A HANDFUL OF RICE:

SAVINGS MOBILIZATION BY MICRO-ENTERPRISE PROGRAMS AND PERSPECTIVES FOR THE FUTURE

Maria Otero

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Fuglesang and Chandler,
Participation as Process.

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CHAPTER I

SAVINGS MOBILIZATION: A PERSPECTIVE

11

A. INTRODUCTION

Saving constitutes one of the fundamental elements on which we base our understanding of how an economy works. Simply put, domestic saving provides the assets for the economy's investment in future production. Without it the economy cannot grow, unless alternative sources of investment, such as foreign capital, are injected.

The propensity to save varies considerably from person to person. Common wisdom dictates that as a person's disposable income increases, so does his or her capacity and willingness to save. Consequently, low-income groups, especially persons living at or near subsistence levels, are thought to be among those least able to contribute to an economy's savings. Indeed, most developing countries, where the poor constitute the great majority, demonstrate an overall low propensity to save. The poor, many have concluded, cannot save.

In recent years, however, more and more people have studied the savings practices among low-income populations in developing countries, and have reversed some of these long-held assumptions. In fact, it appears that many low-income people have the capacity to save and do so through informal channels that never enter the formal financial structures of a country. These informal approaches to saving involve the creation of alternative structures, such as groups or associations, through which people undertake financial activities such as lending and saving.

These informal credit and savings mechanisms have been studied in an effort to understand their aggregate significance for local and national economies. More recently, the issue of mobilizing savings among the poor has stimulated additional interest, especially as development programs that are designed to enhance the productive activities of low-income populations have begun to initiate savings schemes.

Mobilizing savings among the poor is an intriguing issue for various reasons. It has implications for the economy as a whole if in fact there is a savings potential within the poor population in developing countries that lacks a productive outlet. The belief that the poor don't save has led policy makers to direct their efforts to lowering costs to borrowers, thereby forcing members of the poorest strata to hold assets in kind, such as livestock, gold or other means, rather than participate in the higher-yield investments available to members of the wealthier strata. Approaches to savings mobilization that include the poor and that might augment the current level of domestic savings mobilization in a country would capture policy makers' interest.

At a different level, the capacity to stimulate savings also raises important considerations for development programs that are working to enhance productive income and employment among low-income groups. Is there a relationship between stimulating savings and enhancing income? Should development programs incorporate savings schemes into their activities, and if so, under what circumstances? Is savings mobilization, in whatever guise, a valid project for development programs to undertake?

Finally, the process of saving regularly can be an empowering experience for persons who are used to living at the margin, and can contribute to an improvement in the quality of their lives. Not only does saving offer a reprieve to the constant worry that accompanies a subsistence life, but it also serves to capitalize whatever productive activity sustains the family, thereby enhancing production and income.

It is our contention that micro-enterprise programs, given certain characteristics, are excellent vehicles to foster saving

among the populations they reach, and that such efforts hold considerable benefits both for those saving and for the programs. The purpose of this document, therefore, is to explore issues related to savings mobilization from the vantage point of projects that seek to reach poor populations that are self-employed in productive activities. Micro-enterprise development projects are the particular focus of this study.

The first chapter in this analysis provides a framework for the discussion: why people save, and what savings schemes prevail among poor populations in most developing countries. The second chapter turns to existing examples of savings mobilization efforts in micro-enterprise programs to extract the factors that appear to contribute to an effective savings mobilization component. The final chapter seeks to identify the circumstances under which mobilizing savings makes economic and social sense; and provides some methodological guidelines and approaches for future programs.

B. FACTORS THAT AFFECT SAVINGS

Few dispute the assertion that income is a key determinant of a person's capacity and propensity to save. However, especially among low-income populations, several additional factors may in the aggregate play a more decisive role in the savings patterns than what one observes. Analyzed with care, these factors can shed light on what constitutes effective approaches to resource mobilization among the poor.

Most studies on savings identify the policies in the country, especially those pertaining to the real deposit rate structure, as determinants of how and where people save (Vogel 1986; Meyer, Khalily, and Hushak 1988; Ghate 1987). For low-income populations, the interest rate a bank offers can influence their choice either to deposit their money through a formal commercial institution or opt for an informal arrangement, even if the latter is riskier or ties up their money for longer periods.

In many countries, government policy mandates have subsidized lending interest rates, mostly to increase access to credit among small borrowers. Many have argued against this practice of subsidizing credit because it tends to concentrate capital in the hands of few who are already relatively well off, and to prejudice those it was devised to assist. From the savings perspective, a significant consequence of subsidized lending interest rates is that it discourages savings among possible depositors (Von Pischke 1983; Meyer, Khalily, and Hushak 1988; Vogel 1986). A lending institution, regardless of its structure, will offer low returns for deposits if its credit lines also charge low interest rates.

One summary of several African countries concludes that the reluctance on the part of potential depositors to use formal institutions stems in large part from the relatively low returns these offer, especially when governments attempt to keep the interest rates artificially low (Miracle, Miracle, and Cohen 1980). As far as depositors are concerned, there are built-in liabilities to saving through the formal sector –the need for written records, the paperwork, the unfamiliarity– which, coupled with low returns, makes this alternative less attractive.

The presence of financial institutions in a given area and increased deposit mobilization also are linked. Not surprisingly, the greater the bank density, the greater the possibility of mobilizing savings. This issue is particularly pertinent to rural areas, since in most countries, bank branches are clustered around urban centers. Distance and the inability to have repeated contact also influence a person's decision on how to save, encouraging in kind savings efforts rather than interaction with a financial intermediary (Meyer, Khalily, and Hushak 1988).

Small farmers, who often save in order to even out their income stream over the year, need a safe repository for their savings that is convenient, accessible, and protects the value of their deposits from being eroded by inflation (Downing 1989). On this point, a review of 14 developing countries in Asia concluded that, among other things, high real deposit rates of interest coupled with increased accessibility to depository institutions in rural areas have raised the national savings rates directly, and that while this relationship is statistically significant, the magnitude of the amount of these transactions is relatively small (Ghate 1987).

Proximity to a financial intermediary bears on other factors that influence savings patterns. The perceived safety of the deposit will determine, in part, whether a person trusts an institution with his or her savings. Financial intermediation, after all, is a unique market, in that it exchanges money for the uncollateralized promise to repay at some future date. Especially among the poor, who seldom interact with formal banking institutions, understand little about investment practices, and often are denied other services such as credit, the "trust factor" becomes particularly important. The ease and speed of access to the savings constitute one way that depositors define that trust, particularly in situations where disposable income already is limited.

Accessibility to a formal institution and the opportunity to deposit or withdraw one's money contribute to the overall transaction costs for the person with a savings account. The number of visits required to complete a transaction, the time and money spent on transportation, the waiting period, the completion of required paperwork, and other steps all play an important role in a person's decision about savings. Although they are often ignored, some argue that these transaction costs are among the most powerful determinants of savings behavior (Vogel 1986).

Other, less understood factors also affect the savings equation. The reciprocity issue –provision of credit to those who save– often contributes to the success of small savings schemes, and may affect savings behavior in general (Chandavarkar 1988). Finally, the level of education, literacy and financial awareness comprise additional considerations in savings behavior, but these factors have not been studied in much depth (Meyer, Khalily, and Hushak 1988).

Clearly, the mobilization of savings is a complex topic determined by a broad range of considerations, some as concrete as specific government policies and others as elusive as the sense of trust and security created in the depositor. When the discussion turns towards resource mobilization among the poor, the subject gains more complexity because of long-held assumptions and biases.

C. POOR PEOPLE CAN'T SAVE: A PERSISTENT MYTH

Conventional theory dictates that income is the most powerful determinant in savings behavior. Many have therefore dismissed the poor as unable to save and hence immune to the incentives designed to mobilize deposits. This belief led to self-fulfilling prophecies: since the poor don't save, financial markets created little opportunity or stimulus among poorer populations, thereby failing to create those factors, such as trust, proximity, interest rates and others that we today believe influence savings behavior (Rielly, draft, 1988).

Other factors have nourished this myth. Few have taken an in-depth look at the informal mechanisms for credit and savings that sustain most rural people who have no access to resources, or studied their resource mobilization capacity and potential. With the exception of some studies written in the 1960s, evidence to counter established assumptions emerges in the literature only in the 1970s, and more so in the 1980s. A closer look at the variety of informal savings mechanisms operating in developing countries led most observers and researchers to abandon long-held conclusions. Many now assert that not only do the poor save, but that this fact has considerable policy and structural implications for national economies and financial markets. (Bouman 1977; Miracle, Miracle, and Cohen 1980; Holst 1987; Maloney and Ahmed 1988).

Today, a rich body of literature, based on surveys, case studies, regional and cross-country analysis, explores the savings behavior of the poor and provides us with a better understanding of the nature of this savings capacity and the factors that propel or constrain it. Most have linked the savings issue to how financial markets in general, and rural financial markets in particular, affect a country's resource mobilization potential (Adams 1973; Von Pischke 1978). Some will go so far as to assert that in a country like Bangladesh, the affluent urban sector contributes less to domestic savings, in marginal terms, than does the poorer rural sector, whose assets accrue both in money and in kind (Rahman 1987). Others have approached the issue from a social and anthropological perspective to explain the savings capacity in the broader context of informal associations among the poor. Rural women in most cultures, for example, develop strong informal ties and associations as a strategy to defend and strengthen their position, and savings arrangements are one manifestation of this phenomenon (March and Taqqu 1982).

The role of foreign assistance in stimulating or discouraging savings has also been studied. Some conclude that heavy dependence on foreign aid tends to discourage savings mobilization. It is easier to negotiate additional aid than to take the measures necessary to mobilize domestic savings. In the case of Bangladesh, Rahman points out, one may find no relationship, or a negative relationship, between aid and savings. More aid can and indeed has been found to increase consumption, especially among the urban bourgeoisie and the emerging capitalist class (Rahman 1987).

Meyer explodes the poor-can't-save myth when he writes, "The millions of small deposit accounts in rural bank branches in Bangladesh are evidence of the value that low-income households place on deposit services. They show, furthermore, the ability that low-income people have to save" (Meyer, Khalily, and Hushak 1988, 16). In spite of the availability of data and persuasive research, it is difficult to convince policy makers to carry out reforms that respond to this issue; for many this myth persists.

