ASSET BUILDING AND THE ESCAPE FROM POVERTY:

A NEW WELFARE POLICY DEBATE

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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FOREWORD

This study stems from a "learning conference" on Asset Building — or "Individual Development Accounts" (IDAs), as the main asset-building vehicles are called in the United States and Canada — held in Windsor, Ontario, Canada in early April 2002. The conference was organised principally by the US Corporation for Enterprise Development (CFED) and Canada's Social and Enterprise Development Innovations (SEDI). CFED and SEDI have pioneered the main pilot IDA programmes in their countries. The conference itself, attended by nearly 1 000 delegates, gave impetus to the idea that an attempt to present the basic concepts of asset-building and perhaps open an international discussion would be useful in the OECD context. The OECD's Local Economic and Employment Development (LEED) Programme was deeply involved in the conference and it led an international delegation of representatives of several OECD member countries to share their views on this topic and its implications for their own countries.

Asset Building for low–income people through matched savings challenges the focus of traditional poverty-alleviation strategies on income support to enable the poor to escape from poverty and improve their economic and social status. It does not deny the necessity nor the benefits of such support or urge its elimination or even reduction, but considers it insufficient while indispensable. The asset building through savings approach is not claimed to be an alternative to social policy based on income support, but rather is a complement to it . Its proponents claim that it has the potential to help overcome the poverty trap through the empowerment of the poor.

The importance of the delivery of asset-building services as a *sine qua non* for their success recommends their study by LEED. Why? Because programme delivery is primarily a neighbourhood issue, a task that people and institutions can best accomplish "on the ground". Reaching the poor and excluded is not easy. They form our poor rural communities and inhabit the bad parts of town (*quartiers difficiles*) in both large and small cities. Worse yet, some of their communities form the armies of the excluded homeless who wander the concrete urban landscapes. Reaching them is a local job, for local governments, local NGOs, local charitable institutions and local business groups, preferably in co-operation . Some such institutions or co-operating groups of them may even find themselves able to set up and deliver asset-building initiatives on their own, as has happened in many developing and some developed countries. This essay mostly discusses programme proposals for welfare-state central governments, because they are the main focus of the existing big proposals on Asset Building. Yet such programmes may be doomed to failure if they cannot harness current trends toward decentralisation of government services and tap the potential for enlisting the co-operative involvement of all manner of local institutions in the critical task of programme delivery.

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CHAPTER ONE
BUILDING THE POOR'S ASSETS: THE BASIC IDEAS

More than a decade ago, Professor Michael Sherraden (1991) wrote an innovative book that gave birth to the concept of Asset Building, or Social Investment, as an anti-poverty policy tool. The book challenged the heavy focus of traditional poverty-alleviation strategies on income support in OECD countries as ineffective in enabling the poor actually to escape from poverty and improve their economic and social status. It did not deny the necessity and the benefits of such support or urge its elimination or even reduction, but characterised it as a necessary but insufficient tool — insufficient, that is, if policy really does aim to reduce poverty rather than just "alleviate" it in our post-industrial societies.[1]

Sherraden's proposal for a new anti-poverty policy tool begins with two observations. First, governments in developed countries have long used, directly or indirectly through their tax systems, policies that subsidise or otherwise encourage the population at large to acquire assets as financial savings, home ownership, retirement funds, education (human capital) or business capital. These policies often do not reach the poor, for whom policy does not stimulate saving and often discourages it. Below certain income thresholds the poor pay no taxes; therefore they can have no access to tax subsidies. Some programmes deny income support to individuals or families with assets at even derisory levels, including precautionary savings to weather simple emergencies or fluctuations in unstable incomes. The poor thus lose income if they save. Moreover (Sherraden does not stress this, but it goes with his argument), some systems may still contain "poverty traps". The working poor earning enough to begin to have tax liabilities may find them larger than the marginal income gains — especially if public support begins to wane above low threshold income levels. This works as an incentive to remain with public income support, live with less money and thus forego the opportunity to save, even modestly.

The second observation, now receiving solid validation in both asset-building programmes and empirical studies, embodies the common-sense notion that the poor want to save, can do so in modest amounts and will do so, often with sacrifices greater than either policy makers or the more well-off might imagine. It is true to say that savings rise with incomes but there is evidence that saving *rates* are higher among the poor (Sherraden *et al*., 2002; Duran, 2002).

Against this background, the Sherraden proposal would, in concept, extend to the poor asset-building policies and saving incentives similar in effect to those that others already enjoy in one form or another. Sherraden and the many that support such policies in many different countries believe that Asset Building (Social Investment) holds the key to an effective attack on both poverty and the economic and social alienation of the poor, because it has positive welfare effects that income support alone cannot provide. Thus, it speaks to more than simply poverty itself. It envisions greater social cohesion as well. In this sense, it lies comfortably within accepted social philosophies and traditions.[2]

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1. It helps to be clear with terminology. According to the *New Oxford English Dictionary*, "alleviate", a term frequently used in discourse on anti-poverty policies, means "[to] make (*suffering, deficiency or a problem*) less severe: *he couldn't prevent her pain, only alleviate it* [or] *measures to alleviate unemployment*."

2. The French phrase *la lutte contre la pauvreté* ***et*** *l'exclusion* (the struggle against poverty **and** exclusion) expresses this linkage especially well.

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The use of asset-building proposals is never envisioned as a substitute for income support. Instead, Social Investment would be used to operate with those policies, recognising that as long as poverty persists income support will continue to be a necessary obligation of society. Nevertheless, Asset Building also implies a long-term vision. Its supporters believe that it can efficiently help the poor to rise from poverty with growing wealth and incomes. An appreciation of this vision weakens an argument that might otherwise arise in societies attached to income-support policies, which Social Investment does not threaten. Because Asset Building and income support need not be seen as substitutes but as complements to each other, according to their proponents, the philosophical, ethical and political questions inevitably connected with income-support reductions need not even be raised.

Great policy debates, perhaps especially those concerning social policy, never stand still. They evolve. The debate on Asset Building is no exception. In some OECD Member countries, it may still be necessary to address the issue of income-support *versus* asset-building policies in order to lay to rest the erroneous notion that they are necessarily in competition with one another in some philosophical or ethical sense. In others, however, that issue is largely *passé* and the focus has changed. It has shifted attention to inequality of asset ownership rather than incomes (although the two are closely related, of course), an inequality generated in part by those public policies that subsidise saving for asset accumulation — for home ownership, education, business establishment or retirement. Practically all OECD countries have such policies and they often operate through the tax system. In the United States, for example, tax expenditures on them exceed US$300 billion annually. The charge is that such policies do not reach, and therefore exclude, the poor, whose situation increasingly is defined more accurately by asset inequality and less so by income inequality. In this perspective, the argument for Asset Building as an anti-poverty tool becomes transformed to reinforce the plea for extending the existing asset-building policy machinery to include those whom it now excludes.[3]

Whether OECD governments might consider developing asset-building/social-investment programmes as supplemental and potentially promising anti-poverty tools thus represents a question separate from the issues that have swirled around income-support policies virtually since their inception. Asset Building, its supporters argue, can receive consideration on its own merits and not as an attack on received social-policy wisdom — in all its variations among OECD societies. This essay tries to describe Asset Building as it exists today as well as the ideas that lie behind it, providing enough material to open debate on those merits without pronouncing on them definitively. The present chapter is the "ideas" chapter, and it is all too brief, touching only on the highlights and explaining in general terms what Asset Building is. Sherraden (1991) remains an excellent source for a complete discussion of the concept, albeit from a largely US perspective. Chapter Two summarises the programmes and experiments in Asset Building that have arisen around the world. Chapter Three poses some key questions for policy debate.

During roughly the past two decades, programmes with asset-building features directed specifically toward the poor have been developed practically worldwide, on nearly all the continents and in many different cultures. Non-governmental organisations (NGOs) have often pioneered them, but governments too have become increasingly involved. Many of the schemes have succeeded and many have failed. They take diverse forms and have appeared and prospered or failed in both the poorest and the richest countries. Indeed, amidst their diversity the universality of the asset-building concept strikes hard.

One form of asset-building, the Individual Learning Account (ILA) has attracted considerable attention in national education and training systems (and international forums like the OECD), and it has begun to gain a foothold in pilots and established programmes in several European countries. Chapter Two provides brief descriptions of several of them. ILAs may be universal (offered to entire populations or large chunks of them), targeted specifically towards the poor or targeted towards individuals with

3. Boshara (2003) articulates this viewpoint more fully.

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education or training deficiencies, which often keep them in low-income groups. OECD (2001b) classifies them as "innovative financing strategies" for lifelong learning and puts them squarely among the kinds of asset-building initiatives discussed in this essay. It also offers a useful, brief description and discussion of such initiatives.

Asset Building thus looks potentially like a "Big Idea" for social policy. Its supporters certainly think so. In exploring it further, this essay tries specifically to look at its potential for extension in one form of policy or another throughout the OECD area. The OECD societies have many similarities, but they also have many differences. It is very likely that no single policy model would fit comfortably or find success in all OECD Member countries. Yet the universality of the basic concept, in both theory and practice, offers a tantalising prospect — but still a prospect, not certitude. It makes this exploration well worth the effort.

What is Asset Building?

Asset Building enables poor people and their families to save in small amounts, to accumulate modest stocks of wealth and to use those savings, usually for specific purposes. The most basic of those purposes, a clear need for any poor family, involves having enough funds on hand — precautionary savings — to buffer inevitable fluctuations in subsistence or near-subsistence incomes and to deal with health and other emergencies. In very poor countries — with large populations earning less than US$1.00 or US$2.00 a day per capita — this need is paramount. Here, governments do not have extensive social-support programmes and cannot afford them. In richer countries with more advanced social-support systems, income transfers and more or less universal health benefits (in most but not all countries) help to reduce but almost certainly not eliminate the importance of precautionary saving. This form of saving also lies closest to the standard economic definition of saving as "deferred consumption".

