoemaker, carpenter, etc.). KUHNE (1955:43ff) defines the **Sep system more as an organization form of an agricultural production team than a wage system. The kammi's duties are to perform their respective skills as well as social performances on social occasions, family celebrations and at the farm in peak labor days. Their fixed share in produce does not correspond to the services performed. It is never calculated as wage per hour or day. It is rather understood as a regular lumpsum offer for their existence.** This fixed crop share is given to the *kammi*s even when absolutely no services are offered; for example, the water-carrier is still receiving his *Sep*, although he has not been supplying water for a long time because of the water supply system in the village. However, he still performs his social and ceremonial services in the same way as before.

The socio-economic existence security, which is given to *kammi*s in return for their labor deposited with the landlord is hardly measurable quantitatively. This can only be analyzed if we compare the services performed (labor deposited) by *Kammi*s and the facilities (socio-economic security) offered to them. Nowadays, the *Sep* relation only applies to the professions of barber, blacksmith and carpenter: the barber for a number of tasks apart from his professional skills, the blacksmith for repairing agricultural implements still in practice, and the carpenter, to a limited extent, for repairing wooden agricultural implements as well as some simple traditional furniture items.

The following are the services performed by the barber and his wife. He

- pays weekly visits to every household for a haircut and shave;
- entertains the landowner's guests, performs his duties from early morning till late evening to look after them;²²⁴

²²⁴ See also EGLAR (1960:180).

- acts as a 'private agent' of the landowner and reports everything happening in the village;
- mediates suitable match for marriage within families;²²⁵
- cooks on every festive occasion of the household;
- delivers invitations to the village as well as to neighboring villages' households;
- distributes sweets on every occasion;
- accompanies women visiting their natal families in other villages.
- His wife helps in every possible household task.

The carpenter is considered another important *Sepi* which is still needed by the landowners.

The following is a comparison of his services with the remuneration he receives on different occasions. He

- cuts fuel wood and repairs furniture for any celebration in the household. „He makes the plow and the yoke and all the woodwork required for the Persian wheel, the necessary woodwork required in house construction and the elaborate carving on doors, window shutters, closet doors, and on the central pillar in the main room of the house“ (EGLAR 1960:180);
- makes some simple furniture items of traditional origin for the dowry on the daughter's marriage;
- makes the first cradle at the birth of a child in the family;
- brings first walker when a child starts walking;
- is responsible for the immediate repair of every wooden item of the household and farm, e.g., doors, windows, furniture, kitchen articles, plow and yoke, pot stand, cart, cots and stools, spinning wheels, churning sticks, hand ginning machines, and the large and small wooden boxes in which the dowry of the bride is packed.²²⁶

A landowner generally remunerates *Sepis'* labor in the following four ways: with

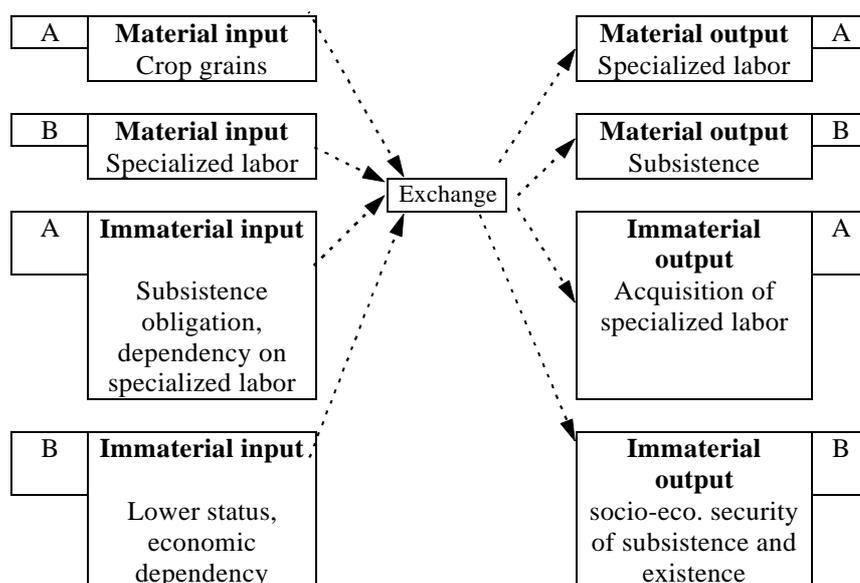
- a pre-fixed amount of agricultural produce per annum,
- facility of using some of the landowner's belongings such as provision of free fodder, free residence, and use of agricultural implements, etc.,
- extra cash and remuneration in kind on festivities or in the case of some extra help at peak periods in agriculture, and
- an extra non-prefixed share of all cultivated crops, even if the landowner cultivates them just for his own use.

Table 48 and 49 (Appendix) present a detailed account of the remuneration received by the barber and carpenter on different occasions.

„The engagement of these services automatically involves the responsibility of guaranteeing the subsistence of the specialist. The fulfillment of this obligation simultaneously entitles the respective person to services. By means of this incorporation into the village system, the craftsman is able to secure his existence“ (HERBON 1985:78). The material and immaterial exchange in this relation is sketched in Diagram 9.:

²²⁵ See also EGLAR (1960:180).

²²⁶For further details, see also EGLAR (1960:181)

Diagram 9: Exchange relation in *Sep* system

A = Landowner
B = Sepi

Source: Adapted from HERBON (1984:171)

Such relations are usually of multiple nature in the rural sphere. Besides labor, a landowner needs the *Sep* relation to accumulate social capital. A Sepi deposits his labour and goodwill with the landowner. This is compensated in the form of socio-economic security. Because of tradition, kinship, and locational affinity and the need for co-operation for the sake of minimum security and survival, the village community reveals a high degree of social interaction. Everyone observes the behavior of his fellow villagers and comments on it, and such gossips travel very quickly. Sociological and anthropological literature interprets such a relation more concretely in the form of the **theory of social interaction**; HAYAMI and KIKUCHI (1981:17) define it as "a positive interaction resulting from the trade off between A's own consumption of his income and the income transfer in order to buy B's goodwill. Within the context of the '**Moral Economy Approach**,' they view that such a pervasive tendency in village communities is used to set informal social controls on the better-off members to redistribute wealth or to impose specific obligations to provide for the minimum needs of the poor. **A very common way of adding to the social capital (prestige) and of avoiding malicious gossips, as discussed by SCOTT (1976:41-42), is only at the price of an exaggerated generosity, through lavish celebrations or weddings, the most important one being to take on more dependents and employees than an average household.** This generosity, however, does not go without compensations; it redounds to the growing prestige and serves to surround them with a greater clientele which helps to validate their position in the community. SCOTT considers it a form of social debt which can be converted into goods and services if need be. Such expectations of the observance of reciprocal rights and duties are the basic conditions for patron-client relationship. In the absence of such expectations, no agreement may be reached by tacit bargaining. According to NASH (1950:155-162), an anarchy may prevail as the result of opportunism based on mutual distrust - a '**prisoner's dilemma or non-cooperative game.**' But such institutional arrangements or contracts can be more easily enforced if the community is more tightly structured in the sense that people are expected

to conform to social norms such as reciprocal rights and duties which are clearly defined by traditions.

HAYAMI and KIKUCHI (1981:14) consider this saving arrangement as a substitute for a set of specialized markets for labor, land, credit, insurance and so on; **multiple transactions between the same parties permit the saving of transaction costs because much of the cost of information collection and contract enforcement is common to all the transactions.** "In the village environment the decentralized system of independent peasant producers tied by personalized exchanges²²⁷ tends to work more efficiently than the markets and hierarchies of the urban type" (HAYAMI and KIKUCHI 1981:16).

5.5.2 Wanghar - A bank of labor

Mutual co-operation differs in degree and nature, in the economic, social and agricultural spheres. This represents not only a system of mutual help, but a way to strengthen the mutual ties of the community. Rural community has a special cooperative type institution to cope with the insufficiency of the manpower and the higher wages of hired labor in the peak labor season. Such a cooperative system allows the accomplishment of a number of activities simultaneously in a limited span of time. Membership in a co-operative group is usually determined on the basis of kinship, social contacts, biraderi, friendship, neighborhood, etc.

Rural Punjab uses a specific term '*Wanghar*' for such a arrangement. This is an organization for the mutual exchange of labor in the hour of need. "The term '*Wanghar*' is derived from a 'Punjabi' (the native language) word '*Wangharna*', which means to ask the fellows for help on voluntary and reciprocal basis" (CHAUDHRY 1987:29). The major factor which necessitates such co-operation is strong seasonality in the demand for agricultural production. At peak time, a large amount of labor in excess of the family labor capacity is often required for timely operations. The great demand for labor may also arise suddenly in an unpredictable manner, owing to uncertainty in the variation of weather and other ecological conditions.

Like all other similar traditional cooperative institutions, *Wanghar* performs a dual function; it not only acts as a bank of labor but adds to the saving potential of a household by minimizing the cost of activity. Every household keeps a 'balance of labor' of other households that have worked free of cost and deposited their labor in the past. Every household knows how much labor it owes to whom and is ready to repay it at any time. Such a mechanism usually functions among the households of the middle stratum and releases them from the worries of time availability and the high costs of hired labor. Apart from labor, draft animals may also be exchanged in the same way.

The farmer who needs many hands extends his word through some kammi (a person from the service caste) or addresses himself personally to other farmers of his own or of the neighboring village. The organizer asks only those farmers who are in an already established relation of favor exchange with him. '*Wanghar*' is usually called for one day. If the task is not completed in one day, the remaining work is completed by himself or with the help of some other group. Sometimes, if the participants agree, activities may last for two days. Activities are preferably completed with the help of Wanghar participants and the landowner's kammis. Since kammis belong to many landowners and have to oblige

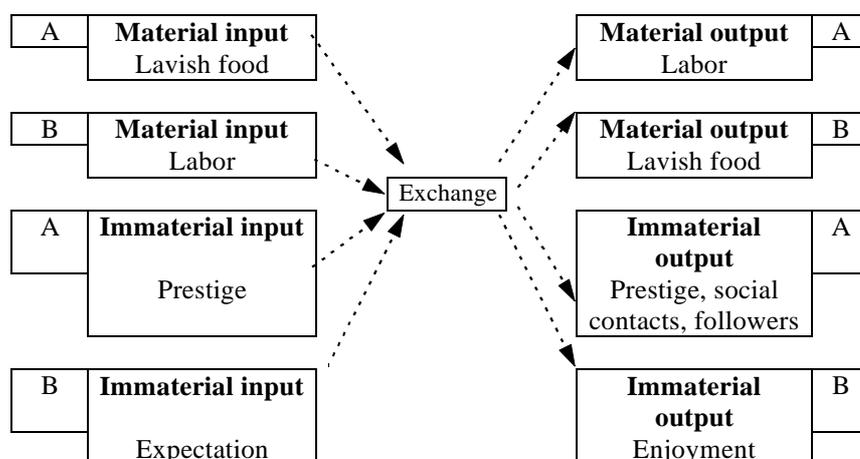
²²⁷ Which may well be called a 'personalized market' in contrast to the impersonal capitalistic market abstracted in both neo-classical and Marxist economics.

everyone, they distribute themselves²²⁸ according to the need and their personal ties with a certain household. In certain cases, when an activity has to be completed under time stress and participants including kammis are not sufficient, some wage laborers may complement the group. At noon, a lavish lunch is served to the participants. Wage laborers, if any, bring their own food. **Nobody is paid, only wage laborers receive their wage.** The activity can be arranged for a household as well as for a farm. In the case of household labor, usually the household's neighbor and, for farm activity, the farm neighbor are requested to participate. There is no fixed rule, as it always depends upon the nature of relations. The potential groups for such a co-operation are: kinship ties, caste groups, biraderi, sect, political affiliations, etc. As the village is divided into visible segments of caste and biraderi groups, the basic structure is already available.

„Disregarding the fact that it is dying out, the motives for the existence of *maun* (*Sep* system) lies in the mobilization of followers. Apart from help in need, it is generally 'rich' households that secure their followers a certain income and 'redistribute' provisions in times of economic depression. Thus they add to their reputation of being good patrons“ (HERBON 1985:77).

Such activity is also seen as an opportunity of merry social gatherings to introduce a little change in the daily routine. The two-way exchange relation is sketched in Diagram 10.

Diagram 10: Exchange relation in *Wanghar*



A = Organizer of the activity

B = Participants

Source: Adapted from HERBON (1984:170)

Even when labor is hired instead of being exchanged, employment contracts are usually different from impersonal market relations in the urban economy.²²⁹ HAYAMI and KIKUCHI (1981:12)²³⁰ observe a similar practice, hiring a laborer. Even if it is a casual employment by itself, it tends to be a part of a complex personal relationship involving a

²²⁸ Sometimes, such distribution may result into a breakage of the *sep* bond, if a landowner feels it disgracing that his *kammi* has preferred some other landowner at the hour of need.

²²⁹ See also WEBER (1968); HAYAMI & KIKUCHI (1981).

²³⁰ See theoretical discussion in Section 2.1.4.1.4.

variety of exchanges. Such relationships enable employers to depend on a supply of labor from local workers for unpredictable demand peaks.²³¹

5.5.2.1 Occasions of 'Wanghar'

'Wanghar' is arranged for the activities which run simultaneously and have to be completed within a fixed time limit. Activities such as sowing, harvesting, threshing, etc., may require an extra hand.

Sowing time for each crop lasts 15-30 days. Invited farmers bring their agricultural tools as well. Sowing is usually done in the early morning when the temperature is favorable. The activity takes about 3 to 4 hours.

Threshing also needs extra labor; the threshing of wheat especially is quite intensive and takes two to three days. Since each group of participants helps just for one day, the organizers have to arrange for new participants every day.

Similarly, the **building of a semi-residential store** (*dera*) requires much labor. Walls may be built by the owner himself with the help of wage laborers, but the roof covering requires many hands to put clay layers on very quickly before they get dry. The task is usually done in the evening, when people have more free time, and the activity can be completed in a shorter time. After completion, the organizers distribute sweets among the participants. No food is served in such a short working time.

An activity is also organized for building an **animal shed**, especially when the shed has fallen in winter and the animals need a new shed immediately.

Sometimes when fruit dealers (*buparis*) do not buy an orchard in time, the owner calls 'Wanghar' for **picking, packing and loading citrus**, which otherwise is the task of the fruit dealer, before transporting it to the nearby market. The owner of an orchard organized a *Wanghar* during the empirical survey. The fruit dealer left the orchard because of fruit loss when the fruit was ripe. The owner organized 'Wanghar' at short notice. The task had to be completed within one day. He organized a total of fourteen participants, two cousins, four fellow farmers and seven wage laborers. The participants worked the whole day, had lunch in the break and worked further. In the evening, tea was served. At the end of the day, the fruit was packed and ready to be loaded for transportation. Loading was done on the next day with the help of other participants.

As stated earlier, the majority of the community migrated from the Gujrat region. They share the same cultural background, caste and biraderi groups. This means, a basic infrastructure of mutual help was already there. Political, religious and social factions were comparatively stronger, and the general atmosphere was more homogenous in the past. The income level was overall low. The scarcity of basic requirements compelled every social group to cooperate. Consequently, every-one tried to accomplish important tasks on a reciprocal basis. 'Wanghar' used to be a very influential and active organization in those days. **Major fields of shared labor in those days were:**

²³¹ This is consistent with BARDHAN's statistical findings for India that the incidence of labour-tying arrangements by use of credit and other means is smaller in areas with high employment rates (BARDHAN 1989). He reasons that in slack labour markets with higher unemployment rates, the employer does not bother to have labour-tying arrangements because he is sure of securing a sufficient supply of labour peak operations.

- participation in manual plowing. Participants used to bring their wooden plow;
- sowing which is a tedious job, especially in the case of rice and sugar-cane,;
- leveling of land: participants used to bring their own bullocks and wooden beams to level, break clods and pulverize soil in order to retain moisture;
- water-course cleaning and maintenance: since water courses were not paved, they required frequent cleaning and maintenance. This was an activity equally shared by everyone. Everyone was supposed to bring his own food;
- threshing: the traditional way of threshing was quite long and labor intensive. One activity required many hours and 8-12 men;

The technological revolution of the mid-sixties replaced the labor intensive rural economy by a capital-intensive one. Improved infrastructure and fast and efficient methods reduced the need of intensive mutual co-operation for many activities, e.g.,

- The water course cleaning activity has been reduced to a considerable extent after the renovation of water courses and the installation of cemented convert and stop structures.
- A farmer is seldom in need of others for plowing and rolling of a large field with the help of a tractor.
- Modern drills for sowing wheat save much labor and time.
- Threshers have made the job very easy. A farmer can easily thresh his crop within a day. In case he needs someone, it is just for one or two days instead of four to five days.

5.5.2.2 *Significance of Wanghar*

As stated before, in addition to its function as a ‘bank of labor,’ Wanghar exerts a cost- minimizing effect on the household’s economy. Although the cost-saving effect does not represent a saving arrangement in itself, it is important to discuss it here, since it shows the significance of the arrangement. Apparently, 'Wanghar' seems to be more a social concern than an economic one. It looks more like a 'prestige act' than a saving one. There is no doubt that the organizer sometimes really spends more on lavish food and drinks than on wage labor, but this is not always the case. One cannot deny two significant functions of *Wanghar*: 1) it is an act to oblige others and to be obliged simultaneously, so that the scale of relation never comes to a balance and 2) it is an occasional check of mutual ties between the organizer and the other households. Contrary to Herbon’s results for a similar arrangement (*Maun*) in rural Bangladesh:

„A household, which has recourse to this type of group assistance, binds itself to provide the summoned, and sometimes even the nonsummoned, helpers with qualitative, above-average food (milk, meat, sugar, etc.). Payment is not effected. The organizer of this type of work festival has to reckon with high costs, which, when calculated in monetary units, amount to approximately 15 to 20 takas per man/day. This system is indeed not economically profitable and thus not economically motivated“ (HERBON 1985:77),

The present study analyzes it as a cost minimizing system.

Farmers seem to be quite logical in practicing '*Wanghar*' for some events till today. Even after the intervention of technological implements, they analyze how the cost of a specific activity can be reduced to a minimum. There are hardly any current examples showing that the activity was arranged just for ostentation and resulted ultimately into dissaving. The social and economic aspect of this activity may easily be misunderstood, if the complete impact is not analyzed, e.g., the advantages it has brought and the comparison of costs.

To take a simple example of wheat threshing: if someone has no access to a thresher, either because it is costly, the farm is of a small size or a thresher is not available, he has to harvest by himself. If he does not arrange '*Wanghar*' and tries to complete the activity with his immediate family, the following losses may occur if harvesting time is prolonged:

- crop dries up and the grains fall;
- birds may spoil it;
- wind, storm, rain or any other natural disaster may destroy it;
- actual marketing period may be missed;
- long duration of harvesting process may postpone sowing of next crop;
- longer duration may affect other household activities as well which may also result in some losses;
- maize crop loses weight by drying up;
- delayed sugar-cane crop loses market chances, as sugar mills only buy it up within a certain period.

Agricultural machines have made the process faster but uncertain. For example, crops are threshed one after the other. The threshing period of one farm may be prolonged because of any unforeseeable reason. If the thresher is driven on unpaved roads, it may get stuck anywhere. A 3-4 hours threshing may therefore take a full day. An activity planned in the morning may be delayed till evening. The hired wage laborer has to be remunerated for that day. *Wanghar* participants in such a case may be the neighboring farmers who may help for a few hours when the thresher comes. A normal offer of lunch or drinks is not comparable with the total cost which would be incurred.

Another considerable factor in this regard is the concentration of work within a very short span of time because of mechanization. The duration of the activity is reduced to 3-4 hours instead of a whole day. In the case of threshing, for example, one requires five laborers for three hours. That means, if three laborers are hired, they work just for three hours on a full day's wage.

Table 23 shows a comparative analysis of the cost of some concrete examples of three different types of activities performed with the help of '*Wanghar*', with their total cost otherwise.

Table 23: Some examples of *Wanghar* from twelve case study households

Cases	Participants of <i>Wanghar</i>				Purpose of <i>Wanghar</i>	Duration	Total Cost		Cost estimated Otherwise
	Cousins	Own servants	Kammis & non-relatives	Total			Cost of different items	Total	
Case 1	-	2	18	20	Sugar-cane harvesting	10 hours One day	Tea = 30 Rs. (twice)	30 Rs.	Cost of 15 wage laborers = 1200 Rs.
Case 8	6	3	6	15	Citrus picking	12 hours 1.5 days	Tea = 30 Rs. (3 times) Lunch = 150 Rs. Tobacco = 12 Rs. Oranges = 24 Rs. (6 Dozens)	216 Rs.	Cost of 12 wage laborers = 960 Rs.
Case 10	2	3	2	7	Leveling of 'Dera'* courtyard	4 hours 0.5 day	Tea = 6 Rs. Lunch = 80 Rs.	86 Rs.	Cost of 4 wage laborers = 320 Rs.
Case 4	2	2	4	8	Building of roof	2.5 hours	Tea = 6 Rs. Sweets = 15 Rs.	21 Rs.	Cost of 4 wage laborers = 320 Rs.

Source: author's own survey

All activities exemplified above are usually organized under time stress. In the first case, farmers have to organize the delivery of sugar-cane to the mill within one or two days, because the permit was received a short time before. Most of the participants belong to the poor strata and require the green leaves of sugar-cane as fodder. A very small number of neighboring farmers help in the afternoon. Since needy participants are compensated with sugar-cane leaves, there is no need to offer a proper lunch. They work quite casually, and may visit home for lunch. Since harvesting is done in winter, the organizer offers only tea during two big breaks. In Table 32, the number of participants is reduced in the case of hired labor, because *Wanghar* participants work quite casually as compared to wage laborers. One sees the considerable difference in costs between *Wanghar* and hired labor, which proves it to be a cost-minimizing arrangement.

The example of case study 8 presents a typical example of a formal *Wanghar*, organized under time stress when the contractor had suddenly defaulted. Citrus has to be managed very carefully as the fruit starts to fall after ripening. Apart from costs, a major drawback is to find the required number of wage laborers to complete the activity within a certain time period. In this case '*Wanghar*' saved not only considerable costs, but the fruit was packed and ready to be loaded within one and half day's work. The cost comparison in this regard can be seen in Table 23.

Examples 3 and 4 are short-span activities. The reason of organizing *Wanghar* in such cases is visible in the cost comparison. Example 4 shows roof covering with clay. The activity is usually organized when an extra male sitting room is built outside the house.

As the need for *Wanghar* has decreased at present, the activity is reduced to:

- occasionally picking and packing of citrus,
- threshing of wheat,
- sowing of sugar-cane and rice,

- harvesting of wheat and sugar cane, and
- some small household tasks.

5.5.3 Share leasing of livestock

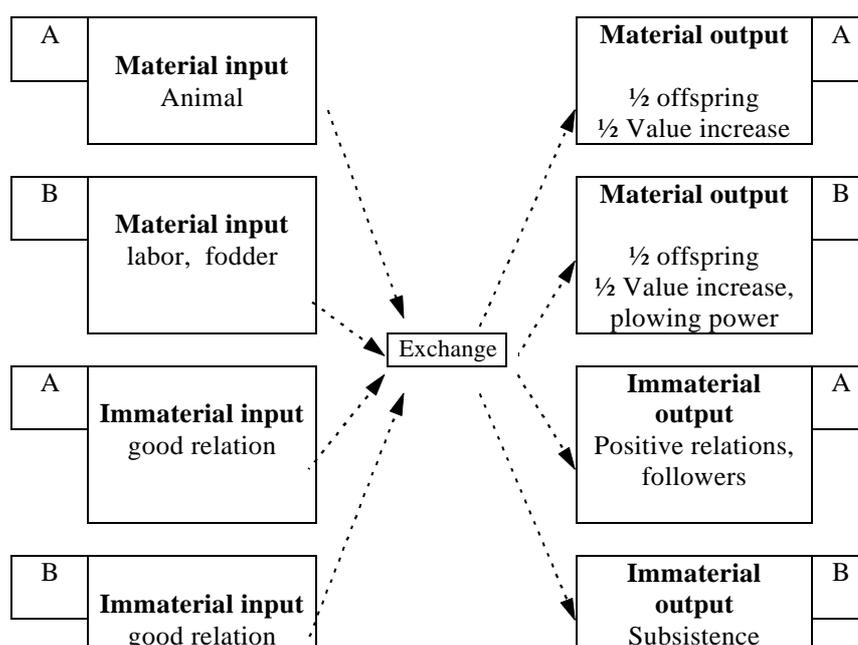
Share leasing of livestock is a logical saving arrangement between landowner and professional strata (kammiss). Landless households (lessor) breed landowners' (lessees') very young animals for a few years. If the owner wants to have an animal back, he pays just 50 percent of the market price of that animal, otherwise the breeder pays the same and keeps it. The full costs of the animal becomes half of the market price for both. **It is a very logical transaction. The tenant deposits his labor with the landlord; the labor is returned in the form of a long-run security of existence.** The owner saves his capital in the form of livestock. He does not want to invest labor in raising animals and gives it to professional households for breeding. During this process, he invests nothing, but still owns and can have the animal back at any time. Moreover, the breeder household possesses rights of consumption or sale of all animal products over the breeding period. **This represents a source of income for the breeder and a saving arrangement for the owner.**

The share breeding system is practiced for cattle as well as for goats and sheep. This happens mostly in the areas with enough pastures, barren land or other temporarily leftover cultivable land. Since the study area is an intensively cultivated one, there is no possibility for shepherds and their herds to survive. Share breeding in this case is limited to one year cycle, when people require a sheep for sacrifice on Eid-ul-azha. Tenant breed lambs for landowners till the next religious celebration and earn 50% of the market value, or sometimes when an owner has given more than one lamb and needs it unexpectedly for a celebration.

The saving method is beneficial not only for the landless but for the landowning households as well. Middle class landowners, for instance, who want to have the financial benefits of the method but do not possess enough manpower to practice by themselves, usually adopt this strategy. Apart from this, the arrangement not only minimizes the cost of animals, but gives a secure existence base to the poor landless households, especially those who do not have the capacity to save in livestock for their rainy days. A share breeding contract is also easier to get in comparison to sharecropping of land. The landowners usually prefer a land tenant belonging to a farming family or at least with a hereditary knowledge of farming, but share breeding of livestock requires no such prerequisites. With the decline of tenancy in rural Punjab, many tenants have been converted into agricultural servants who also practice share breeding of animals with the landowner as a side profession. Many agricultural servants in the study area have repaid their credits by saving through this method.

According to Herbon's model of material and immaterial exchange, the relation is sketched in Diagram 11.

Diagram 11: Exchange relation of share leasing of livestock



A = Owner of the animal

B = Tenant

Source: Adapted from Herbon 1984:179.

5.5.4 Rotating saving system - A bank for cash

The rotating saving system is an informal way of saving which has certainly been evolved long before the formal banking system was streamlined. Meanwhile, the Rotating Saving and Credit Association (RoSCA) has become a universal phenomenon in the developing countries. „The classic ROSCA formula is flexible, and modified forms to accommodate members' priorities and the environment are numerous. In more complex forms of ROSCAs, for example, the hand may be distributed by predetermined order, but with arrangements for interruptions to assist a member in need. ROSCAs may have very long lives. In parts of Asia, for example, chit funds have produced 20-year savings programs combined with 20-year loans. Interestingly, the Reserve Bank of India has outlawed chitties having cycles in excess of seven years. ROSCAs such as the one formed by staff members of the International Monetary Fund often include people who prefer the social ambience the ROSCA offers. They may also compete with high cost or lethargic commercial banks or handle transactions that banks regard as too risky. Tanomoshii associations of businessmen of Japanese ancestry in Hawaii are reported to put up relatively large sums to finance construction of buildings, in Africa, some ROSCAs, intermediate large sums. For example, tontines with a hand equivalent to US\$1 million are reported in Cameroon, where these informal groups greatly economize transaction costs for people active in large-scale modern sector activities“ (PISCHKE 1992:332-333).

In Pakistan, this saving procedure is termed 'Committee System' and is more common in the women's sphere. The 'committee' is constituted by a group of participants, for example, twelve members, each contributing 100 Rs. monthly. The committee is usually appointed for one year. One year's cycle means a total of 1200 Rs. Every monthly total

contribution is given to any one member as decided by lottery. Such a system is usually organized by a committee head, a person selected by mutual consent. It is usually the person who initiates the game and seeks the participants.

The method is a very successful one. It performs a dual purpose of credit as well as saving. **For early receivers, it is a credit, i.e., if one has contributed 100 Rs. and has received 1,200 Rs. which he is supposed to repay in interest-free installments of 100 Rs. per month. For late receivers, however, it is a saving which somehow or other comes into the category of compulsory saving.** The system requires no overhead and capital accumulation, since all participants are residents of the same area or are colleagues; default chances may be checked by social pressure and group sincerity. All members are linked with more than one channel most of the time. **The method lacks any intervention of the formal credit and saving institutions. A small saver does not have to hide the cash at home or to deposit it with some relative for safety. Another advantage may be the availability of the interest-free credit for the early receiver, which is hardly available in any other method. The receivers may also exchange their turns through mutual consent if someone needs the money immediately.**

Nevertheless, the method has some limitations as well. The availability of regular income is a necessary condition to maintain a saving discipline. Salaried jobs bring regularity and pay certainty. The practice is, therefore, common among schoolteachers. In twelve case study households, three cases are found to be practicing it. Two women and one man all are school-teachers, as it is easier for the regular employees to deduct a specific sum from their salary for payment to the committee every month, just after receiving it. The male schoolteacher wanted to buy a color television set, while the female teachers wanted to buy some item for a dowry.

The 'committee head' has to take the responsibility of the smooth running of the process and has to be in a position to manage some minor conflicts among members. He/she has to seek and convince potential members and has to bear the costs of collecting the monthly contributions. Sometimes, the situation may become critical if one or two members may drop out because of some economic crisis and others want to continue. A proper management in such cases is the actual guarantee of the group's future stability.

Unfortunately, this internationally recognized and highly successful saving method is not widespread in rural Pakistan. However, it is more familiar in female than in male spheres. Women groups are found among housewives as well as employed women such as school-teachers. Women may perhaps better organize themselves in such groups, depending upon the similar nature of financial worries in poor and middle class strata. The participation of women from affluent classes is comparatively rare. The situation is the reverse in the case of men. There exists no such groupings of men among poor or middle class strata at household or farm level. The affluent businessmen such as shopkeepers etc. practice it very often. As no official data has ever been collected on the topic, exact data on the number of such informal groups and the extent of male and female participation cannot be produced here.

5.5.5 'Vartan Bhanji' - A bank for cash and kind

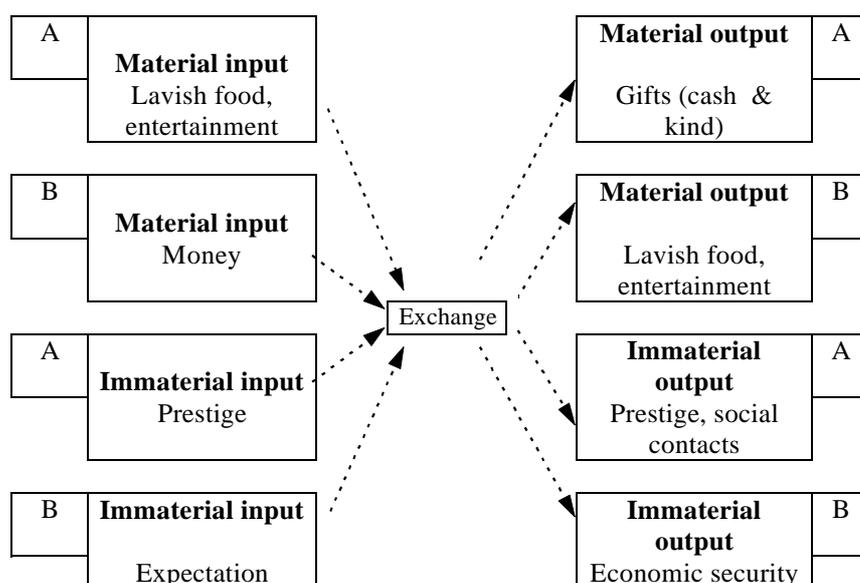
The term '*Vartan Bhanji*' means „an exchange of gifts and also refers to gifts so exchanged“ (EGLAR 1960:105). It represents a traditional system of reciprocal exchange of cash and kind on different occasions within biraderi. Vartan means 'exchange' and

Bhanji means 'sweets'. In reality, however, it is far more than just an exchange of sweets.²³² **The system traces its history from the past, when there were no banks and rural people were badly in need of a trustworthy institution for saving their cash and kind. Since saved resources were usually employed at life cycle ceremonies such as marriage, birth, death, etc., and every one was in an equal need, the village community developed their own 'traditional bank-like mechanism.'** Even after the invasion of formal commercial rural banking, people preferred to practice the old native method, which proves its desirability. In fact, the mechanism fulfills a multi-dimensional role in cementing intrabiraderi interactions and securing capital for future big events, which minimizes the social, economic, emotional and even natural risks.

„The system also represents a periodical check of social interactions among biraderi. Obligation of gift giving is an expression of mutual feelings. One can easily guess which sort of help can be acquired from which source. „Extravagant festivities and manifold gift exchange are not just 'uneconomic', they seem to withdraw the productive resources of a household, should among others 1) be regarded as reciprocal 'redistribution mechanisms' and 2) as a form of insurance that grants the giver the right to expect under special circumstances and in times of need“²³³ (HERBON 1990:106ff).

²³² *Vartan Bhanji* involves an exchange of sweets, fruit, food, money, and yard goods for clothes; extending beyond material things, apart from this, it includes the exchange of favours, services such as treatment, entertainment, and participation in ceremonial events.

²³³ Although '*Vartan Bhanji*' develops from gift exchange, the term may be applied to another kind of relationship in which no gifts are exchanged, but in which two parties, two individuals, two families, two villages feel free to ask favours of each other. For instance, if a landowner is in need of *Wanghar* (see Section 5.5.2), he would prefer to put himself under obligation to the person with whom he is on *Vartan Bhanji* terms (EGLAR 1960:106).

Diagram 12: Exchange relation in *Vartan Bhanji*

A = Host
B = Visiting relative

Source: Adapted from HERBON 1984:181

The mechanism operates on two bases: daughter's rights in her parent's home²³⁴ (non-reciprocative) and the relationship established through the exchange of gifts and favors (reciprocative) (EGLAR 1966:108). In other words, '*Vartan Bhanji*' may be divided into two major parts: 'non-reciprocative²³⁵ and reciprocative'. Since the non-reciprocative component does not function as a saving bank, the discussion in this section is limited to the reciprocal exchange only.

The people who deal in '*Vartan Bhanji*' include: 1) relatives, blood or affinal; 2) friends; 3) members of the caste group, i.e., landowner with other landowner groups and kammis with other kammis; 4) member of different castes such as landowner with a kammi or vice versa; 5) neighbors; 6) the villagers as a whole; 7) village with another village.²³⁶ Table 50 presents a detail of gift exchange on different occasions.

These transactions do not take place only on some specific ceremonial occasions. Although the principal occasions include birth, the circumcision of a son, marriage, and the death of an old person. Once this relation is established, it is performed for all events when the organizer needs extra cash or kind, in the case of sickness and convalescence, departure on pilgrimage to Mecca, etc.

'*Vartan Bhanji*' functions according to the following three rules (EGLAR 1960:122):

²³⁴ A daughter's right in her parent's home is constantly validated through the gifts she receives on her visits and on all the major occasions celebrated in her conjugal or natal family. Although what she receives is not '*Vartan Bhanji*', yet it serves as a pattern for the operation and continuation of this mechanism (EGLAR 1960:106).

²³⁵ In this form of *Vartan Bhanji*, the daughter's role is to receive on all occasions. On the occasion of the birth of a child, on the marriage of a son, or a daughter, brother or sister, visits to natal family, etc., she always receives cash, outfits and sweets.

²³⁶ For further details in the case of individual transactions, see EGLAR (1960:116ff).

1. the fundamental rule is reciprocity: a gift should be returned as gift, a favor as favor, a good treatment as a good treatment;
2. there should never be an equilibrium in this reciprocity. The things exchanged should not exactly balance, because this would bring the relationship to an end;
3. it should be carried on according to the family's ability to participate in the exchange; since the exchange is always kept in near balance, the scale of exchange should be determined by the ability of the less well-to-do partner.²³⁷

In the case of marriage ceremonies, *Vartan Bhanji* functions as a 'marriage account.'

Gifts given at the ceremonies are returnable. The ceremony is composed of a series of five major events (*Maiyun, Mehndi, Khara, Baraat, and Waleema*)²³⁸. Every household keeps a separate balance of every event. A proper record is maintained in written form, what is given, when, and to whom. Every household keeps a marriage register, *Aqeeqa* register, childbirth register and death register for all transactions made up to the present time with everyone. When an invitation from the biraderi is received, the host's balance is consulted in the register containing all details of cash and kind received from different households with date, name, and amount. If the invited guest owes some money, he has to accept the invitation to repay the outstanding debt to maintain this social transaction. If the host has just equalized the last balance, the guest is not supposed to contribute.

Every event has its own monetary or non-monetary exchange history. The matter is kept on record. It is managed properly even if the number of occasions differs in various households, e.g., if one brother has two and the other four sons, both exchange gifts normally up to two marriages. The guest has no obligation for the remaining two marriages; his gifts may be compensated on other occasions. As a general practice, on the occasion of the last marriage, the host announces everybody's balance and requests repayment. **Following the dissolution of an extended family, each nuclear family starts its own transactions and establishes a new balance. A married couple keeps on depositing money in different accounts for a period of 20-25 years until their own children reach marriageable age and they are able to withdraw it.**

The saving aspect of this ceremony depends upon the type of exchange and the amount exchanged. Exchange is indeed a great help for the organizer of a ceremony. It may not be any trouble for the payee as well, if the amount exchanged remains at a reasonable level.