D. TYPES OF SAVINGS SCHEMES AVAILABLE TO THE POOR

To understand how the poor have saved in developing countries, one must probe into the nature of informal savings schemes both in rural and urban areas. This examination enables us to identify the underlying characteristics that, impervious to culture, political systems and economic indicators, surface in most informal savings efforts.

Informal credit markets, which include savings and are found in all countries, can be defined as "all legal but officially unrecorded and unregulated financial activities and transactions which are outside the orbit of officially regulated institutional finance" (Chandavarkar 1988, 1). This category is broad enough to contain a wide variety of arrangements, from the moneylenders who extend credit at spectacular rates with no paperwork or requirements, to the more sophisticated but informal approaches based on established norms and procedures. In all cases, the following conditions prevail: transactions are in cash among people who maintain kinship and social relationships; little or no paperwork is required and there is no official registration of borrowing, lending or saving activities; qualifications for participation are based on relationship, rather than collateral or financial standing; and operations are relatively small in scale.

1. Rotating Savings and Credit Associations

A wide variety of informal savings schemes can be observed throughout the developing world. Most pertinent to this discussion are the rotating savings and credit associations (ROSCAs), informal institutions in which groups of individuals come together to save, share risks, and borrow. Found in dozens of countries, under a variety of names, and among wealthy, middle-income and poor groups, rotating saving and credit associations are self-formed among socially homogenous persons, usually include a membership of six to as high as fifty, and depend on a leader –usually the founder– who distributes and collects the resources. Members contribute a fixed amount into a pot and the total assets are distributed at fixed intervals among the members in turn, agreed upon by lottery, seniority in the group, or another established agreement.

The functions of these lending clubs can range from entirely social to purely economic, depending on the group's preference. Yet all operate on the principle of rotating access to a capital fund that is continually fed by members' contributions. The nature of this access varies: in some cases, the organizer of the rotating credit is a net borrower, while the last one in line is a net saver. The interest rate charged to borrowers may depend on length of the loan, where they appear in the member sequence, or other arrangements as specific situations arise. It is noteworthy that interest rates are treated by participants with flexibility and responsiveness, as the preference of early credit recipients for unsecured credit tussles with the concern among later recipients about the safety of their deposits (Chandavarkar, 1988). These rotating savings and credit associations are different from fixed-fund associations, a simpler variation of informal savings, and more akin to the savings and loan associations in the USA, in which participants turn over savings at regular intervals to a treasurer who then returns the money in a lump sum at a pre-specified time (Miracle, Miracle, and Cohen 1980).

All rotating savings and loan associations have savings as a core feature. Members borrow from the credit fund for a wide variety of purposes, including acquisition of consumer goods, family events, home improvement, and small and large investment undertakings (Miracle, Miracle, and Cohen 1980; Bouman 1986). No restrictions are placed on use of funds, nor are terms of the loan conditioned on its use.

2. The "Pasanaku" in Bolivia: an Example of a Rotating Savings and Loan Association

A study of rotating savings and credit associations in Bolivia, conducted by Dale Adams and Marie Canavesi, provides an interesting illustration of this informal savings mechanism (Adams and Canavesi 1988). Interviews with nearly 800 persons in five cities form the basis of their study.

The genesis of "pasanakus" in Bolivia is unclear, but appears tied to the "mingas", the farming system that dates back to pre-colonial times. Today the concept is found in the countryside as well as in the urban areas, where about one third of those interviewed had participated in a lending club. The "pasanaku" groups average a membership of ten, of which 60 percent are women, and in most cases are comprised of friends or colleagues. Family members are seldom found in the same rotating savings and credit association.

The types of rotating credit groups documented cut across income and class lines. Although formed by socially cohesive groups, they surface among merchants, office workers, wealthy women, in the central markets and in other areas. In the markets, most participants are low-income women, and the arrangement usually involves a manager who is paid to fulfill certain functions. Among all those interviewed, the average amount saved during each collection period was equivalent to US $17.80 every two weeks, a considerable amount in a country with a per capita GNP of US $600 per year. In some cases, the money was actually saved in US dollars to guard against the drastic inflation rate the country experienced. None of the data was disaggregated by income group, but one can surmise that the average saved is considerably lower among the needier population.

The use of loans obtained through the rotating mechanism was as varied as those suggested above. In some cases, wealthy women formed a "pasanaku" and allocated funds to purchase gifts for each other on a rotating basis, or to hold social events. Among the lower income groups in particular, loans were used for domestic consumption or for investment into a small or micro-business.

It is important conceptually to differentiate between informal savings schemes that are monetary set-asides for consumption, and those that are primarily for enterprise equipment or other investments. Although these cannot be separated in the case of micro-enterprise programs, savings for investment is of greater interest because of its potential impact at the individual and collective level.

The findings of the Adams and Canavesi study reinforce those emerging from other countries: that rotating savings and credit associations are popular because they provide the financial services that are most often demanded by individuals and not met by formal financial institutions (Bouman 1986). The authors also conclude, as have others, that an extensive capacity to save voluntarily exists, even in the poorest nations, and that defects in policies, rather than deficiencies in human savings behavior, constrain resource mobilization through formal institutions (Adams and Canavesi 1988).

In sum, the rotating savings and credit associations provide a learning laboratory for understanding what motivates poor people to save, and under what conditions they are likely to do so. The traits of the "pasanaku" –a simple but resilient savings and loan system grounded in the local culture, a flexible yet structured set of procedures agreed upon by all, high returns, easy access, trust in the mechanism, and peer pressure to meet one's obligations– recur in nearly every informal credit system, regardless of culture or country.

As the chapter that follows indicates, some development programs that are designed to enhance the productive activities of the poor have fashioned savings components that bear great similarities to the informal savings schemes of the poor.

AITEC/CASTELLO

CHAPTER II

SAVINGS MOBILIZATION AMONG MICRO-ENTERPRISE DEVELOPMENT PROGRAMS

23

A. INTRODUCTION

While savings mobilization, especially in rural areas, has been studied in considerable depth, the inclusion of savings as a component of micro-enterprise programs has received less attention. Most of the ever-growing literature on micro-enterprise development provides only a cursory glance at the topic, and few link what we have learned about savings in its informal incarnation in developing countries to the expanding informal sectors in urban areas.

This chapter presents the experience of several organizations –The Grameen Bank (GBB) in Bangladesh, the Badan Kredit Kecamatan Program (BKK) in Indonesia, ACCION International/ AITEC (ACCION) in Latin America, and World Council of Credit Unions (WOCCU)– that have mobilized savings among the poor in a successful manner, and thereby provide interesting insights into this topic. Clearly, these organizations are quite different, one from the other: a private bank, a government entity, a collection of private, non-profit organizations, and a credit union. Their inclusion here is based on the breadth of their experience in savings; the availability of information; and geographic diversity. The review highlights the first three organizations which conduct micro-enterprise programs, and documents the credit union example because of its extensive experience in mobilizing savings. Beyond recording their work in this area, the focus here is on analyzing the methodologies used, and on isolating the factors that appear to contribute to their success in mobilizing savings among the programs' beneficiaries and clients.

B. THE GRAMEEN BANK IN BANGLADESH

1. Description and History

The brainchild of Muhammed Yunus, an economics professor at Chittanong University in Bangladesh, the Grameen Bank was started in 1976 for much the same reason that gives rise to most micro- enterprise programs: economically active but assetless poor were being excluded from official lending sources and remained in the grip of usurious moneylenders. Without a doubt the most studied and scrutinized micro-enterprise program in the world, the Grameen Bank emerges from all the attention as one of the gems of micro-enterprise development efforts. The simplicity of its approach is both striking and deceptive, for beneath it lies a complex mosaic in which attention to cultural issues, clarity of priorities, a keen sense of mission and a unique management style blend into a successful effort to reach the poor and enhance their lives.

The main sources of funds for the Grameen Bank are loans from the Bangladesh Bank and loans and grants from the International Fund for Agricultural Development (IFAD). The IFAD loans, payable at fifteen and twenty annual installments, bear an annual interest rate between 2.0 and 3.0 percent, which provides a subsidy for the Grameen Bank's lending activities by keeping the cost of funds low (Hossain 1988). In fact, one study of the Grameen Bank points out that, currently, the Grameen Bank obtains additional resources for its program by drawing on its IFAD loan in excess of its actual needs for loans and advances. Once deposited, this money yields additional income for the bank's activities (Hossain 1988).

The structure of the Grameen Bank is based on a hierarchy of progressively larger units. At the base of the pyramid are groups of five self-selected villagers who come together to participate in the Bank's activities. Ten to 15 of these groups form larger clusters called "Centres". The Bank workers, the heart of the organization, work directly with each centre's members, who are primarily poor, landless women.

A "Branch Office" gathers several Centres under its supervision, and constitutes the lowest administrative unit. These Branch Offices in turn are supervised in groups of 10 to 15 by "Area Offices", often located in small towns. The Area Offices are accountable to the "Zone Offices", where the zone manager is responsible for handling and managing accounts. Finally, at the top of the pyramid is the headquarters, in Dhaka, which oversees the work of all the Zone Offices and handles standard headquarters responsibilities, such as liaison with the government and donors, staff training, communication with the Bank's board, and broad strategy planning for the institution.

It is interesting to note that when the Grameen Bank started, its structure consisted only of Branch Offices and Central headquarters. As its operations expanded –by more than 50 percent each year in the last several years, or from 362 villages in 1982 to over 6,500 in 1987– its structure evolved to include the additional levels of decentralization reflected in the Area and Zone Offices. More importantly, over time, the management functions and decision-making powers were delegated to the lower levels within the structure, creating a process of horizontal growth.

In part, it is the combination of horizontal growth with a hierarchical structure that has enabled the Grameen Bank to grow dramatically. By August 1988, in less than ten years, the Bank had reached nearly 450,000 rural poor in about 9,500 villages or over 11 percent of the nation's villages. With average loans of roughly US$ 60, paid back in weekly installments over 52 weeks, the Bank has lent over US$ 16 million at commercial interest rates, and amassed over US$ 7.6 million in savings. Today, 85 percent of the new borrowers are women, and 69 percent of all borrowers are women (Rippey 1988).