In fact, asset-building programmes in poor as well as rich countries try hardest to stimulate poor people's saving for objectives that move beyond the precautionary and have more to do with investment to enhance their unstable incomes and, just as significantly, improve their ability to leave poverty behind them. Many microfinance programmes in developing countries, for example, focus on saving (and credit, often based on proven capacity to save) to finance modest entrepreneurial activities.[4] Asset-building programmes now running in the United States and Canada emphasise saving for three investment objectives: housing, education and small-business establishment.

NGOs, including philanthropic and not-for-profit organisations, both fund and manage some asset-building programmes. Asset Building also has gained great popularity among multilateral and bilateral aid institutions, which often use local and international NGOs as their delivery channels and programme managers. Some governments deliver asset-building resources directly through their own programmes. In virtually all the schemes, however, *asset-building efforts require some form of current subsidy*, whether privately or publicly provided — they have costs.

Microcredit, the simplest form of microfinance ("micro" because it deals with only the small transactions of which the poor are capable, especially in developing countries) needs a capital base to cover administrative costs, which are high because service delivery is relatively labour-intensive, and, obviously, to fund small credits to the poor. Most commonly, these credits enable small entrepreneurial activities and

4. Microfinance — including microcredit — often is not included in studies of Asset Building. This essay does include it, however, for two main reasons. First, both microfinance and Asset Building, as conceived in the Sherraden model, have conceptual similarities in their concern with augmenting the assets of the poor. Second, they both represent, across vastly different economic and cultural settings, efforts to rectify the same, common type of market failure.

are repaid from their proceeds. They also sometimes furnish an alternative to precautionary savings. "Microfinance", defined more broadly, includes microcredit institutions that also collect savings, but in practically no cases do these savings pools suffice to fund credit portfolios completely; they still need outside capital. Significantly, many of the more successful microcredit initiatives have recognised a need to increase their capability to handle savings. Moreover, they enjoy such a considerable demand for their services that they are anxious to become self-sustaining and even profitable, so that they can attract outside commercial capital, rather than or in addition to official and private aid funds. Such profitability is not a dream. It lies within the reach of well-managed programmes, and some have attained it.

Asset-building initiatives more akin to the Sherraden model generally do not offer credits. They are exclusively for saving and by design use carefully crafted financial incentives to stimulate and encourage saving by the poor. They also appear to operate more successfully in developed countries than do microfinance initiatives (see Chapter Two). A typical such programme would provide saving incentives by matching small savings with official or private subsidies on a 1:1, 2:1 or even higher basis, up to limits fixed by the programme rules. The client commits to small, regular savings, weekly or monthly depending on the client's income flows, for a period of, say, three years. The programme matches each savings deposit with the same amount or as a multiple of the amount saved, depending on the rules. During the accumulation period, the client has access to the funds saved but not to the matching funds. At its end, the client can draw on the money saved *plus* the matching funds (all of which will have earned the same return) for a capital expenditure allowed by the programme. This small stock of new wealth might partially finance a house purchase, permit a poor entrepreneur to establish a small business or fund an investment in higher education or training. A few programmes include retirement spending (a species of deferred consumption expenditure) among the allowable uses of the savings. In US and Canadian usage, the programmes are called "Individual Development Accounts" (IDAs). An IDA that limits spending of its accumulated capital solely to education and/or training is effectively an ILA.

Note that the structures of these programmes provide incentives for both precautionary and longer-term savings in a clever way that does not preclude the former but stresses the latter. To reassure the poor saver that his or her own funds can serve a precautionary purpose, their withdrawal is allowed. At the same time, withdrawal without replenishment also brings a reduction in matching funds (the subsidy) — no saving, no matching. Withdrawals diminish the savings that get matched. Savers thus have strong incentives to think twice about making early withdrawals unless they have very good reasons — emergencies of one sort or another — to do so. The weight of the incentives and, in effect, the permitted uses to which the public or private subsidies (the matching funds) can be put, focus on the medium or longer term, steady saving over time and non-precautionary investment objectives such as houses, other physical assets or investments in human capital. Hence, the term "Asset Building" acquires a literal meaning and escapes from being just an attractive name chosen to sell the idea. It also goes beyond saving itself to stress salutary behavioural change and the accumulation of economic assets that may benefit the rest of society as well as individual poor savers.

Variations on the asset-building idea show up in schemes like the newly launched Child Trust Fund ("baby bonds") in the United Kingdom and an analogue in force in Singapore. Here, Asset Building begins with an initial, socially (*i.e.* officially) provided endowment for children at birth, an endowment that earns a return and grows with the child. The longer accumulation period aims to provide persons with substantial assets when they reach maturity. These programmes usually also have features similar to the basic Sherraden proposal, with matched-saving plans that allow parents, families and children themselves as they start working to augment the endowments with initial and later savings stimulated by the same sorts of matching.[5] To gain political support, such schemes can be, and often are, extended to cover all families in

5. These observations apply mainly to the UK proposals. The Singapore programme has a shorter-term focus on investment in human capital for children. See Chapter Two for details.

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the population. Even if, as in the UK model, the size of the initial endowments is skewed in favour of children born to low-income families (see Chapter Two), the public cost of such population-wide programmes can become an over-riding constraint on their size.

Experience in all countries, rich and poor, suggests that asset-building programmes cannot succeed on the strength of their financial provisions alone. This means of fighting poverty depends heavily on its promise of ending exclusion, and one of the principal characteristics of the excluded poor lies in their lack of basic financial knowledge and participation in the financial mechanisms through which other people save. Put differently, exclusion can emerge when financial systems do not reach the poor sufficiently, despite poor people's capacity to save and their need, in unstable communities, for safe depositories for what they can save. Such conditions, prevalent among all the very poor in OECD countries but especially in immigrant and other minority communities, stimulate reliance on informal finance and high-cost (not to say rapacious) moneylenders. They discourage saving.

When the poor cannot save because the financial institutions that serve the rest of society have not reached them, a market failure has occurred. This is a breakdown, pure and simple, and it need not have moralistic overtones in critiques of "greedy bankers". The breakdown arises from flaws in both the demand and the supply of financial services to the poor. The poor do not know how to reach the bankers and the bankers do not know how to reach them, and neither perceives an economic interest in trying to reach the other, although such interests do exist. Asset-building programmes can repair this breakdown, they claim, on two conditions that will likely govern their success or failure. Both concern how their services get delivered. First, on the demand side, the poor need to have "financial contact" established in ways often unknown to traditional bankers, and they need information and education in the very basics of using financial institutions. Second, on the supply side, delivery systems require crafting specifically to attract the poor, serve their needs and acculturate them to these services. Successful microfinance institutions in very poor countries like Bangladesh have shown that both conditions can be fulfilled, even in what otherwise appear as hopeless circumstances.

Welfare Thinking and the Asset Builders' Discontent

It is very difficult to understand the key ideas underlying Asset Building without some sense of how its proponents view the current state of poverty theory and of their suggestions for its modification. Sherraden (1991) devotes his third chapter to the first issue and his eighth to the second. They are worth a brief exploration.

Chapter Three begins with the assertion (p. 35) that "(...) *Welfare theory*, in the sense of well-being within households, remains largely unexplored territory," notwithstanding that it is "heavily trodden ground" in academic and political discourse. "We talk a lot about welfare, but we do not know very well what welfare *is* or how families achieve it." Sherraden goes on to say that the extant approaches fall into two broad categories, concerning poverty and social class on the one hand, and welfare policy itself on the other.

The first group, seen simplistically, also divides into two strands. One focuses on individual behaviour and the other on social structures. "(...) Individual-level theories suggest that undesirable or unproductive behaviours cause poverty (...). Structural theories suggest that circumstances of poverty cause behaviours; that is, apparently dysfunctional behaviours are adaptations to poverty. At the extreme, both types of theories are highly normative. Intertwined through the writings of individual behaviour theorists is the moral judgement that people who are doing poorly are deficient in ability, training, or morality and should pick themselves up and do better. And intertwined through the writings of structural theorists is the moral judgement that the current social structure is unfair to the poor and should be changed." (pp. 36-37)

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As for welfare policy thinking, Sherraden distinguishes four major approaches (p. 37):

> The economic or modernisation approach, which holds that welfare policies and welfare states arise with economic development. They develop when economic advancement generates a surplus to redistribute.
>
> "Neo-Marxian", "logic-of-capitalism" views see the welfare state as a mechanism of social control, using income support and other programmes to stifle working-class discontent.
>
> Democratic political approaches place political developments at the centre. They include the traditional social-democratic theories as well as those based on interest-group politics.
>
> State-centred analyses see welfare policies (and their differences) as emerging from national political and institutional structures.

In all these disparate ways of looking at the issues, Sherraden says that one premise goes virtually unchallenged. It concerns the definition or understanding of "welfare" itself as overly focused on income and consumption. Sherraden and the asset builders believe that something is missing here. They want to step aside from the polemics between "individual" and "structural" thinkers and their normative rhetoric. Sherraden (1991) proposes a more objective, integrative approach, in the form of a "dynamic theory of welfare that incorporates effects of asset accumulation" (p. 44). It would have two main features. "First, it would view household financial welfare as a long-term, dynamic process" (p. 44) rather than just as a snapshot of household finances (income or consumption) at a given moment. It would not ignore the importance of current income — the baby does not get thrown out with the bath water — but it would introduce explicit consideration of the effects of assets on welfare in addition to the role of income. Assets reflect long-term accumulation (saving) and thus "capture this long-term, dynamic quality better than income" (p. 44). Second, Sherraden suggests that household welfare actually involves more than income and consumption alone. "(…) Assets yield positive welfare effects that income alone does not provide — effects in addition to deferred consumption." (p. 44)

The first of Sherraden's propositions is unexceptionable, in the sense that it accords perfectly with now-standard economic theory on household saving. The second idea, however, is key to the entire argument, which hangs on those "positive welfare effects" that would stem uniquely from household capital (a stock, which can generate income) and not from income (a flow) spent on consumption.