5.6 Hoarding of Gold/Silver

'Monetary hoarding' as described by FORSTMANN (1952:293)²³⁹ is not considered as hoarding according to the conceptual framework of this study. However, hoarding of gold and silver as a 'non-monetary hoarding'²⁴⁰ plays a significant role in rural Pakistan, although Islamic teachings discourage hoarding, because it puts wealth out of circulation and deprives the owner as well as the rest of the community of its beneficent use.²⁴¹

²³⁷ „The fact that one family is richer than the other does not mean that it gives valuable gifts and receives less valuable ones in exchange, nor would the poorer relative give a small gift and expect to receive a better one in return. In this connection, the Punjabi say: „*Vartan Bhanji*’ is not charity, nor is it a trade“. They say one can help a poor relative in other ways“ (EGLAR 1960:127f).

Since '*Vartan Bhanji*' is a balanced reciprocity, a rich relative would not give expensive items to cause troubles, because the poor relative would not accept more than he could afford to return.

²³⁸ See Glossary.

²³⁹ When the hoarder keeps some of his cash aside and expects some profit on it in future, see Section 2.2.2.2.2.

²⁴⁰ See the discussion of 'monetary and non-monetary hoarding.'

²⁴¹ See MANNAN (1986) for the theoretical discussion of Islamic teachings on the topic.

Daughters receive it as a part of their dowry and daughters-in-law, as a wedding gift. Mothers start saving a little amount of gold in their daughter's childhood and keep on buying small gold items occasionally. The same is done for a son's marriage. This gold is never intended to be utilized by the daughter or her in-laws in case cash is needed. These ornaments are supposed to be kept during the whole life and transferred to the children.²⁴² **„Women often ask the husband to buy jewelry with family savings, with the thought that they can control it better than other family assets“** (MALONEY/AHMED 1988:32). On the wedding day, it is displayed and compared with the gold brought by the other party. „Villagers can assess the value of gold ornaments exactly. The weight of gold, number of ornaments represent an important criterion for assessing the total value of a wedding“ (LÖFFLER 1992:191). **Daughters-in-law wearing precious ornaments reflect the family's prosperity. The primary function of gold lies in its demonstration as a visible status symbol.**

The question as to whether the accumulation of precious metals is a saving, hoarding or investment act creates a great deal of confusion among economists. The "purchase of gold, silver and other jewelry is resorted to by 8 to 18 percent of the families. It is noticeable that investment in the purchase of gold is as important, in some areas at least, as investment in durable for personal and domestic use. It amounts roughly to one third of the total agricultural investment.²⁴³ The invested amount of gold indicates that the community has not yet significantly changed its deep-rooted habits" (HABIBULLAH 1963:49f).²⁴⁴ In the relevant literature on economics, one finds similarly examples in which it is put in the category of saving and hoarding. **The present study defines it as hoarding. Hoarding, as discussed within the theoretical framework, is a sterile art of saving, which is not intended to be invested or liquidated in future.** In contrast, saving is defined as the postponement of current consumption, with the intention of using it actively, i.e., consumption or investment, in future without any specification of time limit.

The new concept of saving in gold has been introduced by the migrant workers in oil states. They bring stamped pieces of gold, which can easily be sold without any reduction and may perform a function of saving if converted into cash. A saving in the form of gold is either converted into hoarding (ornaments) or liquidated very soon for any consumption or investment need. There exist many reasons for this.

A saved piece of stamped gold belongs to nobody in particular and, therefore, there is no cultural sanctions against its sale. Like other assets, it also comes under the authority of the household head. It is seen as a store of cash money at home. Apart from cultural sanctions, the way of determining the value is a major factor discouraging the sale of gold ornaments. Value is calculated by the weight and quality of gold less workmanship cost. The weight of stones is also subtracted; the number of joints in the design of a bracelet, ring or necklace also reduces its value. Usually, it is not sold but serves as credit security.²⁴⁵ Gold ornaments are actually women's property. Therefore, they can only be liquidated when both husband and wife desire this. Otherwise, it would be illegitimate for the husband

²⁴² See also MALONEY/AHMED (1988:32f) for a similar explanation of the importance of gold in rural Bangladesh: „Women try always to keep any jewellery they inherited or got for their marriage; this is socially recognized as their security, and it is disreputable for a husband to sell it. Mothers tend to look after their own security by bestowing their valuables on their sons, with the thought that in future the sons might support them.

²⁴³ Gold offers a security against higher inflation rate along with an increase in value in the course of time.

²⁴⁴ EUCKEN (1954) considers it hoarding, see Section 2.2.2.2 for other examples.

²⁴⁵ Sale and mortgage of gold are highly discreet affairs, although it is very easy to sell it in villages, yet the people prefer to sell in urban areas. See also (LÖFFLER 1992:190) for similar observations for Pakistan.

whose wife has been given ornaments to expect that he would be able to liquidate them for any of his own ventures. Such an attempt would certainly meet with strong resistance. „Gold is a family asset, but within the family it is especially the property of the wife. [...] the husband cannot expect to use the jewelry just as he pleases“ (SWIFT 1964:137).

Divorces are very rare, but even then these are a threat to the future security of economically dependent women. These try to collect future securities in some other form. Accumulating gold may safeguard them and their children against future hardships.²⁴⁶

The only productive use of hoarded ornaments is 'gold mortgage.' Such transactions are usually made secretly with the banks, because they may also stain the family's reputation. Most of the middle and poor class households practice them at one time or the other but they should remain strictly secret. Such transactions are made with the banks located in nearby cities and villages, rather than in the area of residence. All of the gold is never mortgaged; some of the ornaments are always kept at home so that nobody notices that they are missing.

Briefly speaking, nobody leaves this gold in the saved form. There are very few possibilities to consider it as saving. Hoarded gold (ornaments) is sold only under drastically depressing conditions. This is very distressing for everybody in the family, and everyone tries to compensate for it as early as possible. The whole family feels ashamed when the women have no gold ornaments to wear on different occasions.

Table 24: Possession of gold in twelve case study households

Cases	Amount	Value	% of annual income
Case 1	24 tola*	96,000	17.4 %
Case 2	20 tola	80,000	17.2 %
Case 3	40 tola	1,60,000	46.0 %
Case 4	9 tola	36,000	12.9 %
Case 5	10 tola	40,000	20.5 %
Case 6	16 tola	64,000	33.5 %
Case 7	17 tola	68,000	44.9 %
Case 8	30 tola	1,20,000	88.3 %
Case 9	10 tola	40,000	31.4 %
Case 10	13 tola	52,000	66.5 %

* Tola = 12gms

Source: author's own survey

Table 24 gives an idea of the possession of gold ornaments and of their market value in 1991-92. It is very difficult to obtain accurate information on this aspect. Therefore, the above data cannot be claimed to be 100% correct, but still helps to develop a vague idea of the situation.

Besides gold, the hoarding of brass utensils of varying size is also very common. Almost every household has a stock of brass vessels in storerooms, piled on top of one another with the largest vessel at the bottom and the smallest at the top. These expensive utensils

²⁴⁶ See also MALONEY/AHMED (1988:32).

are usually an essential part of the dowry, are not intended for use unless necessary, and act as a status symbol and are displayed on a shelf, high on the wall.²⁴⁷

Besides this, extra cots, usually with colorful woodwork, are hoarded in another back room. They are very expensive and used only for some special guests. The number and quality of these cots are also a sign of the family's wealth and shows its ability to entertain guests.²⁴⁸

5.7 Investment

Although a larger share of the saved amount is utilized for consumption expenditures, a small share is utilized for expanding the productive base of the household, too. There are two types of investment: 1) new investment; 2) re-investment. New investment deals with the addition or extension of the existence base, while re-investment keeps the existing economic base constant.

The present study discusses three categories of regular investment: 1) land betterment, 2) farm instruments, and 3) education. According to the aforementioned classification of investment, education falls into the category of new investment, and land betterment, in re-investment. Investment in farm can be a new investment if new instruments are bought which were not available before, or a re-investment, if investment is done only into the maintenance of available instruments.

Saving is not considered equal to investment in this study. First of all, investment is not necessarily done from the amount saved in that year; it is mostly a handsome amount extracted from past savings or credit. Savings done in the year of investment usually represent part of the whole sum. Investment activities in the sampled households include regular expenditures which have to be incurred. Tables 25 and 26 include those investment expenditures which are made from the annual income of the current year.

²⁴⁷ EGLAR (1960:24) observes (for rural Pakistan) the usage of these vessels for storing extra foodstuffs such as sugar, *ghee* (churned butter), flour for immediate use, salt, lentils, peas, peppers, pickles, jam, and brown sugar.

²⁴⁸ See EGLAR (1960:24ff) for further details of household items in a rural household and their function in Pakistan.

Table 25: Investment expenditure in 12 case study households in 1991 -92
(Rs.)

Cases	Farm instrum ents	Land betterme nt	Educatio n	Total
Case study 1	25,000	20,000	5,000	50,000
Case study 2	10,000	4,000	12,000	26,000
Case study 3	20,000	81,000	20,000	1,21,000
Case study 4	14,000	34,000	6,000	54,000
Case study 5	-	-	12,000	12,000
Case study 6	7,000	13,500	-	20,500
Case study 7	26,000	-	-	26,000
Case study 8		24,000	10,000	34,000
Case study 11	4,000	-	-	4,000
Case study 12		8,500	-	8,500

Source: author's own survey

The study calculates absolute investment as well as its balance after subtracting total disinvestments of the year. Table 26 shows disinvestments in the form of crop loss, livestock loss in case of death or theft, infrastructure damage or loss, and other occasional small losses. We see a considerable fall in the total amount of investment after subtracting total disinvestments.

The amount and kind of investment expenditure in Table 25 shows a limited rate of investment in the study area. There exists no lucrative incentive to motivate households towards new investment possibilities; the farmer's knowledge also seems to be quite limited in this context. Any new risk is avoided because of the low level of income. They rather prefer to secure the existing resource base by improvement and repair. Annual investment is usually made for the repair and betterment of the existing productive potential. STRUTZ (1994:178) also observes that, in the District Mardan,²⁴⁹ one-third of the members of saving organizations utilize their savings for their farms, for buying raw material. Actually, such expenditures cannot be called real investments as they finance only the current expenditure.²⁵⁰ Almost one-fourth of the members spent their money for buying land or consumers' goods like refrigerators, televisions, construction of a house, etc. 10 percent of the members spent this money for social purposes like support of friends and relatives. The expenditures incurred for buying land and constructing houses in the District Sheikhpura are not very different; either only consumers' goods are of a relatively lower significance. Farm investments were similar to those made in Mardan; the major amount of capital was invested for buying raw material and repaying credits, but the average amount saved for farm investments in Sheikhpura (28,600 Rs.) was significantly

²⁴⁹ The study (Small Industry and Rural Development) was conducted in the District Sheikhpura and Mardan of Pakistan.

²⁵⁰ Although many businessmen desired to expand their base to be able to work independently of the commission agents.

higher than in Mardan (7,200 Rs.). Only unavoidable investment expenditures are made in a normal situation. A low level of investment reflects a low level of saving. Investment may also act as an incentive to save if new opportunities are provided.

Along with investment, a household has to bear many disinvestments in the form of crop or livestock loss, infrastructure damage, etc. The actual investment of a household will be the net rate of investment after subtracting all losses. Table 26 and Diagram 13 gives a net balance of investment in twelve case study households for a period of one year

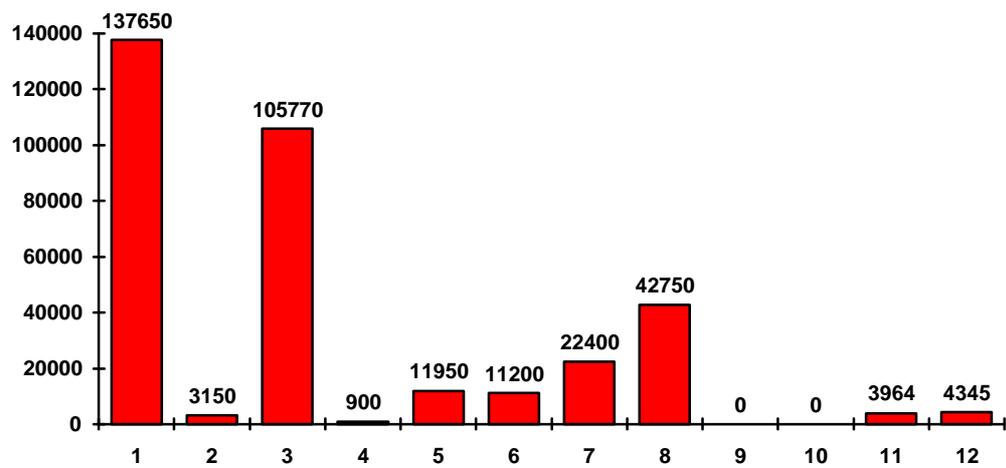
Table 26: Disinvestment in 12 case study households

Cases	Total investment	Total disinvestment	(Rs.)					Investment balance
			Crop loss	Livestock loss	Infrast. damage	Implements damage or loss	Others	
Case study 1	50,000 (9.0)	12,350	-	3,000	1,500	7,500	350	37,650
Case study 2	26,000 (5.6)	22,875	20,000	-	4,000	8,700	175	3,125
Case study 3	1,21,000 (34.8)	15,230	-	2,000	-	13,000	230	1,05,770
Case study 4	54,000 (19.5)	4,500	-	-	3,000	1400	100	900
Case study 5	12,000 (6.2)	50	-	-	-	-	50	11,950
Case study 6	20,500 (13.5)	9,300	40,000	2,300	-	7,000	-	11,200
Case study 7	26,000 (20.4)	3,600	-	3,000	-	400	200	22,400
Case study 8	34,000 (25.0)	8,750	8,000	-	-	450	300	42,750
Case study 9	-	-	-	-	-	-	-	-
Case study 10	-	--	-	-	-	-	-	-
Case study 11	4,000 (12.7)	36	-	-	-	-	36	3,964
Case study 12	8,500 (21.7)	4,155	4,000	-	-	100	55	4,345

All values in parentheses are the percentages of total annual income in 1991-92

Source: author's own survey

Diagram 13: Net investment expenditure in twelve case study households



Source: author's own survey

5.8 Summary

The study area lies 50 km northeast of Sargodha District in Tehsil Bhalwal of the Province Punjab in Pakistan. The selected village acted as a model village for the Mona Reclamation Experimental Project (MRE) initiated in 1965. The sampled population is predominantly self-cultivating. 81.7% of the total sampled population is mainly engaged in self-cultivation. Sharecropping represents the second most practiced mode of cultivation. 11.7% of the sampled population practices this mode in the case of wheat and sugar-cane, which represents the second most cultivated crops after citrus fruit. Only 5% are partly contractors and partly self-cultivators. **Twelve case study households** have been selected, two from the upper, five from the middle and five from the lower strata, for the empirical analysis of income (cash and in kind) and its utilization.

Empirical evidence shows only four out of twelve households drawing their income from non-farm sources, which contributed just 2.4%, 24.2%, 17.9% and 27.6% of the total annual income respectively. Moreover, all households were engaged in farm activities, which provided a major share of the household's actual income, in ten out of twelve households, even more than 50%. Milk, churned butter and crop produce were the major contributors of income in kind.

The major utilization of the household income includes:

- Consumption
- Saving
- Hoarding
- Investment

Empirical evidence reveals considerably higher expenditures on basic items such as food, transport, hospitality, etc., than under the other heads.

Saving comprises the following methods: 1) saving in cash; 2) saving in bond holding; 3) saving in agricultural products; 4) saving in livestock.

Cash saving represented a relatively difficult way of saving in the research area. Empirical evidence showed cash saving in seven out of twelve (58.3%) case study households. While only three of these seven households deposited their saved amount in a bank, two of those belonged to the upper stratum and possessed active accounts. The other four preferred to keep the amount at home.

Saving in bond holding is a rarely practiced form of saving. Prize Bonds and Saving Certificates are two well-known bond holdings. They are more urban-oriented and require a certain level of literacy to be managed. Two out of twelve households possessed Prize Bonds, both received it as a gift. Only one out of twelve possessed a Saving Certificate.

Saving in agricultural products is practiced preferably because of its higher flexibility. Some well-practiced forms include:

- stock of crops, e.g., wheat, rice, cotton and lentils,
- stock of pressed cotton seeds and fertilizer,

Empirical evidence shows eight out of twelve households with a stock of savings in kind: two cases with a stock of pressed cotton seeds, five with wheat and one with rice. A stock in kind may be differentiated in saving or investment, depending upon the purpose of storage.

Saving in livestock represents the most practiced form. It has a dual impact on the household economy, firstly, as a source of extra income and, secondly, by acting as cash which is always available at home. Almost every type of animal keeping is proved to be of productive nature in the study. Hoarding of livestock is therefore non-existent in the studied area.

Besides these direct saving acts, rural community practices some indigenous traditional saving arrangements on the basis of cooperative type traditional institutions. **These arrangements include: 1) *Sep* relation (a bank of labor); 2) *Wanghar* (a bank of labor); 3) Share leasing of livestock (saving in livestock); 4) Rotating saving system (a bank for cash); and 5) *Vartan Bhanji* (a bank for cash and kind).**

The quantitative analysis of the saving composition proves saving in kind as the most stable, preferred, profitable and flexible method in almost every stratum.

Hoarding is a sterile art of saving, which is not intended to be invested or liquidated in the future. Gold and silver accumulation is the only form of hoarding in the research area. The empirical evidence showed that the value of gold hoarded (during an unspecified period) in twelve case study households vary from 17.4% to 88.3% of the annual household income.

Investment includes the expenditure undertaken for expanding the productive base of the household, e.g., land betterment, education, etc. Saving is not considered to be equal to investment in the present study. First of all, investment is not necessarily done from the saving of the current year; it is mainly a handsome amount extracted from past savings, present savings and credit. Empirical evidence shows a low level of investment which decreases further after calculating the investment balance. Risk avoidance and lack of motivation proved to be the main factors that are responsible for its low level.

6. Factors influencing form and extent of saving

The mobilization of saving does not depend upon the financial infrastructure and a variety in deposit possibilities only, a series of other important aspects play a significant role in this context.²⁵¹ In the first place, the saving potential of the household members depends upon available income and utilization preferences, which further depends upon a variety of factors²⁵² (PADMANABHAN 1988:39).

The preceding chapter has identified many quantitative and qualitative factors which show their direct or indirect influence on the form and amount of household saving. Since it was not possible to analyze the nature of their influence along with the description of saving practices, this chapter aims to presents a quantitative as well as a qualitative analysis of these factors. The detailed discussion of qualitative aspects is especially emphasized to avoid the drawback of usual economic analysis of the saving behavior which ignores the importance of qualitative functions. These factors are divided into three categories: economic, psychological and socio-cultural, depending upon the nature of their influence and the method of analysis.²⁵³

6.1 Economic Factors

6.1.1 Choice of the variables for the quantitative analysis

The section presents integrated results of the correlation and regression analysis of the variables, e.g., consumption and income, already analyzed in the preceding chapter as well as newly selected variables such as age of household's head, number of adult males, education of household's head, education of male adults, years of the household existence, etc.

The following detailed description of selected variables, not only reveals many qualitative functions and interrelations among different variables which cannot be detected and analyzed quantitatively, but also helps to formulate some hypotheses on the basis of the qualitative analysis of the data.

6.1.1.1 *Income*

The preceding analysis of the saving behavior²⁵⁴ has proved household income to be a fundamental factor to influence saving consumption. The availability of sufficient income fulfills a prerequisite to save, which is further determined by its composition, management and distribution.

Table 22 shows saving in kind as a dominant form of saving in the upper income class (first five income categories), which is due to the fact that an orchard of large size represents a better income base. In spite of the greater availability of cash, cash saving is not encouraging; This supports the quantitative results in the last chapter (Section 5.4.5). Saving in livestock is hardly practiced in better income classes, as it is considered a highly

²⁵¹ See, KHALID (1988:8) for a list of such factors.

²⁵² PADMANABHAN (1988:39) compiles a variety of such factors in his study.

²⁵³ For example, economic factors may be expressed in numeric terms and, therefore, can be explained by establishing quantitative relations between two or more variables, which cannot be done in the case of the other two categories.

²⁵⁴ See Sections 5.4 & 5.5.

laborious task. The quantitative results (Section 5.4.4) also support the fact, as saving in cash and livestock shows a negative relation with income.²⁵⁵

The middle income class shows a better propensity for cash saving because of the uncertainty of cash being available when needed. Saving in bond holding loses its significance with the decrease in income, since the possibility of keeping some money aside for a long time decreases with the reduction in income. The empirical analysis (Section 5.4.2) shows only three cases of saving in Prize Bonds, two of which were received as a gift and one with a Saving Certificate. Savings in kind also decrease with a decrease in income. Especially in cases where the low income level is a consequence of a smaller farm size, such households usually have little or no produce in surplus, this discourages the attempts of saving in kind.

Low income groups show an unexpectedly higher saving rate because of their livestock saving. Table 22 shows a trend of increase in livestock saving with the decrease in income. Households seek security in many forms of assets with a decreasing amount of cash income. Livestock may be taken care of by the underemployed household labor and women folk. The practice of cash saving is usually objective-oriented and saving in kind cannot be done because of the smaller farm size as compared to family size.

The most important observation in this regard is the change in the dominant form of saving with the change in income level. In other studies, the composition of income plays a more significant role as compared to income level. Table 22 shows saving in kind as the dominant form in the upper income level, cash saving in the middle income group and livestock saving in the lower income households.

6.1.1.2 Age of the household's head

Age represents a very important characteristic of human resource. A person responds to life differently in different periods. This is very true, especially within the context of decision making. **At an early age, one is quite enthusiastic about consumption expenditure, which naturally reduces the saving rate. Middle age may be denoted as the most planned and productive period. When one seriously thinks about the future and plans accordingly, capital formation becomes important and consumption is reduced in favor of future productive assets. The main emphasis is laid on saving during that period, as family needs increase day by day with the age and upbringing costs of children. Old age again reduces the enthusiasm of future planning.** One knows approximately how many years one is supposed to live. Therefore, one mostly loses interest in such a struggle and hands over the charge to young sons, who again start this cycle.

Age mainly determines the individual's priorities in decision making. In rural households, such decision making is the task of the household's head, who, because of his age, determines the priorities of saving and dissaving in the household. **The amount of dissaving for the twelve case study households is discussed separately in terms of credit in this study.** The current saving level of different households depends, therefore, on the age of the household head, who plans all current and future strategies of household members. Whether he is the sole authority in this regard or whether other members, especially those who contribute economically, participate in the decision making plays an important role.

²⁵⁵ Saving in bond holdings is not discussed here as they are mostly received as a gift from some urban relative.

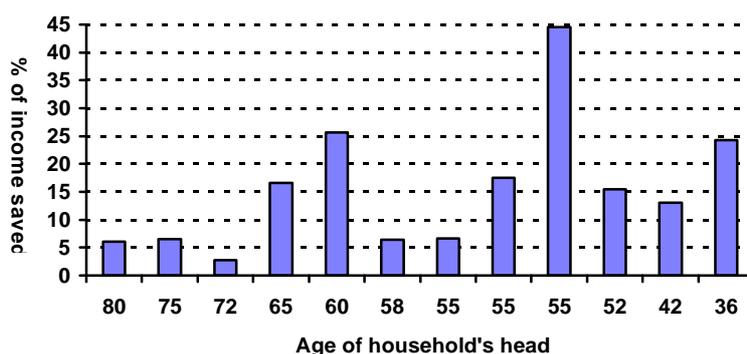
A significant impact of the age of the household's head and saving forms can be seen in Table 27 in the case of cash savings. Older and younger household heads who have grown-up children or grandchildren and need cash for marriage, education or business save a larger amount in cash. All other saving forms do not seem to be considerably affected by age because other variables are more decisive.

Table 27: The influence of age of household's head on the composition of total saving in twelve case study households

Cases	Age of the H. H. head (years)	(Rs.)				Total	% of total income
		Saving in cash	Saving in agri. products	Saving in livestock	Saving in bond holding		
Case 7	80	4,000	5,250	-	-	9,250	6.1
Case 3	75	2,000	21,000	-	-	23,000	6.5
Case 10	72	-	1,050	1,050	20	2,120	2.7
Case 2	65	60,000	15,000	-	2,000	77,000	16.6
Case 12	60	-	-	10,000	-	10,000	25.6
Case 4	58	-	16,500	-	1,000	27,500	6.4
Case 5	55	2,730	10,100	-	-	12,830	6.6
Case 9	55	-	14,350	8,000	-	22,350	17.5
Case 11	55	-	-	14,000	-	14,000	44.5
Case 6	52	9,650	-	20,000	-	29,650	15.5
Case 1	42	6,750	20,000	-	-	26,750	13.0
Case 8	36	21,042	-	12,000	-	33,042	24.3

Source: author's own survey

Diagram 14: Age of household's head and total saving



Source: author's own survey

Diagram 14 does not show any correlation between age and percentage of saved income. Empirical results show the influence of age group on the composition of saving rather than the total amount.

6.1.1.3 Age composition of household members

The age of the household members has quite an uncertain impact on household saving. If they are economically productive and contribute to the household economy, their influence on saving will be certainly positive. However, unemployed or underemployed members share consumption in the household and show a negative relation to saving.

6.1.1.4 Education of household's head

The human capital of a household is enhanced by a higher education level. **A higher education level causes a greater propensity to delay gratification and thus to engage in saving.** Higher education widens the intellectual horizon and allows the family's economic situation to be analyzed for the present and for the future, gives a better ability to formulate income policies, entails better exposure so that an individual gets to know better possibilities of managing and distributing money. Since education level determines the horizon of one's foresight,²⁵⁶ better education is expected to exert a positive impact on income, especially in low income classes where it is comparatively scarce; it represents a shortcut to a higher income and status.

The education level of the household head, however, has a greater impact on income than that of his wife. This is because women in such a traditional society have to overcome a number of social and institutional barriers to enter into the job market. Women in such societies do not use their education for earning their living but to enhance their value on the marriage market. An educated girl has better possibilities to find as spouse an educated son of a better-off family. Thus, it is quite common to find highly educated women indulging in the same household activities as the uneducated ones.

Empirical research, however, has proved that education is quite an uncertain factor in the case of saving. Some cases have really showed a logical planning of the household budget with better saving results. Other better educated households showed an increase in the propensity to consume because of their education. Better education brought about better exposure which further induced the "**demonstration effect**" of an urban consumption pattern, and this reduced surplus.

²⁵⁶ See Section 2.1.4.5.

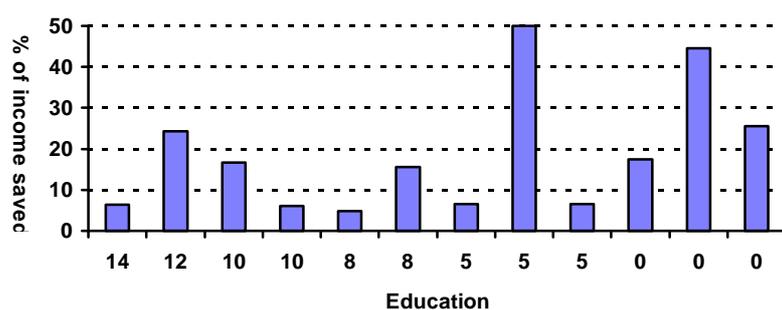
Table 28: The influence of education on the composition of saving in twelve case study households

Cases	Education of household head	(Rs.)					
		Saving in cash	Saving in agri. products	Saving in livestock	Saving in bond holding	Total	% of total income
Case 4	14 years	-	16,500	-	1,000	27,500	6.4
Case 8	12 years	21,042	-	12,000	-	26,042	24.3
Case 2	10 years	60,000	15,000	-	2,000	77,000	16.6
Case 7	10 years	4,000	5,250	-	-	9,250	6.1
Case 1	8 years	6,750	20,000	-	-	26,750	4.8
Case 6	8 years	9,650	-	20,000	-	29,650	15.5
Case 3	5 years	2,000	21,000	-	-	23,000	6.5
Case 10	5 years	-	1,050	1,050	20	2,120	50.0
Case 5	5 years	2,730	10,100	-	-	12,830	6.6
Case 9	illiterate	-	14,350	8,000	-	22,350	17.5
Case 11	illiterate	-	-	14,000	-	14,000	44.5
Case 12	illiterate	-	-	10,000	-	10,000	25.6

Source: author's own survey

Table 28 shows the influence of education on the composition and total amount of saving. Some years of education may enable the individual to read and write and to adopt methods which may not be adopted by an illiterate person. One sees a concentration of cash and kind and a knowledge of bond holding in literate, and livestock saving in illiterate households. Saving as a percentage of total income is quite high in the last two illiterate cases, which does not mean that they save more than others. It is an outcome of the practice of saving in livestock. Animals are born and cared in the household in the expectation of selling them later. Their market price is calculated although they are cared for by family labor, and the only concrete investment is done in their feed.

Diagram 15: Education and saving



Source: author's own survey

Diagram 15 shows a higher percentage of saving in low income and illiterate families because of livestock breeding.

6.1.1.5 Number of educated males

Table 29 shows the relation of different forms of saving with the number of educated males in a household. Table 29 shows an almost similar situation as in Table 28, both Tables show a positive relation of the education level of the household's head with the education of other household members. Table 29 also shows a concentration of cash saving in the households with a comparatively greater number of educated males and a concentration of saving in livestock in households with a lower education level. Educated respondents showed more confidence to deal with cash saving, even in the case of bank transactions. The others, however, preferred saving in kind and livestock. Livestock saving is especially suitable for the households with a medium or larger family size, whose members are not well qualified for the job market.

Table 29: The influence of the number of educated male adults on the composition of saving in twelve case study households

(Rs.)

Cases	No. of educated* males	Saving in cash	Saving in agri. products	Saving in livestock	Saving in bond holding	Total	% of total income
Case 2	7	60,000	15,000	-	2,000	77,000	16.6
Case 3	3	2,000	21,000	-	-	23,000	6.5
Case 7	3	4,000	5,250	-	-	9,250	6.1
Case 8	3	21,042	-	12,000	-	33,042	24.3
Case 10	3	-	1,050	1,050	20	2,120	2.7
Case 5	2	2,730	10,100	-	-	12,830	6.6
Case 4	1	-	16,500	-	1,000	27,500	6.4
Case 6	1	9,650	-	20,000	-	29,650	15.5
Case 9	1	-	14,350	8,000	-	22,350	17.5
Case 1	-	6,750	20,000	-	-	26,750	4.8
Case 11	-	-	-	14,000	-	14,000	44.5
Case 12	-	-	-	10,000	-	10,000	25.6

* the criterion for education is the completion of the tenth grade of schooling and above
Source: author's own survey

A comparison between the number of educated males and the percentage of saving shows a low percentage of saving in households with a greater number of educated males. Educated household members may have a positive correlation with saving if they are employed off-farm and represent an additional source of income for the household. This additional income, however, may also enhance the household's consumption expenditure. The daily life of an educated person differs considerably from that of a non-educated one; this is quite visible in the research area. The fact that better educated people incur greater expenses is detrimental to the household economy and, instead of enhancing saving, education becomes a negative factor.

6.1.1.6 Years of Household Existence

A family's life cycle may be defined as the period from marriage to the death of both husband and wife. Total income during this cycle includes income of the head of household plus income of other household members who earn during any particular portion of the family's life cycle and whatever is received from accumulated savings²⁵⁷. However, the possibility to send a fully employable male adult to earn non-farm income

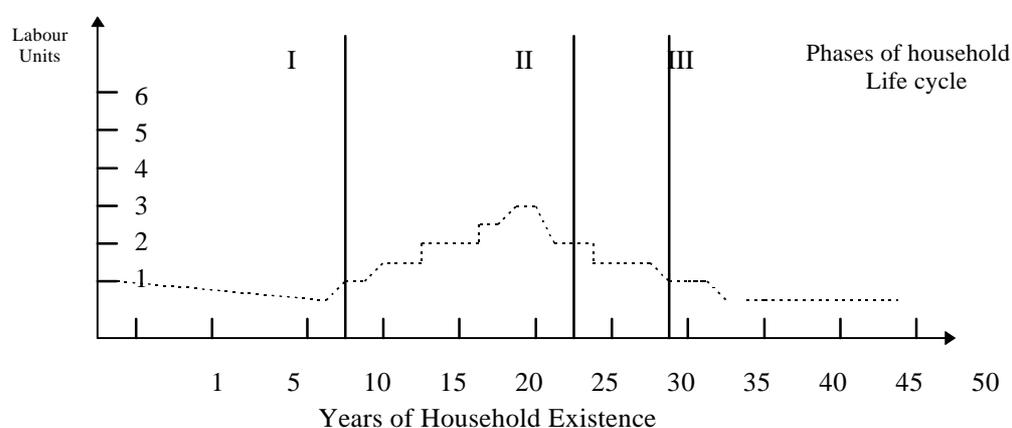
²⁵⁷ The income generated from the productive investment of the accumulated savings.

depends on the household's development regarding generation and sex.²⁵⁸ In the case of an ideal family consisting of parents and five children, two or three of whom are sons, ALBRECHT (1976:60) divided the life cycle of a rural household in Pakistan into the following four phases:

- „I from marriage until the first son begins work;
- II from the time the first son begins work until his marriage and departure from the family;
- III from the marriage and departure of the first son to the marriage and departure of the last son (gradual disintegration of the family)
- IV from the departure of the last son until the death of the parents.“

The above-mentioned four phases show that, in a nuclear family household, **it is only in the second and third phases that household income combinations become possible and the saving potential improves, when the sons start to earn.** It is only then that sufficient labor units are available, as is shown by the following excerpt from one of ALBRECHT's diagrams.

Diagram 16: Development of labour units in the life cycle of a rural nuclear family household with two sons in Pakistan



Source: Adapted from ALBRECHT (1976:58)

If both partners work at the time of marriage and the wife leaves her job before the birth of the first child, the family income will fall to the current level of the husband's earnings, but consumption expenditure will increase because of the child. The household budget will keep on increasing because of the children's education and upbringing expenditure.²⁵⁹ The pattern of total expenditure is essentially a combination of

²⁵⁸ Cf. KLENNERT (1988:325).

²⁵⁹ Every marital relation has to fulfill a social expectation of child birth, which secures the family in the long run, according to a general understanding. The patrilineal line of a family is continued with the birth of sons (LUCESI 1983:37f).

two distinct patterns that can be differentiated along functional lines: the patterns of daily outlays for food, clothes and other miscellaneous expenses and the pattern of discrete expenditure for furniture, machinery and other durable consumer goods. Some years later, when the family income rises again because of grown-up children, a period of highest consumption due to children's wedding expenditure starts, and the children start leaving the parental home when the father's income also decreases as he grows old.²⁶⁰

The "**Life Cycle Income Hypothesis**" of MODIGLIANI / BRUMBERG (1954)²⁶¹ incorporates the notion that consumers attempt to spread their consumption evenly over an extended period of time. In our case this is lifetime. Initially, households are confronted with a long period of high consumption, which is typical during the early years of household formation. During the middle years of life, household units engage in high levels of saving due to impending retirement, and latter periods of life are characterized by dissaving in an effort to maintain consumption near pre-retirement level. According to this view, dissaving is likely to occur early in life and after retirement, because the current income tends to be less than the required lifetime resources.

The most important feature in this regard is that the pattern of large discrete outlays has no inherent relation with the fluctuations in income in different periods of life. By subtracting the total expenditure in different periods from the total income received in these periods, we may obtain a family's life cycle pattern for saving. This has to be calculated from different households currently at different stages of a life cycle which live somehow or other under the same conditions.

Table 30: Total years of establishment of a household and different forms of saving in twelve case study households

(Rs.)

Cases	Year of marriage of household head	Saving in cash	Saving in agri. products	Saving in livestock	Saving in bond holding	Total	% of total income
Case 3	55	2,000	21,000	-	-	23,000	6.5
Case 10	44	-	1,050	1,050	20	2,120	2.7
Case 7	40	4,000	5,250	-	-	9,250	6.1
Case 12	37	-	-	10,000	-	1,0000	25.6
Case 2	30	60,000	15,000	-	2,000	77,000	16.6
Case 11	30	-	-	14,000	-	14,000	44.5
Case 4	25	-	16,500	-	1,000	27,500	6.4
Case 9	24	-	14,350	8,000	-	22,350	17.5
Case 6	23	9,650	-	20,000	-	29,650	15.5
Case 1	21	6,750	20,000	-	-	26,750	4.8
Case 5	20	2,730	10,100	-	-	12,830	6.6
Case 8	17	21,042	-	12,000	-	33,042	24.3

Source: author's own survey

Table 30 shows twelve case study households at different stages of family life. The year of marriage of the household head has been taken as a unit to measure the age of a household. The influence of the life cycle may only be seen in the case of cash savings, which are

²⁶⁰ See also Section 2.1.3.1.

²⁶¹ Three stable stages of families for analysis have been selected. Families with grown-up children are defined at young stage, because families with small children either show an instability of income or very few assets to have a stable income-consumption and saving balance.

either done at an old or at a young stage. The reason mentioned by respondents is the similarity in need of cash income at these two stages. Old families require cash savings for the education, marriage or business of grown up grandchildren, which may partly be contributed by them as well. Exactly similar needs arise in a family at a younger stage for their own grown-up children. Middle stage families, in contrast, have got their own children married and grandchildren are too small to have such needs.