The repayment rate on loans is an astounding 98 percent, with some Branch Offices reporting 100 percent repayment. The latter is particularly impressive when compared with the Bangladesh Agricultural Bank, which lends to medium and large farmers with collateral and has a 23 percent repayment rate.

2. The Savings Component

The Grameen Bank's mode of operation assists villagers to organize themselves into groups of five before they can qualify for loans. Each Bank worker handles about 60 of these groups, which have federated into one or two centres per village, and participates in their meetings, helps to foster group cohesion and assesses the group's capacity to handle a loan and to repay it. After successfully completing a series of steps that are designed to test the group's sense of responsibility and repayment capacity, the group receives a loan to be distributed among its members. The group manages the loan and is responsible for its recuperation.

In this process, savings is used as a tool to prepare the borrowers to exercise the discipline necessary for managing credit. Potential borrowers first make weekly savings deposits, and their credit eligibility is based in part on their ability to maintain self-discipline in the savings activity.

Once a person receives a loan, the savings component forms part of the overall Grameen program. Each borrower, through his or her group, must save 1 Taka, or US$.04 every week. Additionally, 5 percent of every loan amount approved is set aside at the time of disbursement. These monies go into a Group Fund, managed by the group, that is designed to provide emergency and social loans to its members. Each group sets the terms of its loans and decides how to allocate them.

As Fuglesang and Chandler explain, the concept of the Group Fund is akin to the practice of the "handful of rice that a woman sets aside every time she prepares the day's main meal. A handful is not missed during the meal, but over time it can accumulate to a sizable reserve" (Fuglesang and Chandler 1986, 119).

A second mechanism for savings is known as the Emergency Fund, which guards the Bank's borrowers against the dreaded "three Ds": disability, death, and default. It is capitalized by saving the equivalent of 25 percent of the interest on all loans, and it too falls under the decision-making domain of each group.

By July 1986, the "handful of rice" in the Group Fund totaled over Taka 95 million or nearly US$ 3 million, and it has disbursed over Taka 31 million or about US$ 1 million in loans to the borrowers.

3. The Role of Savings in the Grameen Bank

a. Growth Pattern: Currently, the Grameen Bank captures approximately US$ 90,000 each month in savings, about US$ .21 per member per month. Because the Grameen Bank's methodology ties savings to key program priorities, such as expansion in membership, savings have grown dramatically in amount disbursed and in size of portfolio from the start.

The table below summarizes some of the key indicators of the Grameen Bank's growth, and places savings in the context of the overall program. One can observe that in the last few years – 1985 to 1988– the Grameen Bank has more than doubled the number of members and greatly expanded the geographic coverage of the program. The amount saved, both in the Group Fund and in the Emergency Fund, has nearly tripled in the last three years, and by August 1988 totaled Taka 243.2 million or US$ 7.6 million.

TABLE ONE

SUMMARY INFORMATION GRAMEEN BANK
Taka in millions
(Dollars in millions)

TOPIC	1982	1985	1986	1987 (August)	1988
Total Members	30.000	172.000	235.000	291.000	503.310
Number of Villages	363	n.i.	n.i.	6.570	11.076
Percentage Women	45%	66%	74%	n.i.	85%
Amount Disbursed					
·Each Period	96.0 (US$4.4)	428.4 (US$15.0)	541.7 (US$18.05)	n.i.	n.i.
·Cumulative	499.6 (US$23.1)	928.0 (US$32.5)	1.470.0 (US$49.0)	n.i.	3.708.0 (US$115.8)
Amount Saved	9.6 (US$ .444)	84.1 (US$2.94)	136.8 (US$4.56)	179.2 (US$5.6)	364.1 (US$11.3)

Sources: Houssain 1988; Rippey 1988; Grameen Bank 1988.
1982: Taka 21.6 = US$1.00
1988: Taka 32.0 = US$1.00

Data on rural savings in Bangladesh help place the Grameen Bank's savings component in a national perspective. For example, a study of the savings mobilization capacity of five banks in 20 districts in the country revealed a total level of savings in 1984 of Taka 11.2 million, a 44.7 percent growth from 1983, considered quite impressive for Bangladesh (Meyer, Khalily, and Hushak 1988). In that same year, 1984, Grameen Bank recorded a total level of savings of Taka 44.2 million, or over US$ 1.1 million, more than three times the combined savings of the five banks. Additionally, for the Grameen Bank this figure represented a 129 percent increase over the preceding year, which had closed with savings of Taka 19.3 million (Hossain 1988).

This very high level of savings mobilization has continued within the program, reaching Taka 84.1 million (US$ 3.2 million) in 1985, a 90.2 percent increase in one year, and Taka 136.8 million (US$ 4.5 million) in 1986, a 62.6 percent increase from 1985. In summary, what in 1982 totaled Taka 9.6 million in savings (US$ 400,000), had grown to approximately Taka 245 million (US$ 7.6 million) by 1988.

Two factors about this accomplishment are worth noting. First, the propensity to save among Grameen Bank borrowers far outstrips that of the rest of the country, an observation that is more striking when one considers that the Grameen Bank borrowers are landless, rural poor. Second, this propensity to save has been maintained at a high level since the program's inception, suggesting that it will continue as the program grows. The impressive growth of Grameen's savings mirrors the rapid yet controlled growth of the program as a whole.

The experience of the Grameen Bank illustrates that the poor do save. Further, it shows that a financial intermediary, in this case a micro-enterprise program, can muster the appropriate incentives and approach to reach the poor and to strengthen savings mobilization among them.

b. Savings as a Requirement: The obligatory nature of savings is one of the keys to the success of mobilizing savings within the Grameen Bank. Borrowers must save a specified amount if they wish to receive a loan. Like the established interest rate for loans, the savings factor is not open to discussion.

While some argue that imposing this requirement on the poor, who are already at a subsistence level, is a questionable practice, the experience of the Grameen Bank suggests otherwise. The Grameen Bank defines itself as an organization that is motivated by broad social goals that go far beyond straightforward quantifiable measures of economic return. A forced savings scheme, the organization asserts, is quite in keeping with its overall philosophy, which is based on a sense of reciprocity between the institution and its members. The Bank's operations, for example, are guided by a type of internal constitution, comprised of "Sixteen Decisions" formulated by the borrowers themselves (Hossain 1988). These "codes of conduct" summarize the behavior and practices promoted by the Bank for its members, and encompass economic, health, social and cultural guidelines (e.g., "we shall grow vegetable gardens...drink tubewell water or boil water...educate our children...collectively undertake bigger investments...keep our families small...be ready to help each other...not inflict injustice on anyone...not take or give any dowry").

Implicit in these principles is the concept of planning for the future by keeping expenditures low and by considering the children's education, investment in latrines, water wells, and income-generating activities. Within this philosophical framework, the savings requirement is one important mechanism that enables the Grameen Bank's borrowers to live by these "Sixteen Decisions".

c. **Use of Savings:** Grameen Bank borrowers can take out loans from the Group Fund for any purpose with the consent of the group, which decides on the terms and conditions. In most cases, the loans are long-term and interest-free.

The available data show that only 11 percent of the members took out loans for the years for which figures are available, and these constituted 15 to 17 percent of the amount accumulated in the Group Fund (Hossain 1988). The purpose of these loans is classified under two major headings: unproductive activities, including social and household needs, medical expenses and repayment of old loans; and productive activities, such as crop cultivation, purchase of raw materials and fixed capital, collective enterprises and equipment repair. Hossain points out that nearly half of these loans are used for purposes for which members can use normal loans, so that the Group Fund loans have not been limited to emergency situations. Those members who can productively utilize additional capital can turn to this fund for credit (Hossain 1988).

It is clear from this information that the Group Fund has become an important source of capital for the Bank's lending operations, and that this function constitutes the primary use of the savings mobilized by the program. Hence, not only are members able to tap into the Group Fund for emergency and other occasions, but the organization itself can expand its lending operations, in part, due to the availability of funds through the savings mechanism. It is not surprising, then, that savings accumulated, as a percentage of loans outstanding, have increased progressively from the outset. As the table below shows, in the three years between 1984 and 1986, this percentage grew from 25.1 percent in 1984 to 45.4 percent in 1986.

TABLE TWO

YEAR	LOANS OUTSTANDING (million Taka)	SAVINGS	SAVINGS AS A PERCENTAGE OF LOANS OUTSTANDING
1984	176.0	44.2	25.1%
1985	225.0	84.1	37.3%
1986	301.0	136.8	45.4%

Source: Hossain 1988

d. The Learning Perspective: From the program's perspective, the importance of savings goes beyond increasing credit funds. Fuglesang and Chandler suggest that the practice of saving carries important lessons for the Bank members:

- Members observe the quick growth of a little bank (the Group Fund) with small, constant infusions.

- Members manage the Fund autonomously on a consensus basis, a practice that enhances their capacity to manage their loan.

- The Group Fund gradually eliminates the dependence of its members on the moneylender.

- The savings component acknowledges the fragility of the landless poor and guards them against disaster (Fuglesang and Chandler 1986).

On this basis, one can argue that the savings component contributes to the high repayment rate in the program. Through it, members participate in a fund that provides them with a vital resource that they can administer in a manner entirely independent of the Bank. This increased access to resources makes the program more attractive, and hence decreases the possibility of late payments or default.

In sum, the Grameen Bank's savings program is a complex mix of obligations and benefits, for both the organization and the borrower. Since the program's inception, it has mobilized a significant amount of money among its members, enough to warrant close analysis of the basis of its success. It may have begun as an experimental effort at mobilizing resources among the poor. Today it represents an essential source of funds for normal lending operations as well as for emergencies and other purposes.

C. THE BADAN KREDIT KECAMATAN PROGRAM IN INDONESIA

1. Description and History

The Badan Kredit Kecamatan Program (BKK) in Indonesia operates in Central Java on the island of Java, the most populous island in the world, where nearly 100 million of Indonesia's 166 million inhabitants reside. Unlike the privately initiated Grameen Bank, the BKK functions under the auspices of the provincial government. Started in the early 1970s as a way of making credit accessible to village-level traders and small-scale off-farm producers among the rural poor, the program initiated lending operations in 1972. Its funding came entirely through the provincial government and its operations were incorporated into the structure of the Central Java provincial government.