What are these effects? In his eighth chapter entitled "Towards A Theory of Welfare Based on Assets", Sherraden lists nine of them and discusses them at length from an interdisciplinary perspective. They are interdependent and interactive. An economic analysis would call them "externalities". The following is a summary:

> *Assets improve household stability*. In the first instance, they function as precautionary savings to cushion income shocks that might otherwise throw people into income poverty. Beyond that, they ease liquidity constraints by opening access to credit. These effects tend to stabilise incomes, and households (including poor ones) with more stable incomes tend to be better off than those with equivalent but sharply fluctuating incomes are.
>
> *Assets create an orientation toward the future*. "The proposition here is that [an] orientation toward the future begins in part with assets, which in turn shape opportunity structures, which in turn are quickly internalized. This process might be called the construction of future possibilities." (p. 152) A few assets create hope, and hope leads to future-oriented behaviour as opposed to entirely present-oriented survival strategies.

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Assets promote development of human capital and other assets. With a few means, people will begin to think about improving themselves. If they have physical assets, they will take care of them and try to improve them. Moreover, assets have returns that can find use to create new assets (*e.g*. invest in education and training) or to provide a larger income stream (*e.g*. in retirement).

Assets Enable Focus and Specialisation. This takes us back to basic notions about specialisation and the division of labour as the essence of participation in an organised social economy, and to Sherraden's sensible view on the dysfunctional behaviour of the poor.[6] Such behaviour, the argument runs, would change with the end of exclusion and with focus and specialisation.

Assets Provide a Foundation for Risk-Taking. Sherraden draws on portfolio theory to show that, through diversification, "with more assets, the ability to take risks with a safety net is increased" (p. 159). The assertion also applies to entrepreneurship. This point should ring bells in the LEED Committee and among policy-makers in practically all of the OECD countries, where numerous programmes (many of them with asset-building features) have developed to promote small-business establishment as an active rather than passive labour-market policy.[7]

Assets Increase Personal Efficacy. To use a currently popular word, they become a source of empowerment. Different words can be chosen, to stress how possessing assets can enable people to emerge from social dependency and "stand on their own feet" in a social as well as an economic sense.

Assets Increase Social Influence. Sherraden draws on a vast fund of research and thought, from Tocqueville to Veblen to modern sociology, to establish the connection between household wealth and social influence. This point does not concern being rich. It concerns having enough to merit peer recognition.

Assets Increase Political Participation. With assets to protect, people pay attention to where their leaders lead them. They can no longer afford to live in "exclusion", and they have enough resources to shed it. They join the system. This increases social cohesion. To extend this point a bit, it can have another very specific implication in countries with large informal economies. In this context, "joining the system" means participating in the formal economy, starting to pay taxes and otherwise playing the full role of citizenship.

Assets Increase the Welfare of Offspring. Both law and social custom look askance upon parents who do not share their circumstances with their children. Children raised in households with sufficient assets to end preoccupation with immediate survival gain in myriad ways that provide them with human assets — beginning with better nutrition and health and ending with acculturation and education. Sherraden stresses the "intergenerational connection" through transmission of physical assets "that income and consumption cannot provide" (p. 166).

These nine points make it amply plain that the posited unique welfare effects of household assets are indeed species or variations of human-capital effects, considered in terms much broader than education,

6. Sherraden (1991) observes that poor people often need extraordinarily diverse skills just to survive, simply because they cannot afford to pay for services that would allow them to focus and specialise, to acquire and use the knowledge and skills necessary for economic advancement.

7. For a review of such policies directed specifically towards younger people, see the LEED publication, *Putting the Young in Business* (OECD, 2001a).

brainpower or capability alone. They work on people, increasing their value to themselves, to their families and to society. The term "human capital", as useful and meaningful as it is, still does not capture them all, because they stem from household assets of all types — household wealth, in fact, however modest it may be. With these nine points, if one agrees with them, the case for asset-building programmes falls into place. Yet two more building blocks can help to elaborate it: the market failure phenomenon and the concept of "social investment".

Market Failure

The study of market failure in the presence of non-competitive conditions has become an accepted tool of economic analysis for identifying conditions under which corrective intervention by the state might be justified. Such conditions arise when, for one reason or another, the classical assumptions regarding "perfect" markets do not hold. In the real as opposed to the theoretical world, market imperfections stem from barriers that intervene to obstruct smooth interaction between buyers and sellers. As a result, markets lose their efficiency. Prices are higher than their efficient minima and transactions get impeded. Markets clear less easily. Some potential customers may not be served, or they may find themselves forced to accept higher-cost substitutes. Very often, when barriers exclude relatively large numbers of people from a given market, alternative market mechanisms spring up among them, but they tend to be high-cost substitutes because sellers can take advantage of the restricted supply conditions that cause them to arise in the first place. Informal finance and money lenders play this role in poor communities not served by banks or other mainstream financial institutions.

The market failures at issue for Asset Building consist of two types. The first, implied above and already mentioned earlier as a challenge for the efficient delivery of asset-building policies to the poor, involves financial market failure. To a greater or lesser degree, depending on the country, poor people and financial systems face a gulf of separation. Sherraden (1991, pp. 149-150) correctly treats this as a problem of asymmetric information. The poor know more about their creditworthiness than lenders do, in part because financial institutions are less adept at evaluating human capital than financial capital or income. Consequently, lenders treat the poor as generically bad risks, in the absence of enough information to assess individual risk. If they lend to the poor at all — *i.e.* if they do not abandon poorer markets altogether — they charge higher risk premiums for all poor borrowers. Moreover, and ironically, inattention to these markets can mean not seeking their savings, even though one may argue that poor people may generally be "savings-worthy" even if some are not creditworthy.[8] The usual excuse is that the banks' transaction costs for repeated small savings operations are too high, but this flies in the face of the great success a century and more ago of popular savings banks, provident associations and the like. Some of these have become large, powerful modern financial institutions, but, for reasons that seem good to them, they have abandoned the markets that originally nurtured them.

Financial market failure, especially for the very poor and excluded,[9] varies in degree across the OECD area because of institutional differences across countries. Countries with large and active post-office banking and financial services probably succeed better (but not completely) in reaching the poor than those without them. Unlike bank branch systems, post offices generally exist wherever populations aggregate

8. For much more description and analysis of these general points, see Hogarth and Lee (2000), van Bastelear (2000), Stegman (2001) and Caskey (2000). Schreiner (2001) contains an interesting discussion of informal finance among the poor. Despite its weaknesses (small and short-term transactions, no formal insurance and the unenforceability of contracts), he sees it as having six basic virtues: lower transaction costs, capacity for savings and implicit insurance as well as loans, sensitivity to the constraints faced by women, reliance on character rather than collateral, socially and self-enforced contracts and capacity for sequential transactions.

9. Financial exclusion is in fact one of the forms that "exclusion" can take.

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sufficiently to support them — and sometimes even where they do not, because there is some cross-subsidisation.[10] In France, for example, many people of very modest means use postal cheque and savings accounts exclusively. They can make ordinary transactions at the windows where they buy stamps, mail packages or purchase money transfers, and no transaction is considered too small or belittled. Yet barriers still remain. Bureaucracy reigns and procedures are rigid. The "financial counsellors" with whom one must meet to open an account, seek advice, discuss family finances or make transactions of any complexity are poorly paid and have high turnover, which reduces trust and valuable personal interaction. The banks poach the good ones after *La Poste* has spent its money to train them. Moreover, for security, they work behind locked doors. To penetrate their *sancta* one must ring a bell and submit to a visual screening before admittance. This is a bit off-putting for anyone. It requires some bravery on the part of anyone not too sure of her or his social position.

The issue of financial market failure has received much more attention in North America and the United Kingdom than in continental Europe. In the United States, for example, the Community Reinvestment Act (CRA) has been on the books and enforced through bank examinations for over 25 years. One might criticise its practically mandatory approach to stop banks from "redlining" poor communities, but it has produced enough progress that competition among banks, credit unions and other mainstream financial houses to attract the business of the poor and minorities has actually begun to appear. In what may become a true breakthrough, the IDA (asset-building) bill now under consideration by the US Congress actually would use the banks as the delivery mechanism. It would give them powerful incentives (rather than the negative strictures of the CRA) in the form of tax subsidies for the matching funds that they make available to IDA savers.

Concrete information about financial market failure in the continental European countries is very hard to find or elicit — notwithstanding that discourse about poverty uses that hard word "exclusion" much more frequently and forthrightly than elsewhere. Social-policy experts tend to believe that such market failure does exist. Financial-system experts, on the other hand, do not even understand the question at first, because it lies so distant from their perceptions. When they do grasp the issue, they know of no information sources on it and no work done on it. Hence, this is an open question that needs substantial research. If the perceptions are correct — *i.e.* if "exclusion" of the very poor really does not include financial market exclusion — then Europe has a valuable, positive lesson for the rest of the world.

