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Microsavings programs build wealth, pennies at a time

By [Ylan Q. Mui](#), Published:
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The global financial crisis has turned us into a world of savers — including the poorest people on the planet.

Elsa Ligua is one of them. As a food stall vendor in the Philippines, paying for her four children to go to college once seemed unimaginable. But Ligua scrapes together 50 cents every day to give to a savings collector who visits her home. The money is deposited in a bank account that pays interest and is insulated from the daily demands of life below the international poverty line. She hopes to have \$200 squirreled away by this summer — enough to pay at least some tuition.

The moral of Ligua’s story, [told to a nonprofit group working with her bank](#), seems simple enough: Saving money, even if it’s only pennies at a time, is a guaranteed way to build wealth. But that idea is upending decades of popular wisdom about poverty and the best way to eradicate it.

The “microsavings” concept is taking root in developing countries where nonprofit groups and financial institutions in the past preached that credit was the key to attaining a better life. But as [impoverished borrowers began defaulting on debts at alarming rates](#) in recent years — sometimes with fatal consequences —

many organizations began questioning the power of credit. That led to some industry soul-searching and to the rediscovery of perhaps the most basic and universal instrument of personal finance: the piggy bank.

“There’s a common, misguided, knee-jerk reaction that if you’re poor, you have no assets to save,” said Dean Karlan, a Yale economist who runs the nonprofit Innovations for Poverty Action. “People who are poor obviously save less, but they still save.”

Microsavings programs include informal savings circles in Africa and mobile-phone deposits in India. The field has attracted [\\$500 million in grants from The Bill and Melinda Gates Foundation](#). Many institutions that were making microloans are now adding microsavings to their offerings; some have stopped lending money.

Still, the sector is just a sliver of the size of microcredit (a.k.a. microlending). Growth will hinge on making the case for companies to invest in a business model with uncertain returns and high costs. It will need technological advances that allow financial institutions and their customers to access and move money quickly. And it will require building the trust of the poor, penny by penny.

“I think everybody thought this stuff is just gonna take off like wildfire,” said Kim Wilson, who lectures on microfinance at the Fletcher School at Tufts University. “It’s slow. It requires a lot of investment in time.”

Going up or down

The essential question facing the poor, as Karlan’s group describes it, is whether to save up or save down.

Saving down is a way to describe credit: The lump sum comes at the start and is slowly whittled down. Saving down is expensive because borrowers have to pay interest on those loans. But they can reap the benefits of the money immediately and put off the financial obligations until later.

[Microlending’s founding father, Muhammad Yunus](#), hoped to create a virtuous circle that eventually would lift borrowers out of poverty. He began by lending his own money to help Bangladeshi women buy bamboo so they could make

furniture to sell. His interest rate was lower than the local moneylender, but Yunus realized that if he made enough of the loans, he could run a profitable business while helping the poor. His work earned him a [Nobel Peace Prize in 2006](#) as microlending blossomed around the globe.

But the global recession showed that when the virtuous circle breaks down, the outcome can be disastrous. Dozens of people in India reportedly committed suicide after defaulting on microloans.

Wilson joined Catholic Relief Services in 1998 and was placed in charge of its microlending programs in countries from Uganda to Cambodia to El Salvador. Although the programs reached more than 200,000 borrowers, she realized that the reality was falling far short of the promise of microcredit.

Her employees reported moral concerns over shaking down delinquent borrowers one day and providing counseling the next. Villagers began to realize that they might never climb out from under the debt they were accumulating. Many had taken out loans from more than one creditor. And keeping lenders profitable required making more loans at ever-higher interest rates.

“It felt like people were on a treadmill,” Wilson said. “They were never getting off the credit once they got on it.”

Then Wilson remembered the other side of the coin, largely forgotten during the microcredit boom: saving.

During three years in India, Wilson watched local women manage their money in an entirely different way. Savings groups were beginning to pop up in India and Africa, nurtured in part by organizations like Wilson’s that were growing disenchanted with the microcredit model. In the most basic model, members pledged to put a small amount each week into a communal fund. Then the women took turns using the pot of money.

Wilson said watching the women haggle over the accounts was re-energizing. She helped unwind Catholic Relief Services’ microlending operations and helped spread the savings model. The group’s programs now reach about 2 million people in India, Africa and Central America.

“We were just tapping into an energy and structure that was pretty uplifting and just bringing it into the hinterlands,” she said.