The BKK program is comprised of village-level posts, clustered into branches that have financial and managerial autonomy at the sub-district level. Sub-district chiefs have loan-approval authority and respond to district commissioners in rural areas or mayors in municipalities. The governor of the province presides over the program; technical and financial supervision comes from the Central Java Provincial Development Bank.

An evaluation of the BKK program conducted by Goldmark and Rosengard in 1983 presents the most complete information available on the institution and its program. It records that at that time, the BKK had 483 branches, each one in a different sub-district of the province, thereby covering most of Central Java's 492 sub-districts with 1,300 village posts (Goldmark and Rosengard 1983). Today, the BKK has approximately 3,000 village posts, and covers about 36 percent of the villages in Central Java (Rosengard 1988).

Based on a sample survey conducted by Goldmark and Rosengard, the profile of BKK borrowers indicates that about 47 percent of them do not own land, while the rest either own land of an average size of 0.8 ha., or rent, or both. The mean age of clients is about 40 years old, with women receiving over 60 percent of the loans. In rural areas, over 60 percent of the borrowers had received no schooling or had not completed primary school. The largest share of borrowers was involved in petty trading, marketing a variety of products (Goldmark and Rosengard 1983).

With its motto, "fast, cheap and productive credit", the BKK makes small short-term loans, currently averaging about US$35, at commercial interest rates, relies on character references, and uses repeat loans as an incentive for full and timely repayment. All the lending is done at the village level, and most BKK employees come from the areas in which they work.

The growth of BKK lending activities is well documented. From the outset, the BKK experienced dramatic growth in loan disbursement, which more than doubled in the first year of operations and continues to grow at a fast pace. Between 1979 and 1981, seven years after the program's inception, the amount disbursed grew from Rupiah (Rp.) 3.6 billion (US$5.7 million) to Rp. 7.7 billion (US$12.1 million), more than a 100 percent increase. As of that time, the quality of the loan portfolio was considered excellent, with only 6 percent of outstanding loans recorded as delinquent (Goldmark and Rosengard 1983). Today, the BKK continues to maintain a healthy portfolio and to expand its operations as it installs additional village posts throughout the province.

By 1985, the BKK approach was extended and adapted to other provinces, in West Java and in West Sumatra under the government's Financial Institutions Development project (FID) (Goldmark and Lucock 1988). The stated strategy involved establishing village financial units, also called posts, utilizing the methodology that had worked well for BKK. These village posts were set up under the control of the respective provincial governments and carry a different name in each province: BKK in Central Java; LPK and BKPD in West Java; and LPN in West Sumatra.

2. The Savings Component

Savings was introduced early on as part of the BKK methodology to mobilize rural capital and thereby expand BKK's working resources, and to educate the rural population about commercial banking. All borrowers were required to save according to an established scale, and this amount was incorporated into the loan payments.

The program expanded rapidly during this early phase, both in amount lent and in savings mobilized. From 1975 to 1981, the savings accumulated by BKK grew from Rp. 247.3 million (US$ 410,000) to 631.1 million (US$1 million), nearly a three-fold increase. During this same period, the loan portfolio grew from Rp. 894.4 million or US$1.5 million to Rp. 3.024 billion or US$4.7 million.

The experience of BKK demonstrated that its borrowers' propensity to save was much higher than anticipated. However, when BKK had liquidity problems for its credit fund, most branches adopted the practice of retaining borrowers' savings even after they had repaid their loans. This unspoken policy kept borrowers from withdrawing their funds on demand and became a general practice in the program even when liquidity was no longer a major concern. BKK studied the situation and began moving away from forced savings and towards a pilot program that included a voluntary savings scheme.

At about this same time, in 1985, the Financial Institutions Development program (FID) got underway, and established savings mobilization as one of its goals. Having learned from the BKK experience, this project's expansion into two additional provinces featured a voluntary savings scheme from the outset.

The BKK program, in addition to its mandatory savings program, also initiated an experimental voluntary savings component in nine village units. The design currently includes market interest rates, unlimited access, security in the form of government backing, and a promotional activity to attract potential savers (Rosengard 1988). Known as TAMADES, this voluntary savings approach yielded encouraging results. BKK units raised over Rp. 50 million in seven months in savings accounts averaging Rp. 15,000 or US$8.70. More interesting is the fact that about 75 percent of these new depositors are not BKK borrowers, although they fit the borrower's profile (Rosengard 1988). The design of the voluntary savings scheme avoids some of the pitfalls of the past: depositors have unlimited access, commercial rates of return, trust in the organization and the chance to participate in the promotional incentives, such as lotteries.

Today, the level of the savings mobilized by this network of organizations under the Financial Institutions Development program is impressive. Table 3 below shows accumulated savings, both mandatory and voluntary, for the three years 1985 - 1987, as well as the number of persons who are saving. One can observe a steady increase in all programs, both in amount and in the number of depositors. BKK continues to be much larger than the newer efforts, primarily because of its longevity. However, the other three are also evolving at a fast rate. By the end of 1987, the network had accumulated over Rp. 6.5 billion, or close to US$3.8 million, and had over 613,200 depositors.

TABLE THREE
INDONESIA: SUMMARY INFORMATION ON SAVINGS;
BKK AND OTHER PROGRAMS
Rupiah in Billions
(Participants in thousands)

PROGRAM	AMOUNT SAVED			PARTICIPANTS		
	1985 (December)	1986 (December)	1987 (December)	1985 (December)	1986 (December)	1987 (December)
BKK (Central Java)	2.156	2.470	2.816	373	393	415.8
LPK (West Java)	0.223	0.322	0.438	19.5	19.8	29.5
BKPD (West Java)	0.589	1.788	2.180	43.7	97.9	136.5
LPN (West Sumatra)	0.647	0.800	1.129	16.0	19.4	31.4
TOTAL	3.615	5.380	6.563	452.2	530.1	613.2

Sources: Development Alternatives (DAI), Quaterly Reports for FID Project; July 1 - Sept. 30, 1988 Rosengard 1988.

Exchange rate for December, 1987: Rp. 1,724 = US$1.00

3. Summary Analysis of Savings in the BKK Program

a. Program Structure: While the BKK model shares important structural similarities with the Grameen Bank – village-level posts, constant growth, decentralized decision-making– the differences are worth noting. First, BKK is tied into the government structure and as such figures as a line item in its budget and adheres to the established policies and lines of command. Second, the provincial government has primary responsibility for the program, even though resource allocation comes from the central government.

A third important distinction resides in its relationship to the borrowers. The BKK makes individual loans to poor rural and urban dwellers, and bases its decisions primarily on character references from the village leaders. Additionally, the BKK makes no effort to organize its borrowers into groups or to engage them in related training activities. BKK perceives its role strictly as a financial intermediary that reaches a population seldom touched by other financial institutions.

In this context, the savings component also operates differently. The required savings is incorporated into each loan payment, and deposited in the BKK. The borrowers do not have access to the savings for additional loans, nor do they make any decisions about its allocation. The use of savings as a means of responding to emergencies and costly social events is not a part of the BKK methodology. Finally, the introduction of a voluntary savings scheme increases the importance of this component in relationship to the overall operations because it makes the BKK more closely approximate a financial intermediary.

b. The Dichotomy of Forced and Voluntary Savings: From the outset, the BKK designed a simple, low-cost manner of capturing savings. By building the required amount into the payment, it maintained low transaction costs and built up the savings component through small but constant infusions. It promised a good return to the borrowers, and by providing quick and user-friendly loans, assured steady expansion.

While the figures show tremendous growth in the savings mobilization function of the BKK program, it is possible that shortcomings in its operation prevented the program from mobilizing even more. When liquidity problems made it a common practice to restrict withdrawals, thereby eliminating depositors' access to their money, it is likely that borrowers lost some confidence in the program and diverted potential savings to other purposes.

The Goldmark and Rosengard survey conducted in 1982 revealed that although the BKK borrowers' propensity to save was much higher than expected, when possible, borrowers selected other savings plans. Over 40 percent of the BKK clients maintained savings accounts in informal sector, non-interest bearing savings and loans associations, or in high-interest bearing accounts available in the urban areas. Rural borrowers preferred to keep their savings at home or to spend them.

When the BKK program became too preoccupied with its liquidity and ignored the needs of its borrowers, its ability to mobilize savings suffered. The success of the recent experiment in voluntary savings in nine village units, which assures unlimited access to deposits, and good return, tends to confirm the relationship between a depositor's willingness to save and the access he or she has to his or her savings.

In sum, the BKK experience and its expansion to other areas in Indonesia, present an example of a different approach to savings mobilization from that of the Grameen Bank. In spite of the differences in philosophy, approach, and overall vision between these two organizations, it is clear that in both cases they have demonstrated a surprising ability to mobilize savings from a population often considered too difficult to reach. The examples that follow continue the discussion of savings in programs operating in other regions of the developing world.

D. ACCION INTERNATIONAL: SAVINGS MOBILIZATION AMONG AFFILIATED PROGRAMS

1. Description and History

The micro-enterprise programs affiliated with ACCION International (ACCION), a private non-profit development organization based in the U.S.A., find their methodological roots in the Grameen Bank and BKK experiences. Currently, with its focus on technical assistance to micro-enterprise programs and institutions, ACCION assists over 35 private non-profit institutions in 13 countries in Latin America and the Caribbean. These organizations conduct programs that reach the urban self- employed poor who are involved in very small-scale production, retailing or service provision. In general terms, the programs work through solidarity groups or through individuals and provide short-term working capital loans, and in some cases fixed-asset loans, at commercial or higher interest rates. They also provide training and varying levels of technical assistance to program participants.