6.1.1.7 Family size and saving

The impact of children on the family's ability to accumulate assets is indisputably negative in all studies. The principal channels through which childbearing acts towards reducing saving are not only due to an increased consumption level but to a resultant decline in female earnings associated with a withdrawal of the wife from the labor force. Even if family consumption decreases, it does not fall enough to offset the decrease in family income. **Having a child in the first two or three years of marriage, when needs already increase because of the change in family status, results in a statistically significant reduction in annual saving.** In such cases, when the consumption expenditure of a newly established household starts increasing, the wife's participation in economic contribution starts decreasing with early childbearing. Afterwards, when the wife again becomes able to participate, consumption needs have already increased to a great extent because of growing children. Whatever is earned has to be utilized for household needs. At this point, it becomes highly difficult to generate some surplus to form assets. Parents think of their growing children as their future assets, the children are supposed to support the household economy in their parents' old age. „A common argument concerning high fertility in developing countries is that children are desirable as partners in capital and insurance transactions and not only as suppliers of labor. The child who receives support is implicitly bound by an obligation to reward his parents by supplying labor and old-age support. These transactions are based on complementarity in the life cycle - children come when they can be provided for and later they assist their parents“ (BEN-PORATH 1980:15). Late marriages and late childbearing give married couples time to plan their income and capital accumulation before the actual consumption starts.

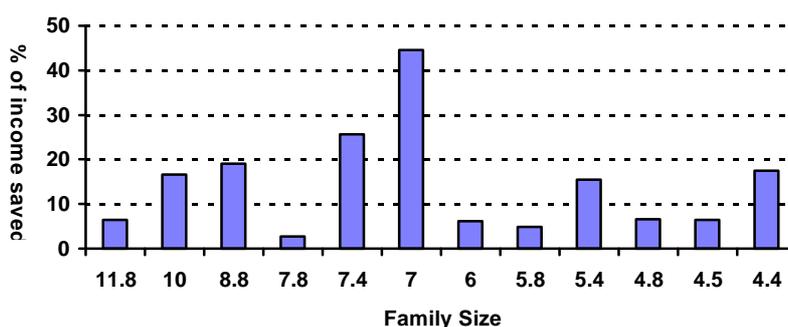
Table 31: The influence of family size on the different forms of saving in twelve case study households

Cases	Family size	(Rs.)				Total	% of total income
		Saving in cash	Saving in agri. products	Saving in livestock	Saving in bond holding		
Case 3	11.8	2,000	21,000	-	-	23,000	6.5
Case 2	10	60,000	15,000	-	2,000	77,000	16.6
Case 8	8.8	21,042	-	12,000	-	33,042	19.1
Case 10	7.8	-	1,050	1,050	20	2,120	2.7
Case 12	7.4	-	-	10,000	-	10,000	25.6
Case 11	7.0	-	-	14,000	-	14,000	44.5
Case 7	6.0	4,000	5,250	-	-	9,250	6.1
Case 1	5.8	6,750	20,000	-	-	26,750	4.8
Case 6	5.4	9,650	-	20,000	-	29,650	15.5
Case 5	4.8	2,730	10,100	-	-	12,830	6.6
Case 4	4.5	-	16,500	-	1,000	27,500	6.4
Case 9	4.4	-	14,350	8,000	-	22,350	17.5

Source: author's own survey

Table 31 shows the empirical results of the influence of family size on different saving forms and amount. Cash saving does not seem to be influenced in this case, as it has some other more important direct variables which influence it. Saving in kind shows a correlation and is practiced more in small families, where the domestic consumption of farm produce may leave a surplus which can be put aside. Livestock saving, however, shows quite a significant impact of large family size and animal breeding. In view of the non-availability of servants, animal breeding can only be practiced when household labor exists.

Diagram 17: The relation between family size and saving



Source: author's own survey

Diagram 17 shows a higher percentage of saving in middle size families because of their livestock keeping trend and because of the availability of domestic labor. Two families of the largest size are from the better income class and do not practice such laborious saving methods.

The detailed description of the economic variables resulted in the following hypotheses.

6.1.1.8 Hypotheses

The data collected from 12 case study households show that:

- the propensity to save from non-farm income is higher than the propensity to save from farm income;
- households save more during the middle phase of their existence;
- saving forms adopted by a household are determined by its family size;
- a greater number of productive male adults increases a household's income as well as its consumption requirements;
- a household head's better education exerts a positive impact on the household income; this influences the saving potential positively.

6.1.1.9 Results of the Correlation Analysis

Table 32 shows a significantly positive correlation between family size and non-farm income (0.8); this means that all the adult males in an extended family are not necessarily required for agricultural tasks and are usually engaged in the non-farming sector. A weakly significant relation between education of the adult males and total income (0.08) also reflects this tendency. This is further supported by a significantly negative correlation between the number of adult males in a household and farm income (-0.7). A careful observation, however, reveals that an increase in non-farm income should not be considered as an increase in saving. The empirical analysis in the preceding chapter showed that increase in income may increase saving as well as consumption. In the case study households, employment in the non-farming sector adds to the social status of the household, and this increases its consumption expenditure because of an expansion in the exchange sphere. The significantly positive correlation between non-farm income and ceremonial consumption (0.8) and between non-farm income and total transfers (0.8) further proves the statement. A highly significant positive correlation between education of household's head and transfers of a household (0.7) also means that education and possibility of non-farm employment causes an increase in consumption expenditure with a simultaneous decrease in saving rate. The result disproves the hypothesis. The households, therefore, mostly show a decrease in saving as non-farm income increases, which proves our hypothesis, too. Similarly, the significantly negative correlation between non-farm income and basic consumption (-0.8), since basic consumption and ceremonial consumption show a highly significant negative correlation (-0.6), shows that ceremonial consumption and transfers are financed, even if basic consumption expenditure is cut when non-farm income increases.

Apart from this, a significant positive correlation between years of household's existence and total transfers (0.6) shows that consumption increases with growing age and the expanding social sphere of a household, which disproves the hypothesis.

A weakly significant positive correlation between farm income and saving in kind (0.9), as well as a highly significant positive correlation between farm income and total saving, explains that a household's saving increases with the increase in farm income and not with non-farm income. The highly significant positive correlation between saving in kind and total saving also proves the statement. The result proves the above-mentioned hypothesis in this regard.

Selected variables:

ADM	=	Number of male adults	TIN	=	Total Income
FAS	=	Family size	SAK	=	Saving in Kind
EDH	=	Education of household's head	TSA	=	Total Saving
YRH	=	Years of household's existence	BAC	=	Basic Consumption
EDM	=	Education of male adults	CEC	=	Ceremonial Consumption
FAI	=	Farm Income	TOT	=	Total transfers
NFI	=	Non-farm Income			

Table 32: Bivariate correlation coefficients for saving and their related variables

	ADM	FAS	EDH	YRH	EDM	FAI	NFI	TIN	SAK	TSA	BAC	CEC	TOT
ADM	1.00	0.808** (0.003)	-0.112 (0.706)	-0.614** (0.033)	-0.614** (0.033)	-0.777* (0.069)	0.846** (0.034)	0.980 (0.762)	-0.363 (0.479)	-0.242 (0.448)	-0.046 (0.886)	0.129 (0.687)	-0.441 (0.152)
FAS		1.00	0.126 (0.712)	-0.577* (0.063)	0.671 (0.068)	-0.450 (0.446)	0.846** (0.034)	0.098 (0.762)	-0.363 (0.479)	-0.242 (0.448)	-0.036 (0.910)	0.497 (0.100)	-0.158 (0.641)
EDH			1.00	0.037 (0.907)	-0.092 (0.813)	0.352 (0.469)	0.451 (0.369)	0.407 (0.189)	-0.033 (0.950)	0.388 (0.213)	-0.016 (0.959)	0.300 (0.342)	0.703*** (0.011)
YRH				1.00	-0.255 (0.507)	0.417 (0.410)	-0.202 (0.701)	0.092 (0.776)	0.296 (0.568)	0.165 (0.607)	0.092 (0.774)	-0.396 (0.202)	0.641** (0.025)
EDM					1.00	-0.791 (0.208)	0.785 (0.115)	0.610* (0.081)	0.060 (0.923)	-0.177 (0.964)	-0.225 (0.559)	0.471 (0.200)	-0.2661 (0.489)
FAI						1.00	_ a	1.00*** (0.000)	0.993* (0.073)	0.952** (0.003)	-0.435 (0.388)	0.956*** (0.003)	0.511 (0.300)
NFI							1.00	1.00*** (0.000)	0.723 (0.485)	-0.028 (0.959)	-0.829** (0.041)	0.874** (0.022)	0.800* (0.056)
TIN								1.00	0.801 (0.055)	0.613** (0.034)	0.626** (0.029)	0.771*** (0.003)	0.479 (0.115)
SAK									1.00	0.989*** (0.000)	-0.363 (0.478)	0.228 (0.663)	0.601 (0.207)
TSA										1.00	-0.191 (0.552)	0.244 (0.444)	0.515* (0.086)
BAC											1.00	-0.671 (0.017)	-0.046 (0.887)
CEC												1.00	0.129 (0.687)
TOT													1.00

*** significant at the 99% level of confidence

** significant at the 95% level of confidence

* significant at the 90% level of confidence

a Correlation Coefficient cannot be computed

Source: author's own survey

The quantitative analysis thus shows an influence of income on saving which is comparatively less than on consumption. **Although income showed a positive influence on saving, its influence in enhancing consumption and especially ceremonial consumption is far greater than saving**, which means that a major share of the increased income is utilized to finance consumption in the sampled households. Any attempt to increase household income would result in an increase of consumption expenditure, unless a proper saving motivation is provided to the community.

6.1.2 Qualitative analysis

Since all economic factors cannot be analyzed quantitatively, the correlation analysis in the last section dealt only with selected ones. Others which require a detailed qualitative description are elaborated in this section.

6.1.2.1 Annual Production Cycle

The composition and extent of saving are highly influenced by the annual cycle of production. Cash, natural produce or livestock savings cannot be done simultaneously. There are periods of cash surplus and surplus in kind. The agricultural year of the community may be divided into four obvious quarters for our purpose. 1) November-January; 2) February-April; 3) May-July; 4) August-October.

November-January is the cultivation period of two major cash crops in the area, i.e., citrus and sugar-cane. Both crops are picked, harvested and marketed during these three winter months. Almost every household possesses hard cash; all future plannings of consumption, saving and investment are done during this period.

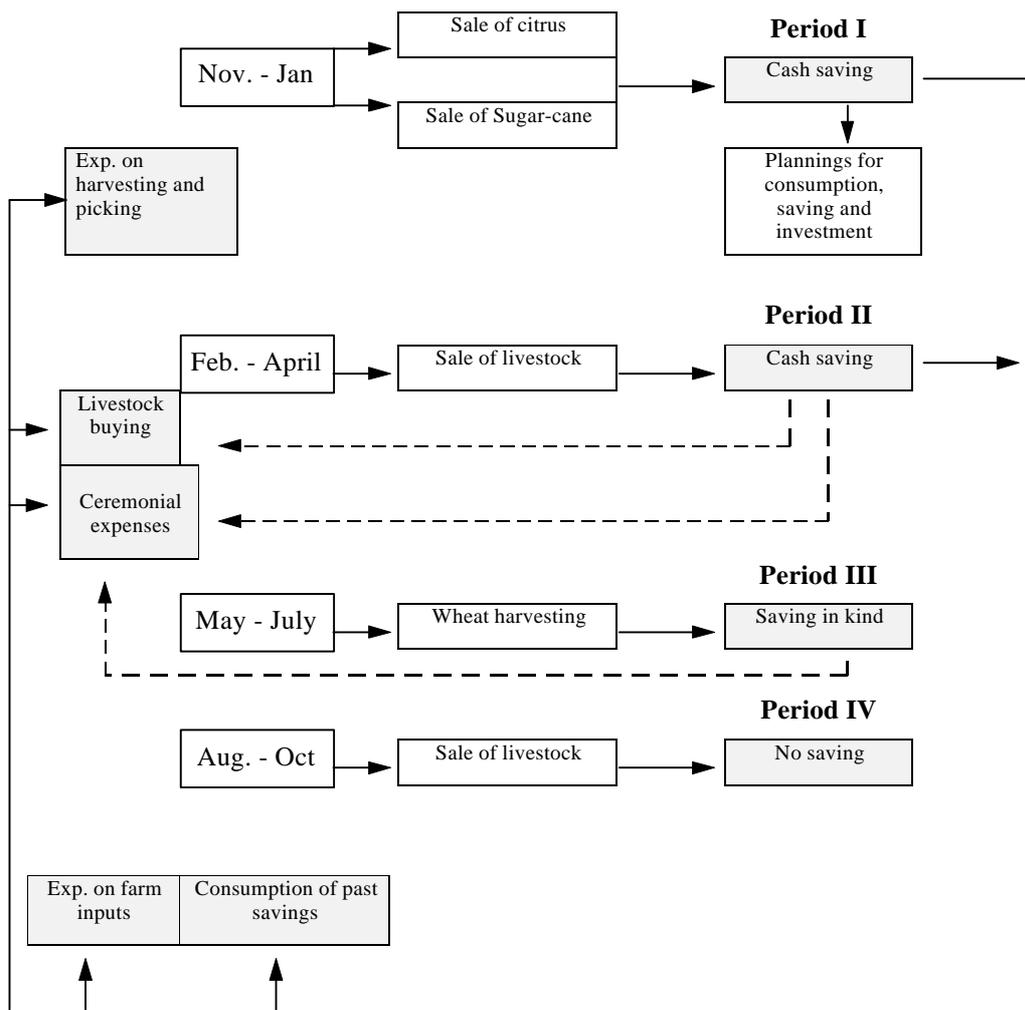
February-April is a period of cash income for the savers of livestock and a period of highest consumption for the whole community. Not only the utilization of past savings but dissaving as well is quite common in this quarter. These months are fixed for celebrating wedding ceremonies because of the availability of cash and pleasant weather conditions. Households with livestock usually plan to sell animals in that season of higher demand, when every household needs meat for feasts.

May-July is a period of wheat harvesting. Wheat is mainly cultivated for the household's annual consumption and to keep a stock of surplus grains. Surplus wheat is separated from the household's annual consumption and saved. An extreme summer may cause a decrease in income earned from livestock, because buffaloes produce less milk.

August-October can be described as a hard period as no cash income is achieved by the household. This is rather a time of major farm investments for the preparation of the next crop. Past savings are usually employed for this purpose.

Diagram 18 shows different forms of saving during this cycle of production.

Diagram 18: Different forms of saving in the annual cycle of production



..... Savings utilized after passing through the annual cycle

—— Direct utilization of savings

Source: author's own survey

6.1.2.2 *Other economic factors*

Besides income, **capital** is indisputably an important determinant of saving. It is usually observed that families who had been living in better conditions in the past show greater propensities to save. A major incentive, in this regard, is the possession of assets, which, apart from income generation, confers a certain status and satisfaction to the household. Household members become used to that income and consumption pattern; once it is reduced, they struggle hard to maintain the lost level, making sometimes greater efforts. **A decline in capital assets is seen as a saving incentive in the research area, especially when a household has a fixed target of capital possession.** The impact, however, may also be negative in the case of an important decrease. Especially when this loss is very heavy and unexpected, the household is not in a position to make the necessary efforts to compensate for it and may give up.

According to the WORLD DEVELOPMENT REPORT (WORLD BANK 1989), "higher rates of interest tend to promote savings more in financial than non-financial forms." Although there is a considerable international debate on the influence of the real rate of interest on savings, it seems to be quite ambiguous in traditional rural societies. It was noticed during the survey that even farmers holding a passbook did not know about the rate of interest on their savings. Some were not aware of the interest paid, others considered it negligible. None of the respondents mentioned interest rate as a motivation to save. **The higher rate of interest may have a positive effect on saving, but in the case of rural savers, the saved amount is too small to show the existing low rate of interest. It may become noticeable either when the saved amount is higher or when the interest rate is so high that it may be noticed even on a small amount.** Otherwise, other factors such as convenience of access and safety of money appear to play a more important role. This view that saving rate is not directly proportional to the interest rate is inconsistent with many strong supporters of a direct relation between saving and interest rate, e.g., CASSEL (1932:214-218), MILL (1873:31f), and RAE (1905:65ff) etc.

Agricultural income is free of tax so far in Pakistan, but the question of **agricultural taxation** still remains a burning issue. Many respondents mentioned the fear of having to pay a tax as a serious obstacle in the way of cash savings, this compels them to adopt other informal techniques. Political instability in Pakistan may be denoted as its major cause. Farmers are scared to practice any saving method which could reflect their income and ultimately make them taxable.

Credit means acquiring future income in advance (dissaving) instead of deferring the consumption for the future (saving). The situation becomes more desperate if credit is not interest free and the borrowed amount increases with time. The only productive utilization of this credit can be to invest it productively to increase the productive potential of the household, because if the profit earned remains lower than the interest rate, it narrows the economic base of the household by a fall in assets.

6.2 Psychological Factors

6.2.1 Typology of savers

The saver's temperament, his ideology with respect to life, his future planning and other personal orientations play a considerable role in shaping his saving attitude. DOMELA-NIEUWENHUIS (1889), for example, links the saving impulse directly with the mental state of an individual. In his view, saving is an outcome of a rationality in

dealings and thoughts.²⁶² Different personal characteristics classify savers in different categories. PASCHKE (1961:74ff) considers duration of deposit and form of saving as the base for classifying savers in different categories. The saving attitude cannot be studied in isolation; the individual logic is permanently related with the surroundings. This relationship results in three visible categories of savers; 1) development indifferent savers; 2) development active savers; 3) development conforming savers.

Development indifferent savers are usually characterized by the lack of personal drive for progressiveness and future promotion and are mainly dominated by traditional conservatism. Empirical evidence connects this behavior with dependency. The households with the lowest status in *biraderi* are the best examples in this regard. They always depend on better-off *biraderi* men for the promotion tasks. The savers have no confidence in their personal qualities and, therefore, do not strive to save and invest. Another explanation of this can be their fear of losing sympathetic patrons by showing their personal development interests.

Mustafa Ali owns a citrus orchard of 1.5 acres as the only source of income, which is insufficient to run his family expenditure. He belongs to a big *biraderi* and saves only for paying his contribution for the political campaign, when *biraderi* nominates someone for election. He does not want to risk his *biraderi* participation, even if this amount has to be borrowed.

The saved amount may be utilized for personal development, but a strong *biraderi* affiliation gives him confidence to run his household even under economically desperate conditions. Such a saver is usually unable to make a link between saving and his personal development chances by himself.

In contrast, **development active savers** have a psychological inclination towards improving their social position. They seek harmony between inner satisfaction and external needs. Their confidence in success acts as a stimulating force to achieve their objective, although they try to conform to the generally approved desires of the society (DOMELANIEUWENHUIS 1889:17). Such individuals accumulate large savings in spite of limited chances only through hardwork and willpower. Later, even after great success, they control unnecessary expenses and wish to die rich (MARSHALL 1905:260). Such an attitude results in the promotion of the social status. An active saver always tries to develop a grade faster than the average development rate (PASCHKE 1961:76ff).

Development conforming savers, on the other hand, act as conformists in this regard. Within the context of saving and consumption, they believe that personal development components and societal development trends grow at the same speed. Consequently, the saving process of such a saver remains constant till the general trends of development in society become stable.

Kher belongs to a middle income class and owns a citrus orchard of 8.5 acres as only source of income. He saves only when other farmers initiate a group of rotatory saving. He himself has never been enthusiastic to save. He considers it the state's responsibility to do something for his personal development.

²⁶² See Section 2.1.2.1.2.

6.2.2 Sense of honor (*Izzat*)

Social identity and behavioral rationality of the community under study revolves around the fundamental concept of *Izzat*.²⁶³ *Izzat* may be glossed as prestige, honor, esteem, reputation, status. It is the level of prestige for a person, family or *biraderi* in the others' eyes. It is a matter of life and death. There is a saying in the native language, „one may lose life but not *Izzat*.“ There exist different criteria for measuring it at individual, family or *biraderi* level (MERREY 1986:38).

Izzat can be considered as one of the "limited goods" (FOSTER 1967:293)²⁶⁴ in developing societies. It is just like a *nil sum* game where one wins at the expense of others. Everyone not only defends what he already has, but struggles hard to maximize it. The success of one means a loss for someone else. The same struggle from every side creates an atmosphere of competition, thus resulting into tussles, tension and jealousy.

This concept of maximizing "*Izzat*"²⁶⁵ can also be understood as an instrument of psychological satisfaction of rural people, which could better be understood with the help of one of PASCHKE's (1961:55) principles, that a variety of driving forces acting from all sides determine the behavior of a saver.²⁶⁶ The achievement of success and superiority is an essential component of the human instinct. Villagers do not face the competitions of academic life and career as the urban community, where "*Izzat*" may be acquired on the basis of professional competency. They have a small specific field and limited opportunities to be renowned and prestigious. Those who do not possess any impressive introduction try to be a part of a bigger group (*biraderi*), whose remarkable title is shared equally by every member and can be used as one's own introduction. Despite this, there are a few more acts which add to *Izzat*²⁶⁷ (Diagram 19):

- political status of the family and their sympathies towards villagers;
- possession of influence through contacts with important government officials;²⁶⁸
- demonstration of the household's economic prosperity, e.g., the remittances received by the family of a migrant worker in oil states is an unprecedented addition to its social status.²⁶⁹
- extraordinary lavish expenditure on the marriage ceremonies of children;²⁷⁰
- demonstration of the generous behavior²⁷¹, especially for lower professional strata;

²⁶³ According to MERREY (1986:38), *Izzat* is the most common and broadest term; there are others but they tend to have more restricted meanings. The term has obvious affinities, conceptual and historical with the Middle Eastern and Mediterranean concept of 'honor' (see PERISTANY 1966 for example).

²⁶⁴ Cf. MERREY (1986:38).

²⁶⁵ At this point MERREY (1986:40) classifies the concept of *Izzat* into 'false izzat' and 'true izzat.' 'True izzat' refers to the more positive characteristics included in the concept, while 'false izzat' includes more negative behaviours such as undercutting others and creating fear in others.

²⁶⁶ See also Section 2.1.2 for a detailed discussion of the saving motives as an expression of behavioural principle.

²⁶⁷ The addition to *Izzat* is usually associated with the use of force as well. There is a famous Punjabi saying, '**Whoever holds the stick owns the buffalo.**' Force is not resorted to frequently; it is enough to create the impression that one may use it in times of tension. Gujar *biraderi*, although economically better than Malik *biraderi*, were feared because they usually demonstrate their willingness to use force.

²⁶⁸ Such influence is usually acquired by entertaining the guests lavishly at a wedding, whether they are government officials or relatives - even to the point of bankruptcy.

²⁶⁹ See FIEGE (1995: 44).

²⁷⁰ See also EGLAR (1960:91ff).

- counseling services;
- conformity to cultural norms and traditions;
- practice of religion, religious generosity²⁷², building a mosque, etc.

Malik Anwar and his two brothers own a joint citrus orchard and belong to a middle income class. The household rigidly follows the tradition of their grandfather, who was popular for his extravagance. People still recall the celebrations organized by him. The Malik brothers celebrate his anniversary with the same pep and show to maintain his honor. Last year, they invited all neighboring villages to a lavish feast and arranged cars to distribute food to the distant areas. Consequently, they had to take a loan of Rs. 90,000 to pay for the celebration.

As to the question of what is the ultimate outcome of the accumulation of ‘*Izzat*,’ LÖFFLER (1992:55) views it as a way of winning social contacts (e.g., with mobile credit officers, patwari, etc.) which represent a compulsory component or a prerequisite for any possible investment.²⁷³ Such relations are found to be very valuable within the context of any planned economic activity:

- „[...] I found evidence of people investing in social relations in order to improve their access to labor, credit and various forms of property. [...] investment in social relations may have long-term effects on output by influencing the organization or management of productive activity“ (BERRY 1989: 213).²⁷⁴
- The same is true in the case of lavish expenditure on wedding ceremonies as well: „even the large expenditure associated with weddings has to do with penalties and signals associated with mutual guarantees of continued relationship“ BERRY (1989: 213).²⁷⁵
- The higher economic status of marginal farm households having non-farm workers also results in a higher social status, as compared to those having a similar amount of land but no agricultural worker (KLENNERT 1988:416).
- „If an agriculturist, besides having agriculture as his major pursuit, starts some kind of business, he will have more prestige than an agriculturist totally dependent on land income“ (RAZA 1969:31).
- Off-farm employment is reduced to non-agricultural work in marginal farm households since, for reasons of status, members belonging to the esteemed ‘castes’ accept paid work at another farmer’s only in cases of great misery (KLENNERT 1988:416).

²⁷¹ This generosity is specifically towards the individuals (who are obliged then to render support). MERREY (1986:39) writes in connection with rural Punjab, „disputes are often taken to the police; the person or group that can avoid jail or being beaten by the police, while getting the opponent punished and spending the least money doing it, ‘wins.’ Such cases often become very long and expensive but they continue even when people are aware that after so much trouble and expense they will have nothing tangible to show.“

²⁷² Merrey (1986:39) views religious generosity such as building of a mosque as a means to earn ‘respect’ for piety, but it is not itself a source of *izzat*; pious acts score points in a different game.

²⁷³ PLATTNER (1989:210; cf. LÖFFLER 1992:55) also shares the same views, „[...] that a long-term personalized relationship is economically superior in certain environments.“

²⁷⁴ Cf. LÖFFLER 1992:55.

²⁷⁵ Cf. LÖFFLER 1992:55.

- Non-farm labor in a small-scale village industry or in road construction is not readily taken up by members of certain marginal farm households because of their 'caste' status.

First of all, as stated before, prestige gives a psychological satisfaction of having something more than others. Everyone tries to maximize his and to weaken that of others. Even if he does not succeed in winning more for himself, he tries hard to win the game by weakening others²⁷⁶. A saying in the native language may describe the situation more clearly, "**If my neighbor's wall falls, it is good - even if it falls on me.**"²⁷⁷ Apart from this satisfaction, possession of prestige imparts strength and authority which may further contribute to leadership.

A person has to possess a maximum of *Izzat* to be a leader. All types of leadership, except religious, emerge from the individuals' economic superiority. The introduction of basic democracies in the rural areas of Pakistan tried to bring a substantial structural change in the rural leadership pattern, but the actual structure is still based upon heredity, caste, class and possession of wealth. **Someone with virtually all qualities of a leader, could not acquire a leading position unless he possesses enough money to advance loans to the people and create a dependent class around him.**²⁷⁸ The provision of legal, social and economic security to this class plays a multipurpose role in the election campaign or at other events where numerical strength is required.

Within the context of a relation between sense of honor and saving, it is obvious from the above-mentioned discussion that all acts such as political status, social contacts, lavish expenditure on ceremonies, etc., which contribute to honor are simultaneously extravagant and hence exert a negative influence on saving.

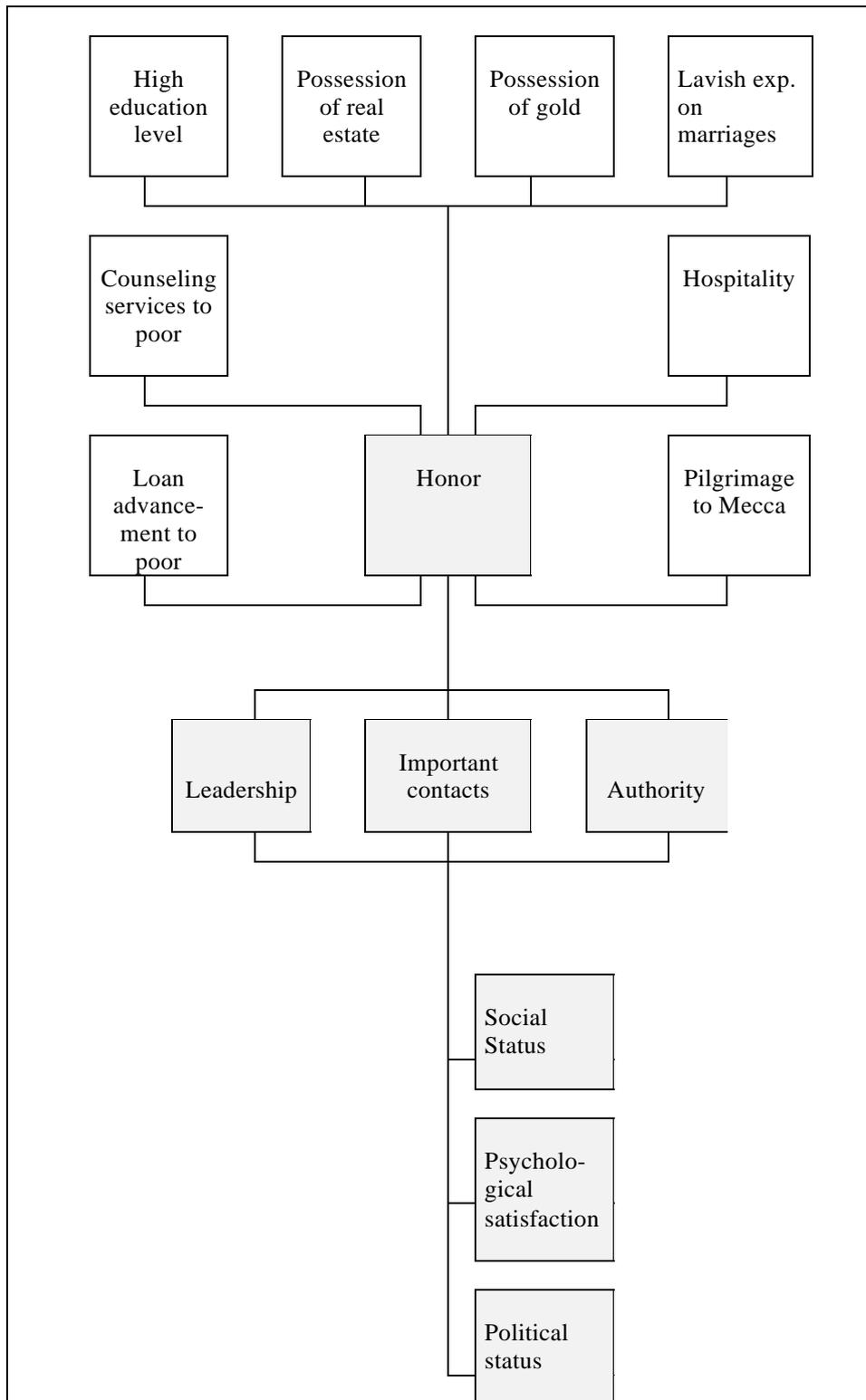
In a materialistic society like that of Pakistan, honor means possession and demonstration of wealth. People usually appreciate the courage of organizers who dare to borrow for organizing a lavish feast. A person who spends more than his capacity is considered honorable, without any consideration of its aftereffects on his household economy.

²⁷⁶ Opposition is never legitimate in the western parliamentary sense: it is always personal and aimed at weakening others or strengthening one's own position (MERREY 1986:39).

²⁷⁷ Cf. MERREY (1986:38).

²⁷⁸ Every leader possesses his own vested interests in working for the benefit of his followers. Very often, these persons keep their own interest in mind first and attract followers, who are then obliged to them, by helping them in settling court affairs or offering security against their enemies or the police.

Diagram 19: Accumulation and impact of honour in rural sphere



Source: author's own survey

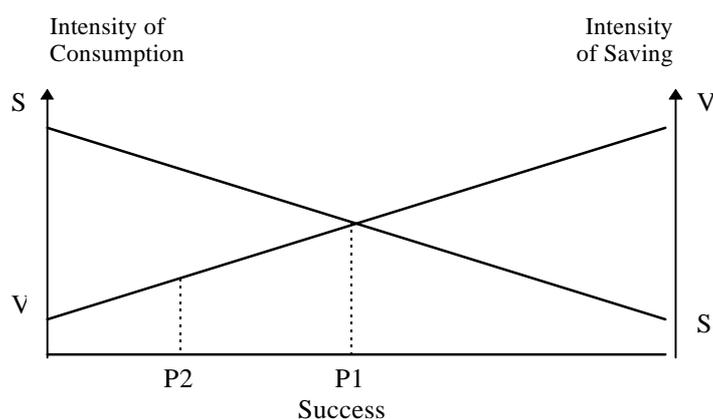
It is evident from the quantitative analysis (Section 6.1.1.9) that an increase in income does not necessarily stimulate the rate of saving. It may increase the saving potential of a household, but may simultaneously stimulate consumption expenditure in a rural household. The quantitative results referred to above also show a positive correlation between income and consumption which is stronger than between income and saving.

The local rural ideology perceives saving as a planning of one's own development, while generosity is perceived as an interest in others' welfare, which is considered a virtue. In simpler words, it may be concluded that a constant desire of accumulating honor has a negative relation with saving. It results not only in an extravagant utilization of a household's existing resources, but also restricts the earning possibilities to a few honor-oriented tasks.

6.2.3 Conflict situation of income distribution

The inversely proportional relation of saving and consumption acts exerts a significant influence on the rate of saving. The nature and effect of this conflict situation can be clearly explained with the help of the "Avoidance Avoidance Model" (PASCHKE 1961:169) sketched in Diagram 20.

Diagram 20: Conflict situation of income distribution



Avoidance Avoidance Model

Source: PASCHKE (1961:169)

Line *ss* and *vv* represent the incentive of saving and the incentive of consumption respectively. The horizontal axis represents the saver's desired success. When decisions are more consumption-oriented, the saving incentive becomes higher because saving creates a conflict situation in the person. In contrast, consumption incentive increases when one is oriented more towards saving. At one stage, as indicated by stage **P1** in the diagram, both incentives are equally strong. This represents an inner balance of saving and consumption in the mind of the decision maker. At this point, if he makes his decisions firmly in the direction of "controlled consumption" as indicated by **P2** in the diagram, this gives rise to a surplus, an inclination of saving, which lets him revise his opinion. **At stage P1, one has the lowest resistance to overcome. This balanced situation is not a problem of income distribution but a compromise with respect to a far-flung objective, namely, security of future and improvement in the living standard.** MC KINSEY's (1952) "theory of game" is a great help in understanding this conflict situation. Income distribution is no

longer a physical process (a mechanical process) but a psychological phenomenon. A game requires certain predefined regulations. Generally, two types of games exist: 1) **game of chance**, and 2) **game of strategy**. The game of chance can be won luckily by getting a suitable chance. The game of strategy, on the other hand, requires some intelligence and experience by which the player influences the game. Distribution of household income requires a strategic attitude and a theory of economic game as the theory of strategic behavior.

The behavioral life cycle hypothesis views that, once the individual has determined his or her optimal lifetime consumption profile and desired pattern of wealth accumulation, he will encounter no difficulty in implementing his or her lifetime consumption plan. The assumption, however, has been challenged by SHEFRIN AND THALER (1988:609-639), who argue that the implementation of such a plan requires the selection and postponement of consumption in certain periods. They view that making such choices is a critical point of one's personality. An individual should be able to exercise self-control in order to delay immediate gratification to achieve a longer run objective, for example in the case of saving. Such self-control involves three social elements, which are normally excluded from the economic analysis: **1) internal conflict, 2) temptation, 3) willpower**. The incorporation of these three elements into the traditional life cycle model results in what they describe as the "**behavioral life cycle model**."

The key features of this model deal with the allocation of lifetime resources in a manner which is consistent with the life cycle model in an absolute sense. These individuals may also lack the required self-control to defer current consumption expenditure to fulfill the lifetime consumption plan. An individual possesses two sets of preferences at this stage: one concerned with the long run, the other with the short run. **The upshot of this dual preference structure is that the act of saving creates an internal conflict between the above-mentioned two sides of the individual, i.e., forward looking (the planner) and the one who cares about the present (the doer). The individual unconsciously seeks the ways to achieve his long-run goal through saving, but which minimize the psychic cost arising from the internal conflict between the planner and the doer to achieve the goal.** This requires an appropriate psychological motivation to guide the behavior and to overcome the weaknesses.

SHEFRIN/THALER (1988:609-639) call for the division of available and expected income in the different categories. This requires a mental training on the part of an individual so that he can see income under the heads which differ from each other according to the degree to which it is psychologically permissible to use the account to finance current consumption. For example, an individual may train himself in considering that current consumption may be financed from discretionary cash income without guilt, from discretionary saving with somewhat greater guilt and from saving planned for a long-run objective with considerably greater guilt. The ultimate objective of creating these categories of income is to train the mind when making any decision for consumption, as to what is available and what is earmarked for saving in order to reduce the doer's temptation to consume all.

Once the mental capabilities are established, the individual is in a position to rely on a mix of internal and external rules of behavior that enables him to save. Internal rules are self-imposed prohibitions on borrowing, extravagance and treating all income in lump-sum form. External measures are taken by making self-imposed external constraints to limit the amount of income available for current consumption, i.e., a certain portion of such income may be deposited in some other account to keep it safe.

Consumption itself may also appear as an important determinant of household saving. The availability of durable consumers' goods could stimulate the desire to save. Although savings are explained as abstinence from consumption, a desire to buy consumers' goods may also stimulate the desire to save. Households in the study area showed a greater intensity for such saving. Better infrastructure and electrical power provoke a greater willingness to save. In contrast, inaccessibility may have an adverse impact on the desire to save.

The study rejects the old concept that farmers save for smoothing their consumption in the face of volatile and unpredictable income in order to avoid a deterioration of their already poor living standards (DEATON 1989). Empirical evidence shows that most of the farmers have a reasonably adequate food production base to ensure a stable food consumption level, hence, saving is not required for 'consumption smoothing' but for 'consumption diversification.' They save, for example, to include market products in their fixed pattern of diet.