The second type of market failure could be called "institutional". Scholars of the revived Institutionalist School have done the most recent work to uncover and analyse such barriers. Sherraden (1991) reviews this work in detail; in fact, his book contains a veritable litany of such problems, some generic and some specific to the United States, although he does not characterise them as market failures. In general terms, this kind of market failure arises whenever an economic or social institution functions to create a market distortion. It might deny access of the poor to a savings opportunity, withhold a financial subsidy or incentive from those below certain income levels or act as a disincentive targeted (often inadvertently) at the poor. The critique of such failures does not attack the distortions themselves, which may have laudable social-policy justifications. Instead, it highlights the frequently unintended knock-on effects — new distortions — that deny access to them by the poor.

Such market failures are rampant in the OECD area, with less variation in levels but much more variation in types across countries than in the case of financial market failure, which, strictly speaking, is an institutional phenomenon as well. For example, pension savings systems, subsidised or not, based on

10. This generalisation is subject to murky nuances. The German financial system, for example, is widely known as being over-branched in retail banking, which might suggest that banking services may indeed be widely available to all segments of the population, including the poor. Yet this is seen as a problem, not a solution, for the banks because excessive branching has proven unprofitable.

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payroll deductions, reach only salaried workers. They exclude the non-working poor, those who labour in the informal economy and, in countries where the law allows it, small enterprises not required to participate in the systems. Subsidised housing loans based wholly or largely on income tests for creditworthiness may be unavailable to the poor, who, in addition to denial of credit access, suffer from denial of the precommitment saving opportunities that such loans represent.[11] The same kinds of observations apply to some educational subsidy schemes and some programmes to promote entrepreneurship when they are targeted mainly for middle-class recipients. In France, until recently proposed reforms correct the problem, some progressive programmes to promote small-business establishment have remained consistently weakened by a failure to change the legal requirements for incorporation. They made it so costly that it alone required a quite substantial asset base before any investment in the business itself took place. Among other features, the proposed reforms would cut the cost of incorporation from €7,500 to €1, reduce daunting administrative procedures to a simple matter of registration and add a tax subsidy for the interest on loans used to create a new businesses. Prime Minister Raffarin has characterised these proposals as "democratising" new-business creation.[12]

Market failure of either type can serve as a justification for the use of asset-building policies to correct it, to remove or compensate for savings-market distortions that specifically affect the poor. Moreover, the effective functioning of asset-building programmes themselves may be impeded by provisions in tax systems, social-security systems and other regulations that, albeit unintended, distort incentives for the poor to save. As Chapter Two points out, these kinds of problems need examination and reform in the very process of designing and implementing asset-building programmes. Thus, market failure goes beyond the service-delivery context in which it was first introduced in this chapter, to focus on distortions introduced and upheld by policies and institutions. Improving service delivery cannot have much effect if savings services available to the general population are intentionally or unintentionally denied to the poor.

Social Investment: More than Just Another Name for Asset Building

Economists are educated to recognise the tight, immutable link between saving and investment. Economic growth, the enlarged output enabled by, and dependent on, investment in productive capital cannot occur unless savers, somewhere in the economy or abroad, defer consumption to provide resources for investment in capital goods rather than consumption goods. Sherraden (1991) mentions the link, certainly not as an afterthought but rather as a sort of additional argument, attractive from a nation-building point of view and in support of his plea for a vision of social policy as creating welfare "citizens" rather than welfare "clients". His later writing has gone a bit further.[13] It may prove useful to bring the connection between saving and capital accumulation still closer towards the centre of the argument for Asset Building.

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11. "Precommitment" savings reflect contractual arrangements that constrain the saver, usually at his or her volition, to treat saving as a matter of "paying the bills" rather than an issue for repeated decision making. Payroll deductions (*e.g.* for pension plans) fall into this category, as do many sorts of contractual credit arrangements for the purchase of assets. Home mortgages provide a good example. The portion of the regular loan payments that repay principal increase the buyers' equity in the assets and thus represent saving. The concept of precommitment saving is, incidentally, another reason why the inclusion of microcredit programmes under the asset-building rubric is not nonsensical.

12. For details on the main features of the proposed law, see *Les Echos*, 8 October 2002 and *The Financial Times*, same date.

13. During the research for this essay, Professor Sherraden kindly provided the author with a manuscript, "Directions for Research" (Sherraden, Scanlon, Page-Adams, Beverly, Schreiner and Morris, 2002). On the subject of political analysis, it contains (p. 1) a statement that an analysis of Asset Building in a productivist or *social investment* framework may turn out to be the most useful. The idea is attributed to Midgely (1999). The ideas developed in this

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Following the logic of the saving/investment link, much more stress might go on how Asset Building can contribute to economic advance and the well being of society as a whole. Every poor person propelled into the middle class (and why not higher if she or he is really smart and capable?) contributes at least as much to societal wealth and health as the private gain associated with the poor family's escape from poverty. In the aggregate, this force might be more than negligible. The sum of household savings, which really signifies the human and physical capital that they represent, can be thought of as bearing a rate of return, a social and an economic return. In fact, it would bear two returns, both positive — one to the saver (household) and the other to society as a whole. Given the market imperfections that separate the poor from the rest of society and in light of the unique welfare effects that Sherraden posits, one can argue that the marginal rate of return to capital in a poor household would be higher than that for a richer household. That for society as a whole would then lie in between.

To think of household saving exclusively in financial terms is to miss much of the richness of this notion of an economic and social return on household capital. After all, the poor saver earns the same rate of interest on a bank or postal savings account as anybody else. The return to household capital as conceived here, however, is a more valuable amalgam for individuals and for society. It may be hard to quantify, but one economic variable can capture or at least proxy for it. This is the enhanced permanent income stream that household capital can generate for the saving household. It is, to be sure, a private return when the household captures it, but in the aggregate it becomes a portion of "economic growth", shared by society as a whole in enhanced demand for goods and services. If, as suggested above, the marginal rate of return to capital in poor households really is higher than in richer ones, so much the better.

These notions facilitate a particular understanding of what public outlays for asset-building programmes really could represent. When a family, any family, saves it defers consumption out of current income. In a publicly funded asset-building scheme, the funds that match household savings or constitute the endowments of a "baby bond" programme really are not government current expenditures. They are savings, just like those of the households they benefit. Forget how government budgets may treat them; in the national economic accounts, they ought to be counted as "government saving", which is to say "government investment".[14] In effect and under the rules of the schemes, governments transfer to households a portion of current revenues as a claim on human or physical capital. This forms the foundation for the idea of *social investment*. Following the reasoning above, it ought to be possible to simulate *ex ante* and to measure *ex post* social investment's net return over time,[15] in terms of both economic growth and reduced income transfers because (if the arguments for Asset Building are correct) fewer people would live in poverty.[16]

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section on social investment seem rather similar. They depend heavily on the link between saving and capital formation.

14. In schemes funded through the tax system, *i.e.* as tax credits for banks or other institutions that provide the matching funds as in the bill presently making its way through the US Congress, the accounting gets rather more complicated but the principle stays the same. Moreover, conservative national accountants may well prefer to continue to treat direct savings subsidies to households as transfer payments, thence counting them as private (household) savings/investment. Once again, the principle stays the same, whatever the accounting treatment

15. Note that, in asset-building programmes that involve matching schemes, the return would be calculated on the *sum* of poor families' private savings and the matching funds that they receive.

16. This is *not* to suggest that income transfers could, or should, be reduced at the outset of an asset-building scheme. Many income-support transfers depend on poverty conditions that trigger them. If Asset Building helps them to reduce income poverty more effectively, then such programmes will automatically realise lower expenditures over time, with no change in legislation or programme orientation whatsoever.

To look upon Asset Building as Social Investment opens not so much a new line of reasoning as a perspective with which some policy thinkers may feel more comfortable. Anyone with fairly orthodox Marxist views would likely recoil in horror at “Asset Building” as an attempt to turn the proletariat into capitalists, a theoretical contradiction of the first order and thus impossible. Even those attached intellectually to the more moderate Socialist and Social-Democratic traditions might gulp twice at the asset-building idea. It does indeed present a dilemma for the premises on which the successful European welfare states have been built, notwithstanding that asset-building features have crept gradually into the policies of most of those states. These viewpoints deserve respect and not a polemic refutation, which would not be likely to succeed in any event.

The merit of a social-investment view lies in two premises that it can have about the poor and the role of the state in combating poverty. The first recognises the poor’s unjustly wretched condition as well worthy of attention by the rest of society through the institution of the state. This is the standard premise for income support, but it does not imply that income support need necessarily be the *only* form of intervention. The second premise shifts the focus away from the potential of the poor to become “capitalists” to a view of poverty as a monumental — and monumentally unjust — waste of human potential resources. Intervention thus takes the form of an investment *by the state* in those resources, to develop them for the benefit of the poor themselves and the greater good of society as a whole. A variation on this last theme, with principal stress on the “greater good” part, appears very frequently in European justifications of ILA programmes. A view that rests on these two premises fully preserves the role of the state as the ultimate source and final arbiter of social justice.

From one point of view, the tendency of the arguments in favour of Asset Building to stress its contrasts with and its posited advantages over traditional income support may be somewhat off the mark. Social policy has evolved in the OECD area since the early 1990s. Much of social policy nowadays seeks to shift from income support (assistance) to an emphasis on inclusion *via* work by trying to provide a range of employment services and cash benefits to assist this objective. Some countries use benefit sanctions to hasten the change. The proponents of Asset Building, especially when it is seen from a social-investment perspective, might well stress its complementarity with this new direction in social policy. As Chapter Two will show, the American Dream Demonstration (ADD), the largest private asset-building demonstration project in the United States, largely targeted the working poor and experienced its major successes with them. Thus, in effect, it supported national policy.

