Savings, Assets, and Social Protection in the 21st Century

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Savings and the Poor

Savings by the Poor – nothing new

- Rutherford: The poor have always saved; they are too poor not to manage their money well
- Experience of credit unions, banks, NGOs and, increasingly, governments

Greater demand for savings services (CGAP, 2006)

- "When savings accounts in financial institutions serving the poor outnumber microloan accounts seven to one, one thing is certain: microfinance clients want savings services."
- "There is lots of evidence suggesting that poor people would rather save, turning small amounts into a lump sum, than borrow a lump sum and then pay it back."
- Nicholas Kristoff, New York Times: "Sparking a Savings Revolution" op-ed (Dec 2009)

Savings linked to cash transfers

- Cash transfers / social payments traditionally made in person in cash, or via food aid
- Growing use (now 25%) of government-to-person (G2P) payment systems (via electronic cards or bank accounts) presents a great opportunity to link to savings
- Child allowances are also good opportunities to link to savings

Savings linked to conditional cash transfers (Zimmerman and Moury, 2009)

- Mexico, Peru, India, Argentina, Bangladesh, Columbia, Ecuador, Guatemala, Indonesia, Nigeria, U.S., Philippines, Turkey, Brazil, Dominican Republic
- Programs are new and evidence limited – but can CCTs linked to savings reduce poverty and promote greater investment in human capital?

Savings leading to productive assets

Savings for Productive Assets

- Public, non-profit, and private strategies to enable poor, low-income, and moderate-income persons to save and accumulate long-term, productive assets—a home, post-secondary education, investments, land, a small business, and a nest-egg for retirement.

- Michael Sherraden, Assets and the Poor (1991):

  1. Economically, assets are the key to economic security.
  2. Asset ownership is associated with positive social, civic, behavioral and psychological effects not necessarily associated with income.

  "Lack of income means you don't get by; lack of assets means you don't get ahead." "Assets are hope in concrete form."

- Long-term, inter-generational perspective

- Informed by Amartya Sen—assets as the economic proxy for Sen's notion of "capabilities."

Global Context of Asset Development

- 3 billion people worldwide lack access to basic financial services (CGAP, 2006). By region:

Region	Accounts per 100 people
Asia and the Pacific	17
Middle East and North Africa	13
Sub-Saharan Africa	4
Europe and Central Asia	5
Latin America and Caribbean	3
Overall	13

- The world's richest 2 percent hold over half of the entire world's wealth, while the bottom 50 percent hold only one percent (World Institute for Development Economics Research, 2006)

- Many countries have public policies that actively build wealth for at least the upper-half of the population. The goal of asset development is *inclusion* in those policy systems, or the creation of policies that build wealth for the world's poor.

Value Added of Assets Approach to Combating Poverty

U.S. & advanced economies

- Income is defining feature of anti-poverty policies
- Assets ignored—and often penalized, while subsidized for non-poor
- *Assets approach*: remove barriers to and offer incentives for accumulating savings and assets by the poor

Social Protection and Sustainable Livelihoods (Moser, 2006)

- Social Protection: Focus on protecting the poor and vulnerable against negative risks and shocks
- Sustainable Livelihoods: Sustaining activities required for means of living
- *Assets approach:* Creation of positive opportunities for sustainable asset accumulation

Microfinance

- Microfinance: recent and growing focus on savings
- *Assets approach:*
  - Savings that lead to assets
  - Asset ownership is associated with positive outcomes not necessarily associated with income

Sample Assets Projects and Policies

(see GlobalAssetsProject.org)

At birth, children

- Policies: Singapore, South Korea, Canada, UK, Israel
- Programs/Pilots: Children's Development Bank (Asia), World Vision Ethiopia,
- Products: Hatton National Bank (Sri Lanka), Barclays Bank (Uganda, Ghana)

Youth

- "SUUBI" project (Uganda)
- Bayelsa State Government (Nigeria)
- "YouthSave" project (Kenya, Nepal, Colombia, Ghana)

Adults

- Assets Africa (Uganda)
- China (Western Xin Jiang region)
- Taipei (Taiwan)

Findings Thus Far

Can the poor save?