6.3 Socio-cultural Factors

6.3.1 Extravagance

The consumption-orientation of our society (Pakistan) whose individuals mindlessly indulge in conspicuous consumption is another limiting factor [for saving mobilization]" (SHAHID 1983:54f).

Status - ascribed or acquired - and extravagance are inseparable components of rural life. Ascribed status usually comes from membership in a higher caste group, inheritance of a large amount of land or other property etc. Acquired status, however, may only be achieved through hard efforts.²⁷⁹ The "vicious circle of extravagance" starts with a desire to fulfill cognitive motives²⁸⁰ when lavish consumption becomes the habit of a community. SMITH's (1982:437)²⁸¹ remark, „capitals are increased by parsimony and diminished by prodigality and misconduct“ is of major interest in this section.

Rural Pakistan experienced a visible shift towards extravagance with the increase in remittances of Pakistani workers during the second half of the 1970s and the first half of the 1980s.²⁸² The resultant increase in purchase power, as discussed in the preceding chapters, led to a change in consumption needs and claimed a better quality of life and new standards of status in the rural sphere (FIEGE 1995:44). Such ostentatious expenditure on ceremonies and rituals is sometimes also considered as a token of generosity, although the idea is exactly opposite to SMITH's (1961:29ff) economy,²⁸³ who sees spendthrift members as enemies and thrifty members as well-wishers of the fellow members of society. Spendthrift families usually build a small guest room and offer free food and drinks to someone who needs to stay there.²⁸⁴ Sepis also receive an extra share of agricultural produce.

²⁷⁹ See Section 2.2.2.1.

²⁸⁰ See Section 2.1.3.

²⁸¹ See Section 2.1.1 for the theoretical discussion on the topic.

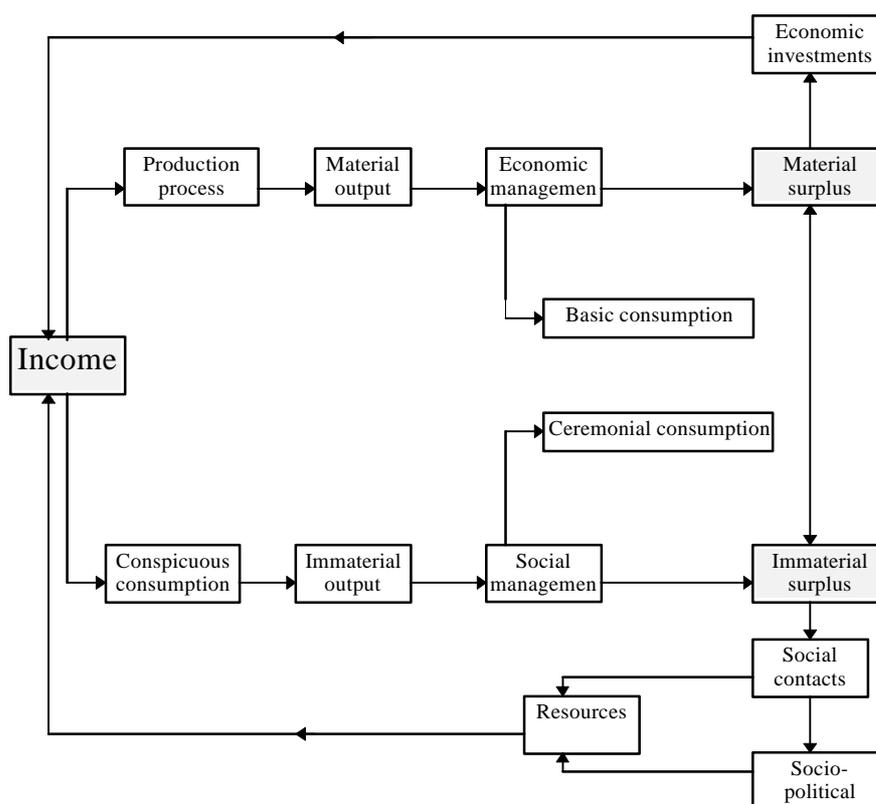
²⁸² See Section 4.1.4.

²⁸³ See Section 2.1.2.1.1.

²⁸⁴ A very important aspect of hospitality is that it creates an obligatory relationship between host and guest, which may further be converted into a strong alliance, or new alliances may also come into being.

Such behavior gradually creates a circle of obliged people around a person and imparts him social as well as political power. Those who strive for some political position have to prepare the grounds a long time before at the local level. Once the desired socio-political status is achieved, extravagance in this form is needed to stabilize the position. DUESENBERY (1949) in his 'Relative Income Hypothesis' describes the same situation about the position of a household in the income pyramid, and developed a 'ratchet effect' out of it.²⁸⁵ In this way, the vicious circle starts from extravagance and ends with extravagance. During this struggle, one may hardly expand one's own productive base. In most of the cases, resources may decrease in this period. Whatever was spent, was, in a way, an investment in social prestige (social capital) and that which was received in return from the community was also non-material mental and emotional satisfaction. Household expenditure increases day by day, but resources stay constant during this process. If income remains in balance with consumption in this case, the household economy runs without generating any surplus, but a stage may come when the expenditure level crosses the circumference of resource level and may cause dissaving. Nevertheless, the mercantilistic view²⁸⁶ stresses luxurious behavior, so that the consumption-oriented instinct may mobilize 'dead resources' or past savings. The hedonistic principle²⁸⁷ views that a desire to improve the standard of living at this stage may result in saving. But unfortunately, such theoretical principles are not valid in the case of Pakistan's rural community.

Diagram 21: The cycle of socio-economic expenditure of a household



Source: author's own survey

Lavish hospitality adds to the status of a household, even when it brings heavy financial trouble (LÖFFLER (1992:68).

²⁸⁵ See Section 2.1.4.1 for a detailed discussion.

²⁸⁶ See Section 2.1.4.1

²⁸⁷ See Section 2.1.4.1

Diagram 21 shows the utilization of income in material and immaterial processes and the acquisition of material (in cash or in kind) and immaterial (prestige, knowledge, power) surplus. Both types of surpluses are again invested in social and economic processes which add to the household income. Although the contribution of social investments are more psychological than material, **social investment tends to be unlimited in character, it is competitive in nature and its rate of increase does not remain in balance with the economic benefits achieved through it.**

Parents as well as the young generation are quite enthusiastic in setting an example of lavish expenditure on marriage ceremonies.

„Many families spend for weddings more money than their financial situation allows. Sometimes young families work for years before they can pay the debts incurred for their wedding. It occurs that families sell their cattle to finance great wedding ceremonies“ (ECKER 1978:245).

A sense of competition exists in this regard. Every household tries to introduce a new event which has never been organized so far, e.g., overnight stay of marriage procession, invitation to folk singers, service from any luxury hotel, offering an extraordinarily lavish dowry, unusually large amount of gold, etc. The young generation themselves, instead of realizing the extra burden on the household's economy, compels their parents to spend more than expected by others. „By performing the various ceremonies, parents give their child pleasure and simultaneously build up the child's *Izzat* in the house and in the village of the parent-in-law.²⁸⁸ Therefore, in order to conduct these ceremonies in a manner appropriate to their status - which is measured in terms of the family's position in its own *biraderi* - parents will borrow money“ (EGLAR 1960:91f).²⁸⁹

Childbirth or **Aqeeqa** is celebrated on the seventh day following the birth. Though celebrated only in the case of a male child, it is often not less expensive than a marriage ceremony. Guests visiting from some other village stay with the host family, even a few days after the celebration. The frequency of births in a household means that every household celebrates *Aqeeqa* quite often. Two or more lambs are slaughtered and cooked food is offered to all *biraderi* members, neighbors and family friends as a feast. The **circumcision** ceremony is also celebrated like *Aqeeqa*. A large number of guests are invited to the feast. The guests stay a few days and enjoy the host's hospitality.

Generosity, as already stated, may be seen as a major cause of trouble for the household economy. Most of the middle class landowner families try to be socially active. However, the cost, in this regard is quite high.

²⁸⁸ Respondents mentioned a few cases where the boy's family gave a certain sum of money to the girl's family for the dowry and the wedding reception, as the other family was not able to meet all those expenditure alone. This may affect the *Izzat* of both parties. But this is the least desired form of marriage and both families do not mention this money in public. EGLAR's results (1960:91f) in rural Pakistan also gives clues of such arrangements.

²⁸⁹ Parents who are not able to manage these expenditures are regarded as negligent and incapable in the performance of their duties, and this reflects badly on their *Izzat*. See also (EGLAR 1960:91ff) for further details on the issue.

Anwar and his two brothers own a joint orchard of 16 acres and had inherited enough to offer an easy life to their families. Since they were members of most generous families in the past, they want to follow the tradition and, therefore, their households lack even the basic requirements to cope with the hardships caused by the weather. No assets have been added since the death of their father and most of the activities have had to be financed by loan.

***Sepis* are the major agents of reputation. Landlords' households try to give to *Sepis* more than committed, just to create a good impression.** Everyone can come and ask for help. They always have to entertain many guests at every meal time, etc. SCOTT (1976:41-42 cf. HAYAMI AND KIKUCHI 1981:18) observes a similar situation in a traditional community, „well-to-do villagers avoid malicious gossip only at the price of exaggerated generosity. They are expected to sponsor more conspicuously lavish celebrations at weddings, to show greater charity to kin and neighbors, to sponsor local religious activity, and to take on more dependents and employees than the average household. **The generosity enjoined on the rich is not without its compensations. It redounds to their growing prestige and serves to surround them with a grateful clientele which helps validate their position in the community.** In addition, it represents a set of social debts which can be converted into goods and services if need be.“

Intra-*biraderi* competition for status is another major motivation of extravagance during *biraderi* ceremonies where everyone tries to take a lead. The 'veyl' system (the ritual is now performed by showering currency notes on all dancing people as a sign of joy) is one of the best ways of demonstrating prosperity. Traditionally, this money is given by men to the *mirasis*, (the village bards) who entertain male guests.²⁹⁰ The currency notes may vary from 1 to 500 Rs. Everyone provokes the others to compete until their pockets are empty. **Family tussles** intensify such events. Some relations like those of husbands of two sisters are quite touchy ones, as they always want to let each other down at every ceremony. Such tussles usually break the backbone of the low-income families. At that time, they usually forget the miseries their immediate families have to face afterwards.

Extravagance leads to dissavings in the rural households, which may be discussed in terms of consumption credits in cash and kind (Table 33). Dissaving occurs when the level of consumption is higher than one's income. Since repayment is quite uncertain, borrowing from relatives is preferred. This borrowing and repayment cycle keeps on revolving continuously. MANIG (1991:117-118) in his survey report on six villages in north Pakistan mentions, „95% of all of the credit transactions are procured from informal credit sources. The by far most important source for obtaining credit are relatives and friends (50%), and other private acquaintances (27%). These are followed by small loans from the store proprietors who write up the purchases for daily needs on credit. Commission Agents are involved in only 2% of all of the credit transactions. Formal sources of credit only make up 5% of the sources of credit in the villages, of which commercial banks make up 3%“. FIEGE's (1995:258) comparative study in north-west Pakistan²⁹¹ also proves the success of informal credit sources over formal ones, even after a period of twenty years, „In the absence of trustworthy formal credit institutions,²⁹² the

²⁹⁰ For a detailed description of the activity, see also EGLAR (1960:197ff).

²⁹¹ The analysis period of 1967/68 to 1986/87.

²⁹² The Agricultural Development Bank of Pakistan (ADBP), for instance, although it always stressed a special consideration of small farmers in its priority list of borrowers, is not supported by its published facts

traditional multifunctional institutions are still valid“ (FIEGE 1995:258). BERGER (1987:482) sees the base of these above average credit transactions among relatives in some marketing relations. According to the observations he made in rural Pakistan, besides relatives and friends, commission agents still lend a considerable share of the rural household’s total credit requirements.²⁹³ **This financial transaction between households also shows a productive function, although when it is not charged with interest in the case of relatives, friends and neighbors, it is charged with some social obligations on the part of the receiver.**²⁹⁴ **This ‘social interest’ in the form of addition to the donor’s status and simultaneous expectation of financial help in case of bottlenecks can be seen as ‘capital formation’**(LÖFFLER 1992:185). BERGER (1987:373) writes: „relatives offer credits to increase the social prestige of the clan, which again has a repercussion on one’s own socio-economic position (external effect). Apart from this, credit extension adds to the donor’s position within the clan (internal effect). Borrowing is not considered bad, it is rather seen as a rapid remedy of every financial crisis“.²⁹⁵ MANIG (1991:118) also presents a comparison of the credit sources with the purposes for which the credit is procured, „credit is usually borrowed from friends or relatives to finance festivities (12% of all of the statements), for housing (11%), for purchasing goods to meet daily needs (10%), and to meet expenses arising from medical treatment (7%). These sources are followed by credit procured from private acquaintances for investments in farms (6%) and financing festivities (6%). It is only then that credit from the store proprietors to meet the daily consumption needs is found in the list (4%). The formal credit institutions only grant credit for investments in housing and for productive purposes on the farms and outside the agricultural sector. However, such credit is often used internally in the households for other purposes“.

The extravagant effect, which is highlighted in this study, is the ultimate utilization of this credit. Empirical observation shows (Table 33) the utilization of most of the informal credits for consumption purposes. A similar situation is observed by KIERMAYR

and figures. Two-thirds of the total volume of credit is lent for farm mechanization to large landlords with priority, while inputs and fertilizers credit remained on the waiting lists (BERGER 1987:479).

²⁹³ Either there exists no credit cooperatives in the villages or the access to credit is very difficult for a common member. Many cooperatives distribute credits without mobilizing the local capital, which may develop a ‘solidarity’ of non-repayment among the borrowers. The stratification among members causes discrimination which prevents the mass from participating in decision-making. The cooperatives of underprivileged groups do not exist and cannot be established against the wishes of landlords (BERGER 1987:478).

²⁹⁴ FIEGE’s (1995:259) empirical analysis reports the following institutional and trade relations as a base of credit transactions:

1. Genealogically and emotionally based relations, (principle of reciprocity):
 - patrilineal relatives of one’s own clan (for loyalty)
 - patrilineal relatives of conjugal family (for better alliance)
 - friends
2. Patron-client relations:
 - landlords (to increase production)
 - employer
3. Market relations:
 - businessmen
 - commission agents
 - moneylender
4. Formal - legal relation:
 - cooperatives
 - agricultural development banks
 - commercial banks.

²⁹⁵ The borrowed amount and its consumption are not added to the actual annual income and consumption expenditure.

(1971:184) in north-west Pakistan; no credit from the informal sector was invested productively. For the same study area, LÖFFLER (1992:186) observes only slight changes, although some of the credits were invested productively, but this money was still mainly used in the consumption sector.²⁹⁶

Table 33: Dissaving in 12 case study households

Cases	Amount or item borrowed	Source	Period	(Rs.)			Reason of borrowing
				Amount repaid	Amount left	% repaid	
Case 1	-	-	-	-	-	-	-
Case 2	40,000	Cooperative Society	4 years	-	40,000	0	Farm inputs
Case 3	30,000	Mother's brother	1 year	-	30,000	0	House repair
Case 6	-	-	-	-	-	-	-
Case 7	-	-	-	-	-	-	-
Case 8	40,000	Paternal cousin	1 year	-	40,000	0	Child's birth
Case 10	1,00000	2 brothers	Unlimited	-	1,00000	0	Son's marriage
Case 11	10,000	Brother	1 year	5,000	5,000	50	Medical expenses
Case 12	2,000	Mother's Brother	1 year	500	1,500	25	Transport

Credit in kind

Case 6	10 Kg Wheat	Paternal cousin	6 months	10 Kg	-	100	Hospitality
Case 9	25 kg Wheat	Sister	6 months	25 Kg	-	100	Circumcision
Case 10	3 kg Spices	Father's brother	6 months	-	3 kg	0	Son's marriage
Case 11	10 kg unrefined sugar	Land lord	6 months	-	-	0	Household consumption
Case 12	2 Kg spices	Mother's sister	Unlimited	2 Kg	-	100	Emergency need

* Lending and pending payments are a definite item of expenditure every year. A number of expenditures are made which are to be paid either by installments or in the next year.

Sources: author's own survey

6.3.2 Decision making

The utilization of available income cannot be made by the head of the household alone. He has to fulfill a number of obligations towards relatives, friends, neighbors and tenants, which cannot be avoided without a fall in status. No individual household possesses

²⁹⁶ SHIBLI's (1986:15) study also supports the observation for Bangladesh.

freedom of decision in this specific sphere. They have to fulfill a number of monetary obligations before investing their means in some productive activity (LÖFFLER 1992:188). There exist different spheres of influence, depending upon the nature of the decision. All decisions are usually made within the following three spheres: 1) *biraderi*, 2) household and horizontal line of relatives, 3) immediate household level.

Decisions which may influence *biraderi* as a whole, e.g., expenditure on election campaign, etc., usually require the consent of the head and of some leading members. The head of *Biraderi* and selected members make a proposal or a tentative decision which is then presented to the whole of the *biraderi* and discussed with the other members before it is launched.

Biraderi has nothing to do with a household's saving affairs, which are considered a private matter. *Biraderi* performs a significant role rather in dissaving and encouraging extravagance by creating a sense of competition among households and persuading them to spend more on festivities. If someone does not possess enough, he is motivated to borrow for *biraderi* prestige.²⁹⁷

There are matters which require the **involvement of the immediate household members and of some horizontal relatives** such as parent's siblings. The matter of marriage expenditure, however, is discussed in a comparatively larger sphere, usually in the presence of paternal as well as maternal siblings, although paternal siblings play a more decisive role in this regard. Everyone suggests prestigious events for the ceremony and their tentative cost. If the organizer cannot afford the expected cost, expenses are not cut down according to the budget, but suggestions are given for possible credit sources in order to save the household's and *biraderi*'s honor.

Another very common situation of communal decisions occur when married brothers with separate households own a joint farm. In such a case, all decisions about saving, consumption and investment are made jointly. The total farm income is usually divided into three parts: the first part is equally distributed among brothers; the second part is kept for the input expenditure of the following year; and the third part represents a surplus which is saved for future investment. This amount may also be borrowed from any one of them for a specific term without interest.

Decisions made exclusively at the **immediate household level** means a decision between parents and their children.²⁹⁸ The present study analyzes decision making at this level with the help of the '**Symbolic-Interactionist Approach,**'²⁹⁹ which considers a family household as a relatively closed system of interaction. Usually, the father is the supreme authority in all financial affairs. Adult sons also play a decisive role in this regard. In other words, those who visibly contribute to the household economy possess a right to decide. Women usually play a very inferior role. They usually remain in the background, even if they want to influence any decision, their wishes are conveyed through someone else, in the case of daughters-in-law, through their husbands, and daughters, through their mother. The final authority to accept or reject a proposal, however, is the father or a team

²⁹⁷ These ties are a major reason of the discretion of saved cash. Anyone can request a loan if savings are exposed. Most of them cannot be refused because of the nature of the relationship, as frequently practiced intermarriages cause the nature of relations to be very sensitive, this makes refusal difficult and may have consequences.

²⁹⁸ See Section 2.2.3, for the influence of three dimensions of increasing complexity (HILL 1961:63ff) on the decision making process of a family.

²⁹⁹ See Section 2.3.1.

comprised of father and sons. Traditionally, the elder son replaces the father, exercises authority on younger brothers and represents the family in *biraderi* events in the father's absence.

The situation is different in the case of financially heterogeneous members³⁰⁰, " Household members with more resources have more power in decision-making than those with less; if their right does not correspond to their resources, they would simply withdraw the latter. Consequently, children have but little influence since their resources only increase slowly. Household members with a high status can also influence decision more than those with a low status. Old people are respected for their age and experience. Of course, there are households in which these patterns cannot be found - in some cases the strong personality of one member is more relevant than other factors" PIESCH (1988:127).

The usually current farm, sociopolitical and business affairs may be divided according to the talent and interest of brothers in such a household in a way that everyone is given freedom of decisions in the respective field.

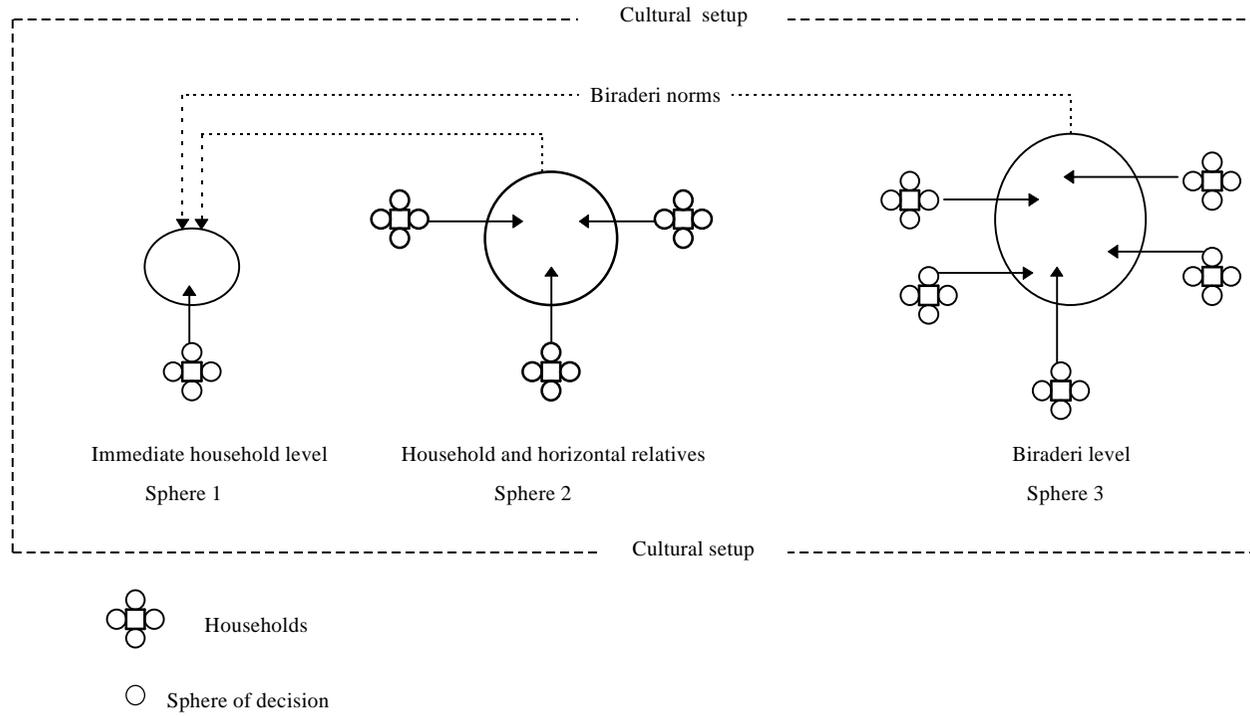
The household of 'case study 4' is a perfect example of this model. Three brothers live together and cultivate a joint farm and orchard without any conflict because of the segregation of authority. They manage a citrus orchard, business and political affairs. The activities are divided according to personal talent, the household is popular for its success in all three spheres.

This situation claims a segregation of decision power among different members according to personal talent and interest, whose proposal should be given priority in their field. If an elder brother still wants to practice his monopoly in every field, an extended family household may break into smaller units. Extended family and a joint decision atmosphere may be found in households who have accepted and adopted the changing social setup.

The above-mentioned discussion of the three levels of decision making is sketched in Diagram 22 for convenience. Three circles in the diagram represents three spheres of decision making. The sphere widens with the involvement of more households in decisions. Since these spheres of decision cannot function in isolation, each sphere bears a certain extent of influence on the other two levels. A dotted line in the diagram shows the influence of spheres 2 and 3 on 1. At the immediate household level, for example, respect, authority, or emotional affiliations exert a latent influence on the decision structures. *Biraderi* norms also exert a visible influence, since each decision has to follow *biraderi* norms. The influence of an individual household on *biraderi* decisions, however, depends to some extent on the personal characteristics of some individuals or, to a greater extent, on the economic status of the household. The whole mechanism, however, functions within the framework of the cultural setup, which determines the values, norms, etc.

³⁰⁰ This heterogeneity usually comes from differing levels of education, occupations and exposure.

Diagram 22: The three spheres of decisions in the rural sphere



Source: author's own survey

6.3.3 Gender-specific saving

The empirical survey reveals a gender-specific saving aptitude, which is certainly learned culturally during the socialization period. With reference to the description of social action,³⁰¹ these characteristics are coined in their personalities and determine individual action.

Women are generally financially conservative and try to hold money for the family security instead of risking it. Sometimes they really feel compelled to save because of their unexpected insecurities in life. A girl learns thrift as one of the virtues of her personality. She is taught not to consume just for the sake of pleasure, as it would not be a behavior desired of a young wife when she enters marriage. Thrift is considered a quality which reflects her training in her natal family. Saving as a virtue of womanhood has been idealized by religious and moral teachings within the context of economic and managerial skills to run the household. A young bride usually has no access to financial assets unless she establishes in marriage. RÄDER (1988:99) shares the same views in her study on Bangladesh, "Contrary to men, the majority of women openly or secretly save money or rice for future investments, for transferring it to the husband or children or for emergency cases. This saving behavior of women is a part of their pre-marriage education in their parents' house".

Unfortunately, men prefer to concentrate more upon the accumulation of social capital. Every respondent is found to be enthusiastic to add to *biraderi* prestige and to win new contacts for socio-political authority in the area. They are found to be quite careless of adopting any long-lasting saving technique. "It is rather rare that the male household members think of building up cash savings with the intention of covering the depreciation amounts of production capital or consumer durable. There is also hardly any cash-saving activity among men for large foreseeable expenses, such as for the marriage of a daughter" (RÄDER 1988:92). Their savings are mostly short termed and strictly target-oriented. They prefer to finance productive investments through credit. They are found to be far fonder of extravagance as compared to women. The approach "measurement by benefits" also proves men to be the main beneficiaries of the ultimate benefits of social capital. Nothing gives them more satisfaction in *biraderi* as their social reputation.

Apart from different socialization patterns, a difference in economic behavior may also be attributed to the level of economic security in both cases. **Contrary to men, women have to work out more strategies to cope with their insecurities throughout their life.** First of all, a woman leaves her share of property to her brothers when she marries, as a kind of moral debt for them to help her in need. "After the death of their parents women obtain a share of their parents' property. According to the general inheritance rules of Islam, each daughter is supposed to receive half of the inherited share of each son. But women [...] do not fully claim this legal portion to keep good relationships with their brothers, because the brothers' households are important places of retreat in times of quarrels with the husband or in case of divorce or widowhood" (RÄDER 1988:97).

Besides gender specification, an economic strata-specific difference may also be seen among women. Women engaged in agricultural or livestock labor, in agroprocessing and domestic work are typified in a society as **poor women**. They find different ways

³⁰¹ See Section 4.2.3. for necessary details.

to save from their earnings. Sometimes an employer is asked to withhold part of their salary which may be claimed when needed, or the actual amount of income is kept secret and some of it is kept aside.

Usually, **middle-class women** secretly deduct a certain amount from the money given to them daily, weekly or monthly to be spent on household supplies. Some women regularly put one handful of flour aside every time they bake bread. This gives them some saved flour for emergencies as well as for exchange to meet any of their secret needs. Some cash is asked from the husband for different household needs such as buying onions, garlic, ginger from a neighbor selling at a cheaper rate, and the amount is saved instead of being spent for buying such items.

Prosperous women save from inheritance, gifts from in-laws or natal families, son's earnings, etc. These women usually do not earn by themselves. Most of the time, cash is converted into gold and silver, as women have a greater control on such precious metals as compared to cash. These have a multiple use later as well; apart from being a sign of status and prosperity, they can be transferred to the daughters.

Women's savings are mostly spent to meet children's needs. They help sons to start a new business or for their education, especially when the mother thinks that the father does not give them enough to enjoy the amenities of life. This is done in the expectation that the son will also support her in her old age. Several women respondents mentioned that they sent money they had saved to their old and needy parents without their husbands' knowledge.

Four categories of households in which women play different roles in financial matters are:

- In households with **women as salaried earners**; the extent and form of saving depend upon whether she is a first or second earner and how much she is supposed to spend for the household budget. Unmarried earning women usually save more and help their parents in managing marriage expenses.
- Households in which the **husband is the salaried earner**, especially when the place of work is in a nearby urban area. The woman organizes the household alone and saves from the money she receives for daily household expenditure and for meeting accidental needs.
- In the households of **migrant workers' extended family**; remittances are saved by the father and are usually employed for the dowry expenses of sisters, building a residential house, or for the business of young sons. In households, however, where a woman lives alone with her children, financial freedom may be enjoyed. She saves and spends on her personal needs, dresses, ornaments, cosmetics, etc., the way she likes.
- There are households where the mother is left alone because all the **sons work in the city** and have settled there. An old lady does not want to leave her village and close kin. The remittances sent by the sons are usually employed for the grandchildren.

Women's access to money affairs changes with growing age and changing status in the household. A woman lives under the authority of her mother-in-law as a young bride.

At this stage she usually possesses no cash and finds very few chances to put some aside. As she gets more adjusted to her conjugal family with growing age and after bearing children, she may receive some money to visit the market by herself. A third stage comes when she becomes a mother-in-law herself and gets a comparatively better access to financial affairs. She takes the place of elder women in the woman's sphere and behaves similarly to her mother-in-law. Saving chances become much better at this stage.

To conclude, the saving potential of a woman seems to be directly proportional to her age and status in the household. Saving is a precautionary measure which compensates her insecurity and dependence. Female respondents always showed readiness to save in spite of their limited access.

6.3.4 Social niche

Human behavior is an outcome of one's natural behavior as well as the situations existing in one's surroundings. An individual learns to know his surroundings as he grows older, pursues his career, gets acquainted with new people, observes new habits and discovers new consumption patterns.

In other words, an individual's own personality evolves with age. He usually faces a wide range of possible paths at the start of his working life, all of which may involve different structures of needs and preferences. As the life situation changes in the course of time, many social and economic behaviors no longer appear to be feasible. Many new behavior patterns dominate the older one and then, gradually, the stage is reached, when eventually each individual settles down in what might be called a 'social niche.'

'Niche' here is taken as the position in the 'social pyramid.' Every type of niche has its own specific structure of consumption which is required to belong to that social stratum. Social promotion entails larger utility per unit of expenditure. One consumes more than one earns or one tries to generate surplus, depending upon the personal priorities of an individual's life pattern.

Occupation is a visible indicator determining a consumption pattern and the position in the social pyramid. In the study area, for example, participation in a certain *biraderi* and caste group³⁰² determines which social strata one belongs to, whatever the personal occupation. An individual's social niche is the *biraderi* of which he is a member. He is supposed to meet a certain standard set by the clan at every cost and, therefore, consumption behavior shapes accordingly from the very beginning.

A particular social niche reorders the priority structure of a household; this strongly influences the nature and amount of saving. Objectives frequently mentioned by respondents were: 1) emergencies; 2) gifts; 3) pilgrimage; 4) expenses of dowries and other household ceremonies; 5) consumers' durable goods; 6) improvement or establishment of business or farm; 7) house construction. Almost every type of objective requires a different form of saving. Emergencies, for instance, call for saved cash or a comparatively less liquid form such as livestock. *Vartan Bhanji* gifts are usually non-monetized. Unstitched material for ladies' and men's suits are favorite gifts which are very often exchanged. Every household keeps such materials at home. They are mostly given to the visiting relatives as a sign of courtesy.

³⁰² See Section 4.2.4 & 4.2.5.

Pilgrimage to Mecca requires the saving of a large amount of cash. Saving to finance dowries and other ceremonies take both monetary as well as non-monetary forms. This represents the most important expenditure and claims every possible kind of item to save that which may be needed at that time. Most of the time even spices, sugar and rice are saved for such festivities, when there has been an opportunity to buy them cheaper before time. Consumer durable goods are usually bought on easy installments; it is a form of credit. The last two objectives, improvement or establishment of business or farm or house construction require a large amount of cash saving.

The study considers all consumers' durable goods as consumption items. Most of the households save just for the acquisition of such items. This factor may be an incentive for the households which can afford it to some extent. Sometimes, an extraordinary increase in prices acts as a disincentive for the saver who gives up his efforts. Sometimes, this wish may lead to dissaving, when the desire is so strong and one borrows when one is not able to save. This happens quite often, if the availability, terms, and conditions of credit are flexible.

6.3.5 Family Type

Income sources, labor distribution, consumption pattern and saving are determined to a large extent by the family pattern in a household. Both types, nuclear and extended families, have their own merits and demerits. An extended family shows the following merits in this connection:

- An extended family has a greater number of adults who may exploit more income sources and add to the household economy.³⁰³
- An extended family is in a better position to distribute household tasks such as purchasing, child care, food preparation, etc., among many people. This may enable more family members to participate in the labor force and augment the household income.
- Pooling of risks enables an extended family to undertake some innovative tasks, because existence is secure from an other source. A family with such a structure may also plan to have appropriate greater returns by dividing labor according to age, experience and educational attainment. Thus, it has a greater opportunity to specialize its work force in some specific income-generating activity.
- Extended families are in a better position to benefit from the returns of education when children provide for their old parents. Allocating a share of the household income to children's education may, therefore, be viewed as an investment to augment future income through remittances. Thus, the relevant rate of return on such investments is much higher in extended families as compared to parents in nuclear families, who cannot expect large remittances.

In spite of better income-generating possibilities and a greater number of earners, the empirical analysis shows that saving in extended families is less than

³⁰³ The number of household members depends upon the extent of landholding. The number of members increases with increasing landholding. Similarly, the number of married couples - married sons of the household head - also increases with farm size (MÜLLER 1992:105f).

in a nuclear one.³⁰⁴ Why is it so? An extended family has a different form of obligatory network and household functions which are lacking in a nuclear family.

- **Extended families have less need to save for precautionary reasons since, with a large family unit, they can pool risks to hedge against income and consumption variations. Nobody relies exclusively on his own saved capital.**³⁰⁵
- By tradition, parents and other old relatives who do not have any other support have to be looked after in such family units. This not only increases consumption pressure but requires the presence of someone at home, who could otherwise be productive in generating income.
- **Adults in an extended family unit do not feel any compulsion to work, because they are always secure due to risk pooling.** Moreover, some of the adults may have a very low marginal productivity, since extended households have to face a larger degree of disguised unemployment or underemployment.
- The extended family's decision-making structure does not allow young people to adopt any innovation even if this looks sensible.³⁰⁶ An old traditional family pattern exists according to the choices of the household's head³⁰⁷ which excludes youth and women from any sort of financial planning and discourages them from taking interest in future planning. „Every household member has to sacrifice his individual wishes in favor of the cooperative organization of the household. A strong sense of solidarity and confidence is essential among household members to overcome economic risks and to strengthen the joint prosperity“ (MÜLLER 1992:356).
- Every individual has some obligations towards his social life; a large family unit living together has to fulfill many obligations. Even those who do not contribute to the household economy enjoy the same facilities and standards as others; this increases the load on consumption expenditure.

At a given level of income, a nuclear family tends to save more than an extended family. **Empirical results largely support the view that the breakdown of the old family structure may increase the rate of saving.** Some of the positive perspectives of saving in the case of a nuclear family are:

- A married couple is independently responsible for the income and its distribution for consumption and saving. It may set objectives and apply measures to achieve

³⁰⁴ MÜLLER's (1992:332) empirical results (for Bangladesh) also show a variety of household organizations. He proves that the ratio of the significance of agricultural resources and outer activities influences the extent of cooperation of the household members.

³⁰⁵ The sense of solidarity, loyalty and self-reliance of the male household members impart a certain security to the social and economic position of the household, which may hardly be possible in the case of smaller nuclear units (MÜLLER 1992:357).

³⁰⁶ Therefore, individual household members, usually do not rely upon the economic security provided by this organization, rather see their role endangered by the claims of loyalty to the other members. This situation is very common among small farm households with scarce resources (MÜLLER 1992:356).

³⁰⁷ The household's heads were the male members in almost 98.6 percent of the studied sampled households. MÜLLER (1992:85) also reports 94.7 percent households of his sample headed by males. The women heading households were either the wives of migrated workers in the Middle East countries or were widowed or divorced.

them. Even after capital accumulation, it feels free to utilize saving for whatever it was planned for. The possibility may impart the initiative to save in the future. In contrast, the extended family discourages the saving urge when the saver cannot achieve his planned goal.

- There are usually no non-productive members in the household, and this keeps a balance in income and consumption.
- Household members, especially women, enjoy much freedom in everyday life. A woman does not have to behave according to many different expectations. „The position and tasks that women assume or have to fulfill in their family generally depend on the respective type of family. The smaller the family is, the more husband and wife should complement each other in their work, and therefore the greater the women’s scope of action and decision is. On the other hand, in the patrilineal family consisting of several generations, women are submitted to the seniority principle“³⁰⁸ (MARTIUS-VON-HARDER 1978:15-16). She may participate more in the future financial planning of the household with her husband. She enjoys a far better access to money and may easily generate her own savings.³⁰⁹
- **A nuclear family can cut social obligations according to their resources. An extended unit, however, cannot do this as easily.** „As long as they spend from the common fund, the married sons themselves do not take part in the system of reciprocal gift giving. Rather, it is their parents who, on behalf of the whole family, conduct all the dealings on appropriate occasions and distribute food in the village“ (EGLAR 1960:26).

The very first impression Table 34 gives is that the saving fluctuation is comparatively higher in extended families. **A large number of household members and their mutual obligations make a proper management of available income very complicated.** Quantitative data and respondents’ views define saving as a game of chance, not an outcome of proper planning. Higher fluctuations in saving at a constant income level show weak planning. Such fluctuations may be harmful in the sense that **households may save at one time, but may dissave more at another time**, and this may shatter their economy.

