Mobilising small-scale savings

There has recently been growing interest in programmes aimed at increasing financial savings, especially through the expansion of branch office networks and other services, into relatively poor rural and urban areas. The notion that the poor are unable to save has increasingly been challenged. Although there are growing numbers of successful savings mobilisation programmes in developing countries, there had been no systematic analysis of such programmes.

In this study*, Robert Vogel of the American University in Washington DC, and Paul Burkett of the University of Miami, both consultants to the World Bank, attempt to develop a framework for analysing the benefits and costs of programmes to mobilise deposits from non-wealthy households. The framework distinguishes between the flow of new savings and savings as a stock of wealth.

The study concludes that non-wealthy households benefit from improved savings facilities provided by safe, liquid, interest-bearing deposits that allow households to earn a positive income on their savings balances and avoid the erosion of these balances by inflation.

This facilitates the accumulation and withdrawal of funds, for lump sum investment in physical capital and for the funding of cashflows associated with consumption and the operating costs of capital. Also, the greater use of the financial system generates social efficiencies through the pooling of risks and through information economies in the allocation of funds for investment.

The success of deposit mobilisation programmes aimed at small savers is held to depend on competition in the financial sector and the regulatory environment — the most efficient means of improving deposit opportunities are the removal of regulatory constraints and the promotion of competition.

This study suggests that reciprocity, that is, whether financial institutions make loans to their depositors, is an important issue in small saver programmes. A comparison of the experience of postal savings banks, credit unions, informal savings and credit associations, and other institutions, suggests that access to credit and confidence in the viability of financial intermediaries are important determinants of the decision to save in financial forms.

The extent to which financial intermediaries lend to the same people from whom deposits are obtained affects the success of small savers' schemes. Institutions that provide both deposits and lending facilities to the same customers also enjoy significant cost advantages compared to those which do not. However, these must be balanced against possible losses of specialisation.

The study examines lending activities of three types of deposit taking institutions: postal savings facilities, rotating savings and credit associations and credit unions. There are also three case studies: the expansion of bank offices in India, the potential for savings mobilisation in Nigeria, and savings mobilisation by BANCOOP (the National Co-operative Bank in Peru).

The case studies suggest that the cost of small savers' programmes need not be large. They also indicate the crucial role of financial innovation and reciprocity in determining the viability of branch office expansion as a tool for improving deposit opportunities in developing countries. ■

**Mobilising Small-Scale Savings,* Approaches, Costs and Benefits, by Robert C. Vogel and Paul Burkett, World Bank Industry and Finance Series, Volume 15 (obtainable free of charge from the Publication Sales Unit, Department T, The World Bank, 1818 H Street, NW Washington DC 20433, USA or from the European Office of the Bank, The World Bank, 66 avenue d'Iéna, 75116 Paris, France.