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CHAPTER TWO
ASSET-BUILDING AROUND THE WORLD

Microfinance[17]

Chapter One noted that microfinance is included in this essay, contrary to the usual treatment of Asset Building, because it is at the same time (and increasingly) a savings vehicle and, through microcredits, a source of assets for one of the objectives of Asset Building, namely small-business establishment. The difference in the latter between microfinance and the standard asset-building proposals lies in the precommitment aspect of microcredits. The funds for microenterprises are borrowed up front, then "saved" through regular loan payments. In the main asset-building proposals they are saved first and augmented by subsidies and/or endowments. Moreover, the *raison d'etre* of microfinance coincides exactly with a major justification argued for Asset Building by its proponents, namely its successful reversal of the poor clients' deprivation of access to traditional financial markets, which is itself cited as a barrier to an escape from poverty.

In fact, as the discussion below shows, microfinance has developed exponentially in the developing world but has not done so well in developed countries. Vast differences in financial markets, levels of economic development and per capita incomes all partly explain this discrepancy. Yet microfinance in the third world, aside from its institutional embodiment of many asset-building features, still offers as well a message of perhaps some consequence for consideration of the possible merits of Asset Building in the OECD Member countries. It shows how microfinance, invented and tailored essentially for the developing world, has revealed a wealth of information about the potentially positive savings behaviour of the very poor across a huge range of continents, nations and cultures. Limitations of space prevent this from becoming a more in-depth presentation on microfinance, but what follows contains enough to permit the reader to judge whether the message is a valid one.

What is microfinance? The World Bank (2002a) says the following (p. 90):

> "Microfinance refers to small-scale financial services — primarily credit and savings — provided to people who farm or fish or herd, who operate small enterprises or microenterprises where goods are produced, recycled, repaired or sold, who provide services, who work for wages or commissions, who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools, and to other individuals and groups at the local levels of developing countries, both rural and urban….Microfinance services can help low-income people

17. Sources for this section include World Bank (2002a, b), Robinson (2001), Grieco (1998), Dunford (1998), Schreiner (2000a, b), Schreiner (2001b), Gonzalez-Vega *et al*. (1997), Schreiner and Morduch (2002), BCEAO (2002), Navajas *et al*. (2000) and van Bastelaer (2000). Numerous websites contain information on microfinance. Four useful ones are the Global Development Research Center's (GDRC) Virtual Library on Microcredit at http://www.gdrc.org, *Pole Microfinancement* at http://www.microfinancement.cirad.fr, http://www.microfinance.com and the Microfinance Gateway at http://www.microfinancegateway.org.

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reduce risk, improve management, raise productivity, obtain higher returns on investments, increase their incomes, and improve the quality of their lives and those of their dependents….Such services are rarely available through the formal financial sector….The microfinance revolution refers to the large-scale, profitable provision of microfinance services — small savings and loans — to economically active poor people by sustainable financial institutions."

One estimate, which some microfinance professionals now consider much too low, indicates that more than 7 000 microfinance institutions (MFIs) serve around 16 million poor people in the developing world. They have a worldwide cash turnover of US$2.5 billion. MFIs are usually small; the average turnover is under US$360 000. Most MFIs offer microcredits, some collect savings and an increasing number do both. Some 13 million microcredit borrowers hold around US$7 billion in outstanding loans. This is about US$540 per borrower, on average, and it seems somewhat high, a hint that substantial microcredits (but certainly not all of them) find their clientele slightly above rather than below national poverty lines. Worldwide microcredit growth reaches around 30 per cent a year. Repayment rates average about 97 per cent. If they fall much below that, MFIs go out of business relatively quickly when they use up their private or official subsidy money. The successful business models involve both hard-headed lending policies and highly labour-intensive service delivery based on close, ongoing contact with clients. Practitioners argue that the latter probably is the main key to high payback rates and, ultimately, enough revenue to compensate for high labour costs and approach profitability. More and more MFIs collect savings because the demand is there. One estimate places the demand base for microcredit at about seven million additional borrowers and the demand for microsavings at around 19 million potential new savers.[18] These numbers may be suspect, but the broad difference between them probably is not.

Even if one doubled or tripled the market-size estimates for microfinance to account for outdated numbers or underestimation or both, they would still be very small compared with the poverty populations in the developing world that microfinance aims to reach. Does this signify that the proportions of the world's poor who would save *via* microfinance if given the chance are in fact tiny, or that microfinance itself is unattractive as a savings vehicle? In the absence of much relevant research, one can rule out neither of these conclusions. Nevertheless, the operable constraint, so far, lies rather in the limitations of resources devoted to microfinance. As the description below indicates, microfinance institutions (except for the few which have achieved profitability in the short lifetime of the movement) still depend on subsidies — and the sources of those funds are NGOs, multilateral and bilateral aid institutions and some developing-country governments. All of these resources are decidedly finite.

The Grameen Bank in Bangladesh remains one of the largest and most successful MFIs. It lends well over US$30 million a month to more than two million borrowers, largely in the country's rural villages and mostly to finance microenterprises. The average loan balance is US$150. The payback rate is about 98 per cent (Grameen says 95 per cent recently). Grameen uses a group-lending model, whereby it lends to groups of between five and 20 people, overwhelmingly women and landless. Individuals have responsibility for repayment through the group,[19] which increases social and community pressure to maintain good credit standing, but clients see themselves as customers of the bank, and bank staff maintains close contact with them individually. Grameen also collects unsubsidised savings (average balance: US$65) and sells flood insurance. Schreiner (2001b) judges that it has performed viably in terms of cost effectiveness. Grameen claims that some 48 per cent of its clients manage to rise above Bangladesh's dismally low poverty line; this is about six times the national average. This bank, the first major MFI in modern times (there are many

18. The numbers in this paragraph come from a GDRC fact-sheet, and they may be too old. More recent press sources, for example, suggest that around 10 000 MFIs may be in operation with a correspondingly higher number of clients. See *The Financial Times*, 15 August 2002.

19. This lending technique harnesses "social capital", as van Bastelaer (2000) puts it at some length.

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historical examples of similar institutions in practically all cultures, including European ones), set the pattern and has been widely imitated in Bangladesh itself[20] and elsewhere in Asia, Africa and Latin America.

BancoSol in Bolivia, for example, has more clients than any other MFI in Latin America (Gonzalez-Vega *et al*., 1997). Along with three other Bolivian MFIs, Caja Los Andes, PRODEM FIE and Sartawi, it is frequently cited as among the best worldwide. Elsewhere in Latin America are Caja Social in Colombia, ADEMI in the Dominican Republic, Financiera Calpia in El Salvador, Compartamos in Mexico and ACP/MiBanco in Peru (Navajas *et al*., 2000). Also well known is the Bank Rakyat Indonesia Unit Desa (BRI-UD) in Indonesia. MFIs blanket Africa too. Examples include AECA and CECAM in Madagascar, ACEP in Senegal, Centenary Rural Development Bank Limited (CERUDEB) in Uganda and CRG in Guinea-Conakry.

According to BCEAO (2002), the countries of the Monetary Union of the West African States (Benin, Burkina, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo) instituted in the late 1990s a common legal framework for MFIs. It allows them to operate and regulates them in areas formerly reserved to banks and other traditional financial institutions. MFIs have existed for as long as three decades in some of these countries. Of the 400 MFIs with 3 000 points of service in the region, the most common are credit unions or co-operatives (*mutuelles*) that offer both saving and loan services, but some microcredit lenders do not collect savings. Ten per cent of the MFIs account for 90 per cent of both the clients and savings and loan transactions. The MFIs make financial services available to just under 4.5 million individuals — 2.9 million customers that include 90 000 small groups (average size: 18) with 1.6 million members. Their 6 000 employees grant something over 430 000 loans annually. In 2001, they realised gross inflows (savings plus loan repayments) of CFAF140 billion (about US$ 233 million), eleven times the level of 1993. Between 1997 and 1999 their capitalisation net of subsidies almost doubled to CFAF31.8 billion (US$53 million), but reserves against mounting loan arrears and internal misappropriation have since slowed that growth and perhaps reversed it. In other words, like MFIs elsewhere, not all of them are well managed or follow sound lending policies. The sector as a whole still survives on subsidies.

Rotating Savings and Credit Associations (RoSCAs) represent another widespread form of personal finance available to the poor around the world. In a RoSCA, members save by paying into a pool of funds that goes as a loan to each member in turn, based on a draw by lot or some other rule, until the cycle ends and the RoSCA is liquidated. Informal RoSCAs, the most ubiquitous, rely on "social capital" both to screen members and to enforce repayment. They cut transaction costs, supply both savings and loan services, substitute character for collateral and depend on socially or self-enforced repayment. Formal RoSCAs —those run by banks and car dealers in Argentina, for example — cannot rely on social capital because their members are strangers who never meet. Instead, the deposits of net savers are protected by government regulation. Borrowers, even if they win the pot, must pass regular loan application scrutiny; if they are rejected even after repeated applications, they receive their own savings at the end of the RoSCA cycle. Schreiner (2000b) concludes that formal RosCAs will likely hold little interest for microfinance

20. For example, World Bank (2002b) describes the Bangladesh Poverty Alleviation Project, a microcredit initiative supported by a US$105 million IDA credit to the Bangladeshi Government, on-lent to a group of NGOs that administer it. One estimate indicates that around 600 MFIs now operate in Bangladesh, including 18 managed by government departments (*The Financial Times*, 21st May 2002). The same article quotes Grameen's founder, Professor Muhammed Yunus, as saying, "Today more than 7m poor families receive microloans — about 80 per cent of the total number of poor families in the country. World-wide we are still on course to offer microcredit to 100m of the world's poorest families by 2005." That "100m" is far larger than other estimates, which is not necessarily a reason to disbelieve it but a caution not to place too much confidence in figures on microfinance except as general orders of magnitude.