³⁰⁸ For example, the young wife is subordinate to and must obey not only her husband, but also her mother-in-law, her father-in-law, and sometimes even her sister-in-law.

³⁰⁹ In the case of a nuclear family, house and family are under the wife’s control in the husband’s absence, and she often exercises considerable authority which sometimes equals that of her husband (HANSEN 1961:173).

Table 34 Family type and different forms of saving in twelve case study households
(Rs.)

Cases	Family type	Saving in cash	Saving in kind	Saving in livestock	Saving in bond holding	Total	% of total income
Case 1	Nuclear	6,750	20,000	-	-	26,750	4.8
Case 4	Nuclear	-	16,500	-	1,000	27,500	6.4
Case 5	Nuclear	2,730	10,100	-	-	12,830	6.6
Case 6	Nuclear	9,650	-	20,000	-	29,650	15.5
Case 12	Nuclear	-	-	10,000	-	10,000	25.6
Case 2	Extended	60,000	15,000	-	2,000	77,000	16.6
Case 3	Extended	2,000	21,000	-	-	23,000	6.5
Case 7	Extended	4,000	5,250	-	-	9,250	6.1
Case 8	Extended	21,042	-	12,000	-	33,042	24.3
Case 9	Extended	-	14,350	8,000	-	22,350	17.5
Case 10	Extended	-	1,050	1,050	20	2,120	2.7
Case 11	Extended	-	-	14,000	-	14,000	44.5

Source: author's own survey

Another obvious difference can be observed in the case of saving in livestock (Table 34). The extended family system influences this positively. The availability of more manpower makes it possible to keep animals for saving. A comparatively better percentage of saving in low income families is also a result of livestock saving. Saving in kind is comparatively lower because of its greater dependence on farm size in relation to the number of consumers. Cash savings do not show any considerable change; bond holdings are the least preferred form in both family types.

In conclusion, saving is more regular and stable in a nuclear family because of a smaller unit of decision-making and a comparatively better participation of all household members in final decisions. Extended families, in spite of a better saving rate, show a higher rate of fluctuation which does not allow the savings to be used properly.

6.4 Institutional Factors

6.4.1 Law and order

The law and order situation is a sensitive factor which directly affects the overall saving behavior of the community by influencing formal institutions as well as informal arrangements. **Firstly, it prevents formal institutions from functioning in some areas because of high risks.** This reduces the geographical access of a peaceful public who may be motivated to try these institutions. **Secondly, it increases the operational cost which reduces the ability to pay more interest.** The public is not convinced of the security of their money in banks and do not use these services. Many respondents mentioned during the interviews that, in such a situation, money is saved more at home than in banks and other such institutions.

6.4.2 Access to saving institutions

Access to saving institutions influences the incentive to save significantly. A potential saver requires easy access to the institutional network to be motivated to deposit his savings. The widespread use of informal saving methods means a willingness to save but a lack of required facilities. Such facilities may influence the degree of saving if such an institution exists and the rural people are motivated to try them. The absence of such motivations encourages consumption and extravagance or may lead to savings in forms other than useful for the national economy. Inter-household credit transactions are also an outcome of this lack of motivation. Surplus households, when these do not find a secure and profitable place, lend their savings to other households on interest, which is the main cause of creating a vicious circle of credit in the community. MANIG (1991:118) identifies the same problem in his survey report on six villages from north Pakistan, namely, that formal sources of credit do not play a significant role in the credit market in Pakistan. According to his analysis, only 5% of the formal sources of which commercial banks make up 3%, are active in the villages

Besides the geographical dimension, the access has an economic dimension as well. The ease of depositing and withdrawing savings for a rural saver depends upon the transaction cost per unit of deposit. The transport costs incurred to reach the institution, minimum deposit requirements to open an account or to keep an account running, various restrictions on withdrawals or number of withdrawals per unit of time, etc. are the important components of transaction costs. The income foregone because of the time spent in such transactions and the matters which cannot be managed by an illiterate or poorly educated person are the factors which count seriously when the services of such institutions are used.

It is observed that people prefer to use the post office bank instead of a commercial bank, first of all, because the internal atmosphere of a post office is more informal. Secondly, secrecy has to be observed in such transactions. Somebody dealing with the post bank may pretend to be dealing with his post, but somebody visiting a bank cannot hide himself.

6.5 Summary

The factors influencing form and extent of saving are divided into four categories:

- economic factors
- psychological factors
- socio-cultural factors
- institutional factors.

Economic factors

The qualitative analysis of the economic factors showed the following results:

- Income determines the extent as well as the form of saving. The most important observation in this regard was the change in the dominant form of saving with the change in the income level. The results showed saving in kind as a dominant form in the upper income level, cash saving, in the middle income group and livestock saving, in lower income households.
- Landholding, especially the size of citrus orchards, strongly influences the rate of total saving, since the size of landholding influences income and income influences saving positively.
- Family households require at a later stage more cash savings for the education, marriage or business of the grown-up grandchildren. Exactly similar needs arise in family households at an earlier stage for their own grown-up children. Family households at the middle stage show a different pattern, since their own children have got married and grandchildren are small.
- A large family size exerts a negative influence on saving in kind. Cash saving remains neutral but livestock keeping is proved to be positively influenced by the availability of household labor.
- The release of manpower from agricultural subsistence households,³¹⁰ who are not fully required for the family farm, results in an increase in the per capita income which provides some surplus to save.
- The age of the household head mainly determines the decision-making priorities of a household. The empirical results show a greater preference to save cash in old age; all other forms of saving do not seem to be considerably influenced.
- The age of household members exerts an uncertain impact on saving; if they are productive, the influence is positive. Underemployed or unemployed members are a burden on the household income and have a negative impact on saving.
- Education level represents a household's human capital. Empirical evidence proved that education is quite an uncertain factor in the case of saving. In most of the cases, better education gave better exposure which induced a 'demonstration effect' and increased the propensity to consume.
- A comparison between the number of educated males and the percentage of saving showed a low percentage of saving in households with a greater number of educated males.

³¹⁰The empirical results show a connection between household size, landholding and combination of income sources. Off-farm employment imparts a relative independence to the individual member. Individual members require a certain level of individual performance to earn their money; this weakens the integrated feeling of co-residence. The lesser a household may contribute to the individual security of members, because of scarce economically productive resources, and the stronger he is dependent on his individually earned income, the weaker becomes his desire to cooperate with other household members (MÜLLER 1992:120).

- The composition and extent of saving is highly influenced by the annual production cycle. Cash saving is done mostly from November to January (sale of cash crops). Livestock breeders usually sell their animals from February to April and save cash. Saving in kind is mostly done from May to July in the period of wheat harvesting.
- Capital is indisputably an important influencing factor. A decline in a household's capital assets usually results in its propensity to save to balance the situation.
- The rate of interest showed no positive influence on saving, as the amount of cash saving is usually too small to make the interest rate visible.
- Many respondents mentioned the fear of agricultural taxation as a major hindrance in the way of cash savings.
- Credit usually expands the consumption base of subsistence households. The situation becomes more desperate if credit is not free of interest and borrowed amount increases with time.

Psychological factors

- Saver's temperament, his ideology towards life, his future planning and other personal orientations play a considerable role in shaping his saving attitude. Savers can be divided into three categories; 1) development indifferent savers; 2) development active savers; and 3) development conforming savers.
- Maximization of *Izzat* (honor) is the main focus in the life of every individual. All actions which add to it, e.g., political status, social status, generosity, lavish ceremonies, etc., require extravagance and demonstrative consumption, which reduce the saving potential.

Socio-cultural factors

- Status and extravagance are inseparable. Status winning is the ultimate goal of every household in the rural sphere.
- The centralized authority structure within the context of decision-making, limited individual independence and least consideration of women in financial affairs proved to be a disincentive for individual saving.
- The empirical survey reveals a gender-specific saving aptitude. Women are found to be financially conservative and try to hold money for the family's security. Men prefer to concentrate upon the accumulation of social capital.
- An individual adjusts his consumption pattern to the stratum he wants to belong to; this strongly influences the nature and amount of saving.
- In spite of better income-generating opportunities in the extended family, the nuclear family structure facilitates the saving behavior.

Institutional factors

- An unpredictable situation of law and order affects the functioning of formal institutions by increasing their operational costs; this reduces the ability to pay more interest and discourages saving.
- The ease of depositing and withdrawing saving by a rural saver depends upon the transaction cost per unit of deposit.

7. Conclusion and Recommendations

The rural saving situation in Pakistan witnesses that saving magnitude and efforts to mobilize it have remained insufficient and discouraging since independence, in 1947. It appears to be depressing until now and reveals no optimistic picture for the future, unless it is subjected to some strategic change.

Since independence, formal financial organizations have avoided becoming involved with the rural area, because of its complicated socio-cultural framework and apparent non-commercial character. The organizations remained a monopoly of the well-educated urban community and of the industrial sector. The great disparity between the two areas never motivated urban officials to familiarize themselves with rural social complexities and to formulate a saving mobilization system matching their priorities. The situation became rather discouraging for rural savers by continuous disincentives such as long bureaucratic procedures, poor performance of scheduled banks and successive attacks of informal saving corporations and companies.

The overlapping functioning of existing financial organizations seems to be a significant handicap in that regard. Almost all saving organizations are working on same lines in introducing almost similar schemes; this is creating confusion among the public instead of a healthy competition among different organizations. The only 'advantage' of such a planning can be that everyone may make the other responsible for the faults in the system. The question is whether Pakistan really needs so many saving institutions. Or should it rather be formulated in some other way to adjust to the rural sphere?

7.1 Conclusion in the perspective of hypotheses

It was observed in the preceding chapters that the empirical research and other related secondary sources have generally supported the basic theses of the research proposal on household savings in rural Pakistan.

The study excludes the general assumption that villagers are too poor to save and therefore unbankable,³¹¹ although the age-old declaration has proved to be false since the so-called "Green Revolution," in the 1960s, and foreign emigration of rural manpower to the oil countries, in the 1970s. These savings, however, neither correspond to the urban definition of saving nor can they be mobilized by rural based industry-oriented saving institutions. The empirical results have proved the households' saving ability; almost all sampled households saved in one of the traditional forms depending upon their economic stratum and the related opportunities available to them. The general rural attitude, however, neither considers saved resources a base of capital formation nor any other form which could expand a household's productive potential in the future. **This non-businesslike attitude towards life limits savings to functioning only as a security against unavoidable external uncertainties, represented by suddenly arising consumption needs such as expenditures on the occasions of weddings, religious gatherings, deaths, births and other social activities..** Some of these needs are usually unexpected and urgent so that savings are preferably kept at home in a liquid form and stimulates consumption expenditure when mobilized.

³¹¹ See also PISCHKE (1978:55).

This uniformity in the behavior of almost all villagers reflects the **lack of any sustained incentive to save** in general. The respondents mentioned many times that they do not know what to do with their savings, whether these could be profitable in generating income, which opportunities are available to them, who can be helpful in this context, etc. There exist no guiding principles or advisory services in the area; all investments, if any, are self-initiatives. People learn through experience; they mostly do what others have practiced with positive results. They wait till someone else takes the initiative and shows the results. This is the reason why **saving, even when available, does not lead to capital formation**. The situation is quite understandable, risks are avoided in general, very few households may afford such risks, they want to see concrete results before taking any step. If any initiative ends in a failure, it is never tried again, neither by the investor himself nor by the fellow villagers who know him. Small savers are totally neglected when efforts are made to provide services for small investments mobilization. In contrast, however, investment in **social capital** (expenditure on ceremonies, rituals, etc.) brings immediate results by increasing the investor's honor, by 'blessing' him to approach important personalities etc., to ease his life. A high consumption expenditure never ends in failure according to the majority of the respondents. It brings numerous socio-economic advantages which may show their effects later on. Villagers need important contacts to survive in this uncertain stratified and discriminated atmosphere, and investment into social capital is the shorter way to achieve the goal.

The basic problem lies in the rigid rural cultural setup. **The ideologies shaped by traditions, norms and values represent the basic determining factors**. The nature of saving motivation, the ultimate objective and the way to achieve this goal are determined by their own rural socio-cultural framework, whose logic is based upon centuries-long experiences made by their ancestors to ensure life against rural uncertainties. Saving is done, for example, for building residential houses, for marriages or children's education. Some save in physical form, depending upon the liquidity value, in the case of unforeseen emergency needs such as accident, fire, illness or some other natural catastrophe, etc. Sometimes money is saved to have an immediate access to attractive consumers' items or for a short-term investment purpose. The type of such saving depends upon the nature of the underlying objective. Savings are hardly ever kept in the form of financial assets, for example in the case of a planned marriage ceremony, saving is done preferably in the form of gold, clothes and other raw materials for the marriage feast. Continuous rise in prices and the devaluation of the saved money are two of the major disincentives against cash savings. Another significant feature is to make purchases on installments; even real estate is preferably purchased on easy installments. Sometimes the full cost is paid through credit and then credit is repaid by easy installments. This circle of reciprocal credit relation keeps on functioning in its informal sphere.

Every farmer is well acquainted with the 'hard season,' i.e., the consumption of all the stored grains before the next crop is harvested. Stored commodities may be consumed directly or maneuvered carefully to ensure a continuous supply during the hard season without falling into the endless clutches of credit. Precautionary savings are usually kept in cash form, at home, or deposited with some trustworthy relative, whose family or he himself is always there to pay back at very short notice. Banks are least preferred for this purpose, as their working hours may be over, there may be some vacations, or there may not be anyone who is always at home and who can deal with bank transactions. Experience has proved that keeping money under one's own control avoids awkward moments. Almost all saving mobilization schemes designed by the

formal financial sector are the same for urban as well as for rural areas. Lack of information about the rural sphere and the comparative success of such ideas in urban areas causes prejudice to develop by declaring the rural households to be non-cooperative and unbankable. The actual solution lies in exploring the reason of this resistance and mistrust among villagers. A thorough analysis of the traditional household structure, access to opportunities, general exposure, gender-specific roles and the decision-making priorities in the rural sphere may supply grass-root information to tackle the situation. In a society where honor holds a central position and all dealings are structured in social life, every outside formal contract lacks the required trust (FIEGE 1995:249). Such rigid rules cannot be influenced or changed by introducing a few innovative saving schemes; rural areas need innovations designed within the framework of their socio-economic limitations.

In the present situation, these limitations have led to the formation of a **cooperative network based upon personalized interaction** to minimize risks. The empirical results show the formation of such networks either on the basis of 'mutual cooperation' or 'patron-client relationship.' Such social institutions like '*Wanghar*,' '*Sep*,' '*Vartan bhanji*,' etc. are a major source of cash security, and availability of kind and of labor at any hour of need. Empirical evidences perceive **the interdependence of villagers due to unavoidable externalities in biological production** as a security network which cannot be altered till some other parallel measures such as life and health insurance, old age benefits, etc. are offered by the government, as in the developed countries,. Since no government has been and is in a position to provide such facilities, the only alternative that remains is the formulation of suitable development strategies. The question arises as to who is supposed to initiate such innovations and to collect this information.

Unfortunately, the official authorities³¹² who are responsible for undertaking such tasks mentioned their own handicaps in this connection. A surprising factor, when talking to many officials, was their **unawareness of the actual rural problem**. They either did not belong to such areas or had no sufficient contact to understand the hard core of these constraints, i.e., risk avoidance, honor perception, etc. Most of them considered the establishment of rural branches of commercial banks to be a sufficiently wise step towards rural saving mobilization. In the opinion of these authorities, a further success may be expected after the announcement of new saving schemes,³¹³ etc. A second category of those officials believes the generally widespread ideology that villagers are unbankable. These should first have an easy access to credits to achieve a sustainable economic base in order to enhance their annual income. Their savings may only then reach a sizable amount and can be collected through rural branches of the commercial banks. This category is by and large unaware of the informal techniques of saving in cash and kind which are functioning even at the existing income level. A third category of those officials considers the mobilization of rural savings to be such a slow process that no government could afford to include it in its priority tasks. **The average age of a government in Pakistan is too short to undertake such inobvious and slow-moving tasks. The first priority is, therefore, always to initiate some concrete and obvious projects to convince the public for the next election.** An official from a development bank had positively grasped the problem and explained that such an effort requires a slow

³¹² Officials of development banks, ministry of rural development, research institutions and universities were selected to conduct a detailed interview on the topic.

³¹³ Saving schemes announced in urban areas, which may also be started with little savings.

motivation from all sides, a motivation to bring some change in the existing rural ideological make-up which requires time, commitment, dedication and conviction on the part of motivating agencies. Even then, nobody can be so optimistic as to expect the desired result. He gave an example in this connection that 'it is very easy to bring 1000 Rs to somebody and to ask him to fulfill some prerequisites to have it. He struggles hard and gets it. But it is very difficult to convince him to save the same amount and deposit it with some agency. Such a task would require advisory services to convince him of the need and methods of saving. Even then, it is doubtful whether he would trust the agency sufficiently to hand over his savings or rather whether he would prefer to keep them with him. Therefore, when sufficient credit is available in every field and government is desirous to disperse it, we select the easier way to show our performance. There is no use in concentrating on a field, whose results may be expected ten years later, and nobody knows what the government priorities will be at that time.

This lack of interest reflects the lack of research on saving-mobilization possibilities. All research wings of commercial and development banks are primarily engaged in compiling statistics on bank performance. These heavy budgets on research activities supply data on total credit inflow, disbursement priorities, collateral possibilities and default rates in different credit schemes. Their task has been limited to the preparation of information demanded by international donor agencies which may act as a base for further credit grant. Every sort of research is conducted in the head offices of the large cities and data from rural branches is sent to them. The majority of the upper staff, who do not show any interest in improving the situation, is transferred from urban areas.

Similarly, universities and other research organizations either do not have sufficient budgets for such long-term projects or do not want to carry out an empirical survey in rural areas. The higher officials usually avoid living in places where it is difficult to collect empirical data and, therefore, prefer to employ secondary data ³¹⁴ for all purposes. Empirical research projects, if designed, are carried out in the form of structured surveys, and empirical data is collected from a number of villages simultaneously with the help of poorly trained demonstrators. The information obtained is usually more quantitative than qualitative and can hardly be used for understanding the real situation. Such organizations are frustrated to a large extent, because their efforts never reach the policy-making personnel. Unfortunately, research and policy making show no link in Pakistan. All development plannings are political, while research contributes only to the researcher's academic career.

The overused practice of 'spoon feeding' with loans has contributed further to worsening the situation. All government institutions concerned are convinced that there is a very low margin of saving in the rural sector which could only be improved through credit. History shows that a considerable rise in rural incomes never resulted in a corresponding rise in saving rates. Increased income and "heavy doses" of credits always resulted in a boom of status-oriented consumption expenditure and a further intensification of rural social stratification. This frequent use of credit for consumption expenditure has become so legitimized in the society that nobody feels ashamed of making a credit grant possible by hook or by crook. Empirical evidence shows that such tactics unbalance the household economy for a long time. Past savings are

³¹⁴ According to a rough estimation of the director of a renowned research organization, 90% of the research consists in desk work.

usually employed with this credit for consumption needs. Credit has become a major disincentive to saving motivation. Farmers are losing their interest even in objective-oriented savings. **Small farmers who desire to invest have no access to credit, while those who can save know the tactics to exploit credit scheme without any fear of having to effect repayment, as every new government tries to accommodate old defaulters.** These better-off classes add to their status and contribute further to the economic stratification. 'Although formal credit has been expanded considerably, yet the use of credit has remained strata specific. The strata of landlords and businessmen are the main beneficiaries of this facility, while other strata fulfill their needs from informal sources' (FIEGE 1994:248). Politicians also want to feed the upper strata, since these represent key voters who bring their dependent classes with them.

This stratum is hardly acquainted with saving in the productive sense. Respondents mentioned many ways to misuse the credit. Since villagers are not greatly motivated to invest, such cases frequently occur when credit applied for livestock is spent on a marriage ceremony, and inspecting authorities are either bribed or showed some animals of fellow villagers in the borrower's shed. The whole village cooperates in such affairs. Mobile credit officers usually belong to the area and are well aware of the situation. They rather see it as an excellent source of earning 'extra income.' They themselves inform the people about new credit schemes and the ways to go ahead. In case of an inspection, clients are not only informed before time, but are helped to manage the situation accordingly, since it is a matter of their performance as well.

Zia-ul-haq's regime experimented a similar strategy within the context of small industry promotion projects, where borrowers were supposed to show some material assets of a certain value for the grant of credit. For example, they have to prove that they own land to obtain a certain credit grant for building the required infrastructure. Credit was granted in a ratio of the capital they already own. The system was made very simple for the influential cheaters who got assets temporarily transferred to their names and obtained huge credits. The business was usually declared bankrupt within two years of being unable to repay. The scheme became a victim of the economic stratification which neither mobilized the saving rate nor improved the economic condition of poor strata.

Nawaz Sharif 's regime took a further step and formulated a strategy for development banks to grant credit in a ratio of cash deposit. The borrowers deposited borrowed cash in the bank and got the credit granted within a few days. The same cash circulated in a group till all of them had achieved their objective. The strategy was of no use for the mobilization of domestic resources and had to be abolished after a certain period.

The question arises as to why both attempts ended in shirks on the part of the borrowers and why credit institutions did not attempt to modify them. The answer is very simple. The two above-mentioned schemes were donor-led ideas. International donors had divided the credits in three parts: between donors, credit institution and the borrower himself. They wanted to see the set prerequisites fulfilled before the grant of their part. Development institutions assumed advisory services in head offices to make people aware of such conditions. Most of the time, the deposited amount was not more than paper work, and the actual credit is granted without going into details of its saving-mobilization effect. An important official of a development bank, who narrated these facts, showed his total helplessness in this affair and said,

'such huge amounts of aids or credits cannot be risked, so we try to make conditions ideal for the donors. Rural deposit mobilization is a long process which cannot be done at short notice.'

Political instability compels every short-term government to concentrate upon obvious ventures to produce attractive statistics as a proof of success in the next election campaign. The strategy becomes a political instrument in the course of time. Politicians quote these amounts proudly in their political addresses as the amount of money they have brought in the country within a short time to 'eradicate poverty.' The politicians' individualism has replaced their spirit of nationalism. Saving mobilization is a slow, struggle-oriented and time-consuming inobvious task, whereas, credit disbursement brings popularity and wins the sympathies of the majority of population at very short notice. All financial institutions authorized and supposed to mobilize rural deposits are rather enthusiastic to introduce novel credit schemes without considering their suitability for the rural situation. The 'Yellow Tractor Scheme' in Nawaz Sharif's regime is an obvious example of subsidized loaning in an already saturated sector of 'Tractor Loan,' a way to win the sympathies of small farmers. Farmers developed tactics with the help of tractor companies, which prepared the false delivery of tractors and earned their commission, and the credit for tractors is mostly utilized for consumption.

7.2 Recommendations

The major dilemma, while evaluating the purposefulness of both saving types - direct saving acts and indigenous saving mechanisms - is that the former are not as purposeful for the rural savers as the latter. Indigenous saving mechanisms are a phenomenon in which saving is generated in the form it is required for the satisfaction of needs, the direct saving, however, has mostly to be converted into cash or exchanged against other items before its utilization. The lack of access to and information on the market compels rural savers to sell and exchange their commodities with the village shopkeepers or livestock dealers at comparatively much lower prices. The ultimate benefit of saving to the saver is of considerable importance because it acts as an important incentive to save. The current situation, however, is leading towards a discouraging situation for direct saving activities.

The question of how to make these savings more productive for the saver is a challenge for the policy makers. The ultimate solution can be **a linkage of the formal and the informal financial sectors**. Two major possibilities of this linkage may be as follows:

- **Top-down strategy**, i.e., to bring formal finance (banks) down to a lower level, in order to establish a closer contact with informal finance (rural household savings).
- **Bottom-up strategy**, i.e., to help larger informal groups in assembling sufficient funds to make a small informal bank-like organization which may either be converted into a semi-formal or formal financial organization or may be linked with the formal sector through a mediator.

It was decided to apply the first strategy in 1974, in Pakistan, to decentralize the banks by opening rural branches. The policy did not have the desired results, since formal bureaucratic limitations of banks did not match the traditional setting.

However, keeping into account worldwide experiences and successful results of the 'bottom-up' strategy in many developing countries, the present study proposes the second strategy as the most feasible in the current situation. There should be an indirect link between rural households and banks through a third intermediary agency.

The present study supports the flourishing of the informal sector in two steps:

Firstly, to learn the nature, extent, reasons of its success, basic organizing principles and variations in different regions with different social structures in Pakistan through extensive and rigorous empirical research techniques, because very little is known on this topic in Pakistan. The major research priorities to be studied should be³¹⁵:

- how should informal finance be defined?
- how does it work?
- wherein lie its strengths and weaknesses?
- what kind of approach to promotion could or should be adopted?

Secondly, informal finance should be linked with formal finance³¹⁶. Both sectors follow their set priorities and function independently in Pakistan, so far. Nothing has been done to make them learn from one another. Both sectors seem rather to be scared of the rigidity of the other and consider mutual interaction to be impossible. 'But it should not be done in a way suggested by many donors and non-governmental agencies, using informal finance as conduits for formal loans, because infusions of external funds would undermine the basic elements that result in success in informal finance. For example, outside funds may lessen the incentive for informal groups to save, increase transaction costs, introduce political decisions in dealings, which may entirely change the inner motivation of saving (SEIBEL and PARHUISP 1992).

The study recommends the establishment of an indigenous-based private voluntary organization as an intermediary agency established on the initiative of villagers themselves and facilitated by the government. Such a voluntary organization should work like a non-governmental organization (NGO) that should respect the local autonomy and local initiative needed for such a venture. The advantage of such an effort will be that the existing set of financial services could be largely replicated in this new group. Such an organization would bring scale and scope economies to otherwise disparate and occupational segmented groupings and create the basis for a wider range of membership from all income levels. Finally, **if several neighboring villages successfully launch these initiatives, spatial economies could emerge through league of saving and credit cooperatives with an associated**

³¹⁵ See also KROPP/SCHMIDT (1987).

³¹⁶ "In the early 1980s, the German Agency for Technical Cooperation (GTZ) sponsored financial services provided by self-help groups. These activities focused on informal finance, especially ROSCAs, and ways of linking them with the formal financial system. The results of these efforts, especially in Cameroon and Nigeria, encouraged the Asian and Pacific Regional Agricultural Credit Association (APRACA) to promote similar efforts in Asia. At a meeting in Nanjing, China, in 1986, the Association, with GTZ's assistance, agreed to promote baseline research and also to initiate a few pilot programs built around expanding the linkages between the formal sector and self-help groups" (SEIBEL and PARHUISP 1992:240).

A summary of much of this work is presented in SEIBEL/MARX (1987).

ACHARYA (1990) gives a description of the linking program that was developed in Nepal in the late 1980s.

interlending facility to intermediate between surplus and deficit units and to act as a lender of last resort.

Such a voluntary organization should be an initiative of some educated native people from respectable families. The organization should make use of the existing social structure of the village and should select a 'board of advisors' comprising village notables. These notables should not necessarily be from the uppermost stratum. There are always some middle class elder people who are considered honest and impartial and represent the court of elders (*Punchayat*) in case of intra-village conflicts. The organizing group and the board of advisors, if they belong to the large biraderies of the village, could be a means of winning the trust of and encouraging deposit from the majority of the population.

Since the village community is already scared of private finance companies, because of their large scale frauds in the 1980s, it would be difficult to introduce any sort of financial organization. The proposed organization is therefore planned to include a rural development aspect. Some organizations may motivate people to mobilize mutual savings for a target-oriented activity, a 'collective good' and attempt to obtain the finances of remaining project costs and technical assistance from the government. Villagers may offer other voluntary activities such as free labor or self-financing of the maintenance costs afterwards. Such concrete development tasks are essential to give this organization a rural development origin. Frequent visits to the neighboring villages showed that different forms of rural development initiatives, partly state financed and partly private, even when they were doing no mentionable tasks, are still honored by the villagers and consulted in case of problems. Keeping in view the general situation of these rural areas, the study recommends to call the proposed financial and development organization '**Rural Development Committee**' (RDC).

Another significant advantage of launching such an NGO lies in its cost being lower than a wide network of decentralized formal bank branches with all of their associated centralized infrastructure. Moreover, such NGO initiatives could lend themselves to a series of pilot projects that might be altered and reshaped to adapt to changing local circumstances or terminated altogether if the experiment proves to be a failure. This flexibility is less likely in a decentralized development bank. According to a vague idea, such a grass-root initiative would take a minimum period of five years to be established, perhaps too long a period to attract donor support.

Some **concrete suggestions to make the proposed model more stable and attractive** can be summarized as follows:

- The establishment of such a committee and the selection of its organizing body should totally be left at the discretion of the community and should be initially started only in the villages where people may reach a consensus. No external intervention should influence it.
- In order to make the approach informal and flexible, organizers should try to be available even after working hours for any advice or information.
- Better education level suppresses many socio-political prejudices. The project should therefore concentrate at first upon highly motivated comparatively better educated community members at the initial level.

- Since the work requires substantial book-keeping and management, the group motivated to take such an initiative should be given an opportunity to get some fundamental managerial training.
- Open meetings should be held in the presence of village elders (board of advisors) to exchange views and to present a biannual report on the tasks done and proposed for the future.
- The committee should be in a position to accept any form of saving: cash, kind and livestock³¹⁷, which requires a better contact with the markets that effect the further sale of these items. **The existing idea of exchanging grains against other household items at the shops may be replaced by the new approach**, because shopkeepers pay a price which is much lower than the market rate. The possibility exists that people may prefer to sell such items at the committee office, if better rates are offered. Similar efforts can be done in the case of livestock buying or selling. Committee organizers may mediate in a better way if they have contacts with honest livestock handlers or if the market is not very far and connections may be established directly with the market. These and other similar activities, even when seen as not belonging to the committee's major theme, are useful in giving the community a chance to learn more about RDC and to win trust. **A better introduction as a trustworthy organization is the first step towards success.**
- Cash deposits may further be deposited in the local branches of commercial banks, since the ultimate objective of these committees is to mobilize resources at the informal level and to make them available to the national economy. These deposits should also remain free of interest and should offer some profit according to PLS (Profit Loss Share) schemes of commercial banks. RDC may invest these deposits in some more favorable schemes, which cannot be implemented by the villagers themselves, but which may offer them some better profit in the end.
- RDC's accounts in formal banks should not be subject to Zakat deduction, because of their welfare motive.
- The committee should charge a reasonable commission for all such transactions to cover its working costs. This should be called working charges rather than commission.
- **RDC should try to concentrate primarily upon saving activities rather than upon credit.**³¹⁸ Credit disbursement is a delicate affair and may create mutual

³¹⁷BEDARD (1986:134ff), while discussing such systems in **Burkina Faso**, reports about the loose association of people sharing a common objective, who have established one or more contingency grain stores to create and safeguard savings in kind and, by doing so, to re-educate the savers to be less dependent on the risks and 'predatory' practices of dealers. This cereal store has a double advantage: It educates people to save for emergencies and it provides protection for family savings which would otherwise be at risk. This practice of saving in kind within village groups has become so refined in some regions that the system has developed automatically into a 'savings and credit cooperative.' The profits of this bank are used either for individual loans or for social investments, i.e., for the economic activities which have a positive influence on the quality of life.

³¹⁸ The major reason of success of the savings clubs in **Zimbabwe** is the basic idea which is based on savings rather than credit and which provides a realistic strategy of overcoming the vicious circle

conflict. Credit can only be offered to the very poor households that are unable to meet the collateral prerequisites of the formal credit organizations. RDC may mediate such credits by showing its account as collateral. Such credits may only be granted on the recommendation of the committee which will be then responsible for their repayment. Moreover, the credit should be given in kind, for example, a sewing machine to a widow, etc. Even such small credits may be linked with saving by stipulating that a certain share of the credit should be saved by the borrower himself (to develop a saving habit) and be deposited in the committee's office in easy installments within a fixed period of six months, a year, etc. Repayments should also be done to the RDC, which may further decide whether these installments will remain in the committee's account meanwhile and earn profit that is not paid to the borrower. Such transactions can be a source of income for the committee.

RDC may initiate different forms of group savings such as **1) rotatory cash saving scheme; 2) non-rotatory cash saving scheme; 3) rotatory saving in kind at equal level; and 4) rotatory saving in kind at unequal level.**

Rotatory cash saving is a very simple form of RoSCA. Members pay an equal amount monthly and the whole amount collected is given to one member every month. These transactions apply to members only, while non-rotatory saving groups³¹⁹ lend the collected amount to non-members as well on a fixed amount of interest rate. A group practicing rotatory saving in kind³²⁰ contributes regularly in cash, but gets the collected amount in the form of a desired item.

There can be two methods for this.

- All members make a list of desired items in an almost equal price range, and the organizer manages the desired item for every member every month. If its price varies a little, the receiver pays or is given a certain amount in cash. The reason behind such an activity is a self-compulsion to use the savings for the intended item to avoid irrelevant consumption needs when cash is available.
- Another possibility may be the listing of items in different price ranges and the fixation of the amount of individual contribution according to the price of the desired item. For example, if the desired item costs Rs. 3000, the member will pay Rs. 250 per month if the total duration is fixed to one year. The rules may vary according to the circumstances and the atmosphere of trust among members. If it is difficult to contribute Rs. 250, this member may contribute for a comparatively longer period, but the item will be given after the installments have been paid. In

which hinges on the fact that underdevelopment is caused by low income. Saving may break this circle by investments in income-generating projects (BEHR 1987:102).

³¹⁹ Financial self-help Groups (SHG) in **Cameroon** founded by indigenous members of the community are successful examples of such non-rotatory saving groups. Local Cameroonian experts in agricultural finance claim that almost everybody in Cameroon belongs to at least one financial SHG. A person who does not participate in any such association might lack money or might have a bad reputation in the community (LANTUM 1988).

³²⁰ Such associations are quite successful in **Indonesia** and are called *Arisans* in the local language. The membership varies from very small to 60 or more individuals. A large *Arisan* has to cope with inflation because of the diminishing value of the fund over time. The way some RoSCAs cope with this problem is to accept contributions in kind. Rice is a common substitute for money (MOLL 1989:93).

Similarly, *Pasanaku* (RoSCAs in the local language) are very common in **Bolivia**. On the average, 60 percent of the total membership of such associations were women. 83 percent of all the RoSCAs surveyed collected and distributed cash only. Many of the remaining ROSCAs collected cash and distributed some commodity (ADAMS/CANAVESI 1992:316f).

this case, the winners of every month are not decided through a lot, as in simple RoSCAs, but according to the price of the wished item. The distribution of items is effected according to a hierarchical scale, i.e., from the lowest price range to the highest.

Such saving methods are very helpful when buying items which are otherwise neglected and for persons who cannot resist cash and use it for prestige-oriented needs. **The committee should use village elders and other interested influential people as mediators to motivate people to participate in such schemes.** Since these contributions are free of interest over the period during which they remain deposited with the organizer, the committee can use the amount in different schemes and may earn from it.

Besides this, there should be a '**Women RDC**' working parallel and in association with the above-mentioned 'Men RDC,' especially in the case of transactions with market and banks. The reasons for a separate RDC for women are numerous:

- They appeared to be highly motivated, well organized but insecure in comparison to men. **Even credit organizations are convinced of the high repayment morale in the case of small credits lent directly to women.**³²¹
- Social insecurity and limited access to cash motivate them to think about some other means of collecting securities within their limitations. **Savings in kind and livestock are basically women's ideas and are very common among them.** Female respondents often mentioned that they always keep a store of grains, similarly some calves, and goats are kept to fulfill immediate needs but are difficult to sell because of limited mobility.
- **Women RDC requires a very high grade of secrecy in cash transactions.** Since women have a very limited access to cash, they generate cash through a number of tactics and do not want to let men know about their possession. A saving activity exclusively among women may serve the purpose because they all understand the problem very well.
- **Such a committee may also make hoarding of gold ornaments a little productive** by generating a source of income for women. Members of saving groups working under this committee may start hiring some small item of gold jewelry against cash rent. Such transactions can be started with small items such as earrings, rings, chains, etc., which are not very costly and can be repaid in case of loss. A written proof must be prepared before lending is effected and in case of loss, the value of the item could be debited to the borrower's account to be repaid (at market rate) in installments. Women lending and borrowing should voluntarily accept such a deal. The rent should be payable, attractive and should be fixed according to weight, kind and the duration of lending. Since such an obvious activity could not be kept secret, it would be wise to convince household heads of the advantages of the activity.

³²¹ The reason why more than 90% of the borrowers and savers are women is summarized by RICHARD VON WEIZÄCKER as: „the bank has virtually no losses because it has discovered the following: if we help a poor man he spends his money on a transistor and later on a motor-bike, but if a woman borrows money, she spends it on children and accommodation. **A man first thinks of himself, while a woman thinks of others and the future**“ (DER SPIEGEL, 17 March 1986).