While guided by the same goal –to reach the urban poor with financial and other resources in order to enhance their capacity to generate additional income and jobs– the programs vary considerably in approach and content. For example, some organizations, such as the Foundation for the Promotion of Micro- enterprise (PRODEM) in Bolivia or the Paraguayan Foundation for Development and Cooperation, work only through solidarity groups, self-formed clusters of five to eight persons who assume responsibility for the loan and its repayment, and function much like the group in the Grameen Bank model. Others work only with individuals, such as AVANCE in Costa Rica; still others, like the Asesores Para el

Desarrollo (ASEPADE) in Honduras, turn to a combination of both of these approaches. Some organizations place considerable emphasis on training and the formation of associations among beneficiaries, while others concentrate on the provision of credit.

In the aggregate, the programs affiliated with ACCION currently reach about 40,000 men and women in 60 large and small cities. Every month, these programs disburse approximately US$1.5 million, or nearly US$18 million in annual loans that average US$370 in size. By and large, their repayment rate is good to excellent, with some programs recording less than 1 percent default and less than 5 percent late repayments. On the average, between 50 and 55 percent of the programs' beneficiaries are women, many of them concentrated in textile processing, food processing and commerce.

ACCION-affiliated programs that include a savings component currently operate in Colombia, Honduras and the Dominican Republic. In the case of the Dominican Republic, the program, Asociación para el Desarrollo de la Microempresa (ADEMI) has decreased its emphasis on this component because banking law does not permit it to capture savings directly. In the case of Colombia, the programs can capture savings. However, with the exception of one organization, which is legally constituted as a savings and loan cooperative, these organizations cannot use savings for lending activities (Gomez, draft, 1988).

In fact, in most Latin American countries, private non-profit institutions are prohibited by law from accepting savings deposits. A survey of ACCION-affiliated institutions in three countrie· 'olivia, Paraguay and Costa Rica) conducted in 1987 reveale hat these programs were interested in mobilizing savings but each country's banking laws restricted their participation in this activity (Gomez, draft, 1988). Hence, ACCION's experience in the area of savings mobilization is limited to the three countries that have been able to initiate a savings component.

This section summarizes the savings schemes of these ACCION- affiliated programs and highlights the common methodological features that may be of use in the design of future projects.

2. The Reasons Behind a Savings Component in ACCION-Affiliated Programs

The savings mobilization efforts among ACCION-affiliated programs began in Colombia, where three of the 14 programs that form part of the National Association of Solidarity Groups, currently conduct savings mobilization schemes. Most of these programs, as well as those in other countries, identify at least four reasons for promoting savings. Two of these reasons relate to the benefits that the potential depositor draws from saving, and two relate to the benefits to the program. The priority each program places on these reasons varies according to the program's overall philosophy and goals.

a. The Pedagogy of Savings: Most programs assert that the savings component carries with it an educational function that begins to instill the habit of saving regularly, and thereby contributes to a shift in the borrower's perception of his or her situation –from a day-to-day struggle to survive to a longer–term view based on planning with a growing cushion of savings. The field workers or "advisors" explain the purpose of the savings component and walk the potential program participants through the required steps, even before they receive a loan. This aspect of savings is reminiscent of the Grameen Bank's approach, although without the philosophical base of the "Sixteen Decisions" to guide their borrowers.

Saving is promoted and discussed in formal and informal training sessions with the solidarity groups or among individual borrowers, and in all cases is considered a required activity for program participants. The impact of this activity on the borrowers' habits and perceptions is difficult to measure, and appears mostly in anecdotal evidence of expressions by the borrowers. Some point out that the savings component, which at first they resisted, was most appreciated because of the sense of discipline and planning it teaches. Evaluations in Colombia record a significant increase in voluntary savings, above the required amounts, especially in two or three programs (Castello and Guzman, draft, 1988).

b. Savings and Dependence: The argument most often used for promoting savings among borrowers is that it is a means of capitalizing their business. Linked to this line of argument is the possibility of decreasing dependence on the moneylenders to whom even the programs' borrowers must turn in case of an emergency. Savings is an alternative way of responding to an immediate need for cash without diverting funds from the business.

Additionally, the savings component presents an opportunity to introduce the borrower to the formal banking sector. Armed with a savings deposit book, the borrower may, for the first time, interact with a bank and make use of its services. This contact can constitute an important first step towards accessing other bank services, especially credit. By the same token, the savings component, if a bank captures the deposits, can help dispel some of the myths regarding the poor's capacity to save in a disciplined and regular manner. In the case of Colombia, some banks will provide credit to a micro-entrepreneur and use his or her savings as collateral for the loan.

c. **Savings as Portfolio Protection:** All the programs that contain a savings component and are able to capture savings directly perceive its function as a type of guarantee or risk absorber against bad loans. In many cases, the programs use savings to cover overdue payments or to cover defaults. In all cases, the ratio between loans outstanding and savings accumulated is an indicator of the degree to which the portfolio is guaranteed.

Since ACCION-affiliated programs do not require collateral, and often lend to so called "high-risk groups", many risk-reduction features are built in, including incentives for prompt repayment, analysis of the loan amount the business can absorb, diligent follow-up of participants, and others. From this perspective, savings becomes another way of protecting the program and maintaining the real value of its portfolio. The relationship between savings and the overall portfolio becomes a factor that is analyzed as part of portfolio monitoring. It is important to note that this use of savings only applies to those programs that are legally allowed to capture savings. The legal framework that governs the savings activity is an important one and is discussed in Chapter 3.

d. **Savings as a Source of Capital for the Credit Fund:** Although it is mentioned less often as a priority, programs access the savings they capture in order to expand the reach of the credit fund. Some programs allocate a certain percentage of the savings to the credit fund, maintaining a reserve much as financial banking institutions do. This mechanism allows them to respond to the growing need for credit among borrowers, without requiring long waits. Other programs turn to savings only when they encounter an unexpected liquidity problem, which is most often caused not only by an increase in demand, but also by delays in grant or loan disbursements to the program. However, micro-enterprise programs do not make use of deposits to cover administrative and other operating costs; in the efficient programs, these are covered partly or completely through the interest income earned by the program.

Occasions have arisen when savings funds have enabled programs to create emergency funds for program participants. These are soft lines of credit extended in case of a family emergency, or other unexpected events that could cause considerable financial hardship to the program participant. The emergency fund not only responds to these needs, but also helps the borrower avoid diverting a working capital loan.

3. The Method Used for Capturing Savings

In all ACCION-affiliated programs that include savings, it is obligatory for all participants. Each program establishes a certain amount, usually pegged to the size of the loan, that the individual or group must save. The amount varies considerably from program to program, as does the interest paid to the borrowers, which is usually the established commercial rate. The borrower then deposits the savings either as part of each payment on the loan or in a lump sum at the time he or she receives the loan. Earlier schemes that required group members or individuals to save a specified amount but allowed them to make deposits whenever they could and in whatever amounts they chose have been discarded. Programs found that borrowers deposited savings in very small, but frequent amounts, which made recording and monitoring processes cumbersome and expensive.

The Colombian case presents a good example of the manner in which savings can evolve over time in a micro-enterprise program. From 1983 to 1987, savings captured each year grew from US$1,812 in 1983 to US$103,705 in 1987 (Castello and Guzman, draft, 1988), a growth comparable to program expansion, from 322 solidarity group members in 1983 to over 8,000 by 1987. Savings mobilization as a percentage of loans outstanding grew from 11.9% in 1983 to 22.4% in 1987.

During 1988, ACCION-affiliated programs in Colombia and Honduras mobilized the equivalent of approximately US$160,000 in savings among their program participants. While this figure is insignificant in relation to overall savings, or to the experience of the Asian programs, it is nevertheless indicative of the potential for savings mobilization if micro-enterprise programs faced no legal or structural constraints in this area.

If one uses the Colombian figures as a guide, ACCION-affiliated programs, at their current level of activity, could mobilize close to US$1 million each year, or approximately US$20 per program participant per year. The challenge is to overcome the legal and policy constraints that inhibit their activity in this area.

4. Women and Savings

The issue of gender as a determinant of behavior is of paramount interest in all micro-enterprise programs, in part because women are predominant in the informal sector, and in part because it behooves researchers and practitioners both to recognize and learn more about the productive activities of this significant sector of the labor force. By understanding how women's productive activities and their access to resources are conditioned in part by their gender, one can begin to formulate more appropriate and responsive programs that enhance their economic activities (Berger and Buvinic 1988; Otero 1987).

In spite of the growing body of literature on women and credit, existing knowledge of low-income women's propensity to save remains scant (Maloney and Ahmed 1988). Except for anecdotal information and observation that reinforces the positive stereotypes held about women –women are more disciplined, they save more, they are more responsible– little empirical data exists on their performance in this area. Since most programs, both in the ACCION network and those in Asia reviewed above, feature compulsory savings schemes, it is difficult to determine whether women behave differently in the area of savings, and if so, the reasons behind their behavior.

One can conclude in very general terms that since the level of savings in the micro-enterprise programs analyzed here has increased at the same time that the percentage of women reached by these programs has grown, women demonstrate a significant propensity to save. However, this propensity appears to be more determined by the structure of the savings component than by the gender of the depositor. In fact, considerable work is needed to understand the constraints and the opportunities for saving among low-income women. Hence, this topic remains a current gap in our understanding of the savings mobilization component in micro- enterprise programs.

E. CREDIT UNIONS

1. Description and History

Although credit unions are not considered micro-enterprise programs, they are relevant to this discussion because of the size of the credit-union movement in developing countries, its involvement in lending for productive activities, its emphasis on savings mobilization, and its proclivity for adopting the characteristics of informal credit systems in its own operations (Marion 1987). While credit unions are private non-profit organizations, they operate as part of a financial intermediary structure, which most non-profit micro-enterprise development programs do not.

Credit unions are member-owned and member-operated financial cooperatives whose capital base comes from the members' savings (Almeyda de Stemper 1987). Credit unions tend to evolve in areas where there is no easy access to institutions that offer financial services (Cuevas 1987a). Credit unions exist in over 70 countries in Africa, Asia, Latin America and the Caribbean, as well as in developed countries, and are started by small groups of people –farmers, community members, colleagues, a church group, etc. Each credit union operates as a cooperative based on democratic principles, and manages a credit fund that extends loans to its members for up to twice as much as they have saved. Members own the credit union and make all the decisions regarding its savings and lending activities. To participate, members first must buy a share in the credit union and deposit a specified amount, a requirement that makes them savers before they become borrowers.