NGOs. Informal ones are a different matter. Many group saving/lending schemes in Africa, for example, are RoSCAs or similar to them. RoSCAs also enjoy heavy use in Mexico (Duran, 2000).

Overall, the impression of microfinance that emerges for the developing world is one typical of "frontier" industries. Start-ups, failures and successes appear in profusion in a context of rapid, even explosive growth. Failures are frequent, usually because of poor lending policies and lax repayment discipline, but the successes, fewer in number, end with most of the business where clients have a choice. Savings services increasingly become a complement to microlending operations because the poor in the developing world have a strong demand and need for precautionary saving vehicles and safe repositories. NGOs, which gave birth to the microfinance industry (Dunford, 1998) still dominate it. They are the chief service deliverers and often the mobilisers of subsidies that it still needs. Both the overall success and the promise of microfinance as an anti-poverty tool have become evident in the now deep involvement in it, usually through NGOs, of governments, bilateral aid donors and the multilateral aid institutions, most notably the World Bank. The UN's IFAD finds loan repayment rates in its various MFI projects higher than farm credit repayments in some developed countries.

Although large MFIs exist, most, as already noted, are small and geographically limited in scope — and even the large ones organise themselves in ways that stress local, grass-roots client contact and account maintenance. Thus the MFI experience reinforces the message on the service delivery issue mentioned in the preceding chapter. Successful programmes need a local presence and local people to make them work. This is another lesson from MFIs that should be carried forward if or when governments consider adopting asset-building programmes.

Among the many thousands of MFIs in operation, about 200 are estimated to be profitable and no longer in need of private or public subsidies for survival. Several now regularly obtain — and regularly repay — operating loans from domestic and foreign commercial banks, which have begun to take an interest in microfinance. MFIs have started to tap other sources of financing for expansion as well. For example, Mexico's Compartamos (113 000 clients, average loan size US$250) has converted from a non-profit organisation to a for-profit finance company in order to attract commercial capital, and in 2002 it floated a bond issue equivalent to US$10 million in the Mexican capital market. It has an A+ local-currency credit rating from Standard and Poors. Blue Orchard, a mutual fund for microcredit providers, was reported in mid-2002 to be trying to arrange with investment banks a bundling of MFI loan portfolios into a securitised bond (*The Financial Times*, 25 June and 15 August 2002).

Grameen bank started a subsidiary in 1997 for a highly specific — and highly successful — asset-building purpose. It has invested some US$200 million in Grameen Phone, a venture that sells cellular telephones and time to urban customers and, more important, operates Village Phone, which now serves 12 000 Bangladesh villages. Village Phone operates a bit like Grameen Bank, but uses individual rather than group lending. It selects individuals, practically all women, to operate cellular phone services for their communities, lends them the funds to get started, sells them the equipment and air time at cost and is repaid (with interest) from the proceeds of the business. Customers come to the *phone bibis*, as the female proprietors are called, to make and receive business and personal calls at market rates in communities that otherwise have no telephone service at all. Grameen Phone, which became profitable only five years after start-up, has completely overtaken Bangladesh's fixed-line phone network. A serious study of Village Phone's economic and social effects on both the operators and their customers (Aminuzzman, 2002) could double as an advertisement for Sherraden's economic and welfare effects of Asset Building — not to mention its main message as a case study in overcoming the barriers of the digital divide in the developing world.

A few microfinance initiatives have also sprung up in developed countries, chiefly the United States and the United Kingdom. Schreiner and Morduch (2002) remark that none of the US programmes,

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essentially imitators of successful microcredit institutions in the Third World, has taken off in terms of wide outreach, and profitability is absent. The US micro-enterprise sector is itself much smaller than in developing countries, and small-business establishment is more difficult. Business training, not a typical microcredit use, has far more importance for potential US entrepreneurs. The authors also conclude that cheap savings services for the "unbanked" poor in the United States offer more promise of cost recovery. As for enterprise establishment itself, lack of savings rather than low access to credit is the greater constraint on new entrepreneurs (Schreiner, 2000a).

For the United Kingdom, Grieco (1998) puts a different twist on the evidence. She notes the emergence of local microfinance initiatives (citing Full Circle in Norwich and the Rebuilding Society Network in Birmingham as examples) and the UK government's awareness of low-income communities' deprivation of access to financial services; neighbourhood "redlining" is a problem in the United Kingdom as well as in the United States. Yet, in place of or alongside microfinance and its essential reliance on various forms of social discipline to keep repayment rates up, she foresees increasing penetration of poor markets by mainstream financial institutions themselves. They would use the available new data manipulation technologies that essentially reduce the information asymmetries that lie at the heart of the problem.

With these technologies, banks can track the performance of individuals rather than groups, and, in the other direction, poor individuals can make the banks aware of their personal creditworthiness and savings-worthiness. There are signs that similar developments may be gaining momentum among banks in the United States.[21] By 1998, an analogous revolution had already taken place in the UK personal casualty insurance industry and was spreading elsewhere in Europe and into the United States. People tended to focus on the new phenomenon of insurance selling on the telephone, but the real enabler lay in the ability of the agent to collect and instantly analyse with the new software enough data to price automobile and similar assurance according to individual risk. Pricing according to risk "classes" had begun to fade. Comparable developments could well take place in the banking sectors of the advanced countries.

Asset-Building Developments in OECD Member Countries

Some European critics of asset-building concepts argue that they are fundamentally "Anglo-Saxon" ideas that would not transplant well across cultural boundaries, even within the OECD area. In its more dogmatic forms, this point is too extreme, but there still is reason to raise the questions that it poses. Cultural differences do exist, after all, and cultural values do differ.

Some focus and precision in posing the questions are necessary, however. The issue specifically concerns the merits or demerits of Asset Building for the income-poor as an anti-poverty policy tool. The debate hangs on whether it should take a place beside other forms of social policy for the poor. It does not concern such assistance as a general social policy, because it is already widely accepted and practised. "Asset building" has been around for a long time throughout the OECD area in the classical policy approaches to home ownership, saving in general and the encouragement of entrepreneurship. No meaningful cultural divide exists on that score.

Leaving possible cultural incompatibilities aside, we do not have strong empirical knowledge of the existence or extent of cross-country differences within the OECD area in such policies' incidence on different income groups. This is a key question. Are the poor disadvantaged in national saving and asset-

21. Some North American banks participated in the April, 2002 IDA Conference that gave rise to this essay. Their presentations showed a strong awareness of the issues and some creative thinking about solutions. See also *The Financial Times*, "Homespun Lending Is Now Hip", 27th September 2002.

formation policies? Sherraden (1991) makes an affirmative case for the United States, and the United Kingdom and Canada appear to have accepted the proposition too, on the evidence of their interest in asset-building policies (see below for details). Elsewhere, however, especially in continental Europe, one cannot be sure. Specific research is needed, based on close, detailed country-by-country analyses of national budgets and expenditures (including tax expenditures) for such policies and their impacts by income classes, including those that may be left out. Such analyses, routine for evaluating income support, have not been made with the foregoing question in mind. Unless or until the answers are in hand, one must tread very cautiously with statements about country-specific, systematic policy biases. At this stage, it must suffice simply to point out that the classical asset-building approaches do not appear to be alien outside the core of the Asset Building movement.

Inside that core, however, all or nearly all the essential elements of Sherraden's critique and proposals appear to have been accepted, and much activity is taking place, although it would go much too far to say that Asset Building is anywhere ensconced solidly in legislated anti-poverty policy. The subsections that follow review this activity in the United States, the United Kingdom and Canada, with short descriptions of programmes in Ireland and Mexico and a brief look at ILAs in several countries.

The United States[22]

The US asset-building movement got off to a slow start in the late 1980s and early 1990s, but it won adherents and expanded rapidly thereafter. The expansion has followed a sequence. It began in the private sector with a trickle, then a minor flood, of programmes founded by non-profit organisations, NGOs and community groups and funded almost exclusively by private foundations. These groups, active politically, quickly moved to the next step, pressure on state governments for legislation friendly to Asset Building, and to the third, a struggle for federal legislation. As a result, the United States now has more than 500 community-based asset-building programmes with over 20 000 account-holding beneficiaries in 49 states. Although probably heavily undercounted because the schemes are multiplying fast, these numbers remain minuscule of course, and many programmes are still largely experimental. Nevertheless, they are yielding a wealth of eagerly studied information about programme design and management. They are also testing basic concepts about the feasibility of Asset Building and its economic and social effects on beneficiaries. The movement continues to gather momentum. A large majority of the states have now passed favourable legislation or support programmes through administrative action. Federal legislation is in process, and the nation is poised for a major expansion in both programmes and their funding.

Asset Building for the poor has encountered very little political controversy thus far, largely because the concept is sound and the proposals have been modest. It receives support from both sides of the political spectrum — one might say, in Sherraden's terminology, from both the "individualist" and "structuralist" camps. Proposals for national programmes have come from the White House in both the Clinton and Bush administrations, and the Chairman of the Federal Reserve has pronounced himself as friendly (Greenspan, 2002). Legislative proposals have had bipartisan support in the Congress. Recent ones have not yet passed simply because they have been parts of other bills that encountered resistance or delay. Such was the case with the 2002 version, for example, which expired with the adjournment of the last Congress and has been reintroduced. In short, Asset Building has solid support but apparently not enough priority — perhaps because the concept is so well accepted that it has not achieved sufficient status as a *cause célèbre* to focus attention on it. Despite these difficulties, the prospects remain hopeful for passage of a bill establishing a more national programme.