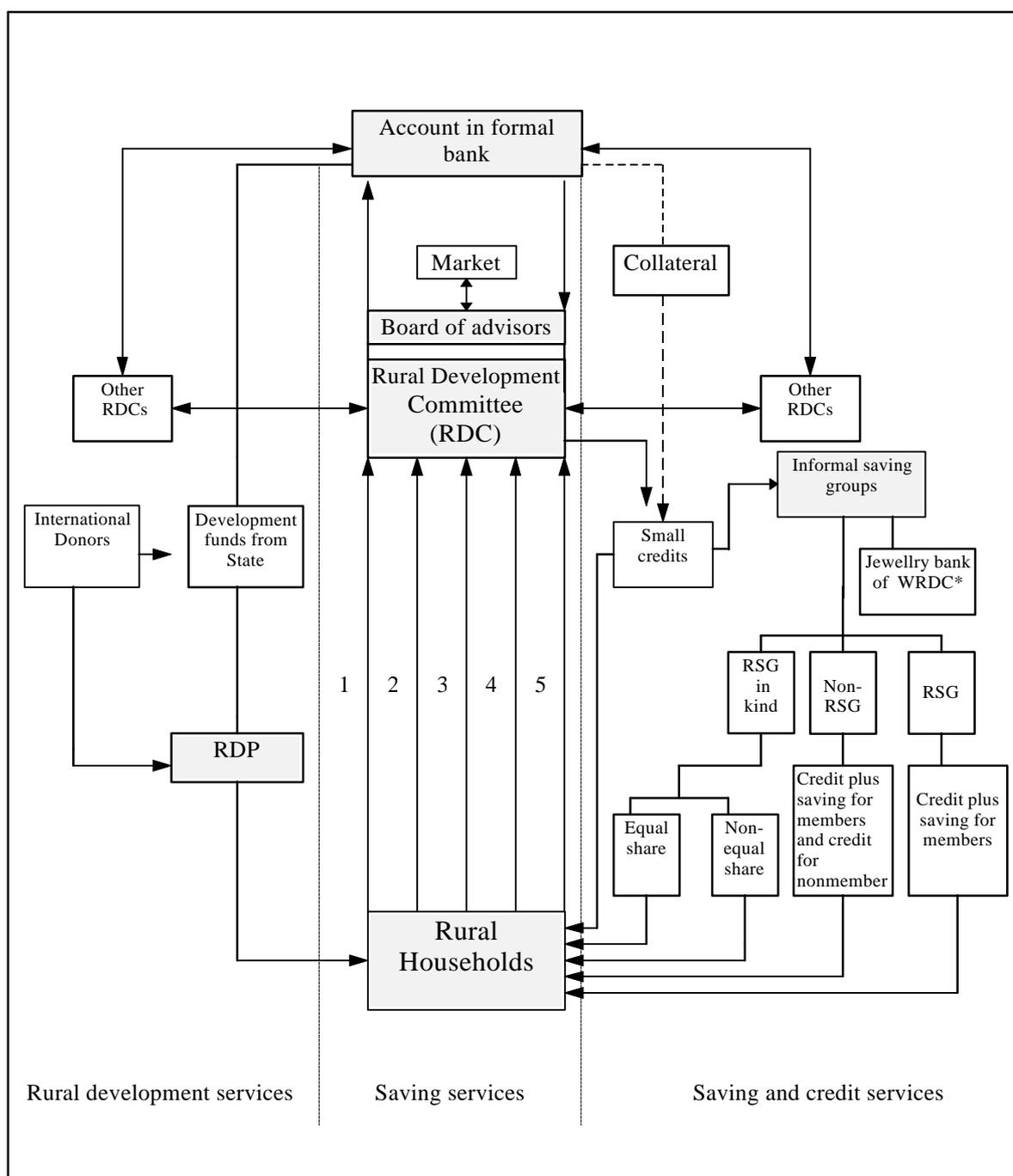
The proposed model has the following characteristics:

- **It includes three basic services for the rural people, i.e., rural development,³²² only saving, and saving and credit services** linked in such a positive sense that improvement in one automatically results in the improvement of the other. The major emphasis, however, is laid on savings only, because they represent the most neglected sector so far.
- **Savings are linked with credit only when one becomes the prerequisite for the other** and cannot be separated as in the case of RoSCAs. The only exception is the small credit to poor households by using the committee's account as a collateral, which is indispensable to provide them a saving potential.
- Rural development services are included especially to differentiate this committee from any other private financial organization. Apart from planned saving services, such a service can be a motivation for the people to contribute towards the development of their area. Such developments again contribute to the saving potential of a household.

The proposed model sketched in Diagram 23 is not a fantasy idea. A deep study of varying attempts in different areas of the world in this context and the type of the desired services which respondents mentioned time and again in their discussions have led to proposing this strategy. The efficiency of this model depends upon its three major contacts: 1) with RDCs working parallel in neighboring villages, 2) with the market, and 3) with formal banks. Multi-faced relations and the contracts based upon mutual interest would not only facilitate the process but save many information and transaction costs as well. The only precaution is that the idea should not be misused or be applied by corrupt officials.

³²² For example, the cereal bank of **Burkina Faso** not only acts as clearing house by encouraging exchanges between banks in regions of shortages and those in regions where there is a surplus, but it acts as municipal advisor for community development projects as well (BEDARD 1986:146-147).

Diagram 23: Model proposed for the linkage of formal with informal finance in Pakistan



- 1 Saving in cash
- 2 Saving in kind
- 3 Saving in livestock
- 4 Saving in bond holding
- 5 Joint saving to share development expenditure

RDP Rural Development Program
 WRDC Women Rural Development Committee
 RSG Rotatory Saving Group
 RDC Rural Development Committee

Source: author's own survey

8. Summary

Economic development requires the involvement and support of the people of the developing country, and it is, therefore, a logical approach in development to have a country demand sacrifices and co-operation from its own citizens. The saving situation has never been satisfactory in Pakistan. The lack of grass-root information on the saving behavior and methods in the rural area has always been a major obstacle in the way of formulating a suitable financial policy in the country. The study is therefore designed to answer some basic questions to partly compensate for this deficiency.

The study answers the following questions:

What are the different types of saving of rural households? What is the magnitude of saving of rural households? How are savings kept? What are the different decision-making strategies for income management within a household? What is the difference in saving and investment priorities among different social strata and what are its reasons? What are the socio-economic factors influencing the form and extent of this saving?

1. Analytical base

A base for analysing the saving behavior of an individual is developed from an integrated approach of the individual's saving behavior in all major schools of thought in different interrelated disciplines of economics, sociology, psychology, philosophy, etc.

Household saving is analyzed on the basis of two definitions: 1) Saving as a difference between its current income (cash and kind) and expenditure for a specific period, or in other words, the non-consumed income (in cash and kind) of a household. 2) Saving on the basis of cooperative-like institutions which function as traditional banks without any involvement of the formal financial sector.

Household saving is differentiated from **hoarding** as any accumulation of cash or kind which hinders the circulation of money in the country and is not aimed to be productively invested. **Consumption** is defined as the satisfaction of basic needs of the household members. **Investment** is viewed as the utilization of the saved part of the available income (monetary or non-monetary) to improve or add to the household's productive potential. This signifies an increase in the technical and material capacity of an agricultural household and is not always equal to the volume of saving of a household. Assets are some of all material goods which serve as means of production, in which an agricultural household directly invests.

2. Statistics and organization of household saving

A statistical overview of the growth rate of savings in Pakistan reveals that the saving rate has never been as promising as it should be in the case of a developing agricultural economy. **Pakistan's domestic saving rates as a ratio of GDP were 9-1%, in 1986-1987, which is one of the lowest in comparison with the neighboring developing countries where the saving rates, in 1985, were 21% (India & Thailand), 14% (Burma), 13% (Sri Lanka) and 16% (Egypt).** A higher rate of public investments in agriculture, an ever increasing flow of concessionary agricultural credit and more remunerative prices of agricultural crops are additional factors to bring a revolutionary change in the household income in the rural sphere, but its contribution towards the

growth of household savings remained very low. The savings rate was 12.1%, in 1985-86, and 14.2% by 1986-87.

The reasons why the increased rural income has not resulted in a substantial increase in the savings rate are due to a number of factors, among which **extravagance in status-oriented demonstrative consumption and mistrust of financial institutions** - which led to the purchase of real estate by way of transfer payments and avoided the investment in financial assets - should specifically be mentioned.

Empirical surveys from rural Pakistan report that low-income populations face more credit and liquidity constraints and, therefore, cannot fully adjust consumption in the face of negative shocks. Similarly, a tendency to consume income from positive shocks is observed at extremely low levels of income, which leads not only to the consumption of past savings but to *dissaving* as well.

The financial sector of Pakistan is composed of a variety of formal and informal organizations to create, collect and process financial assets:

- a) The central bank, 'State Bank of Pakistan', which issues the currency and supervises other financial organizations
- b) Money transfer intermediaries such as commercial banks, etc.
- c) Organizations which work more closely to the public, primarily by accepting deposits such as postal saving services, private finance corporations and saving centers working under a 'Central Directorate of National Savings (CDNS),' etc.
- d) Specialized banks which directly serve the public primarily by issuing loans in the agricultural sector, i.e., the 'Agricultural Development Bank of Pakistan' and,
- e) Informal self-administered saving groups like 'Rotatory Saving Organizations.'

Unfortunately, the importance of different institutions cannot be fully assessed because of the unavailability of up-to-date information on the business of all institutions. Nevertheless, a comparative account of the overall performance and the amount mobilized by different institutions in different years assigns a leading position to the National Saving Organization.

3. Socio-economic framework of saving

A socio-economic framework provides a base which determines the saving behavior of individuals in the rural sphere. The discussion deals with 'developmental political aspects' and 'socio-cultural aspects.'

The developmental political aspects which provided a policy framework for the management of the financial sector are as follows:

- A very narrow economic base inherited at the time of partition brought enormous problems for maintaining a sustainable economic growth in Pakistan. Since then, the government has not succeeded in building a productive economic potential; the overall result of the country's economic performance is not encouraging. The per capita income is \$ 350 per annum, and a major portion of the population survives just above the poverty line.
- At the start, it was thought that **agriculture had very little potential to contribute to the national economy and that there was no need for excessive investments to tap**

savings from this sector, or if this sector had to be taken into consideration, the first attempt should be to develop the required infrastructure to improve the income level which was considered to be a great burden on the economy still at infancy level.

- Another flaw in development planning in the 1960's was to offer privileges to the already privileged class. **Pakistan's economic policy-makers decided to increase the income of those who had the capacity to save.** The immediate benefits of economic growth were directed to this privileged group which made an already uneven income distribution more uneven.
- The discussion of the Islamization of the financial sector is limited to the 'interest-free banking' and the 'centralized system of *Zakat*' in the chapter. **Interest-free banking showed an overall positive impact in different regions of the country, but the centralized system of *Zakat* collection contributed to the regional disparity,** as the amount of *Zakat* money is distributed according to the population size in different areas and the local *Zakat* committees at village level correspond to the internal authority pattern of the village. *Zakat* money is distributed within a specific sphere and has created an atmosphere of mistrust of the system.
- The experiment to deregulate the financial sector had a negative impact on the financial market.

The socio-cultural aspects of the community which provide a background to shape the saving behavior are as follows:

- The existing saving behavior of the Pakistani community has been shaped by the **socio-political conditions on the undivided Indian subcontinent** under the Moghul empire and British colonial rule.
- **The ideological structure of the society is based on the traditions, norms and values of a rigid and conservative social setup.** In a rural society, social status is measured by how much one gives away rather than how much one saves. One who does not wish to share one's surpluses - whether food or income - is considered rubbish. He is not respected or supported by his own clan members and others in the village. Such cultural values certainly exert a negative influence on saving motivation.
- Every action of the individual is tied into an obligatory network of other community members as well as of his own household members. These are two different sorts of obligations which he fulfills simultaneously. Such **social needs and obligations form a system of social relations which has its impact on the economic functioning of the household.**
- Almost all biraderi men are knitted in some sensitive relation because of a strict endogamy and, therefore, a relatively better-off household always remains the target of many needy relatives. Since **savings can hardly be kept secret and intra-biraderi credit transactions are very common,** an individual cannot retain his saving for a long time and, once it is lent, he usually has no influence on repayment.

4. Empirical evidences

The analysis of household saving in rural Pakistan is based on an empirical survey in Tehsil Bhalwal, 50 km northeast of Sargodha District in the Province Punjab in Pakistan. The selected village acted as a model village for the Mona Reclamation Experimental Project (MRE) initiated in 1965. The sampled population is predominantly self-cultivating. 81.7% of the total sampled population is mainly engaged in self-cultivation. Sharecropping represents the second most practiced mode of cultivation. 11.7% of the sampled population practice this mode in the case of wheat and sugar-cane, which represents the second most cultivated crops after citrus fruit. Only 5% are partly contractors and partly self-cultivators. **Twelve case study households were selected, two from the upper, five from the middle and five from the lower strata,** for the empirical analysis of income (cash and in kind) and its utilization.

Empirical evidence shows that four out of twelve households were drawing their income from non-farm sources which contributed just 2.4%, 24.2%, 17.9% and 27.6% of the total annual income respectively. Moreover, all households were engaged in farm activities, which provided a major share of the household's actual income, in ten out of twelve households, even more than 50%. Milk, churned butter and crop produce were the major contributors of income in kind.

Empirical evidence reveals considerably higher expenditures on basic items such as food, transport, hospitality etc., than under the other heads.

Methods of saving are the following: 1) saving in cash; 2) saving in bond holding; 3) saving in agricultural products; 4) saving in livestock.

Cash saving represents a relatively difficult way of saving in the research area. Empirical evidence shows cash saving in seven out of twelve (58.3%) case study households. While only three of these seven households deposited their saved amount in a bank, two of those belonged to the upper stratum and possessed active accounts. The other four preferred to keep the amount at home.

Saving in bond holding is a rarely practiced form of saving. Prize Bonds and Saving Certificates are two well known bond holdings. They are more urban oriented and require a certain level of literacy to be managed. Two out of twelve households possessed Prize Bonds, both of them received those as a gift. Only one out of twelve possessed a Saving Certificate.

Saving in agricultural products is preferably practiced because of its higher flexibility. Some well-practiced forms include:

- stock of crops, e.g., wheat, rice, cotton and lentils,
- stock of pressed cotton seeds and fertilizer,

Empirical evidence shows eight out of twelve households with a stock of savings in kind, two cases with a stock of pressed cotton seeds, five with wheat and one with rice. A stock in kind may be differentiated in saving or investment, depending upon the purpose of storage.

Saving in livestock represents the most practiced form. It has a dual impact on the household economy, firstly, as a source of extra income and, secondly, by acting as cash which is always available at home. Almost every type of animal keeping proves

to be productive in the study. Hoarding of livestock is therefore non-existent in the studied area.

Besides these direct saving acts, the rural community practices some indigenous traditional saving arrangements on the basis of cooperative-like traditional institutions. **These arrangements include: 1) *Sep* relation (a bank of labor); 2) *Wanghar* (a bank of labor); 3) Share leasing of livestock (saving in livestock); 4) Rotating saving system (a bank for cash); and 5) *Vartan Bhanji* (a bank for cash and kind).**

The quantitative analysis of the saving composition proves that saving in kind is the most stable, preferred, profitable and flexible method in almost every stratum.

Hoarding is a sterile art of saving, which is not intended to be invested or liquidated in the future. Gold and silver accumulation is the only form of hoarding in the research area. The empirical evidence showed that the value of gold hoarded (during an unspecified period) in twelve case study households varies from 17.4% to 88.3% of the annual household income.

Investment includes the expenditure undertaken for expanding the productive base of the household, e.g., land betterment, education, etc. Saving is not considered to be equal to investment in the present study. First of all, investment is not necessarily done from the saving of the current year; it is mainly a handsome amount extracted from past savings, present savings and credit. Empirical evidence shows a low level of investment which decreases further after calculating the investment balance. Risk avoidance and lack of motivation proved to be the main factors that are responsible for its low level.

5. The factors influencing the form and extent of saving are divided into four categories:

- economic factors
- psychological factors
- socio-cultural factors
- institutional factors.

i) Economic factors

- Income determines the extent as well as the form of saving. The most important observation in this regard was the change in the dominant form of saving with the change in the income level. **The results showed saving in kind as a dominant form in the upper income level, cash saving, in the middle income group, and livestock saving, in lower income households.**
- Landholding, especially the size of citrus orchards, strongly influences the rate of total saving, since the size of landholding influences income and income influences saving positively.
- Family households require at a later stage more cash savings for the education, marriage or business of the grown-up grandchildren. Exactly similar needs arise in family households at an earlier stage for their own grown-up children. Family households at the middle stage show a different pattern, since their own children have got married and their grandchildren are small.

- A large family size exerts a negative influence on saving in kind. Cash saving remains neutral but livestock keeping is proved to be positively influenced by the availability of household labor.
- The release of manpower - that is not fully required for the family farm - from agricultural subsistence households³²³ results in an increase in the per capita income which provides some surplus to save.
- **The age of the household head mainly determines the decision-making priorities of a household.** The empirical results show a greater preference to save cash in old age; all other forms of saving do not seem to be considerably influenced.
- The age of household members exerts an uncertain impact on saving; if they are productive, the influence is positive. Underemployed or unemployed members are a burden on the household income and have a negative impact on saving.
- Education level represents a household's human capital. Empirical evidence proved that education is quite an uncertain factor in the case of saving. In most of the cases, better education gave better exposure which induced a 'demonstration effect' and increased the propensity to consume.
- A comparison between the number of educated males and the percentage of saving showed a low percentage of saving in households with a greater number of educated males.
- **The composition and extent of saving is highly influenced by the annual production cycle. Cash saving is done mostly from November to January (sale of cash crops). Livestock breeders usually sell their animals from February to April and save cash. Saving in kind is mostly done from May to July in the period of wheat harvesting.**
- Capital is indisputably an important influencing factor. A decline in a household's capital assets usually results in its propensity to save to balance the situation.
- The rate of interest showed no positive influence on saving, as the amount of cash saving is usually too small to make the interest rate visible.
- Many respondents mentioned the fear of agricultural taxation as being a major hindrance in the way of cash savings.
- Credit usually expands the consumption base of subsistence households. The situation becomes more desperate if credit is not free of interest and borrowed amount increases with time.

ii) Psychological factors

- orientations play a considerable role in shaping his saving attitude. Savers can be divided into three categories; 1) development indifferent savers; 2) development active savers; 3) development conforming savers;
- **Maximization of 'Izzat' (honor) is the main focus in the life of every individual.** All actions which add to it, e.g., political status, social status, generosity, lavish ceremonies, etc. require extravagance and demonstrative consumption, which reduce the saving potential;

³²³The empirical results show a connection between household size, landholding and combination of income sources. Off-farm employment imparts a relative independence to the individual member. Individual members require a certain level of individual performance to earn their money; this weakens the integrated feeling of co-residence. The lesser a household contributes to the individual security of its members, because of scarce economically productive resources, and the stronger a member is dependent on his individually earned income, the weaker becomes his desire to cooperate with other household members (MÜLLER 1992:120).

- The conflict situation between saving and consumption is also an important determinant of saving.

iii) Socio-cultural factors

- Status and extravagance are inseparable. **Raising one's status, which requires demonstrative consumption, is the ultimate goal of every household in the rural sphere.**
- The centralized authority structure in the context of decision-making, limited individual independence and least consideration of women in financial affairs proved to be a disincentive for individual saving.
- **The empirical survey reveals a gender-specific saving aptitude. Women are found to be financially conservative and try to hold money for the family's security. Men prefer to concentrate upon the accumulation of social capital.**
- An individual adjusts his consumption pattern to the stratum he wants to belong to; this strongly influences the nature and amount of saving.
- In spite of better income-generating opportunities in the extended family, the nuclear family structure facilitates the saving behavior.

iv) Institutional factors

- An unpredictable situation of law and order affects the functioning of formal institutions by increasing their operational costs; this reduces the ability to pay more interest and discourages saving.
- The ease of depositing and withdrawing saving for a rural saver depends upon the transaction cost per unit of deposit.

6. Conclusion

The conclusion of the study reveals that saving magnitude and efforts to mobilize it have remained insufficient and discouraging since independence, in 1947. It appears to be depressing until now and reveals no optimistic picture for the future, unless it is subjected to some strategic change. The empirical research and other related secondary sources have generally proved the basic hypotheses of the research proposal on the household savings in rural Pakistan.

The major dilemma, while evaluating the **purposefulness of both saving types** - direct saving acts and indigenous saving mechanisms - is that the former are not as purposeful for the rural savers as the latter. Indigenous saving mechanisms are a phenomenon in which saving is generated in the form in which it is required for the satisfaction of needs; direct savings, however, have mostly to be converted into cash or exchanged against other items before their utilization. The lack of access to and information on the market compels rural savers to sell their commodities to the village shopkeepers or livestock dealers at comparatively much lower prices. **The ultimate benefit of saving is of considerable importance to the saver because it acts as an important incentive to save.** The current situation, however, is rather leading more and more towards a discouraging situation for direct saving activities.

The ultimate solution can be a linkage of the formal and the informal financial sectors, since both sectors follow their set priorities and function independently in Pakistan, so far. A 'bottom-up strategy' would be the most feasible to establish an indirect link between rural households and banks through a third intermediating agency. Finally, the study recommends the establishment of an indigenous-based private voluntary

organization as an intermediary agency established on the initiative of the villagers themselves and facilitated by the government.

References

- ABBOTT, G. (1985), A Survey on Savings and Financial Development in Asian Developing Countries, *Savings and Development*, Vol. IX, pp. 395-419.
- ACHARYA, M. (1990), Promotion of Linkages Between Banks and Self-Help Groups in Nepal, Unpublished Paper, Asian and Pacific Regional Agricultural Credit Association (APRACA), Bangkok.
- ADAMS JR., R. (1986), Development and Social Change in Rural Egypt, Syracuse, New York.
- ADAMS, D. (1992), Taking a Fresh Look at Informal Finance, in: *Adams, D., & D. Fitchett (eds.)*, Informal Finance in Low-income Countries, Boulder, San Francisco, Oxford, pp. 5-24.
- ADAMS, D., & M. CANAVESI (1992), Rotating Savings and Credit Associations in Bolivia, in: *Adams, D., & D. Fitchett (eds.)*, Informal Finance in Low-income Countries, Boulder, San Francisco, Oxford. pp. 313-324.
- ADAMS, D., & P. GHATE (1992), Where to From Here in Informal Finance? in: *Adams, D., & D. Fitchett (eds.)*, Informal Finance in Low-income Countries, Boulder, San Francisco, Oxford, pp. 349-360.
- ADAMS, R., & J. HE (1995), Sources of Income Inequality and Poverty in Rural Pakistan, International Food Policy Research Institute (IFPRI), Washington, D. C.
- AHMAD, Z. (1983) (ed.), Money and Banking in Islam, International Centre for Research in Islamic Economics (I.C.R.I.E.), King Abdulaziz University Jeddah, and Institute of Policy Studies Islamabad, Jeddah, Islamabad.
- AHMED, V., & R. AMJAD (1984), The Management of Pakistan's Economy 1947 - 1982, Karachi.
- AJAM, M. (1971), Kapitalbildung in landwirtschaftlichen Betrieben Westpakistans. Sozialökonomische Untersuchung in sechs Dörfern im Peshawar Distrikt (*Sozialökonomische Schriften zur Agrarentwicklung, Bd. 4*), Saarbrücken.
- AKHTAR, M. R. (1978), Rural Employment and Wages with Special Emphasis on Landless Classes in the University Project Area, Unpublished Master's Thesis in Farm Management, University of Agriculture, Faisalabad.
- AL-NAGAR, A. (1978), Islamic Banks: A Model and the Challenge of Islam, in: Islamic Council of Europe, London.
- ALBRECHT, H. (1976), Living Conditions of Rural Families in Pakistan, A Classification of Rural Households as a Basis for Development Policies Using as Models Six Villages in the Peshawar District (*Socio-economic Studies on Rural Development, Vol. 3*) Saarbrücken.
- ALDERMAN, H., & C. PAXSON (1992), Do the Poor Insure? A Synthesis of the Literature on Risk and Consumption in Developing Countries, (*World Bank Policy Research Working Paper 1008 and Woodrow Wilson School Discussion Paper 164*), Washington, D.C.
- ALDERMAN, H., & M. GARCIA, (1993), Poverty, Household Food Security, and Nutrition in Rural Pakistan, IFPRI, Washington, D. C.
- AMJAD, R. (1986), Impact of Workers' Remittances from the Middle East on Pakistan's Economy: Some Selected Issues, *Pakistan Development Review*, Vol. 25, pp. 757-782.
- APRACA, (1985), Mobilization of Rural Savings in Selected Countries in Asia and Pacific, FAO Regional Office for Asia and the Pacific, Bangkok.
- ARISTOTELE (1953), Über Haushaltung in Familie und Staat, Paderborn.

- BADIEL, B. (1992), Mehrfachbeschäftigung im Haushalten mit Landbewirtschaftung. Versuch einer entwicklungsbezogenen Typologie, (*Sozialökonomische Schriften zur Ruralen Entwicklung, Bd. 86*), Aachen.
- BARDHAN, P. (1989) (ed.), *The Economic Theory of Agrarian Institutions*, Oxford.
- BARDHAN, P. (1989), Alternative Approaches to the Theory of Institutions in Economic Development, in: *Bardhan, P. (ed.)*, *The Economic Theory of Agrarian Institutions*, New York.
- BASHAM, A. L. (1954), *The Wonder that was India*, New Delhi.
- BASU, K. (1984), *The Less Developed Economy: A Critique of Contemporary Theory*, Oxford.
- BAUER, G. (1986), Technologischer Wandel und ländliche Armut in Pakistan. Eine Untersuchung über Auswirkungen auf Erwerbstätigkeit und wirtschaftliche Lage in Dörfern des Punjab (*Sozialökonomische Schriften zur Ruralen Entwicklung, Bd. 73*), Aachen.
- BECKER, G. S. (1974), A Theory of Social Interactions, *Journal of Political Economy*, Vol. 82, pp. 1063-1093.
- BECKER, G. S. (1976), Altruism, Egoism, and Genetic Fitness: Economics and Sociology, *Journal of Economic Literature*, Vol. 14, pp. 817-826.
- BEDARD, G. (1986), The Importance of Savings for Fighting against Poverty by Self-Help, Vol. I, Report on a Workshop, June 18 - 20, German Foundation for International Development, Bonn.
- BEHR, M. (1987), The Savings Development Movement in Zimbabwe, in: *Klöwer, G., & M. Harder (eds.)*, *The Importance of Savings for Fighting Against Poverty by Self-Help*, Vol. II, Berlin, pp.91-112.
- BELL, R. (1960), *Social Deviance*, Homewood, IL, Dorsey.
- BEN-PORATH, Y. (1980), The F-Connection: Families, Friends, and Firms and the Organization of Exchange, *Population and Development Review*, Vol. 6, pp. 1-30.
- BENTHAM, J. (1823), *An Introduction to the Principles of Morals and Legislation*, Vol 1, 2nd Edition, London.
- BERGER, M. (1987), Agrarkredit in Pakistan, Struktur der Kreditversorgung punjabischer Landbewirtschafter (*Sozialökonomische Schriften zur Ruralen Entwicklung, Bd. 69*), Aachen.
- BERNDT, R. (1962), *Excess and Restraint*, Chicago.
- BERRY, S. (1989), Macro-Policy Implications of Research on Rural Households and Farming Systems, in: *Moock, J. (ed.)*, *Understanding Africa's Rural Households and Farming Systems*, Washington, D.C.
- BHATTI, M. (1984), Aspects of Rural Labour, An Empirical Investigation in Two Villages in Punjab-Pakistan (*Socioeconomic Studies on Rural Development, Vol. 56*), Aachen.
- BINSWANGER, H., & N. JODHA (1968), *Manual of Instructions for Economic Investigators in ICRISAT 's Village Level Studies*, Vol. II, Delhi.
- BLUNT, E. A. H. (1931), *The Caste System of Northern India*, Oxford.
- BÖHM-BAWERK, E. (1921), *Positive Theorie des Kapitals*, Bd. 4, Jena.
- BOHNNAN, P., & L. BOHANNAN. (1968), *Tiv Economy*, Evanstone.
- BÖSSMAN, E. (1982), Volkswirtschaftliche Probleme der Transaktionskosten, *Zeitschrift für die gesamten Staatswissenschaften*, Jg. 138, S. 664-679.
- BOUMAN, F. & H. MOLL (1992), Informal Finance in Indonesia, in: *Adams, D., & D. Fitchett (eds.)*, *Informal Finance in Low-income Countries*, Boulder, San Francisco, Oxford, pp. 209-224.

- BOUMAN, F. (1979), The ROSCA: Financial Technology of an Informal Savings and Credit Institution in Developing Countries, *Savings and Development*, Vol.3, pp. 253-276.
- BOUMAN, F., & R. HOUTMAN (1988), Pawnbroking as an Instrument of Rural Banking in the Third World, *Economic Development and Cultural Change*, Vol. 37, pp. 69-89.
- BOUMAN, J., & BASTIAANSEN (1992), Pawnbroking and Small Loans, Cases from India and Sri Lanka, in: *Adams, D., & D. Fitchett (eds.), Informal Finance in Low-income Countries*, Boulder, San Francisco, Oxford, pp. 181-194.
- BRAUN, J. VON, & R. PANDYA-LORCH (1991) (eds.), Income Sources of Malnourished People in Rural Areas: Microlevel Information and Policy Implications, (*Working Paper on Commercialization of Agriculture No. 5*), International Food Policy Research Institute, Washington, D.C.
- BURGHARDT, A. (1977), Sparen aus soziologischer Sicht, in: *Stigleitner, H., (Hrsg.) Determinanten des Sparens*, Österreichisches Forschungsinstitut für Sparkassenwesen, (*Dr. Stigleitner Schriftenreihe*, Vol. 17), Wien, pp. 95-104.
- BURNEY, N. (1987), Workers' Remittances from the Middle East and the Effect on Pakistan's Economy, *Pakistan Development Review*, Vol. 26, pp. 745-761.
- BUTSCHKAU, F.(1952), Referat zum Weltspartag, in: *Heil, J. (Hrsg.), Die Pflege des Spargedankens*, Stuttgart.
- CASSEL, G. (1932), Theoretische Sozialökonomie, Bd. 5, Leipzig.
- CHANDAVARKAR, A. (1993), Saving Behaviour in the Asian-Pacific Region, *Asian-Pacific Economic Literature*, Vol. 7, pp. 9-27.
- CHAUDHRY, W. (1987), Change in Farmer's Cooperation, unpublished M.Sc. Thesis in Anthropology, Q. A. University Islamabad, Islamabad.
- CHAYANOV, A. (1966), The Theory of Peasant Economy, Homewood, Ill.
- CHEUNG, S. (1969), The Theory of Share Tenancy, Bombay.
- CHIN, D. (1979), Rural Poverty and the Structure of Farm Household Income in Developing Countries: Evidences from Taiwan, *Economic Development and Cultural Change*, Vol. 27, pp. 283-301.
- CHOUDHRY, S. (1972), A Study on Bishawgram, Clustered Villages in the District of Noakhali, Comilla.
- COASE, R. (1937), The Nature of the Firm, *Economica*, Vol. 16, pp. 386-405.
- DANIEL, W. (1982), Land and Water Problems: An Institutional Perspective, *American Journal of Agricultural Economics*, Vol. 64, pp. 834-845.
- DEATON, A. (1989), Savings in Developing Countries: Theory and Review, in: *Fischer, S., and D. de Tray (eds.), Proceedings of the World Bank Annual Conference on Development Economics*, World Bank, Washington, D. C, pp. 61-96.
- Der Spiegel, 17. March 1986.
- DESAI, V. R. M. (1967), Social Aspects of Savings, Bombay.
- DOMELA-NIEUWENHUIS, A. (1889), Das Sparen, ein ökonomischer und sozialer Grundsatz, Univ. Halle-Wittenberg, Halle.
- DUESENBERY, J. (1949), Income, Saving and the Theory of Consumer Behavior, Cambridge.
- ECKER, F. (1978), Socio-Economics of Sheep and Goat Production in Pakistan's Punjab, Possibilities of Improving the Income of Rural Areas (*Socio-economic Studies on Rural Development, Vol. 31e*), Saarbrücken.
- ECKERT, J. B. (1972), Rural Labor in Punjab, Lahore.
- ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND PACIFIC APRACA (1975), Savings Institutions and Recommendations for Efficient Saving Mobilisation,

- Report of the Seminar on the Mobilisation of Rural Savings, *Economic Bulletin for Asia and Pacific*, Vol. xxvi, cited from: APRACA, (1985), Mobilization of Rural Savings in Selected Countries in Asia and Pacific, FAO Regional Office for Asia and the Pacific, Bangkok.
- EGLAR, Z. (1960), A Punjabi Village in Pakistan. New York.
- EGNER, F. (1976), Der Haushalt. Berlin.
- EKLAN, D. (1956), The Employment of Women, in: *An African Labour Force, (East African Studies, No. 7)*, London, pp. 38-48.
- ELLIS, F. (1988), Peasant Economics, Farm Households and Agrarian Development, Cambridge.
- ELWERT, G. (1984), Hunger in der Dritten Welt - Krise der Subsistenzproduktion and Anti-agrarpolitik, in: *Fiege, K., & L. Ramalho, (eds.), Landwirtschaft = Hungerwirtschaft? Umbrüche und Krisen in den Agrarsystemen der Dritten Welt (ASA - Studien No. 1)*, Saarbrücken, Fort Lauderdale.
- EMGE, R. (1981), Soziologie des Familienhaushalts, 2. Auflage, Paderborn.
- ERCELAWN, A. (1984), Income Inequality in Rural Pakistan: A Study of Sample Villages, *Pakistan Journal of Applied Economics*, Vol. 3, pp. 1-28.
- EUCKEN, W. (1954) Kapitaltheoretische Untersuchungen, Bd. 2, Tübingen, Zürich.
- FAKRUL AHSAN, A. S. M. (1978), On the Nature and Significance of Banking without Interest (*Bangladesh Bank Bulletin, Vol. 56*), Dhaka.
- FERNANDO, N. (1992), Informal Finance in Papua New Guinea, in: *Adams, D., & D. Fitchett (eds.), Informal Finance in Low-income Countries*, Boulder, San Francisco, Oxford, pp.119-132.
- FIEGE, U. (1995), Institutioneller Wandel im Prozeß ländlicher Entwicklung am Beispiel des Kreditwesens im Nordwest-Pakistan, (*Sozialökonomische Schriften zur Ruralen Entwicklung, Bd. 112*), Kiel.
- FIELD, A. J. (1981), The Problem with Neoclassical Institutional Economics, *Explorations in Economic History*, Vol. 18, pp. 98-174.
- FIELDS, G. (1979), Income Inequality in Urban Colombia: A Decomposition Analysis, *Review of Income and Wealth*, Vol. 25, pp. 327-341.
- FORSTMANN, A. (1952), Geld und Kredit. Göttingen.
- FOSTER, G. (1965), Peasant Society and the Message of Limited Goods, *American Anthropologist*, Vol. 67, pp. 293-315.
- FRANCESCA, M. (1975), What are Norms? A Study of Beliefs and Actions in a Maya Community, Cambridge.
- FRIEDMAN, K. (1984), Households as Income Pooling Units, in: *Smith, J., I. Wallerstein, & H. Evers (eds.), Households and the World Economy*, pp. 37-55.
- FURNESS, E. (1972), An Introduction to Financial Economics, London.
- GASSER, C., & W. MEYER (1952), Der Schweizerische Kapitalmarkt, Bd. 1, Das Sparen der Haushalte, der Unternehmungen und des Staates, Veröffentlichungen des Versicherungswirtschaftlichen Seminars an der Handels-Hochschule St. Gallen, Zürich, St. Gallen.
- GEERTZ, C. (1962), The Rotating Credit Associations: A 'Middle Rung' in Development, *Economic Development and Cultural Change*, Vol. 10, pp. 241-263.
- GERSOVITZ, M. (1983), Savings and Nutrition at Low Incomes, *Journal of Political Economy*, Vol. 91, pp. 841-855.
- GERSOVITZ, M. (1988), Savings and Development, in: CHENERY, H., & T. N. SRINIVASAN (eds.), *Handbook of Development Economics*, Vol.1, Amsterdam.
- GESTRICH, H. (1957), Kredit und Sparen, Bd. 3, Düsseldorf, München.

- GIBBS, J. (1960), Norms: the Problems of Definition and Classification, *American Journal of Sociology*, Vol. 70, pp. 586-594.
- GIDDENS, A. (1971), *Capitalism and Modern Social Theory, An Analysis of the Writings of Marx, Durkheim and Max Weber*, Cambridge.
- GIERATHS, C., & J. MALIK (1988), Die Islamisierung der Wirtschaft in Pakistan unter Zia ul Haq, DSE (*Arbeitsmaterialien für den landeskundlichen Unterricht, Heft 11*), Bad Honnef.
- GLEWWE, P. (1986), The Distribution of Income in Sri Lanka in 1969-70 and 1980-81: A Decomposition Analysis, *Journal of Development Economics*, Vol. 24, pp. 255-274.
- GOVERNMENT OF PAKISTAN (1985), State Bank of Pakistan, Annual Report 1984-85, Islamabad.
- GOVERNMENT OF PAKISTAN (1990), Statistics Division, Pakistan Census of Agriculture 1990, Lahore.
- GOVERNMENT OF PAKISTAN (1991), Statistics Division, Household Integrated Economic Survey 1991, Lahore.
- GOVERNMENT OF PAKISTAN, (1982), Annual Report, 1981-82, Karachi.
- GOVERNMENT OF PAKISTAN, (1983), State Bank of Pakistan Bulletin, Karachi.
- GOVERNMENT OF PAKISTAN, ECONOMIC ADVISER'S WING (1994), Economic Survey 1993-94, Ministry of Finance, Islamabad.
- GOVERNMENT OF PAKISTAN, NATIONAL PLANNING BOARD (1955), The First Five-Year Plan 1955-60, Karachi.
- GOVERNMENT OF PAKISTAN, PLANNING COMMISSION (1960), The Second Five-Year Plan 1960-65, Karachi.
- GOVERNMENT OF PAKISTAN, PLANNING COMMISSION (1965), The Third Five-Year Plan, 1965-70, Karachi.
- GOVERNMENT OF PAKISTAN, PLANNING COMMISSION (1970), The Fourth Five-Year Plan, 1970-75, Karachi.
- GOVERNMENT OF PAKISTAN, PLANNING COMMISSION (1978), The Fifth Five-Year Plan 1978-83, Karachi.
- GOVERNMENT OF PAKISTAN, PLANNING COMMISSION (1983), The Sixth Five-Year Plan. 1983-88, Karachi.
- GOVERNMENT OF PAKISTAN, PLANNING COMMISSION (1988), The Seventh Five-Year Plan 1988-93 and Perspective Plan 1988-2003, Islamabad.
- GRAHAM, D. (1992), Informal Rural Finance in Niger: Lessons for Building Formal Institutions, in: *Adams, D., & D. Fitchett (eds.), Informal Finance in Low-income Countries*, Boulder, San Francisco, Oxford, pp. 71-84.
- GRATZENBERGER, F. (1962), Sparen und Sparerziehung als pädagogisches Problem unserer Zeit, in: *Aspekte des Sparens III, (Schriftenreihe des Österreichischen Forschungsinstitutes für Sparkassenwesen Bd. 4)*, Wien.
- GRIFFIN, K. (1974), *The Political Economy of Agrarian Change*, London.
- HABIBULLAH, M. (1963), *Rural Capital Formation in East Pakistan*, (Bureau of Economic Research, Uni. of Dhaka), Dhaka.
- HAGGEBLADE, S., P. HAZELL & J. BROWN (1989), Farm-nonfarm Linkages in Rural Sub-Saharan Africa, *World Development*, Vol. 17, pp. 1173-1201.
- HAHN, A. (1930), *Volkswirtschaftliche Theorie des Bankkredits*, Bd. 3. Tübingen.
- HAMID, J. (1973), The Problem of Agricultural Taxation in West Pakistan and an Alternative Solution: A Comment, *Pakistan Development Review*, Vol. XVII, pp. 311-314.