How they save, and what difference does it make?

- How they save (Schreiner et al., 2002; Sheraden and Barr, 2005; Brown, 2009)
  - Who saves matters little, but who has access to institutional savings structures (or savings “plans”) matters a lot
  - Incentives matter, but not as much as we thought
  - Defaults matter
  - Convergence of Sherraden’s “institutional determinants of savings” and behavioral economics

- What difference does it make?
  - Holding assets appears to lead to positive social, behavioral, psychological, civic and other outcomes for children and adults
  - What leads to what effect: the account, the savings, amount of savings, level of savings, type of asset, and level of assets?
  - Can savings and asset development strategies promote financial inclusion?

Research on Asset Effects

- Holding assets at 23 is associated with later positive outcomes such as better labor market experience, marriages, health and political interest. (Bynner & Paxton, 2001)
- The presence of the asset appears to matter more than the monetary value of the asset. (Bynner & Paxton, 2001)
- The presence of small wealth at critical times can have "transformative" effects on the life course. (Shapiro, 2004)
- Parental wealth is positively associated with cognitive development, physical health, and socio-emotional behavior of children – even in very poor families. (Williams, 2003)
- The "Suubi" project in Uganda has demonstrated that owning a Child Development Account instills a future orientation powerful enough to motivate orphans to avoid the risky behavior that can lead to AIDS. (Ssewamala, 2009)
- found that children of low-saving, low-income parents are significantly less likely to be upwardly mobile than children of high-saving, low-income parents. (Cooper and Luengo-Prado, 2009)
- Low-income, single mothers' assets are positively associated with children's educational attainment. (Zahn and Sherraden, 2003)
- Assets lead to positive attitudes and behaviors, and positive attitudes and behaviors lead to assets may be a glimpse of a "virtuous cycle" wherein household development is a reinforcing feedback loop. (Yadama and Sherraden, 1996)
- Households with access to assets are better able to provide for their basic needs and make important investments in future generations through health care, education, and training, while those lacking assets are more vulnerable to poverty. (Chowa, Ansong, and Masa, 2010)
- U.S. youth with accounts in their names are seven times more likely to actually attend college than those lacking accounts, among those who intend to attend college at an early age. (Elliot and Beverly,2010)
- Children who grow up in homes with assets have lower rates of teen pregnancy, fewer behavioral problems, better self esteem, more confidence, and a future orientation (Shanks, 2009)

Assets and Social Protection

<u>Holding assets has positive social returns</u>

- Holding assets appears to lead to positive social, behavioral, psychological, civic and other outcomes for children and adults

<u>Social protection policies increasingly delivered through asset accounts</u> (Sherraden, 1996)

- Increasing use of individual asset accounts to achieve social policy goals worldwide
- Growing use of commercial financial services to manage these accounts
- Significant risk that the poor will be excluded, given lack of accounts, access, savings, and financial know-how

<u>Financial capital increasingly necessary for achieving other forms of capital</u> (Mahajan, 2006)

- Over the past few centuries, all forms of capital — human, physical, natural, social — have become “financialized”: they have prices and titles permitting exchange, and thus have become tradable
- Financial capital becomes central to acquiring all other types of capital
- Thus, enhancing access to financial assets is key to helping the poor realize economic security and opportunity

Conclusion

Further research and demonstration

Accounts for all

- To participate in social policy transformation, and to be able to receive payments from public, NGO, and private sources
- To receive and leverage cash transfers – conditional and unconditional
- Challenges: lack of formal identity, limited access to formal financial services

Savings for all

- If more and more capital is “financialized,” then poor need more capital
- Challenges: account challenges, plus making the business case for expanding savings to the poor

Assets for all

- Assets are key to breaking inter-generational poverty transmission
- Assets have multiple economic and social benefits to households, nations

How can asset development strategies help achieve the Millennium Development Goals?