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22. French readers will find useful a complete and accurate report on US developments in a *La Tribune* article, "Frémissements d'un capitalisme social contre l'exclusion", 2 May 2002. The author, Yan de Kerorguen, attended the April 2002 Learning Conference in Windsor, Ontario and uncovered a wealth of information.

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Individual Development Accounts (IDAs) form the primary vehicle for Asset Building in the United States. They are matched savings accounts held with financial institutions, usually banks and credit unions. The sponsors normally manage the private programmes, and the states tend to work with the same or similar groups. Thus, so far at least — and of interest to the OECD's LEED Committee — the local, community-based character of service delivery has been preserved, indeed held central in programme administration. Match rates vary, with 1:1 and 2:1 the most common. Saving periods normally extend three years. The standard uses of the matched funds are home ownership, education or training and starting small businesses. A few programmes allow one or more broader uses, such as retirement income, home repair and purchase of a computer or an automobile. Programmes tend to focus on the working poor as clients. To make sure that clients manage their limited finances well, attendance at training sessions in financial management and economic literacy is usually mandatory as a condition of participation, and programme workers maintain close personal contact with clients to provide counselling and encouragement.

Although only four IDA schemes existed as recently as 1996, a key Washington-based, private organisation, the Corporation for Enterprise Development (CFED) started the trend in 1997. It created and obtained foundation financing for the *American Dream Demonstration* (ADD), a large-scale, five-year pilot IDA project with 13 competitively selected community partner sites operating 14 programmes in a mix of urban and rural locations across the country.[23] CFED managed the scheme and teamed with the Center for Social Development (CSD) at Washington University in St. Louis (directed by Professor Sherraden), which provides a stream of evaluation studies. The first accounts opened in 1998, and by mid-2000 there were 2 378 of them (Boshara, 2001).[24] The number dropped slightly from natural attrition to 2 364 at the close of the saving period, 31st December 2001 (Schreiner *et al*., 2002). ADD has functioned not only as a catalyst for the movement but also as a serious, convincing test of the feasibility of Asset Building in general and IDAs in particular for the United States. CFED itself has played a major role in getting IDAs onto the US political agenda and pushing legislative and administrative developments supportive of the movement at both the federal and state levels. Moreover, it is no longer a lone pioneer. Other big NGOs and non-profit organisations have joined the movement as well.

The CSD's ADD evaluation studies receive guidance and policy direction from an advisory committee of fourteen prominent academics and other national experts in the field. Several studies of the programme have already appeared, focused largely, so far, on monitoring the performance of the ADD projects themselves. Still to come are studies, planned in the original research design, to explore the saving behaviour of the poor more deeply and to provide empirical evaluation of social and economic outcomes and the welfare effects of asset holding. The research design includes a longitudinal survey of people with access to IDAs and a control group of those without access.

Schreiner *et al*. (2002) is the final ADD programme monitoring report. It reproduces and analyses most of an extensive database designed and supported by CSD, the MIS IDA (Management Information System for Individual Development Accounts). The following points summarise the key findings:

The ADD Population

> The ADD, like many other IDA programmes, targeted the working poor. Hence, compared with the US low-income population, participants tended to have more education, were more likely to be employed and more likely had bank accounts. They were also more likely to be female, African-American and never married. Eighty per cent were female. Some 44 per cent of

23. Most if not all of the sites remain in business with other official and private sources of funding.

24. This excellent source is an overall survey of Asset Building in the United States up to its date of publication in December 2001.

participant households (the largest single group) consisted of one adult with children, and 91 per cent of the heads of these households were single mothers. Average household income was 116 per cent of the poverty guideline level adjusted for family size; the median was 105 per cent, 46 per cent of participants were at or below the poverty line and 88 per cent were below 200 per cent of it. Median participant net worth was US$330;[25] more than 40 per cent of participants had zero or negative net worth, and 47 per cent had net worth between US$1 and US$29 999.

Participants were both programme-selected and self-selected, with the former factor likely dominant, so the evaluators explicitly point out that evidence from the ADD cannot measure potential participation rates for IDAs offered to the entire low-income population.

Saving Performance and Asset Acquisition

Average monthly net deposits per participant were US$19.07 (median US$9.83). The study distinguishes between "savers", who had total net deposits of US$100 or more, and "low savers", who had less. Monthly net deposits of the savers (56 per cent of participants) were US$33.81. Based on information collected on initial cash balances, the evaluators conclude that the savers generated substantial incremental savings, although they do not exclude that some asset shifting was likely and did occur. For all participants, the average time of participation was 24.5 months, with deposits in six of every 12 months. The average participant had total net deposits of US$528 and, with an average match rate among the ADD projects of 2:1, accumulated IDA assets at a rate of about US$700 per year. The average participant saved 51 cents for every dollar that could have been matched, which suggests that about half of the participants did not fully mine their match eligibility. Nevertheless, IDA accumulations as a proportion of total participant assets were very large, especially for those identified as savers. Qualitative (survey) components of the evaluation process suggest positive attitudinal and behavioural changes among the poor savers in the programme, but the evaluators interpret this information cautiously and do not take it too far in the absence of (forthcoming) measurement against a control group. Aggregate net deposits in ADD reached US$1.2 million. The matches brought total asset accumulation to US$3.6 million.

Over the ADD saving period, some 64 per cent of the participants made at least some unmatched withdrawals against matchable deposits. This suggests a strong need for precautionary savings and maybe indiscipline. The evaluators focus their analysis here — and their analysis of the relatively high proportion of low savers, which increases programme administrative costs — on programme design features that might help to reduce both problems.

The Influence of Programme and Participant Characteristics on Saving Performance

The evaluators conducted a series of regression analyses to look for associations between a range of programme, as well as participant, characteristics and saving performance in the ADD. Some highlights of these findings were as follows:

Match rates in ADD ranged from 1:1 to 7:1. Higher match rates associated with both the act of saving and continued participation but had no statistically significant effect on the size of net deposits. These results are obscured, however, by programme features that set saving targets

25. The net-worth distribution is skewed, with a much higher mean of US$4 039, due to the largely unexplained presence of a few participants (0.9 per cent) with net worth at or above US$90 000.

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based on *a priori* notions of what the designers thought people could save and backed them with match caps (saving limits beyond which matching was not allowed). Further investigation revealed that an additional US$10 per month of match cap increased the likelihood of being a saver by three percentage points, and the marginal response to a US$1.00 rise in the match cap was US$0.70 in additional saving. Nevertheless, the very presence of match caps hides any good evidence of desired saving levels, and the results thus remain murky.

All ADD participants had to attend financial education courses, in which they averaged 12 hours of participation. The subsequent analysis found a strong association between such education and saving performance, but only up to a relatively low limit. More than eight to ten hours of course attendance rapidly encountered diminishing returns. This finding suggests that, while basic financial training helps stimulate saving performance, a lot of it does not. Paring such training to the efficient minimum would do no great damage to saving performance and could substantially reduce programme costs.

Although some 80 per cent of the participants were female, gender had no association with saving outcomes. People who had some college education were more likely to be savers, but generally education levels had little association with the amounts saved. With its targeting on the working poor, ADD had a high proportion — 78 per cent — of participants working full or part time. Of policy interest for ILA-type accounts (see below), the regression analysis found that working students were more likely both to be savers and to have higher net monthly deposits.

Around 51 per cent of the participants received public assistance at or before enrolment, but this had no association with either saver status or net deposits. Income did not relate strongly with saving outcomes either. "The poorest saved somewhat less than others, but they nevertheless saved a larger share of their income than the less poor." (p. 53)

Founding IDA schemes and working towards placing and funding them massively in federal and state legislation has not been the only important task for the asset-building movement in the United States. The movement has perforce had a connection with the push for welfare reform, because "welfare market" failures of the type described in the preceding chapter have presented a major barrier to the spread and acceptance of IDA schemes. A major obstacle resides in asset limits imposed under income-support programmes, which may cut off such support when recipients or applicants possess even relatively small personal net worth. Much has been accomplished on this score. For example, the federal TANF (Temporary Aid for Needy Families) legislation now in force has a specific IDA provision that provides states the option of prohibiting IDA assets accumulated under it from consideration in granting either eligibility or benefits. All IDAs authorised under a federal IDA pilot programme, the Assets for Independence Act (AFIA), described below are disregarded in determining eligibility for means-tested programmes. Several states have moved to think through their rules on anti-poverty programme administration as well.

Nevertheless, the job is far from finished. Asset limits persist in a complex web of federal and state laws and regulations, made more complex still because the states often administer these federal programmes (*e.g.* TANF) with some flexibility to set the rules.[26] Reforming them is a law-by-law, regulation-by-regulation task at both the federal and state levels. The tax treatment of IDAs also needs rationalisation. CFED (2002) takes more than 50 pages to describe the current situation. It concludes (p. 7) that "From a policy perspective, the coordination of asset limits in means-tested programs is the next step toward ensuring that low-income families have opportunities for asset accumulation similar to those

26. One might think of this as the "flip side" of devolution. It can get complicated, often letting what this essay calls "market failures" creep in.

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available to the non-poor." Some US experts would not give this issue quite so central a place because other priorities intervene (*e.g*. passage of more comprehensive federal legislation) but none deny its importance.