2. Savings Mobilization: Structure and Significance

According to the World Council of Credit Unions (WOCCU), there are currently eight regional confederations throughout the world that gather national federations of credit unions into their structure (WOCCU 1987). The aggregate activity of the credit unions represented by these second- and third-level institutions is considerable. For example, the African Confederation of Cooperative Savings and Credit Associations (ACCOSCA) represents over 12,000 credit unions in 25 African countries with a total membership of over 2,770,000 persons, or about 230 members per credit union. Similar confederations in Latin America, the Caribbean and Asia gather an additional 10,500 credit unions that include nearly 6,500,000 members. The average size of credit unions is considerably larger in Latin America and the Caribbean than in Africa –around 1,300. In developing countries alone, over 8 million people participate in credit unions.

Statistics from WOCCU show that in the period of 1972 - 1986, credit unions in developing countries mobilized over US$2.6 billion in total savings, and grew at a compounded annual rate of 19.5 percent (Marion 1987). The average size of the savings accounts serviced in 1986 amounted to US$339, which had grown over the preceding decade by an average of 8.4 percent per year (Marion, 1987). Hence, credit unions have captured a small but growing share of the total savings market in developing countries; for example, 6.2 percent in the Caribbean and 1.2 percent in Latin America (Marion 1987).

These data are more significant in light of in-depth studies on particular countries which conclude that the rate of credit-union savings has been higher than the growth rate of the overall national savings deposits (Almeyda de Stemper 1987; Cuevas 1987a). Additionally, these studies demonstrate that credit unions provide deposit services to rural populations with little previous access either to credit or savings, thereby mobilizing deposits from new savers (DeLancey 1983; Cuevas 1987b).

One cannot over-generalize the credit union movement and its relative significance within the financial system of each country. A variety of studies have demonstrated both strengths and weaknesses in various cases, and the specifics of each case lie beyond the scope of this study (DeLancey 1983; WOCCU 1985; Cuevas 1987a; Marion 1987; Christen and Vogel 1985). Of interest here are the factors that contribute to a successful credit union, and that at the same time illuminate our discussion of the relationship between savings and micro-enterprise programs. The case of the Cameroon Co-operative Credit Union League provides a useful example of a credit union movement.

3. The Cameroon Co-operative Credit Union League

The Cameroon Co-operative Credit Union League (CamCCUL) was founded in 1969 and is legally registered as a non-profit cooperative. Its first records show its membership at about 4,000; its savings at US$53,000; and its loans outstanding at US$33,000 (De Santis and Lang 1989). Today its reported membership stands at 68,460 in 121 registered credit unions and 114 discussion groups; total savings at US$31.2 million; and its loans outstanding at US$21.5 million (De Santis and Lang 1989).

Each of the credit unions that comprise CamCCUL operates independently, mobilizing savings and allocating loans according to the broad guidelines established by CamCCUL. Loans are divided into categories –health, education, consumption, building and trade– and are granted on the basis of simple loan-application procedures. Loans are secured by members' savings or co-signed by other members. It is difficult to ascertain the ultimate use of each loan, although one recent evaluation calculates that about 8 percent of all loans are made for trading and business purposes among family-owned small firms or shops and hence can be considered micro-enterprise loans. (De Santis and Lang 1989).

The evaluation of this organization, conducted as part of the A.I.D. Stocktaking exercise, states the following regarding its savings mobilization capacity:

> CamCCUL, when viewed in the context of the banking environment in Cameroon, is on the verge of having significant impact on the banking

> sector and capital markets. The banking system ... has not developed effective intermediary structures to mobilize savings and make loans, and cannot reach small-scale borrowers. While the capital base of CamCCUL, at 2.5 billion CFAF (US$8.3 million) is small in comparison to the capital base of the combined formal banking system. CamCCUL has begun lending to agricultural cooperatives ... as this portion of the portfolio increases, borrowers may turn more frequently to CamCCUL as a source of borrowing (De Santis and Lang 1989, 9).

Additionally, the ability to mobilize savings comprises the key to CamCCUL's financial sustainability. In the last four years, the organization has reported earnings between 102 and 108 percent of expenses. Of these, 89 percent come from investments of its Central Liquidity Fund, which is made up of 25 percent of the shares and savings of its member credit unions. Thus, the organization has developed a financial viability and sustainability based primarily on its capacity to mobilize savings among its members.

4. Lessons From Successful Credit Union Programs

The CamCCUL example, briefly summarized above, is considered a successful credit union movement. From it, and the experience of other credit union programs, one can summarize the following factors that pertain to this discussion:

- Growth in membership, growth in savings and growth in loans outstanding constitute three key indicators of credit union performance (Cuevas 1987a). As the credit union grows, its deposits increase relative to loans outstanding, in the same way as observed in the micro- enterprise programs described above. Indeed, the issue of expansion is also an essential concern for every credit union.

- Credit unions are organized around a "common bond" of membership, which unifies the group socially and defines the credit unions' potential market (Marion 1987). Likewise, both informal associations and micro- enterprise programs build both lending and savings operations around socially cohesive groupings drawn together by occupation, kinship or geographic proximity.

  However, in the case of credit unions, it is hard to ascertain the income level of the members. In the case of the Cameroon experience, the credit unions address low-income, low-middle-income and middle-income populations, probably a pattern followed by most credit union programs. Nevertheless, it is difficult to disaggregate the beneficiary population by income or by gender, or to assess the degree to which credit unions reach the self-employed poor.

- The dependence on character reference, simple loan application procedures, small loan size, obligatory savings, and a relationship between loan size and savings are some of the characteristics that occur in both credit unions and effective micro-enterprise programs. These factors resemble the characteristics of informal savings and lending associations. In fact, one of the factors that contribute to the performance of the CamCCUL is its basis on the informal savings and lending clubs, the "tontines," and its ability to build on the concepts of group association and the collective borrowing and savings practices in the culture (De Santis and Lang 1989).

- There is a considerable difference between credit unions and micro-enterprise programs in the area of interest rate on credit. Credit unions tend to charge relatively low nominal rates, although generally higher than subsidized government and other development programs. Resistance among members inhibits rapid adjustment of interest rates during inflationary times, which has the tendency to slow savings and therefore curtail lending activities. Legal constraints in some countries can also complicate this situation. By and large, micro-enterprise programs, although restricted by the same legal considerations, exercise greater flexibility in establishing interest rates, which tend to be closer to market rates than do those of credit unions.

The preceding examples have shed light on the factors that motivate people to save and have linked these factors to existing micro-enterprise development programs that feature successful savings mobilization schemes. While the discussion has focused on a handful of cases and attempted to delve into them with some depth, these are by no means the only programs that mobilize savings among rural and urban informal sector populations. For example, the Self-employed Women's Association (SEWA) in India and the Fundacion Integral

Campesina (FINCA) represent two of the several other important examples of savings mobilization (Sebstad 1982; Hatch 1987; Blayney and Otero 1985). Multiple examples in many countries, although relatively small and seldom documented, except in passing, nevertheless affirm the importance of micro- enterprise programs in the savings arena (Rielly, draft, 1988).

It becomes clear from this chapter that savings mobilization among those formerly considered least able to save is not only possible but that a variety of examples illustrate how it is done. In this context, micro-enterprise programs, although still at a pioneering stage, have developed an important understanding of the factors that promote savings among the poor. Further, these programs have also designed methodologies that have yielded an impressive record in savings mobilization in the last few years. Drawing from their experience, one can propose savings mobilization strategies that encompass methodological, policy and legal considerations and can enable other micro-enterprise programs to take up this challenge.

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CHAPTER III

MOBILIZING SAVINGS: SUGGESTIONS FOR MICRO-ENTERPRISE DEVELOPMENT PROGRAMS

A. INTRODUCTION

This concluding chapter seeks to provide methodological guidance and to suggest a range of institutional approaches to building a savings mobilization component in a micro-enterprise program. While the rationale for doing so appears evident, and is spelled out below, the legal and policy framework within which programs operate is less obvious, and requires close scrutiny. In the final analysis, a country's existing laws and policies regarding savings mobilization will be the most powerful determinant of how a program proceeds in this area.

B. A RATIONALE FOR MOBILIZING SAVINGS AMONG THE POOR

A savings mobilization component should be an essential part of any strategy to extend resources to the informal sector. As Vogel asserts, "Financial institutions that ignore savings mobilization are incomplete institutions". (Vogel 1986). The experience of micro-enterprise programs recorded here attests to their capacity for stimulating savings among program beneficiaries. While restructuring micro-enterprise programs to include savings is not easy, there are various compelling reasons to do so.

Policy Considerations

Currently, most developing countries experience a low level of domestic savings. Although the statistical evidence shows widely varied patterns, both for the level of domestic savings and for its composition (private and public), it is clear that, almost without exception, the propensity to save among poor households, both urban and rural, remains outside national efforts to mobilize domestic savings (Holst 1987). It is also apparent that financial institutions, in general, are currently ill-equipped to stimulate savings among this population, in part because of the structural shortcomings and bottlenecks discussed above, and in part because of existing national policies that discourage savings. Additionally, in situations where inflation has eroded people's desire to save, as in Bolivia during the mid 1980s, mobilization of savings also requires changing attitudes and educating depositors on this issue. However, where high inflation persists, encouraging savings among the poor would not be advisable.

Organizations that implement well-structured and sustainable micro-enterprise assistance programs help fill this institutional gap. They draw from existing experience to expand their resource-mobilization capacity and to fine-tune current efforts at savings among low-income groups. Although not quantified, when one begins to consider the amount of savings among poor households that never enters the formal financial system, the figure appears to be of considerable import. Informal group activity, coupled with micro-enterprise development programs, while still insignificant in most countries, are growing. It has generated, and can be expected to generate, considerable savings in the total economies.

From another perspective, savings mobilization among the poor improves resource allocation (Vogel 1982). In the context of a micro-enterprise program, it encourages people to channel funds into productive activities, rather than to use them only for consumption. In the aggregate, this can be a mechanism that contributes to the capitalization and growth of the myriad micro- businesses that exist in all developing countries.