- HAMID, N., & I. NABI (1986), Privatizing the Financial Sector in LDCs: Lessons of an Experiment, Unpublished paper done by the Development Research Department, World Bank, Washington, D. C.
- HAMID, N., & I. NABI (1989), Private Finance Companies in LDCs: Lessons from an Experiment, *World Development*, Vol. 17, pp. 1289-1297.
- HAMID, N., I. NABI & A. NASIM (1990), Trade, Exchange Rate and Agricultural Pricing Policies in Pakistan, World Bank Comparative Studies: Political Economy of Agricultural Pricing Policy, World Bank, Washington, D. C.
- HAMMEL, E. A., & P. LASLETT (1974), Comparing Household Structure Over Time and Between Cultures, *Comparative Studies in Society and History*, Vol. 16, pp. 73-109.
- HANSEN, H. H. (1961), *The Kurdish Woman's Life*, Copenhagen.
- HAQ, M. (1963), *Strategy of Economic Planning*, Karachi.
- HAYAMI, Y., & M. KIKUCHI, (1982), *Asian Village Economy at the Crossroads: An Economic Approach to Institutional Change*, Baltimore.
- HAYAMI, Y., & V. W. RUTTAN (1985), *Agricultural Development: An International Perspective*, Baltimore, London.
- HEILBRONER, R. (1962), *The Making of Economic Society*, Washington, D.C.
- HELMRICH, H. (1986), Animal Husbandry in Bangladesh, Conditions, Functions and Development Potential, (*Socioeconomic Studies on Rural Development, Vol. 64*), Aachen.
- HERBON, D. (1984), Ein dörfliches Gesellschaftssystem in Bangladesh, Mechanismen, Funktionen und Dynamik des Sozio-ökonomischen Austausches, (*Sozialökonomische Schriften zur Ruralen Entwicklung, Bd. 47*), Aachen.
- HERBON, D. (1985), The System of Exchange and Distribution in a Village in Bangladesh, (*Socioeconomic Studies in Rural Development, Vol. 58*), Aachen.
- HERBON, D. (1990), Ensuring Lasting Economic and Social Security, in: *Haen, H.de (ed.)*, Peasant Household Systems, Proceedings of an International Workshop, DSE, Bonn, pp.106-136.
- HESSE, G. (1982), Die Entstehung industrialisierter Volkswirtschaften, Ein Beitrag zur theoretischen und empirischen Analyse der langfristigen wirtschaftlichen Entwicklung, Tübingen.
- HILL, R. (1961), Patterns of Decision-making and the Accumulation of Family Assets, in: *Foot, N. (ed.)*, Household Decision-making, Vol. IV, New York, pp. 57-80.
- HOFFMANN, J. (1959), Die 'Hausväterliteratur' und die 'Predigten über den christlichen Hausstand', *Lehre vom Hause und Bildung für das häusliche Leben im 16., 17. und 18. Jhdt.*, Weinheim, Berlin.
- HOSPES, O. (1992), People that Count: The Forgotten Faces of Rotating Savings and Credit Associations in Indonesia, *Savings and Development*, Vol. XVI, pp. 371-401.
- HUHLE, F. (1958), Sparwille und Sparfähigkeit als Komponenten der Spartätigkeit, Zur Entwicklung des privaten Kontensparens, in: *Voigt, F. (Hrsg.)*, Beiträge zur Theorie des Sparens und der wirtschaftlichen Entwicklung (*Schriften des Instituts für Spar-, Giro- und Kreditwesen, Vol.1*), Berlin, S. 85-104.
- HUQ, A. (1982) (ed.), *Readings in Islamic Banking*, Vol. 1, Bangladesh Islamic Banker's Association, Dhaka.
- HUSSAIN, A. (1986), Pakistan, The Crisis of The State, in: *Khan, M. A. (ed.)*, The Pakistan Experience, State and Religion, Lahore.
- IMAMUDDIN, S. (1961), Baytul Mal and Banks in the Medieval World, *Islamic Culture*, Vol. 35, Decean.

- JABBAR, M., & A. GREEN (1983), The Status and Potential of Livestock within the Context of Agricultural Development Policy in Bangladesh. Department of Agricultural Economics, University College of Wales, Aberystwyth.
- JEVONS, W. (1924), Die Theorie der Politischen Ökonomie (*Sammlung sozialwissenschaftlicher Meister, Vol. 23*), Jena.
- KAPUR, P. (1970), Marriage and the Working Women in India, Delhi.
- KERSCHAGL, R. (1952), Volkswirtschaftslehre, Bd. 5, Wien.
- KEYNES, J. (1936), Allgemeine Theorie der Beschäftigung, des Zinses und des Geldes. Berlin.
- KHALID, S. (1988), Problems and Prospects, Tapping Rural Savings, *Pakistan Agriculture, May*, pp. 7-12.
- KHAN, M. (1986), Underdevelopment and Agrarian Structure in Pakistan, Lahore.
- KHAN, O. A. (1985), Political and Economic Aspects of Islamization, in: Khan, O.A. (ed.), The Pakistan Experience, Lahore.
- KHAN, R. (1988), Rural Savings Mobilization in Pakistan - A Need of the Hour, *Journal of Rural Development & Administration*, Vol. XX, pp. 87-94.
- KHAN, S. A. & F. BILQEES (1976), The Environment, Attitudes and Activities of Rural Woman: A Case Study of a Village in Punjab, *The Pakistan Development Review*, Vol. XV, pp. 237-271.
- KIERMAYR, U. (1971), Kredit im Entwicklungsprozeß traditioneller Landwirtschaft in Westpakistan, Ein Beitrag auf der Grundlage einer empirischen Untersuchung im Distrikt Peshawar, Westpakistan (*Sozialökonomische Schriften zur Agrarentwicklung, Bd. 1*), Saarbrücken.
- KIRSCH, W. (1971), Entscheidungsprozesse, Bd. 1, Wiesbaden.
- KLENNERT, K. (1988), Off-farm Employment and Rural Development: Pakistan (*Socio-economic Studies on Rural Development, Vol. 81*), Aachen.
- KÖNIG, R. (1967), Institution, in: König, R. (Hrsg.), Soziologie (*Das Fischer Lexikon, Nr. 10*), Frankfurt/M.
- KORSON, J. H. (1969), Student Attitudes Towards Mate Selection in a Muslim Society: *Pakistan Journal of Marriage and the Family*, Vol. 31, pp. 153-165.
- KORTENBUSCH, B. (1994), Veränderungen der Agrarverfassung in Nordwest-Pakistan (*Sozialökonomische Schriften zur Ruralen Entwicklung, Bd. 106*), Aachen.
- KOZEL, V. (1987), Income, Consumption, and Saving Behavior in the Côte d' Ivoire, Diss., Massachusetts Institute of Technology, Cambridge, Mass.
- KROPP, E. & R. SCHMIDT (1987), Rural Finance, Guiding Principles, (*Rural Development Series*), Eschborn.
- KROPP, E. (1976), Landwirtschaftliche Kapitalbildung unter Industrieinfluß, ein empirischer Beitrag zum Spar- und Investitionsverhalten landwirtschaftlicher Haushalte in Indien. Heidelberg.
- KROPP, E., & B. QUINONES Jr.(1992), Financial System Development in Support of People's Economy, APRACA Publication, Bangkok.
- KROPP, E., M. MARX, B. PRAMOD, B. QUINONES Jr., & H. SEIBEL (1989), Linking Self-help Groups and Banks in Developing Countries, Asian and Pacific Regional Agricultural Credit Association (APRACA) and Agency for Technical Co-operation (GTZ), Eschborn.
- KRUIJK, H. DE (1986), Inequality in the Four Provinces of Pakistan, *Pakistan Development Review*, Vol. 25, pp. 1-28.
- KUHNEN, F. (1955), Die landwirtschaftlich-industrielle Einkommensverflechtung, Hannover.

- KUHNEN, F. (1967), Das traditionelle Sep-System in westpakistanischen Dörfern und der Übergang zu modernen Arbeitsbeziehungen, *Zeitschrift für Ausländische Landwirtschaft*, Vol. 6, S. 138-148.
- KUHNEN, F. (1988), Institutional Change and Rural Development, *Quarterly Journal of International Agriculture*, Vol. 27, pp. 5f.
- KUHNEN, F. (1989a), Büffelhaltung im Sozialökonomischen System am Beispiel Pakistans, *entwicklung + ländlicher raum*, Vol. 23, S. 6-8.
- KUHNEN, F. (1989b), Erwerbskombination - Existenzsicherung für ländliche Haushalte in der Dritten Welt, *entwicklung + ländlicher raum*, Vol. 5, S. 3-6.
- KUHNEN, F. (1989c), The Agrarian Sector in Pakistan's Development Process - Historical Evidences and Implications for Policy and Theory, *The Pakistan Development Review*, Vol. 28, pp. 509-528.
- LANDIS, P. (1956), *Social Control* (rev. ed.), Philadelphia.
- LANTUM, A. (1988), The Liwontse Association of Nkar - A joint GTZ/FONADER Pilot Project, Unpublished paper, Bamenda.
- LASLETT, P. (1972), Introduction, in: *Laslett, P., & R. Wall* (eds.), *Household and Family in Past Time*, Cambridge.
- LASSON, A. DE (1981), A Socio-economic Study of the Hanaspur Village, Noakhali, Bangladesh, Centre for Development Research, Copenhagen, Denmark.
- LINTEN, R. (1936), *The Study of Man*. New York.
- LÖFFLER, U. (1992), Kapitalbildung und -verwendung ländlicher Haushalte im Nordwest-Pakistan, (*Sozialökonomische Schriften zur Ruralen Entwicklung*, Bd. 89), Aachen.
- LOOMIS, Z., & C. LOOMIS (1969), Socio-economic Change and the Religious Factors in India, An Indian Symposium of Views on Max Weber, New Delhi, New York, London, Melbourne, Toronto.
- LUCESI, B. (1983), Familie und Verwandtschaft in einem Dorf in Bangladesh, Berlin.
- MALIK, S. (1989), The Source Structure and Utilization Patterns of Rural Credit in Pakistan: Implications for Policy, Vol. 1 & 2, International Food Policy Research Institute, Washington, D. C., Mimeo.
- MALINOWSKI, B. (1949), *The Dynamics of Culture Change*, New Haven.
- MALONEY, C., & S. AHMED (1988), Rural Savings and Credit in Bangladesh, Dhaka.
- MALTHUS, R. (1936), *Principles of Political Economy*. 2nd Edition, London.
- MALTON, P. (1979), Income Distribution Among Farmers in Northern Nigeria: Empirical Results and Policy Implications. Michigan State University (*African Rural Economy Paper No. 18*), Michigan.
- MANIG, W. (1982), Räumliche Aspekte ruraler Entwicklung (*Sozialökonomische Schriften zur Agrarentwicklung*, Bd. 44), Saarbrücken.
- MANIG, W. (1991), Stability and Change in Rural Institutions in North Pakistan, (*Socioeconomic Studies on Rural Development*, Vol. 88), Aachen.
- MANIG, W. (1992), Rural Institutional Development and its Impact in Northwest - Pakistan, (*Socioeconomic Studies on Rural Development*, Vol. 85), Aachen.
- MANIG, W. (1993), Agrarian Structures and Security of Livelihood in Developing Countries, *Quarterly Journal of International Agriculture*, Vol. 32, pp. 20-27.
- MANIG, W., & D. HERBON (1988) (eds.), Third World Research, Recent Developments and Appropriate Research Approaches (*Socioeconomic Studies on Rural Development*, Vol. 80), Aachen.
- MANN, W. (1962), Psychologie des Sparens, in: *Aspekte des Sparens III*, (*Schriftenreihe des Österreichischen Forschungsinstitutes für Sparkassenwesen*, No. 4), Wien.

- MANNAN, M. (1980), Islamic Perspectives on Islamic Banks, An Analysis of Nine Unconventional Role and Operational Strategies, Thoughts on Islamic Banking, Islamic Economics Research Bureau, Dhaka.
- MANNAN, M. (1986), Islamic Economics: Theory and Practice, Cambridge.
- MANTEUFFEL, C. (1900), Das Sparen, Sein Wesen und seine volkswirtschaftliche Wirkung, in: *Conrad, J. (Hrsg.) Sammlung nationalökonomischer und statistischer Abhandlungen des staatswissenschaftlichen Seminars zu Halle, Vol. 26, Jena.*
- MARSHALL, A. (1905), Handbuch der Volkswirtschaftslehre, Vol.1, Stuttgart-Berlin.
- MARTIUS-VON HARDER, G. (1978), Women in Rural Bangladesh, (*Sozialökonomische Schriften zur Agrarentwicklung, Bd. 29/e*) Saarbrücken.
- MARX, M. (1992), Financial Cooperation Models, in: *Kropp, E., & B. Quinones Jr. (eds.), Financial System Development in Support of People's Economy, Bangkok.*
- MARX, M., & B. QUINONES Jr. (1992)(eds.), Financial Intermediation System for the Poor: Issues and Consensus, in: *Kropp, E., & B. Quinones Jr. (eds.), Financial System Development in Support of People's Economy, Bangkok.*
- MASLOW, A. (1954), Motivation and Personality, New York, Evanstone, London.
- MC KINSEY, J. C. C. (1952), Introduction to the Theory of Games, New York, Toronto, London.
- MCKINSEY, J. C. C. (1952), Introduction to the Theory of Games, New York, Toronto, London.
- MEINHOLD, H. (1955), Investitionen, in: Handwörterbuch der Sozialwissenschaften, Bd. 9, Stuttgart, Tübingen, Göttingen.
- MERRY, D. (1986), Reorganizing Irrigation: Local Level Management in the Punjab (Pakistan) in: *Merry, D., & J. Wolf (eds.), Irrigation Management in Pakistan, Four Papers, Research Paper No 4, IIMI, Digana Village, Sri Lanka, pp. 26-43.*
- MIES, M. (1973), Indische Frauen zwischen Patriarchat und Chancengleichheit, Meisenheim am Glan.
- MILL, J. (1873), System der deduktiven und induktiven Logik. Eine Darlegung der Grundsätze der Beweislehre und Methoden wissenschaftlicher Forschung, Vol. 1 & 2, Leipzig
- MIRZA, A., D. FREEMAN & J. ECKERT (1975), Village Organization Factors Affecting Water Management Decision-making among Punjabi Farmers, Colorado State University, (*Water Management Technical Report No. 35*), Colorado.
- MISHRA, V. (1962), Hinduism and Economic Growth, Oxford.
- MODIGLIANI, F., & R. BRUMBERG (1954), Utility Analysis and the Consumption Function - An Interpretation of the Cross Section Data, in: *Kurihara, K. K. (ed.), Post-Keynesian Economics, New Brunswick.*
- MOHAMMAD, F., & G. BADAR (1985), Structure of Rural Income in Pakistan: Some Preliminary Estimates, *Pakistan Development Review*, Vol. 24, pp. 385-403.
- MOLL, H. (1989), Farmers and Finance, Experience with Institutional Savings and Credit in Java, Unpublished Dissertation, Agricultural University, Wageningen Netherlands.
- MOORE, F. (1953), Moneylenders and Co-operators in India, *Economic Development and Cultural Change*, Vol. 2, pp. 139-159.
- MORELAND, W. H. (1923), From Akbar to Aurangzeb, New Delhi.
- MORGAN J. (1961), Household Decision-Making, in: *Foote, N. (ed.), Household Decision-Making, Consumer Behavior, Vol. IV, New York. pp. 81-122.*
- MÜLLER, H. P. (1992), Landnutzungssystem in Bangladesh, Tausch- und Nutzungsstrategien zur Existenzsicherung, (*Sozialökonomische Schriften zur Ruralen Entwicklung, Bd. 103*), Aachen.

- NABI, I., N. HAMID, & S. ZAHID (1986), *The Agrarian Economy of Pakistan, Issues and Policies*, Karachi, Oxford, New York, Delhi.
- NABLI, M., & J. NUGENT (1989), The New Institutional Economics and its Applicability to Development, *World Development*, Vol. 17, pp. 1333-1347.
- NASEEM, M. (1986), Credit Availability and the Growth of Small Farms in the Pakistan's Punjab, in: *Ali, K. (ed.), Pakistan: The Political Economy of Rural Development*, Lahore.
- NASEEM, S. M. (1973), Mass Poverty in Pakistan: Some Preliminary Findings, *Pakistan Development Review*, Vol. XVII, pp. 317-360.
- NASH, JR. F. (1950), The Bargaining Problem, *Econometrica*, Vol. 1, pp. 155-162.
- NASIR, M., & K. HYDER (1991/92), *Economics of Pakistan*, Lahore.
- NAYAR, C. (1982), *Finance Corporations*, Institute for Financial Management and Research, Madras.
- NAYAR, C. (1992), Strengths of Informal Financial Institutions: Examples from India, in: *Adams, D., & D. Fitchett (eds.), Informal Finance in Low-income Countries*, Boulder, San Francisco, Oxford, pp. 195-208.
- NETTING, R., & R. WILK (1984), Households: Changing Forms and Functions, in: *Netting, R., Wilk, & E. Arnould (eds.), Households, Comparative and Historical Studies of the Domestic Group*, Berkeley, Los Angeles, London.
- NORTH, D. C. (1981), *Structure and Change in Economic History*, New York.
- NORTH, D. C. (1984), Transaction Costs, Institutions, and Economic History, *Zeitschrift für die gesamte Staatswissenschaft*, Vol. 140, pp. 7-17.
- NORTH, D. C. (1986), Institutions and Economic Growth, a Historical Introduction, Paper presented at the Conference on the Role of Institutions in Economic Development, Cornell University, Ithaca, N.Y.
- NUGENT, J., & R. WALTHER (1982), Short-run Changes in Rural Income Inequality: A Decomposition Analysis, *Journal of Development Studies*, Vol. 18, pp. 239-269.
- NURKSE, R. (1953), *Problems of Capital Formation in Underdeveloped Countries*, Oxford.
- PADMANABHAN, P. (1988), *Rural Credit, Lessons for Rural Bankers and Policy Makers*, London.
- PASCHKE, W. (1961), *Bestimmungsgründe des persönlichen Sparens, Ein Beitrag zur ökonomischen Verhaltensforschung*, Berlin.
- PAXSON, C. (1992), Using Weather Variability to Estimate the Response of Savings to Transitory Income in Thailand, *American Economic Review*, Vol. 81, pp. 15-33.
- PERISTANY, J. (1966) (ed.), *Honour and Shame*, Chicago.
- PETER, H. (1960), *Die unterschiedlichen Auffassungen von der Wirkung des Sparen und die moderne Wachstumstheorie*, Berlin.
- PIESCH, R. (1988), The Human Labour Use Strategies in the Microregion, in: *Herbon, D. (ed.), Socio-economic Strategies of Survival in Bangladesh (Socio-economic Studies on Rural Development, Vol. 77)*, Aachen.
- PISCHKE, J. (1978), Towards an Operational Approach to Savings for Rural Developers, *Savings and Development*, Vol. II, pp. 43-55.
- PISCHKE, J. (1991), ROSCAs: State-of-the-Art Financial Intermediation, in: *Adams, D., & D. Fitchett (eds.), Informal Finance in Low-income Countries*, Boulder, San Francisco, Oxford, pp. 325-336.
- PLATTNER, S. (1989), Economic Behavior in Markets, in: *Plattner, S. (ed.), Economic Anthropology*, Stanford, pp. 209-221.
- POLANYI, K. (1966), Dahomey and the Slave Trade, An Analysis of an Archaic Economy (*American Ethnological Society, Monograph 42*), Seattle, London.

- POLLAK, R. (1985), A Transaction Cost Approach to Families and Households, *Journal of Economic Literature*, Vol. 23, pp. 581-608.
- PYATT, G., C. CHEN & J. FEI (1980), The Distribution of Income by Factor Components, *Quarterly Journal of Economics*, Vol. 95, pp. 451-473.
- QUESNAY, F. (1894), Allgemeine Grundsätze der wirtschaftlichen Regierung eines ackerbaureichenden Reiches, (*Sammlung sozialwissenschaftlicher Meister, Bd. 2*), Jena.
- QURAISHI, M. (1985), Rural Savings Mobilization in Pakistan, FAO Regional Office for Asia and Pacific, (*APRACA, Report No. 15*), Bangkok.
- QURESHI, A. (1974), Islam and the Theory of Interest with a New Chapter on Interest Free Banking, 2nd ed., Lahore.
- QURESHI, A. (1979), The Economic and Social System of Islam, Lahore.
- RAAB, G. (1966), Die Sparformen und ihre Bedeutung für die Kapitalbildung, (*Dr. Stigleitner-Schriftenreihe, Vol. 6*), Wien.
- RÄDER, C. (1988), The Rural Household Economy in the Microregion, in: *Herbon, D. (ed.)*, Agrarian Reproduction in Bangladesh, Studies of Attempts to Ensure a Livelihood in a Rural Region (*Socioeconomic Studies on Rural Development, Vol. 77*), Aachen.
- RÄDER, C. (1992), Haushaltsökonomie im ländlichen Bangladesh, (*Sozialökonomische Schriften zur Ruralen Entwicklung, Bd. 97*), Göttingen.
- RÄDER, C. (1993), Private Haushalte, Definitionen, Theorien, Entwicklung eines Analysekonzeptes, (*Socioeconomic Studies on Rural Development, Vol. 99*), Aachen.
- RADHAKRISHAN, S., AND OTHERS (1952) (eds.), History of Philosophy, Vol. 1, New Delhi.
- RAE, J. (1905), New Principles of Political Economy, in: *Mixter (ed.)*, The Sociological Theory of Capital, New York.
- RANIS, G. & J. C. H. FEI (1964), A Theory of Economic Development, in: Eicher, C., & L. Witt (eds.), Agriculture in Economic Development, New York.
- RAZA, M. (1969), Two Pakistani Villages - A Study in Social Stratification, Department of Sociology, University of the Punjab, Lahore
- REDFIELD, R. (1956), Peasant Society and Culture, An Anthropological Approach to Civilization, Chicago, London, Toronto.
- RIEKEN, J. (1994), Institutionen, Kultur und Erwerbstätigkeit in Nordwest-Pakistan, Eine Studie zum institutionellen Wandel im nicht-landwirtschaftlichen Erwerb (*Sozialökonomische Schriften zur Ruralen Entwicklung, Bd. 107*), Aachen.
- ROSCHE, W. (1906), Grundlagen der Nationalökonomie, 24. Aufl., Stuttgart, Berlin.
- ROSENZWEIG, M. (1988), Risk, Implicit Contracts, and the Family in Rural Areas of Low Income Countries, *Economic Journal*, Vol. 98, pp. 1148-1170.
- ROZENTHAL, F. (1967), The Muqaddimah: An Introduction to History by Ibn Khaldun, London.
- SAEED, K. (1966), Rural Women's Participation in Farm Operations, Faisalabad Agricultural University, Faisalabad.
- SAHLINS, M. (1972), Stone Age Economics, Chicago, New York.
- SAKUNTHASATIEN, S. (1988), Self-help Groups in Thailand, APRACA, *Asia-Pacific Rural Finance*, Vol. 2, pp. 21-28.
- SANDERATNE, N. (1992), Informal Finance in Sri Lanka, in: *Adams, D., & D. Fitchett (eds.)*, Informal Finance in Low-income Countries, Boulder, San Francisco, Oxford.
- SCHMIDT, R. & E. KROPP (1987), Rural Finance, Guiding Principles, (*Rural Development Series*), Eschborn.

- SCHMÖLDERS, G. (1966), *Psychologie des Geldes*, Hamburg.
- SCHRIEDER, G. (1989), *Informal Financial Groups in Cameroon: Motivation, Organization and Linkages*, Unpublished M.S. Thesis, Columbus, Ohio State University, Ohio.
- SCHRIEDER, G., & C. CUEVAS (1992), *Informal Financial Groups in Cameroon*, in: *Adams, D., & D., Fitchett (eds.)*, *Informal Finance in Low-income Countries*, Boulder, San Francisco, Oxford, pp. 43-56.
- SCOTT, J. (1976), *The Moral Economy of the Peasant, Rebellion and Subsistence in Southeast Asia*, London.
- SEABRIGHT, P. (1991), *Identifying Investment Opportunities for the Poor: Evidences from the Livestock Market in South India*, *Journal of Development Economics*, Vol. 37, pp. 327-350.
- SEIBEL, H., & M. MARX, (1987), *Dual Financial Markets in Africa*, Saarbrücken.
- SEIBEL, H., & U. PARHUISP (1992), *Linking Formal and Informal Finance: An Indonesian Example*, in: *Adams, D., & D. Fitchett (eds.)*, *Informal Finance in Low-income Countries*, Boulder, San Francisco, Oxford.
- SEN, A. (1984), *Resources, Values and Development*, Oxford.
- SHAHID, A. (1983), *The Role of Commercial Bank in Fostering Savings and Investment in Pakistan*, *Journal of Bankers in Pakistan*, Vol. 49, pp. 16-25.
- SHARMA, R. P. (1982), *Investment in Livestock in Nepal*, in: *Fine, J., & R. Lattimore (eds.)*, *Livestock in Asia: Issues and Policies*, International Development Research Centre, Ottawa.
- SHEFRIN, H. M., & R. H. THALER (1988), *The Behavioral Life Cycle Hypothesis*, *Economic Enquiry*, Vol. 26, pp. 609-639.
- SHIBLI, M. (1986), *Investment Opportunities, Household Saving, and Rates of Return on Investment: A Case Study of Bangladesh Agriculture*, Boston University, Boston.
- SHIPTON, P. (1992), *The Rope and the Box: Group Savings in The Gambia*, in: *Adams, D., & D. Fitchett (eds.)*, *Informal Finance in Low-income Countries*, Boulder, San Francisco, Oxford.
- SIDDIQI, S. A. (1948), *Public Finance in Islam*, Lahore.
- SINGH, I. (1990), *The Great Ascent: The Rural Poor in South Asia*, Baltimore, Md.
- SMITH, A. (1812), *An Inquiry into the Nature and Causes of the Wealth of Nations*, London.
- SMITH, A. (1961), *The Wealth of Nations*, Vol. 1 & 2, New York.
- SOCHER, K. (1977), *Sparen aus wirtschaftstheoretischer und wirtschaftspolitischer Sicht*, in: *Stigleitner, H. (Hrsg.)*, *Determinanten des Sparens*, (*Dr. Stigleitner Schriftenreihe, Vol. 17*), Wien, S. 81-94.
- SPIJKERS-ZWART, S. (1980), *The Household and 'Householding': Some Conceptual Considerations*, in: *Presvelou, C., S. Spijkers-Zwart, (eds.)*, *The Household, Women and Agricultural Development*, (*Miscellaneous Papers, Vol. 17*), Wageningen.
- STEINER, H. (1977), *Sparen aus psychologischer Sicht*, in: *Stigleitner, H. (Hrsg.)*, *Determinanten des Sparens*, (*Dr. Stigleitner Schriftenreihe, Vol. 17*), Wien, S. 105-114.
- STOCKHAUSEN, J. VON (1987), *Islamization of Banking: What does it mean for Agricultural Financing? - The Case of Pakistan*, *Verfassung und Recht in Übersee*, Vol. 20, pp. 59-69.
- STRUTZ, C. (1994), *Kleinindustrie und Ländliche Entwicklung, Existenzbedingungen und Entwicklungsmöglichkeiten am Beispiel von zwei Regionen in Pakistan* (*Sozialökonomische Schriften zur Ruralen Entwicklung, Bd. 110*), Kiel.

- SWIFT, M. G. (1964), Capital, Saving and Credit in a Malay Peasant Economy, in: *Firth, R. & B. S. Yamey (eds.), Capital, Saving and Credit in Peasant Societies*, London.
- TAWNEY, R. (1926), *Religion and the Rise of Capitalism*, New York.
- THE ECONOMIST INTELLIGENCE UNIT (1993), *Country Profile, Pakistan and Afghanistan Annual Survey of Political and Economic Background*, London.
- THE PAKISTAN ECONOMIST, (1977-79), Various issues, Karachi.
- THE QURAAAN, (1977), Translated by *N.J. Dawood*, Middlesex.
- TOMFORT, E. (1990), *Frauenförderung im ländlichen Nordpakistan (Institute of Rural Development, Discussion Paper, No. 8)*, Göttingen.
- TSCHAMMER-OSTEN, B. (1973), *Der private Haushalt in einzelwirtschaftlicher Sicht, Prolegomena zur einzelwirtschaftlichen Dogmengeschichte und Methodologie*, Berlin.
- UNITED NATIONS (1986), *Savings for Development: Report on the Third International Symposium on the Mobilization of Personal Savings in Developing Countries*, New York.
- UPHOFF, N. (1986), *Local Institutional Development*, West Hartford.
- UZAIR, M. (1978), *Interest Free Banking*, Karachi.
- VISARIA, P. (1980), *Poverty and Living Standards in Asia: An Overview of the Main Results and Lessons of Selected Household Surveys, Living Standard Measurement Study, (World Bank Working Paper 2)*, Washington, D. C.
- VOGEL, R. (1988), *Guatemala: Informal Finance*, Unpublished Study Prepared for the World Bank, Washington, D.C.
- VOIGT, F. (1950), *Der volkswirtschaftliche Sparprozeß*, Berlin.
- WAI, U. (1992), *What Have We Learned About Informal Finance in Three Decades?* in: *Adams, D., & D. Fitchett (eds.), Informal Finance in Low-income Countries*, Boulder, San Francisco, Oxford.
- WALKER, T., & J. RYAN (1990), *Village and Household Economies in India's Semi-Arid Tropics*, Baltimore, Md.
- WEBER, M. (1950), *The Protestant Ethic and the Spirit of Capitalism*, London.
- WEBER, M. (1962), *The Religion of India, The Sociology of Hinduism and Buddhism*, Glencoe.
- WEERASORIA, W. S. (1973), *The Natukottai Chettiar Merchant Bankers in Ceylon*, Colombo.
- WILLIAMSON, O. (1975), *Markets and Hierarchies*, New York.
- WILLIAMSON, O. (1979), *Transaction-Cost Economics: The Governance of Contractual Relations*, *Journal of Law and Economics*, Vol. 22, pp. 223-261.
- WILLIAMSON, O. (1981), *The Economics of Organization: The Transaction Cost Approach*, *American Journal of Sociology*, Vol. 87, pp. 548-577.
- WONG, D. (1984), *The Limits of Using Household as a Unit of Analysis*, in: *Smith, J., I. Wallerstein & H. Evers (eds.), Households and the World-Economy*, California.
- WORLD BANK, (1989), *World Development Report 1989*, Washington.
- WU, D. (1974), *To Kill three Birds with One Stone: The Rotating Credit Associations of the Papua New Guinea*, *American Ethnologist*, Vol. 1, pp. 565-583.
- XENOPHON (1956), *Oikonomikos*, in: *Bux, E. (ed.), Die Sokratischen Schriften*, Stuttgart.
- YOUSSEF, N. (1974), *Muslim Women and Agricultural Production, Paper Presented on Prospects for Growth in Rural Societies, With and Without Active Participation of Women*, Princeton.
- YUNUS, M. (1988), *Group-based Savings and Credit for the Rural Poor*, Dhaka.

- ZAIDI, S. (1985), Rural Savings Mobilization in Pakistan, *Journal of the Institute of Bankers in Pakistan*, Vol. 51, pp. 12-21.
- ZELDES, S. (1989), Consumption and Liquidity Constraints: An Empirical Investigation, *Journal of Political Economy*, Vol. 97, pp. 305-347.

APPENDIXES

Table 35: Domestic and Foreign Financial Institutions in Pakistan
(As on 31-3-1994)

A. Nationalized Scheduled Banks	
1. First Women Bank Ltd.	2. Habib Bank Ltd.
3. National Bank of Pakistan	4. United Bank Ltd.
5. Habib Credit and Exchange Bank Ltd. (a subsidiary of HBL)	
B. Private Scheduled Bank	
1. Bank Commerce Al-Habib Ltd.	9. National Development Finance Corporation
2. National Investment Trust	10. Banker's Equity Limited
3. Equity Participation Fund	11. Regional Development Finance Corporation
4. Pak-Libya Holding Company	12. Small Business Finance Corporation
5. Pak-Kuwait Investment Company	13. House Building Finance Corporation
6. Saudi-Pak Industrial and Agricultural Investment Corporation	14. Agricultural Development Bank of Pakistan
7. Pakistan Industrial Credit and Investment Corporation	15. National Development Leasing Corporation
8. Industrial Development Bank of Pakistan	16. Federal Bank for Cooperative Bank
	17. Punjab Provincial Cooperative Bank
C. Investment Bank	
1. Crescent Investment Bank	7. Islamic Investment Bank
2. First International Investment Bank	8. Asset Investment Bank
3. ATLAS BOT Investment Bank	9. Altowfeck Investment Bank
4. Security Investment Bank	10. Al-Faysal Investment Bank
5. Fidelity Investment Bank	11. Citi Corp Investment Bank (Pak) Ltd.
6. Prudential Investment Bank	12. Frenklin Investment Bank Ltd. (not regulating)
D. Foreign Banks	
1. American Express Bank Ltd.	12. Rupali Bank Ltd.
2. ABN AMRC Bank N. V.	13. Standard Chartered Bank
3. Bank of America (National Trust and Saving Association)	14. Emirates Bank International Limited
4. Bank of Oman Limited	15. International Finance Investment and Commerce Bank Ltd.
5. Banque Indosuez	16. Doha Bank Limited
6. The Bank of Tokyo Limited	17. Massraf Faysal Al-Islami of Bahrain
7. Citibank N. A.	18. Habib Bank A.G. Zurich
9. Deutsche Bank A. G.	19. Pan African Bank Ltd.
10. Anz Grindlays Bank P.I.C	20. Société Générale, the French and International Bank
11. The Hongkong & Shanghai Banking Corporation Ltd.	21. Al-Baraka Islamic Investment Bank

Source: Statistical Year Book 1995

Table 36: Distribution of Financial Institutions in the Rural Areas by Type of Institutions (1970, 1975 - 1982)

Year ending June	Commercial Banks	Cooperative Credit Societies	Other Thrift Institutions (Post Offices, National Saving Centers & ADBP)	Total
1970	1173	11922	6635	19730
1975	1800	11138	6990	19928
1976	2021	11813	7034	20868
1977	2382	11148	7416	20946
1978	2501	12592	7679	22772
1979	2574	15389	8204	26167
1980	2617	19729	8759	31105
1981	2725	20620	8859	32204
1982	2729	25231	9959	37919

c) Density ratio: Rural Population 1982/Total No. of rural institutions 1982 = 2163

d) Density ratio in urban areas in 1982 = 1508.0

Source: QURASHI (1985)

Table 37: Number and Distribution of Financial Institutions by Rural and Urban Location, 1970, 1975-82

Year ending June	Number of Institutions		Total (C = A+B)
	A = Rural	B = Urban	
1970	19,730	7,454	27,184
1975	19,928	9,117	29,045
1976	20,868	10,000	30,868
1977	20,946	10,483	31,429
1978	22,772	11,271	34,043
1979	26,167	12,399	38,566
1980	31,105	13,965	45,070
1981	32,204	14,492	46,696
1982	37,919	16,085	54,004

Source: QURAIISHI (1985:295)

Table 38: Distribution of Total Monthly Receipts Utilized by Household for Expenditure and Savings for all Groups (Pakistan & Punjab)

M.H.I.G (Rs.) All Income Groups	A.M.I.H (Rs.)	Consumption		Gross Savings			Net Savings (%)
		Total	Consumption Exp. etc.	Purchase of Jewelry	Purchase of Assets	Uncon- sumed Goods Deposit	
1	2	3	4	5	6	7	8
<u>Pakistan:</u>							
Total	1031.99	97.7	86.5	0.3	3.1	7.8	7.6
Rural	835.65	98.7	87.2	0.3	4.0	7.2	3.8
<u>Punjab:</u>							
Total	955.87	99.5	85.6	0.4	4.7	8.8	6.3
Rural	827.87	99.0	85.2	0.4	5.5	7.8	4.8

Source: QURAIISHI (1985:302)

MHIG = Monthly Household Income Groups

AMIH = Average Monthly Income per Household (including taxes paid)

Table 39: Distribution of Total Monthly Receipts Utilized by H.H for Expenditure and Savings by Income Group (1979)

(Punjab rural) (Rs.)