Delayed gratification

But saving money can be a slog.

The process is slow and laborious. It requires discipline and delayed gratification. And for many poor people, it is risky. Money can be lost or stolen, even eaten by rats.

That’s because many poor people rely on informal methods of saving — such as hiding cash in the house. They may also invest in livestock or jewelry or ask trusted friends or relatives to hold it for them.

Savings groups are a sort of hybrid of formal and informal financial systems. The money stays within a tight circle of women, but the regularity and transparency of the transactions mimic, to some extent, deposits in formal bank accounts. In addition to Catholic Relief Services, major nonprofit groups such as Care International have helped replicate the system across Africa and Asia. Activists say microsavings can also reach the poorest of the poor, far outside the reaches of the formal banking system.

The distance between poor villages and bank branches is one of the biggest obstacles to persuading people put their savings in a bank account. For many, the cost of traveling to the branch is often greater than the amount they have to deposit. Bankable Frontier Associates, a consulting group, found [costs as high as \\$1.29 for a one-way trip](#) to a bank at which 30 percent of the customers lived below the nation’s poverty line.

Meanwhile, banks are struggling to make money on accounts whose deposits are infrequent and balances can average as little as \$29, [according to the group](#).

“Making the business case to even the most socially motivated financial institution . . . was really hard,” said Sharon D’Onofrio, executive director of the SEEP Network, an umbrella group of microfinance organizations.

Cellphones offer one way to tackle some of those issues. The Grameen Foundation worked with Indian microfinance giant Cashpor to develop a mobile

banking system. It allowed customers to deposit money by text message, saving them the trip to the bank. The digital transaction also reduced the bank's operating cost, which makes providing accounts more feasible.

Still, the technology remains in its infancy and faces practical hurdles. Although cellphones are increasingly popular, many poor people still do not have their own or know how to use one. A [survey](#) of 65 women who had signed up for Grameen's program found that about two-thirds needed help to operate their phones.

And even those who do sign up for a bank account continue to use informal methods of saving. More than half the customers at two banks profiled by Bankable Frontier Associates still hid money in their homes.

Although proponents are still looking for better ways to encourage saving, they believe that the market for those services is vastly larger than for microcredit.

“Not everyone is an entrepreneur,” D’Onofrio said. “Not everyone needs a loan, but everybody needs to save.”

Even in the U.S.A.

Microsaving isn't happening just in the developing world.

A California nonprofit group called Opportunity Fund has been working with low-income residents through a program that encourages them to save by contributing to their accounts.

The program promises participants \$2 for every \$1 they sock away, if they promise to leave the money untouched for at least six months. They also must complete a financial education course and deposit at least \$20 a month. The program maxes out once they've saved \$2,000 of their own money — for a grand total of \$6,000.

“It kick-starts an entire turnover in their financial life,” Caitlin McShane, the group's communications director, said.

Although the matching funds are a major incentive to save, McShane said, making small, regular deposits helps clients develop new habits. About three-

quarters of Opportunity Fund participants continue saving after the program ends, she said. And 80 percent open savings accounts for their children.

Participants also have to declare how they will use their savings, typically for a business or for education.

Patricia Lonergan opened her account in September with \$167, the amount left in her rainy-day fund.

Lonergan began slowly depleting that fund after her employer went bankrupt and she lost her job in 2011. She launched her own business, Lemon Tree Organics, making and delivering soups last year. But she wasn't able to rebuild her savings.

“You don't do it,” Lonergan said of putting money aside. “It just makes you more focused, when someone's saying to you, ‘We want to give you this opportunity, but you have to commit to doing this.’ ”

She now automatically deposits \$150 a month into her Opportunity Fund account. If she stays on track, she will reach her savings goal next year. She hopes to use the money to buy her own computer; she currently borrows her sister's to print soup labels for her business. Maybe she will even learn how to put together a Web site.

About 4,000 people have participated in Opportunity Fund since its launch in 1998; altogether they have saved about \$13 million. The program is the largest of its kind in the United States. But McShane said the success of the program is offset by the size of demand.

“It's not great when the problem is so much bigger,” she said.

And it's not just the poor who are rediscovering the value of saving. In the United States, savings rates have rebounded to about 4 percent of disposable income after plunging to about 1 percent during the boom years.

As Karlan, the Yale economist, put it: “Everybody is a microsaver. Literally.”

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