Savings mobilization by micro-enterprise programs serves additional purposes that have broader policy implications. The outreach to existing and new savers can increase their marginal propensity to save. Participants in informal group-banking arrangements indicate that they save more than they would if they were to save in a solitary fashion, because of the discipline of having to meet regularly with the rest of the group to make a deposit (Miracle, Miracle, and Cohen 1980). Both empirical and anecdotal evidence allow us to make the same assertion about the savings behavior of participants in micro-enterprise programs (Reichmann 1987; Hossain 1988; Castello and Guzman 1988).

Related to the increased propensity to save is the knowledge that can be obtained from micro-enterprise programs about savings behavior among the poor and the factors that influence it. Especially in urban areas, little data exists on either the relative contribution of this population to the overall domestic savings, and/or its savings trends over time. More important, these programs can assist countries to identify the types of institutional and policy reforms that are necessary to stimulate savings amomg low-income groups, and to recognize their potential importance.

2. Institutional Considerations

For the implementing institutions, a savings component has substantial benefits. It can contribute to an improved repayment rate, especially if participants consider the savings scheme beneficial, if it encourages group cohesion, and if it increases the contact between the borrower and the institution. The sense of trust and program "ownership" that a responsive savings program creates among borrowers will also translate into word-of- mouth promotion of the program among potential participants. Increased liquidity recurs as an important consideration. In several of the cases examined above, especially in the Grameen Bank and an ACCION-affiliated program in Honduras, it is evident that savings constitutes a source of capital for the credit fund. This factor not only cushions the blow of delayed donor or loan disbursements, which can decimate a program, but also enhances a program's decision-making capacity regarding resource allocation and program outreach. In some cases, savings can generate additional income for the program, especially if held in long- term deposits.

Finally, the issue of portfolio protection is of paramount concern to an organization that is lending to tiny businesses or landless peasants. When savings serve as a type of guarantee, the level of risk assumed by the program is decreased and shared with the borrowers. Additionally, although managing a savings fund entails transaction costs for the program, these are minimal if proper systems are established, and if considered in light of the multiple advantages of savings mobilization.

When legal restrictions prevent an organization from capturing savings directly, a savings component serves as a mechanism for establishing a closer relationship with a bank, and negotiating both for the program and its beneficiaries. Over time, the evidence of thousands of timely savings deposits can soften the general skepticism about the informal sector that still afflicts most formal banking entities, and can contribute to increasing a program's access to commercial loans. For example, in the Dominican Republic, la Asociacion para el Desarrollo de la Microempresa (ADEMI) initiated its relationship with a private bank by having borrowers deposit their savings in individual accounts. After several years, the trustworthiness of the organization and its borrowers led the bank to establish a line of credit to ADEMI for its own lending operations.

3. The Borrower's Perspective

A well-designed savings mobilization component offers short- and long-term benefits to program participants. The obligatory nature of savings schemes assures that each person develops a capital base, regardless of how small it may be. This is no trivial matter for families living at subsistence levels, who are vulnerable to the vagaries of disease and other emergencies. As also mentioned, in many cases savings also serve to capitalize the micro-enterprise, enabling it to grow. In the Grameen Bank, for example, we note that about 50 percent of the loans made through the Group Fund went to productive activities, including the repair and maintenance of equipment and the acquisition of fixed capital (Hossain 1988).

The interaction with a bank, the process of earning interest, the discipline of saving, and the decision-making process on how to use savings, all constitute part of a capacity-building process that equips each participant with tools he or she needs to continue engaging in productive activities. By blending these areas of new learning with familiar features —emphasis on group savings, recognition of the importance of character references, and reliance on kinship relationships as the basis for economic transactions— the savings component provides not only a capital base but also a human-development dimension.

In sum, a properly devised savings component holds promise for the program participant and for the implementing institution, as well as yielding important information to be fed through policy- making channels.

The current challenge for micro-enterprise assistance organizations is to design savings schemes that:

- operate within the confines of existing banking laws or develop structural mechanisms that permit deposits;
- overcome the tendency among micro-enterprise programs to circumvent the issue of savings;
- take into account the interests of both the organization and the program participant; and
- do not lose sight of broader policy goals.

This paper has presented some examples of where and how this has worked, and on this basis can suggest methodological imperatives for savings strategies.

C. THE METHODOLOGY OF SAVINGS: A GUIDE

Two important conclusions emerge from this document that are pertinent to a discussion of methodology.

- It is not just people's marginal propensity to save that determines the savings mobilization capacity of a program. The experience documented here strongly suggests that the structure of the savings component defines how much people save.
- Successful methodologies in savings mobilization by micro-enterprise programs resemble the traditional savings schemes that have served the poor well for generations.

With these two conclusions as a backdrop, one can suggest how to convert them into methodological features that can enable a micro-enterprise program to mobilize savings in a significant manner.

1. Volume of Operation

The only way a program will have a measurable impact is if it establishes a capacity for gradual but constant expansion from the outset. The impulse to grow should be a driving force behind a micro-enterprise program not only because the size of the informal sector population demands a constant scaling up of lending activities, but also because it is the only way that a program can become self-sustaining (Otero 1988).

The programs analyzed here share this concept of expansion as a priority. All other methodological facets of the program flow from this consideration: the program structure, loan review and approval procedures, the monitoring plans, the management information systems, and the administration of operations, are all designed to handle at least several thousand borrowers each year. Unless the vision of an ever-growing program also guides the mobilization of savings, the rationale for including this component will become limited primarily to the capacity-building role it plays among borrowers.

2. A Structure that Links Savings Mobilization and Credit Activities

From a methodological perspective, it appears that programs are successful at mobilizing savings when these are tied directly to the credit operation. Every time a person receives a loan, he or she must deposit a specified amount in savings. In this manner, as the credit portfolio grows, so does the mobilization of savings among program beneficiaries. The regularity of deposits, and the specificity of the amount are analogous to the collection procedures found in most rotating savings and loan associations.

Organizations choose from a variety of methods to establish a structure that links credit and savings. In the Grameen Bank, several mechanisms are operating at once, including a percentage of the loan allocated to savings, and a certain amount that each person must save on a weekly basis. In ACCION-affiliated programs, the approach varies. In some cases, the borrower must save a percentage of the loan, but the percentage may change with the size of each loan. This amount is included in the borrower's weekly or monthly payment. In other cases, the established amount is subtracted from the loan before it is disbursed to the borrower, a system also used by the BKK in Indonesia.

The advantages of this structural link are significant. The program can project the level of savings it will mobilize by reviewing its projected loan disbursements. This can be extremely helpful, especially when a program experiences a liquidity squeeze. The transaction costs, both for the borrower and for the institution decrease if savings are handled as part of the credit operation. This factor is identified as a key determinant in making programs sustainable by keeping costs down, and in stimulating savings by facilitating deposits, which makes a strong argument for linking the credit and savings operations. Finally, this link implies a reciprocity between the borrower and the institution: the former agrees to make timely deposits and the latter commits itself to quick loan review and disbursements.

3. Efficient Systems and Procedures

Closely related to the structure of a savings component are the internal systems that must be in place to sustain it. For example, a savings mobilization policy and operational manual developed by the institution becomes a tool for defining a savings policy in a disciplined manner, establishing the day-to-day operations, identifying the possible bottlenecks and submitting existing policy to periodic revisions. While there is no one way to formulate a savings component, several factors should appear in all systems.

- Deposits should be made in small amounts and at established, regular intervals.

- In cases where the savings scheme is based on small groups, the presence of an elected leader to guide decision-making and handle transactions will operate effectively.

- The monitoring should be computerized and integrated into the overall credit-monitoring function.

- The borrower, whether an individual or a group, should keep a record –a savings book, a monthly statement– that documents individual or group savings and the interest it earns.

- The program must guarantee the depositor quick access to savings. Even in cases when program participants must maintain a certain balance in order to continue participating, they should be able to leave the program and withdraw their deposits in a timely and unbureaucratic manner.

- Program staff must receive regular training that not only helps them become conversant in the factors that surround savings mobilization, but also equips them to pass this knowledge on to program participants.

- The system should not only operate at a level of efficiency necessary to keep records, but also at a level that will enhance the trust the borrower has for the organization and the sense of security he or she feels about the safety of deposits.

- Programs can also consider a system for voluntary savings mobilization independent of borrowing, to encourage former borrowers to build on previous savings, and to attract non-borrowers.

- Programs should take into account certain factors, like the clear sense of mission and efficient management style that is apparent in the programs of the Grameen Bank, that continue to underlie the successful micro- enterprise programs.

4. Interest Rate Structure

Nearly all the literature on savings mobilization identifies the rate of return as a powerful determinant to savings mobilization in both formal and informal systems. The same applies to micro-enterprise programs. In cases where the institution captures savings, the interest it pays on deposits should be comparable to the market rate, and adjusted accordingly. In cases where the participants make deposits directly to a designated bank, the micro-enterprise development organization should ascertain that the interest rates the bank offers are competitive.

Micro-enterprise development programs that can capture savings and charge commercial interest rates on credit can also offer an attractive return to depositors and avoid the pitfalls that emerge where subsidized rates reign. In the cases presented in this document, the credit-lending organizations are less susceptible to the types of policy restrictions –such as rediscounted lines– or institutional imperatives –such as the pressure a cooperative or credit union may experience to use subsidized rates– that mandate low interest rates. Indeed, the micro-enterprise programs can grow and have a chance to become sustainable only by working with commercial interest rates.

5. Savings as a Requirement

Whether savings should be obligatory or voluntary remains something of an open question. What the evidence indicates is that when savings is obligatory, and when this is understood from the outset, the level of savings mobilized grows appreciably. Nearly all the programs that have mobilized substantial savings feature regular deposits as a prerequisite to program participation. Nevertheless, some, such as FINCA, and the more recent experience of the BKK, rely on voluntary savings efforts, and although they create powerful incentives for savings, they do not establish a required minimum.

In general, one can ascertain that a compulsory savings scheme is an effective way to mobilize savings among the poor in the context of a broader micro-enterprise development program. If savings deposits are secure, accessible, and yield a good return, program participants seldom express dissatisfaction with this approach. Furthermore, as discussed above, the advantages that accrue to the implementing institutions are considerable, as is the possibility of the demonstration effect.