M.H.I.G (Rs.)	Total	Percentage of Total Receipts Utilized Towards Consumption Expenditure	Percentage of Total Receipts Utilized Towards Gross Savings	Net Savings
1	2	3	4	5
All Groups	99.0	83.5	13.7	4.8
Upto 300	101.8	95.3	4.7	-18.6
301 - 400	101.0	94.5	6.0	-12.3
401 - 500	101.6	92.1	8.7	-7.3
501 - 600	102.7	92.8	9.1	-5.8
601 - 800	101.5	90.0	10.0	-1.8
801 - 1000	100.2	86.1	13.0	2.1
1001 - 1500	99.0	83.3	13.3	6.4
1501 - 2000	94.7	78.6	14.6	10.7
2001 - 2500	95.1	69.7	23.2	20.0
2501 - 3000	94.1	65.7	27.1	24.1
3001 - 3500	82.7	61.0	20.1	22.6
3501 and above	93.1	55.8	33.5	38.1

Source: QURAIISHI (1985:305)

MHIG = Monthly Household Income Groups

Table 40: Foreign Remittances of Rural Areas and their Investment

(Million Rs.)

Year	Foreign Remittances (Million Rs.)	Share of Rural Areas in Foreign Remittances (presumed 2/3 of total remittances) (Million Rs)	Agri. and Commercial Investment i.e., 1.5% of Foreign Remittances of Rural Areas. (Million Rs.)	Financial Assets Investment i.e., 1.5% of Foreign Remittances of Rural Areas. (Million Rs.)	Real Estate Investment i.e., 22% of Foreign Remittances of Rural Areas. (Million Rs.)	Total Investment i.e., 35% of Foreign Remittances of Rural Areas. (Million Rs.)
1974 -1975	2271	1514	174.1	22.70	333.08	529.88
1975 - 1976	3494	2329	267.83	34.93	512.38	815.14
1976 - 1977	5845	3897	448.15	58.45	857.34	1363.94
1977 - 1978	12135	8090	930.35	121.35	1779.80	2831.50
1978 - 1979	14812	9875	1135.62	148.12	2172.50	3456.24
1979 - 1980	18375	12250	1408.75	183.75	2695.06	4287.56
1980 - 1981	22196	14796	1701.77	221.97	3255.56	5179.30
1981 - 1982	25690	17127	1969.60	256.90	3767.94	5994.44

Source: QURAIISHI (1985:312)

Table 41: Total Investment from the Foreign Remittances of Rural Areas as Percentage of Non-Farm & Farm Incomes
(Million Rs.)

Year	Rural Income (Million Rs.)	Total Investment from the foreign remittances of Rural Areas (Million Rs.)	Total Investment from the foreign remittances of rural areas as percentage of rural income (%)	Share of Agri. Income in Gross Domestic Product (GDP) (Million Rs.)	Total Investment from the foreign remittances of rural areas as percentage of agri. income's share in (GDP). (%)
1974 -1975	46010.20	529.88	1.15	33533	1.58
1975 - 1976	52321.17	815.14	1.55	38338	2.12
1976 - 1977	59254.07	1363.94	2.30	43686	3.12
1977 - 1978	64217.44	2831.50	4.40	49522	5.71
1978 - 1979	77102.37	3456.24	4.48	57497	6.01
1979 - 1980	88115.65	4287.56	4.86	66100	6.48
1980 - 1981	98929.93	5179.30	5.23	74629	6.94
1981 - 1982	117668	9149.11	7.77	89311	10.24

Source: QURAISHI (1985:313)

Rural Income = Non-Farm Income
Agricultural Income = Farm Income

Table 42: Rural Income, Share of Agricultural Income in Gross Domestic Product and Investment from the Foreign Remittances of Rural Areas

Year	Rural Income (Million Rs.)	Agri. & Commercial investment from foreign remittances of Rural Areas as percentage of Rural Income. (%)	Financial assets investment from foreign remittances of rural areas as % of Rural Income (%)	Real Estate Investment from foreign remittances of rural areas as percentage of Rural Income	Share of Agri. Income in GDP (Million Rs.)	(Rs.)		
						Agri. & Commercial investment from foreign remittances of rural areas as % of Agri. Income's share in GDP (%)	Financial Assets investment from foreign remittances of rural areas as % of Agri. Income's share in GDP (%)	Real Estate investment from the foreign remittances of the rural areas as % of Agri. Income's share in GDP. (%)
1974 -1975	46010.20	0.37	0.04	0.72	33533	0.51	0.06	0.99
1975 - 1976	52321.17	0.51	0.06	0.99	38333	0.69	0.05	1.22
1976 - 1977	59254.07	0.75	0.09	1.44	43686	1.02	0.13	1.96
1977 - 1978	64217.44	1.44	0.18	2.77	49522	1.87	0.24	3.59
1978 - 1979	77102.37	1.47	0.19	2.81	57497	1.97	0.25	3.77
1979 - 1980	88115.65	1.59	0.20	3.05	66100	2.13	0.27	4.07
1980 - 1981	98929.93	1.72	0.22	3.29	74629	2.28	0.29	4.36
1981 - 1982	117668.75	2.55	0.33	4.88	89311	3.36	0.43	6.43

Source: QURAIISHI (1985:314)

Rural Income = Non-Farm Income
Agricultural Income = Farm Income

Table 43: Investment Made for Different Purposes by All Farm Households
(Amount invested during the last 12 months)

Million in Rs.)

Type of Household	Land Improve-ment	Horti-culture	Farm building	Tubewell	Well/BAND	Tractor	Tractor Driven other implements	Traditional Implements & Bullock Cart
1	2	3	4	5	6	7	8	9
Household owning/ Operating Land total	1053.5	127.6	400.2	574.9	40.0	1714.0	282.0	148.3
Owner non-operator	75.9	5.7	23.7	39.9	1.4	91.5	12.1	3.7
Farm H.H. Total	977.6	121.9	376.5	535.0	38.7	1622.6	269.9	144.7
Under 0.5 ha. to under 5.0 ha.	320.9	20.5	136.7	145.3	13.6	270.6	32.6	74.1
5.0 ha. to under 10.0 ha.	207.9	19.3	76.0	137.8	7.5	350.6	42.1	32.7
10.0 hec. to under 20.0 ha.	163.5	21.7	61.3	104.6	7.5	439.2	62.7	16.2
20.0 ha. to above 60 ha.	285.3	60.5	102.5	147.4	10.0	562.1	132.4	21.6

Source: QURAIISHI (1985:315)

Table 44: Percentage Distribution of Expenditure per Household on Miscellaneous Items by Income Groups 1990/91

Monthly expenditure on miscl. items	Monthly income groups (Rs.)											
	All groups	Upto 1.000	1001 to 1500	1501 to 2000	2001 to 2500	2501 to 3000	3001 to 3500	3501 to 4000	4001 to 5000	5001 to 6000	6001 to 7000	7000 and more
1	2	3	4	5	6	7	8	9	10	11	12	13
Average expend.	288.76	127.02	124.02	171.07	210.32	320.03	309.82	359.19	537.75	490.23	655.88	1100.51
% of monthly exp:	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1) Durable	.91	.46	.55	.58	.92	.49	1.17	1.14	1.13	1.20	.57	1.24
2) Non-durable	28.24	36.67	25.39	25.99	26.59	23.59	30.31	26.43	22.72	31.82	28.66	34.21
Medical care	26.70	32.96	36.88	34.19	32.34	26.49	27.94	23.65	18.60	28.59	28.64	17.901
Other misc. exp.*	44.13	29.88	37.16	39.22	40.14	49.41	40.56	48.76	57.53	38.38	42.12	46.62

* Other miscellaneous expenditure includes religious functions, marriage, mourning, litigation, gifts, charity, etc.

Source: HIES 1986/87-1990/1991

Table 45: Distribution of total monthly receipts utilized by households for expenditure and savings by income groups (rural areas), 1990/91

MHIG*	AMI/H.H including taxes	Average monthly disposable income /H.H	Average monthly other receipt /H.H.	Total monthly receipt /H.H.	Percentage total receipt utilized towards:				Deposits in post offices, banks, insur. premium, etc; loans given Rs.
					Consump tion expend.	Liquidat- ion of liabilities and payment of interest	Purchase of jewellery	Purchase of assets	
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1	2	3	4	5	6	7	8	9	10
All groups	2493	2931	64	100.00	83.36	1.45	9.47	1.33	2.57
Upto - 1000	728	709	-13	100.00	191.38	8.02	-1.66	-6.74	12.25
1001 - 1500	1260	1257	43	100.00	112.61	1.44	9.90	.86	.52
1501 - 2000	1740	1735	70	100.00	104.77	1.47	6.17	1.92	.13
2001 - 2500	2237	2234	16	100.00	101.36	1.57	8.17	-1.25	2.65
2501 - 3000	2730	2727	96	100.00	93.56	.66	9.48	.32	.90
3001 - 3500	3247	3241	833	100.00	73.11	.85	11.99	20.50	1.25
3501 - 4000	3760	3754	-133	100.00	89.08	.68	22.63	-3.59	2.39
4001 - 5000	4455	4448	-18	100.00	81.27	1.34	5.80	-.66	1.48
5001 - 6000	5441	5432	-52	100.00	73.19	.50	6.66	-1.13	1.23
6001 - 7000	6489	6482	-351	100.00	75.79	3.04	13.56	-2.84	4.37
7001- above	14399	14272	-216	100.00	45.60	1.54	9.17	-1.25	5.28

* MHIG = Monthly household income of groups

AMI = Average monthly income

Source: HIES 1986/87-1990/1991

Table 46: Different Saving Schemes Offered by Saving Institutions

Saving Schemes	Amount/conditions	Duration	Rate of Profit
1. The Deposit Growth Certificate	Multiple of Rs. 100	at least one year	No limit, the longer the period, the higher the profit
2. The Deposit Growth Insurance Certificates	Any amount up to 20,000, in multiples of Rs. 100, below age of 50 years.	1-11 years	more than tripled in eleven years
3. The Special 5-years Fixed Deposit Account	Multiples of Rs. 100	1-5 years	For five years respectively 10.5%, 11%, 11.75%, 12.25%, 12.75%, p.a.
4. All Time Income Account	Saving in monthly installments of Rs. 50	66-108 months	For 66 months, Rs. 100 p.m. and for 108 months Rs. 212 p.m. for ever
5. Monthly Income Plan	Rs. 1000 or more	3-5 years	1.1% monthly after initial 6 months
6. Family Fixed Deposit Account Scheme	Not fixed	5 years	11% p.a. with loan facility
7. Foreign Currency Account Scheme	---	---	---
8. Savings Bank Account	Not fixed	Not fixed	9% without chequing facilities and 7% with chequing facilities
9. Fixed and Term Deposits	Not fixed	3 months-5 years	9% for 3 months 12.75% for 5 years
10. School Banking	Not fixed	Not fixed	Not fixed

Source: Economic Bulletin Asia and Pacific Bangkok (1975)

Table 47: Gross/Net Investment of National Saving Schemes (Million rupees)

Description	1986-87		1987-88		1988-89		1989-90		1990-91	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
A. Total of Certificates	26135		36099	15674	35690		39779		33589	9288
	12135				12937		16504			
B. Total Accounts			19618	7531					20037	- 7380
	17798	4675			22825	6968	25259	1187		
Total of A+B										
- NSO			34391	16365	39490	15950			40040	2858
- Post Offices	27985		4443	1211	5405	1484	47411		6717	- 191
- Banks	11099		16883	5629	13620	2471	14462		6869	- 759
	3192	579					6089	639		
	12756	5132					11538	2590		
C. Prize Bonds (Rs. 50)			1394	- 61	1184	- 24			1065	194
D. Postal Life Insurance	1526	496	515	368	451	346	1148	177	---	---
Total of A+B+C+D	327	246	74336	24604	71717	21673	495	390	65375	4967
	60724	20793					76962			
							20386			

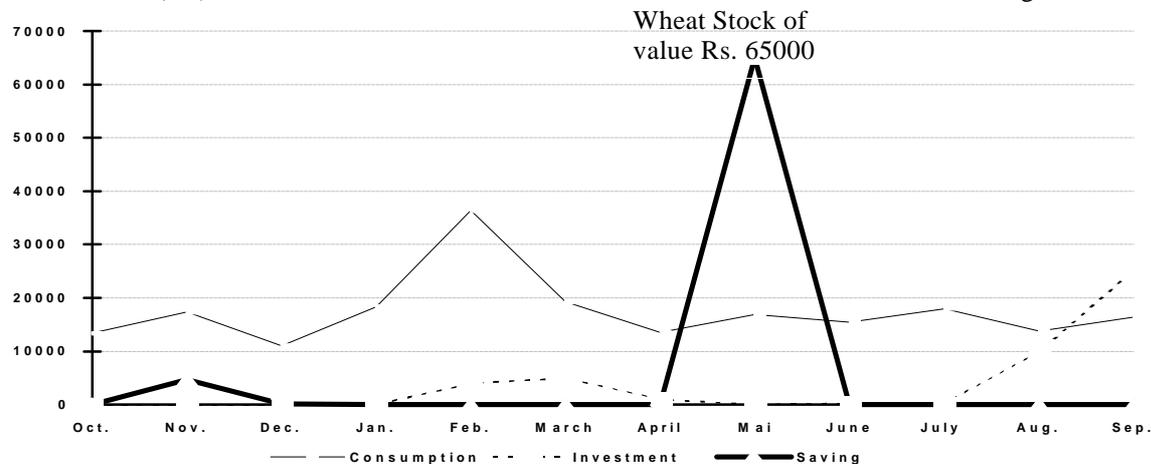
Source: Directorate of National Saving Islamabad
Pakistan Statistical Year Book 1991

Diagram 24: Graphical representation of the income distribution in twelve case study households

Case 1

Total income (net) = 551150

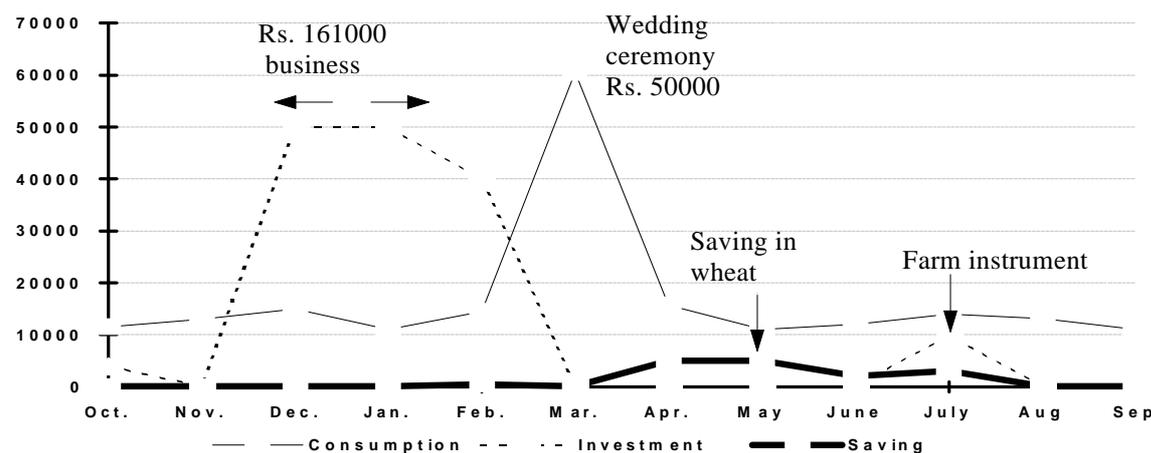
Total saving = 71750



Case 2

Total income (net) = 462760

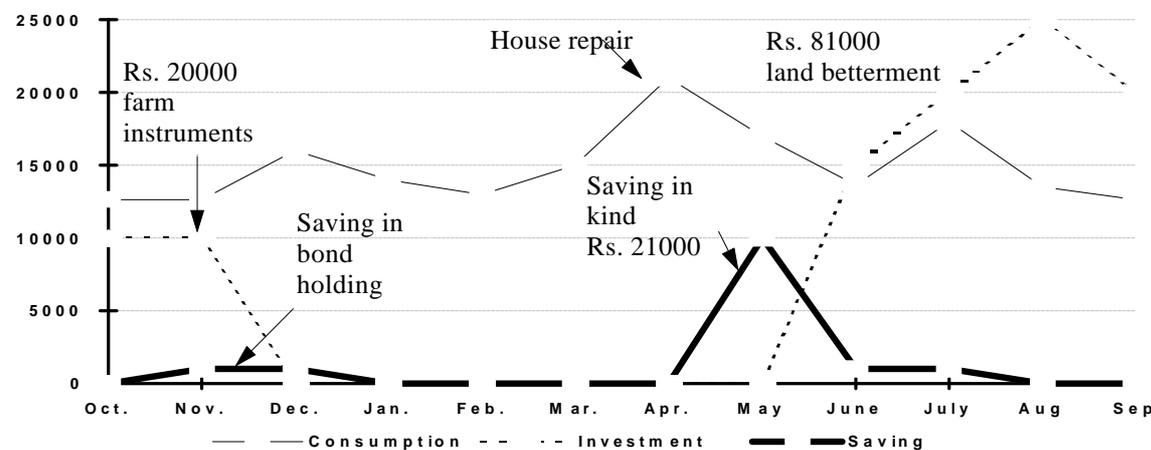
Total saving = 17000



Case 3

Total income (net) = 347300

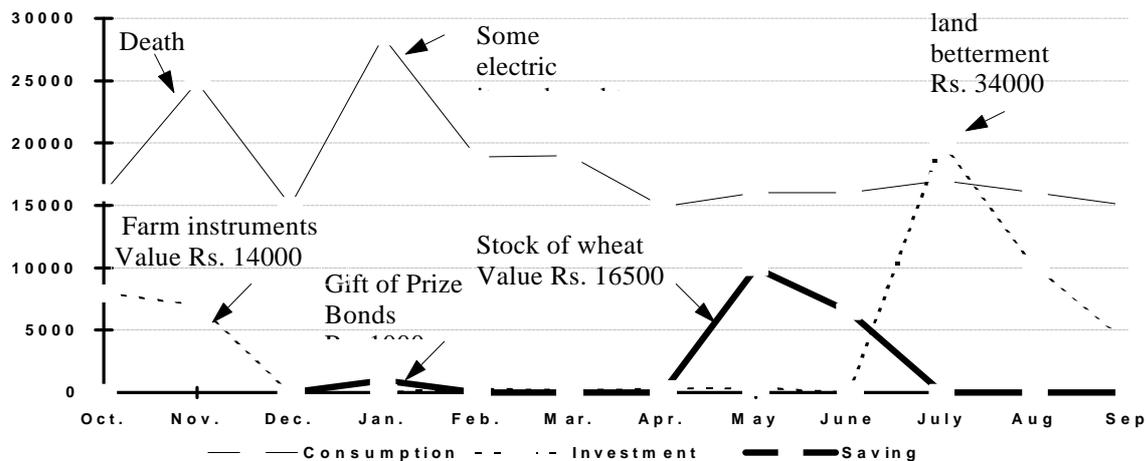
Total saving = 23000



Case 4

Total income (net) = 277250

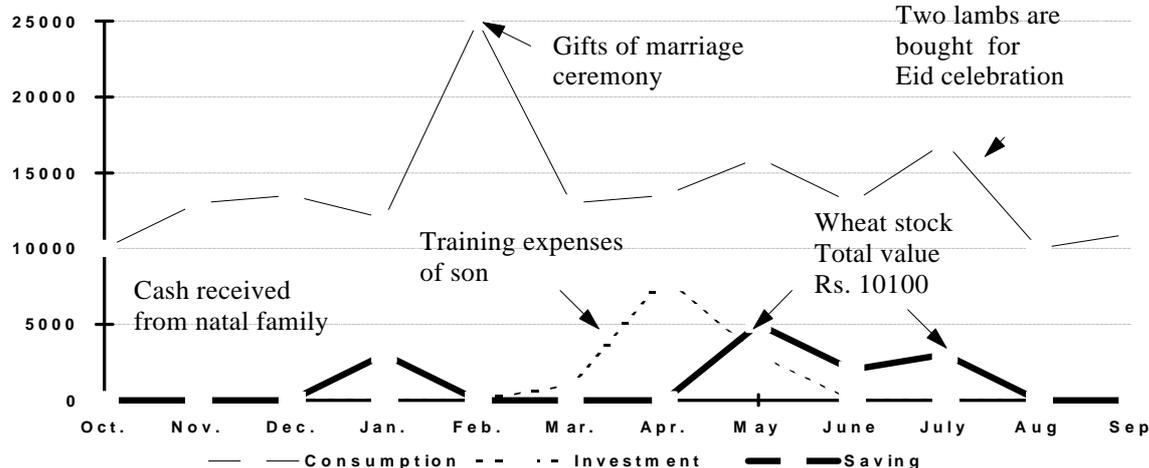
Total saving = 27500



Case 5

Total income (net) = 195200

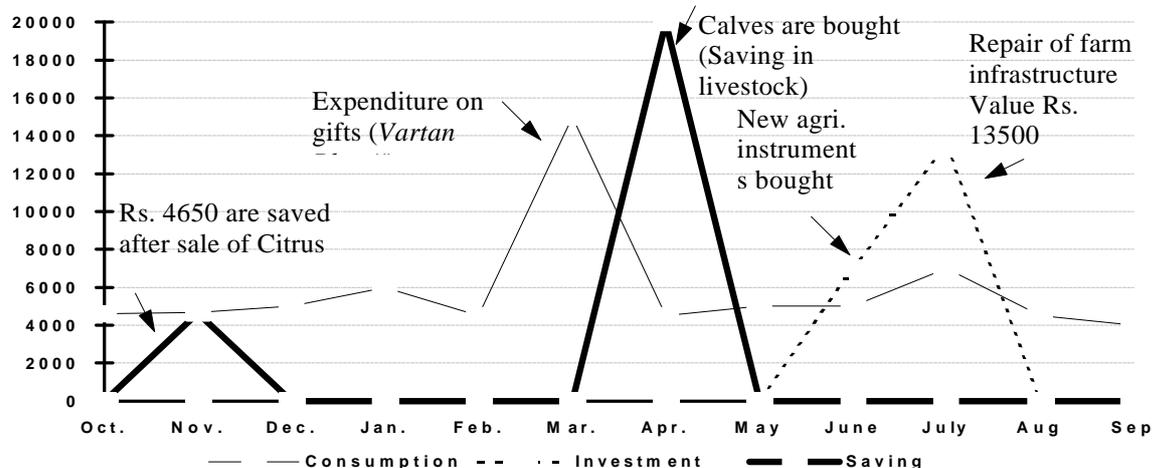
Total saving = 12830



Case 6

Total income (net) = 191000

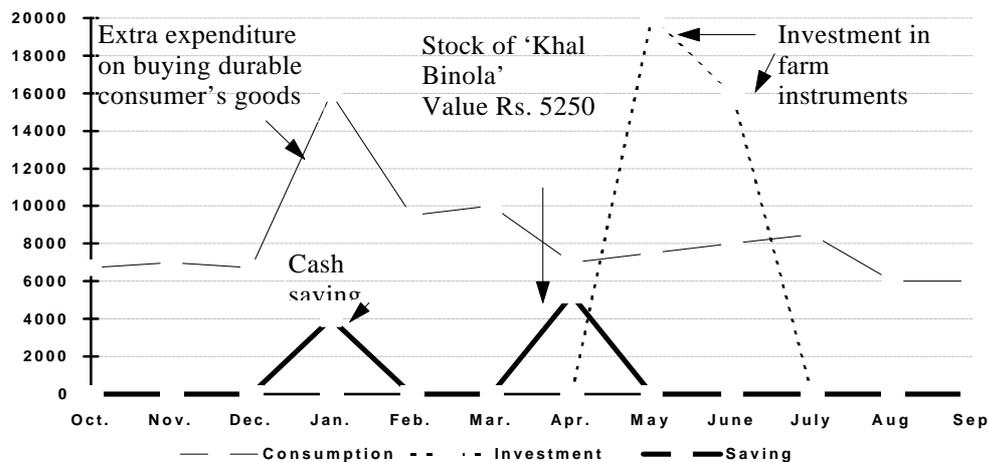
Total saving = 24650



Case 7

Total income (net) = 151250

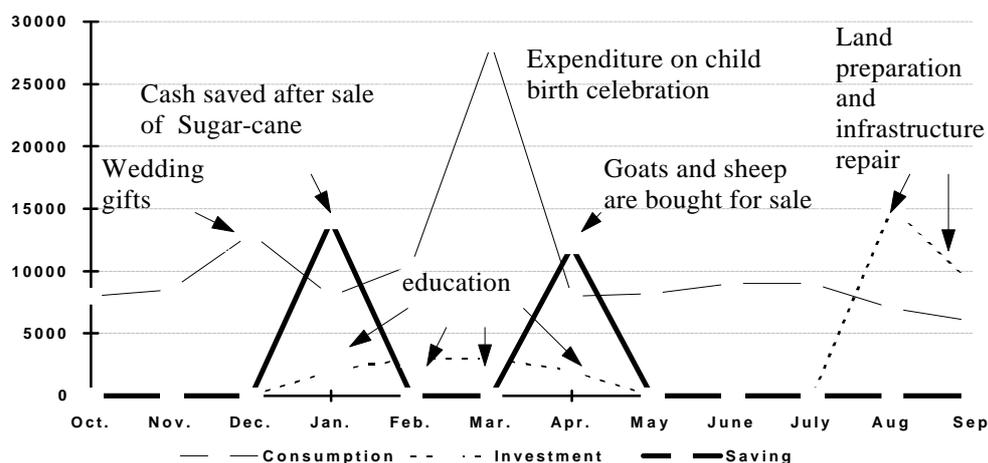
Total saving = 9250



Case 8

Total income (net) = 135910

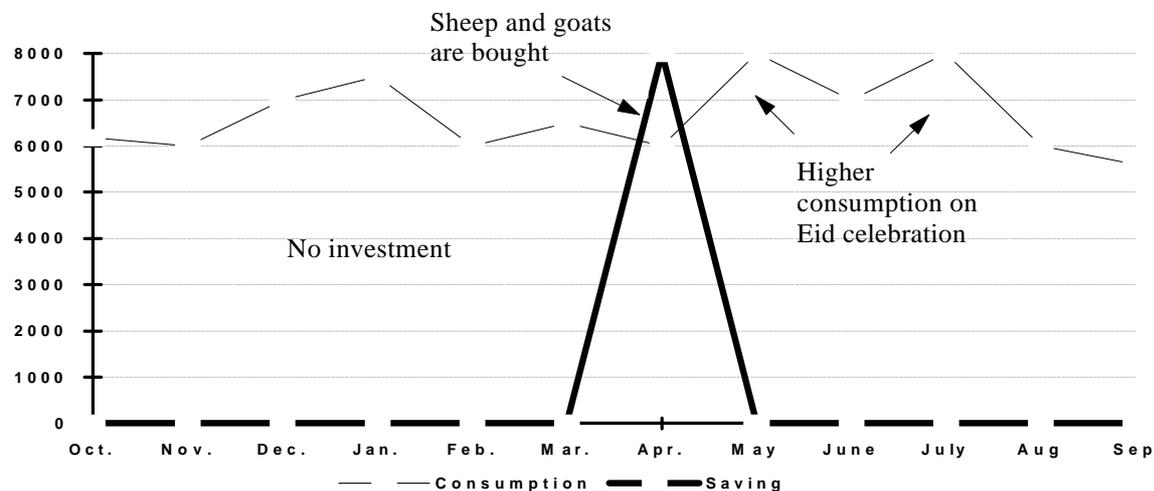
Total saving = 26042



Case 9

Total income (net) = 127460

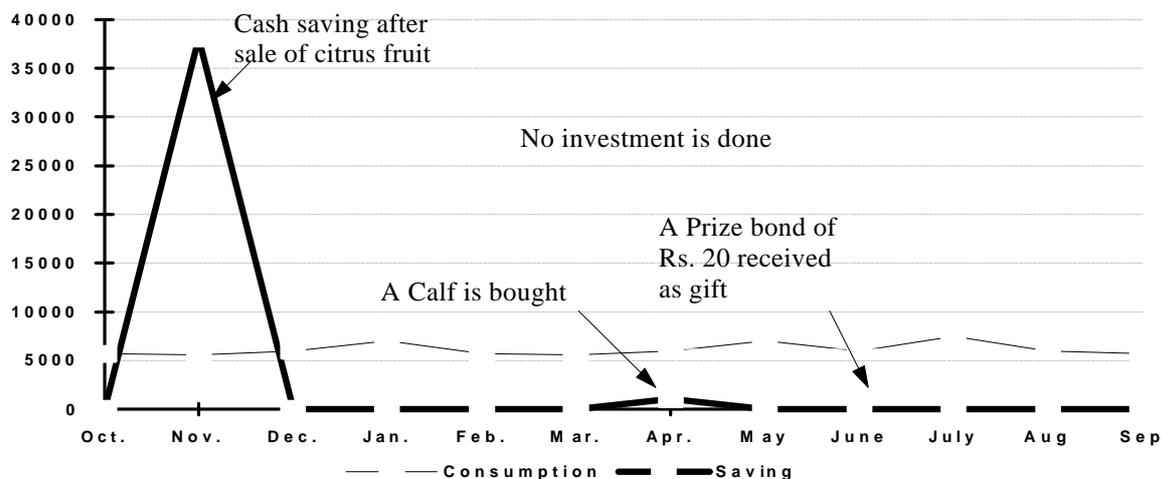
Total saving = 8000



Case 10

Total income (net) = 78150

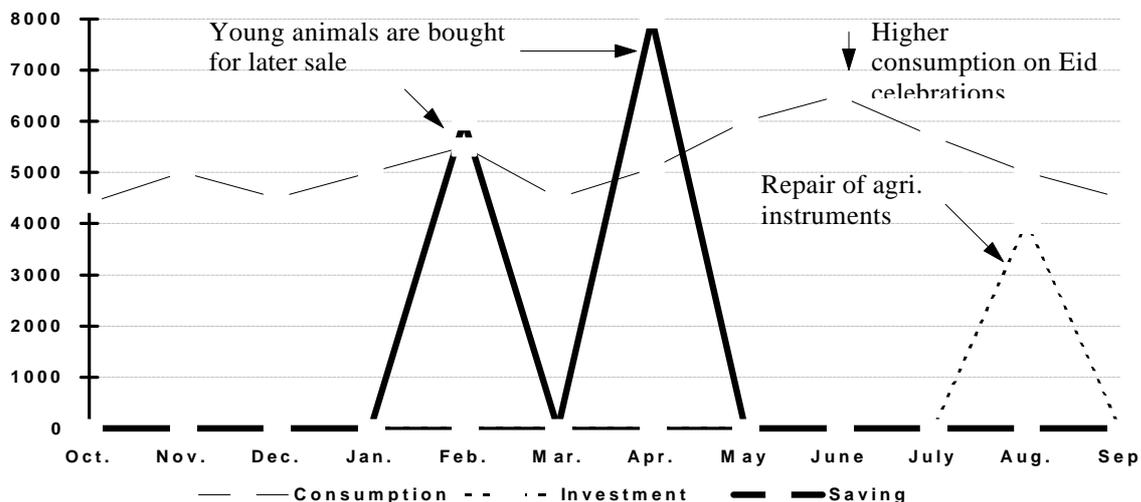
Total saving = 39142



Case 11

Total income (net) = 31402

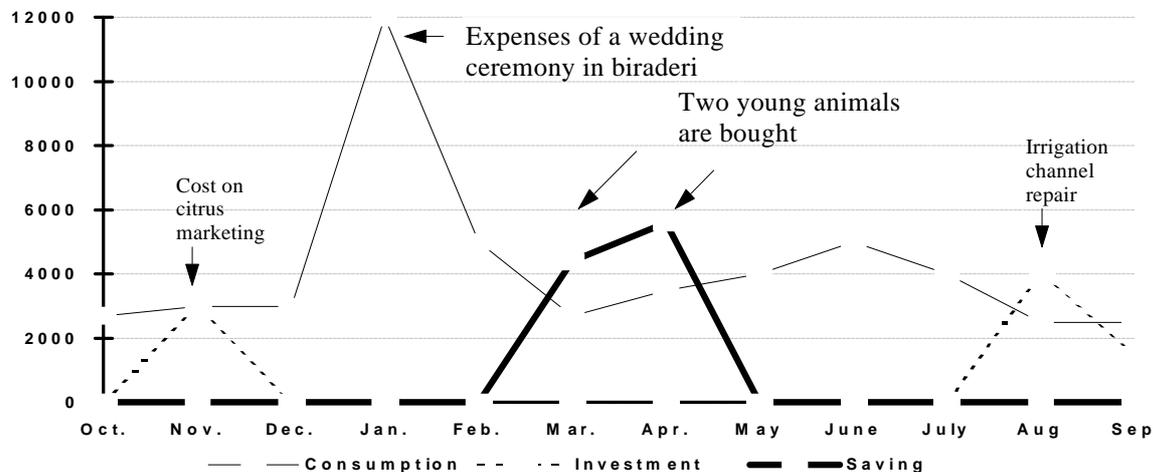
Total saving = 14000



Case 12

Total income (net) = 39058

Total saving = 10000



Source: author's own survey

Table 48: Remuneration to a Carpenter by a Landlord Household on Different Occasions

The Carpenter

	Occasions	Remuneration
1. Regular <i>Sep</i>		Wheat 2.5 maunds Citrus 10-20 kg Gur 10-15 kg Straw/Fodder 15-20 kg four times a year Usually depends upon the number of cattle he possesses and his relation with landlord
2. Engagement (son)		2-20 Rs.
3. Marriage		10-50 Rs. 1-5 kg of wheat flour 1-3 kg of Gur Meals with family for all days of ceremony
4. Birth of first child		5-50 Rs. 1-5 kg of wheat flour 1-3 kg of Gur One blanket 2 Meals with family
5. First Birthday of child		2-10 Rs. 1-5 kg of wheat flour 1-3 kg of Gur
6. Death		1-5 kg of wheat flour 1-3 kg of Gur
7. Eid		2-10 Rs.

Source: author's own survey

Table 49: Remuneration to a Barber by a Landlord Household on Different Occasion

The barber	
Occasions	Remuneration
1. Regular 'Sep'	Wheat 2.5 maunds Citrus 10-20 kg Gur 10-15 kg Straw/Fodder 15-20 kg four times a year Usually depends upon the number of cattle he possesses and his relation with landlord
2. Childbirth (son)	5-50 Rs. 1-5 kg of wheat flour 1-3 kg of Gur his wife receives mother's suit Distributes sweets and receives compensation in cash or in kind from every household i.e., 5-10 Rs 1/2 to 1 kg of wheat flour
3. Circumcision and Aqeeqa	5-100 Rs. 1-5 kg of wheat flour 1-3 kg of Gur one meal with family 20 Rs. per metallic pot used for cooking If sweets are distributed, compensation in cash and in kind from every household Shaves the head of child and receives: 1-5 kg of wheat flour 1-3 kg of Gur
4. Engagement (son)	10-100 Rs. from head of the household 5-10 Rs. from few nearest relatives 2 meals with family 20 Rs. per metallic pot used for cooking Compensation from every household, in case of sweets distribution i.e., 1/2 to 2 kg of wheat flour 1-10 Rs.
Engagement (daughter)	10-50 Rs. 2 meals with family 20 Rs. per metallic pot used for cooking compensation in cash and in kind, in case of sweets distribution to some near relatives.
5. Marriage	2-10 Rs. compensation from every household for bringing invitation of marriage Barber's wife receives 1-5 Rs. and one used suit of bride on the day of oil ceremony 10-20 Rs. for bridegroom care at second day 2-10 Rs. from nearest relatives of bridegroom 5-10 Rs. at <i>Nikah</i> ceremony 5-10 Rs. from almost all participants of marriage procession (<i>baraat</i>)

	2-20 Rs. from bride's family Meals with family till ceremony is over Charges 20 Rs. per metallic pot used for cooking Remuneration (only in case of son's marriage) after marriage ceremony as reward for his services: 5-100 Rs. 1-5 kg of wheat flour 1-3 kg of Gur one suit one blanket
6. Death	1-5 kg of wheat flour 1-3 kg of Gur Charges 20 Rs. per metallic pot used for cooking
7. Eid	2-10 Rs.
8. Mecca pilgrimage	10-50 Rs.

Source: author's own survey

Table 50: Exchange Relation in *Vartan Bhanji***Vartan Bhanji**

1. Engagement (son)	Nearest kin and family elders, usually 10-15 in number	5-100 Rs. to the groom 5-10 Rs. to <i>kammi</i>
2. Marriage (son)	Married Sister	Gold ring 100-500 Rs.
	Brother	Gold ring 100-500 Rs.
	Father's sister	Clothes for bridegroom's parents Bridegroom's suit Gold ring for bridegroom or his father 100-1000 Rs. cash
	Father's brother	Gold ring 200-5000 Rs. cash
	Mother's brother	200-1500 Rs.
<i>Waleema</i> (third day of marriage)	Mother's sister	Bridegroom's suit 200-1500 Rs. or gold ring
Marriage (daughter)	All participants of the ceremony again contribute according to their balance	50-10,000 Rs.
	Mother's sister, father's sister, father's brother and married sisters	All decide with mutual understanding and consent of bride's parents and bring any item of dowry

Source: author's own survey