Nevertheless, several important arguments against forced savings schemes should not be ignored. Could forced savings contribute to a decrease in the family's standard of living, especially for those living at a subsistence level, by diverting funds otherwise used for basic needs? Does the obligatory nature of savings enhance a poor person's understanding of its importance and create a different attitude towards it, or does it merely increase dependence on the program? Can a program be responsive to the beneficiaries' needs, create the trust necessary for effective operation, and at the same time mandate savings deposits as a requirement?

The answers to these probing questions cannot be isolated from the overall vision and philosophy of the institution that contemplates the mobilization of resources. The important point is that each institution must consider these issues, and that its methodology must reflect a coherent response to them. The Grameen Bank is an example of an organization whose methodology for savings emerges from its broader approach to working with the landless rural poor.

6. Individual and Group Savings

The most widely publicized savings schemes in micro-enterprise programs rely on group mechanisms for collection and, in some cases, allocation. Operating through self-selected groups is undoubtedly the most advantageous way to administer a micro- enterprise program, for reasons related to efficiency, volume, self-sufficiency, social impact and other factors discussed throughout the micro-enterprise literature.

Nevertheless, indications are strong that group mechanisms need not be a required feature of a successful savings component. A variety of examples –from BKK in Indonesia to Asesores Para el Desarrollo (ASEPADE), an ACCION-affiliated program in Honduras– demonstrate the validity of promoting individual savings. In these cases, the program participant makes deposits according to a pre-determined schedule and maintains a savings book or other record of his or her savings. In the case of ASEPADE, this modality is used only with micro-producers, who also receive individual loans and who are clustered into groups by type of activity, but only for the purpose of training and formation of trade associations (ACCION 1988).

D. THE STRUCTURE OF A SAVINGS PROGRAM: GRAPPLING WITH THE LEGAL FRAMEWORK

1. The Policy Setting

Most of the micro-enterprise development programs are conducted by private, non-profit institutions. Of the 87 programs that A.I.D. studied under its stock-taking exercise of micro- enterprise development programs in 1989, 58 were implemented by non-profit organizations. Hence, the issues related to structuring a savings component focus on factors that these private non-profit organizations must take into account.

Those entities that can capture savings vary by law from country to country. The laws surrounding savings constitute a major consideration in the way a program structures a savings component. Not surprisingly, as has been implied above, the legal framework within which micro-enterprise programs operate, rather than institutional, methodological or program-participant concerns, poses the most formidable constraint to significant savings mobilization through micro-enterprise programs.

Each country's regulations of the savings issue have important justifications. The specificity of the law regarding the institutions that can engage in accepting deposits reflects a concern that only credible, well-constituted institutions with sound financial and operational guidelines participate in this activity. Deposit insurance, reserve requirements, and other regulations are ways of protecting depositors from questionable institutions that could endanger their assets. While these considerations are certainly valuable, private non-profit organizations with sound financial and operational records have not been studied as a category that could fit into this legal scheme.

Private, non-profit institutions in most countries in Latin America, for example, face restrictions. ACCION-affiliated organizations, for example, in Bolivia, Paraguay, the Dominican Republic and Costa Rica are straitjacketed by the law. Hence, even if these institutions could meet the regulations that govern savings transactions in general –reserve requirements, return to depositor, and others– their legal constitution as not-for-profit entities excludes savings mobilization from their sphere of activity. In most countries, only commercial institutions, cooperatives that fulfill certain requirements, and other entities, such as savings and loans, that usually constitute part of the country's financial sector, can accept savings deposits.

Currently, it is incumbent on each private, non-profit institution to obtain information about the laws governing savings mobilization in its own country. Since there are no cases where governments both recognize the considerable potential of organizations that conduct micro-enterprise programs to capture savings, and either facilitate or encourage this activity, each institution must break new ground in this area.

An obvious first step is to become familiar with the existing policies and to advocate for change. However, undertaking policy reform is no easy task. Mighty commotions ensue when talk of policy reforms threatens the current structure and its beneficiaries, especially if these reforms require treading in untested waters. Many factors must converge before a country engages in serious policy review and reform, and although non-profit institutions should foster this dialogue, one safely can assert that the process of change will be slow and long-term.

2. Creating Alternative Structures for Savings Mobilization

In this light, the challenge for institutions that implement micro-enterprise programs is twofold: to explore alternative structures for savings mobilization that need not wait for policy changes in their countries; and to expand the policy debate to include the issues related to domestic savings that emerge in this and other documents.

Considering alternative structures for savings mobilization is a difficult task. This approach requires that each private, non-profit institution study the variety of possible ways it could create a new institution to capture savings, and determine which of these is most suited to its own institutional and programmatic needs. Expanding the structure of a given non-profit institution could entail fundamental changes in the institution's operations and methodology that must be reviewed carefully, especially if this process carries potential risks for the institution's viability.

Any structure considered by a private non-profit organization to enable it to capture savings must, at a minimum:

- operate within the country's existing laws governing commercial and banking activities;
- enable the micro-enterprise organization to access the funds, directly or indirectly, to expand its own lending capacity;
- serve as a partial guarantee against bad loans; and
- assure the depositor of security, quick access, and an adequate return.

One alternative for a private non-profit organization is to create a parallel institution with the legal characteristics necessary for savings mobilization. For example, the creation of a credit union or a savings and loan cooperative adjacent to the non-profit institution and operating as part of the program, could be one way to enable the program to capture savings. With some technical assistance, the institution could explore the advantages and risks of this approach, and could respond to the legal, financial and operational changes that it would require.

In Colombia, for example, cooperatives with 20 or more members can capture deposits and lend to their members. In the case of the Cooperativa Multiactiva de Desarrollo Social (CIDES), an ACCION-affiliated organization in Colombia, its status as a cooperative allows it to manage the savings directly, and over time to develop additional credit lines that members of long standing can access. This way, in addition to its participation in the ACCION network, CIDES also lends through its other credit lines, thereby "graduating" small borrowers, and freeing up resources for new program participants.

The gist of these suggestions is not to promote the creation of additional institutional structures in settings where there may be a glut of development institutions. Rather, the critical issue is the possibility of expanding qualified, private non- profit organizations that reach micro-enterprises to resemble financial institutions more closely. As donors, governments and others tend to look to formal financial structures to work with micro-enterprises, private non-profit organizations will have to consider ways of advancing their own institutional capacity so as not to be bypassed in their work. The interest in finding ways to capture savings fits into this broader concern.

Another alternative open to a private non-profit organization involves the formation of a savings and loan association owned by the solidarity group members and the institution. In this case, the institution would have to devise the institutional nature of this arrangement, the relationship with the borrowers, and the mechanisms needed to access these savings for lending purposes.

Additionally, the institution can design innovative ways to circumvent the letter of the law while maintaining its spirit. For example, a program in Indonesia offers a rebate on the interest rate to borrowers who make all payments on time, in effect engaging in a forced savings scheme during the period of the loan, and promoting timely payment. Another program, in Bolivia, allocates a portion of each loan towards capitalizing its credit fund, thereby also relying on a compulsory savings approach.

A final alternative for the private non-profit organization is to enter into a special agreement with a bank that allows it to have access to the savings that are mobilized and deposited in the bank, for example as collateral for a loan from the bank to expand the credit fund. This arrangement satisfies the borrower's need to have a place to save, although it does not give the institution access to deposits. When an organization can borrow from the bank, its liquidity issue for the credit fund is resolved. Nevertheless, the organization then needs to cover this financial cost through the interest rate it charges the borrower.

The creation of alternative structures is extremely complex, difficult to replicate in different settings and dependent on a series of variables that lie outside the scope of knowledge or experience of most non-profit organizations. Nevertheless, this approach constitutes an alternative to savings mobilization and to building more sustainable programs to reach the informal sector that is worth exploring.

E. CONCLUSION

Not enough statistical evidence is available to enable us to quantify the magnitude of the savings mobilization potential among the poor (Rahman 1987). The review presented in this document, the conclusions it draws regarding the savings capacity among the poor, and the suggestions it makes about mechanisms that can respond most appropriately to savings mobilization highlight the importance of focusing on this component of the overall economic equation in developing countries.

Clearly, the relationship between savings mobilization and micro- enterprise programs requires additional study. This document suggests that several areas of research and action merit exploration:

- The dichotomy of compulsory and voluntary savings raises interesting issues about savings mobilization. Greater clarity about the dynamics of these savings approaches and their effect on savings behavior would assist micro-enterprise programs to design more effective savings mobilization schemes.

- We currently know a great deal about the dynamic between policy and savings mobilization, especially on the topics of subsidized interest rates, location of bank branches, and government incentives. Most of our knowledge relates to the formal banking system, especially in rural areas. However, almost nothing is written about the relationship between existing laws and policies, and the capacity of micro-enterprise programs to mobilize savings. Although existing policies prohibit deposits on the part of private non- profit institutions, this issue has received little attention. This factor is a key determinant to how private, non-profit micro-enterprise programs evolve in savings mobilization. Considerable research is necessary in order to formulate appropriate country-by- country responses.

- A significant gap exists in our knowledge of the opportunity costs, from a domestic savings perspective, of excluding qualified non-profit organizations from resource mobilization. Having reviewed the advantages that savings holds for the programs and the beneficiaries, we find it highly likely that more organizations would include savings as a program component, if this were legally permitted.

- Most institutions that conduct micro-enterprise programs have shied away from savings mobilization for a variety of reasons, beyond the legal constraints, that are not fully understood. Assisting organizations to determine what factors contribute to their reluctance in savings mobilization will be an important component in engaging micro-enterprise programs in this area.

- The issue of gender and savings mobilization, briefly explained above, also requires study. In spite of the literature on savings mobilization in general, little exists on the gender considerations to savings behavior.

Credit and savings relations will continue to undergo changes over time as they respond to changing environments, demands, and incentives. It is also clear that the informal sectors of developing countries will continue to grow and to contribute in increasingly significant ways to the productive economy and to the generation of employment. This sector may also hold a promise for mobilizing domestic savings that we are only now beginning to take seriously.

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