At the latest CSD count (December 2002), 34 states plus the District of Columbia and Puerto Rico had enacted IDA legislation, seven had created IDA projects by administrative action and at least 34 mentioned IDAs in their plans to administer TANF funds. In the first group, ten of the 34 had appropriated or allocated IDA matching money, ten had appropriated, allocated or directed funds to administer IDA programmes and nine granted tax credits or deductions to contributors to IDA schemes. All 36 had "income disregards"[27] for TANF recipients within their territories, 18 had allocated TANF funds for IDAs and 18 supported IDAs from other public funding streams. All seven in the second group (IDAs through administrative action) provided administrative funds to support IDAs and allowed income disregards, five allocated some TANF money to IDAs and two provided money from other state pubic funding. (CSD data; for state-by-state details see the CSD website: http://www.gwbweb.wustl.edu/csd/statepolicy/). Considerable co-operation and intermingling of funding occur between many of the state programmes and the two existing federal initiatives described below, and many programmes are open to private funding as well.

Aside from noting the expanding popularity of IDAs at the state level, due in no small measure to political representations from the community groups and NGOs involved, two observations come to mind. First, the local or community orientation of IDA programmes has been well preserved as interest and funding have moved to higher levels than the community in the political hierarchy. In the US context, this has been a relatively easy task, but it may not be so in countries with stronger traditions of administration from the centre of government. Second, state government budgets remain much more vulnerable to economic downturns because they cannot, unlike the federal government, treat the bond markets as virtually inexhaustible when they move into deep deficit. It remains to be seen whether state IDA funding, even if still modest, will continue to grow in a period when state finances are under heavy pressure.

The federal government has at least three pilot IDA programmes already in existence, although limited in scope. The Federal Home Loan Bank's (FHLB) matched savings programme operates in co-ordination with state initiatives in the FHLB's Indianapolis (Indiana), New York, Pittsburgh (Pennsylvania) and Seattle (Washington) districts. In the Department of Health and Human Services (HHS), the Office of Refugee Resettlement provides about $15 million per year in competitive grants to about 30 community organisations to provide IDA facilities for refugees. This programme has no legislative backing; HHS runs it under existing authority and with existing budgetary resources.[28] HHS also administers the Assets for Independence Act (AFIA), the most important of the three.

The Congress passed the AFIA and authorised funding for it in 1998. This five-year demonstration programme, which began in FY1999, looks toward the eventual passage of more comprehensive legislation. The authorised funding reached US$25 million a year, but appropriated funds amounted to only US$10 million in the first two years and the full US$25 million in the third. By the end of its fifth year, the AFIA thus will likely have had appropriated US$95 million of the US$125 million originally authorised.

27. These permit working people with incomes above the federally defined poverty level to participate in IDA schemes without jeopardising their TANF eligibility. No state goes beyond 200 per cent of the poverty level and many fix limits well below that. In general, earnings disregards as applied to welfare programmes permit persons to continue to receive assistance until their earnings reach a defined point (depending on the programme) somewhere above the poverty line, at which point income support begins to get clawed back. They try to capture the larger work incentives shown to emerge with higher earnings (see Blank, 2002).

28. These IDAs are somewhat unusual because they go beyond the normally permitted household investment objectives to allow car or computer purchases as well.

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The programme works through competitive five-year grants from HHS to community organisations. The grantees operate in 41 states and the District of Columbia. Although the law projected some 50 000 IDA accounts, only about 5 000 actually have been opened across the country. This poorer than expected performance may have several causes: the law is too restrictive; it requires sizeable matching by non-federal entities; and (some say) HHS has not administered it without flaw. Nevertheless, it remains popular politically, and its re-authorisation is considered more likely than not in 2003.[29]

IDAs under the AFIA must follow some strict rules. Eligible participants include households qualified to receive TANF or the Earned Income Tax Credit (EITC), or whose income in the previous year fell below 200 per cent of the poverty line. To join they must sign Savings Plan Agreements that set schedules of regular saving in agreed amounts, fix the total amounts to be saved, identify the assets to be acquired with the savings and determine the match rates. Match rates can go as high as eight to one, but the norms are 1:1, 2:1 or 3:1. The matches come from a reserve fund, which not only envisions but also requires federal matching money to be accompanied by equivalent funds from other official (*e.g.* state or local government) or private sources. The maximum federal matching contribution is US$2 000 per IDA account or US$4 000 per household, and the maximum reserve fund matches (federal and other funds combined) are held to US$4 000 and US$8 000, respectively.

Although it is national in scope, the AFIA closely guards the local, community-based character of programme delivery. Groups eligible to apply for grants to establish IDA programmes are limited to non-profit, tax-exempt organisations, state, local or tribal government agencies working with such groups and local financial institutions. The last may include Community Development Financial Institutions (CDFIs), credit unions designated as "low income" by the National Credit Union Association (NCUA) or credit unions in collaborative relationships with local, community-based entities working specifically to address poverty. The programmes themselves must provide heavy personal support to participants, including obligatory financial literacy and budget management education.

Finally, the Savings for Working Families Act (SWFA) recently reintroduced in the Congress would create, if passed into law, an IDA programme of more national scope. It envisions some 300 000 new IDA accounts over seven years starting in 2004 at a cost of US$450 million. This new bill is identical to the 2002 version, which narrowly missed passage in the final moments of the last Congress.[30] Its major innovation in contrast with the AFIA and most IDA programmes already in existence lies in the delivery mechanism. This centres on banks,[31] which will receive tax credits for matching funds that they provide, up to US$500 per account per year, plus an annual US$50 credit for each account to cover administrative costs and the obligatory financial education. Credit unions and other non-taxpaying entities can also participate, however, because the tax credits would be transferable. Moreover, the tax subsidy is based on even matching (1:1), but the law would allow state, local and private groups to participate using their own matching schemes. Eligibility is limited to IDA holders of modest means, but they must have filed federal tax returns in the year before their participation begins. The income limits ("adjusted gross income" — AGI) are US$18 000 for single people, US$30 000 for heads of household and US$38 000 for married couples. Annual IDA deposits by account holders are limited to US$1 500, and there are no restrictions on the income sources behind the deposits.

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29. The principal doubt concerns whether the House Ways and Means Committee, which has jurisdiction over both the AFIA and the proposed SWFA, will be willing to have two such similar programme laws on the books at the same time.

30. The size of the programme under debate now is reduced from an originally proposed 900 000 IDA accounts costing $1.7 billion. The reduction came during the legislative debates in 2002.

31. "Qualified financial institutions" are defined as those permitted to hold Individual Retirement Accounts (IRAs), a long-standing system of tax subsidies for mostly middle-class individuals to encourage retirement savings.

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Despite the obvious intent of the bill, there is room to question whether the local, community orientation of IDA service delivery would be as strong as in the intermingled AFIA structure, state and local programmes and privately funded IDA schemes. If the bill becomes law, it would designate the US Treasury as the administering agency. The Treasury's first task then will be to write the programme regulations based on the new law, and these will provide the test of the "localness" of service delivery. Draft regulations of this sort are normally published with a period for public comment before their final revision and issuance. One can expect and hope that the CFED, CSD and other interested parties will cast a sharp eye on the draft regulations and attempt to ensure that the advantages of community-based delivery will not become lost in the compromises necessary to "get to scale" with widespread, cost-effective IDAs.

To sum up, the spread of IDAs in the United States has shown and likely will continue to show impressive growth, but it cannot be described as more than modest in terms of the potential market of poor savers to be served. Even assuming continued fast expansion of local private and public IDA programmes, re-authorisation and full funding of the AFIA and passage of the SWFA into law in its present form, not many more than half a million IDA accounts will be open by 2010. According to one estimate (Boshara, 2003, email communication), that would cover only a small percentage (under two per cent) of the income-eligible population. IDAs will have achieved national scope but not full national penetration.

The United Kingdom

The asset-building movement has evolved differently in the United Kingdom and the United States. Its US development has resembled a gathering of forces, beginning with a few local initiatives and spreading to successively more widespread groups and ever-higher levels of government. In the United Kingdom, it began at the top and has followed an orderly process of public debate and persuasion — an initiative in social policy by the present UK government from the start. For this reason, reinforced no doubt by a somewhat different culture and the working methods of the parliamentary system, the nascent UK asset-building programme has the appearance of much more coherence. It is embedded almost seamlessly in the present government's whole approach to the welfare state and welfare reform.

The British Government believes that an active welfare strategy based on work, income and public services needs to be complemented by a strategy to extend the benefits of saving and asset ownership to all. Savings and assets provide people with security in times of adversity, long-term independence and opportunity, and comfort in retirement. Savings cushion the impact of uncertain events and provide the capital for people to invest in their future. As more people look forward to longer and healthier lives, savings help determine living standards in retirement.

In addition to the direct benefits of having a stock of savings, there are also indirect behavioural benefits to be gained through promoting saving. The *process* of saving can have a positive impact on individuals' self-reliance and attitude towards personal development, benefiting not only individuals but also society as a whole.

The Government's savings strategy is focused on:

> **Improving the environment** for saving, through macroeconomic stability and an efficient and well-regulated market in financial services;
>
> **Creating the right incentive**s for saving by ensuring that the tax and benefit system does not unfairly penalise savers, and by assisting those on low incomes;

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Empowering individuals with financial information, improved access to advice, and savings products that are simpler and easier to understand; and

Developing **saving products suitable for each stage in a person's life cycle**. As the scale of saving increases, proceeds from one product may be rolled into the next, helping people to progress up the savings ladder.

The Government provides targeted incentives to encourage saving throughout life. This includes Individual Savings Accounts (ISAs), incentives for pensions, and new policies like the Saving Gateway and Child Trust Fund.

The early intellectual work on the UK asset-building proposals came from the Institute for Public Policy Research (IPPR). In June 2000, IPPR published *Ownership for All* (Kelly and Lissauer, 2000) to open the public discussion.[32] In January 2001, IPPR organised an international Conference on Asset-Based Welfare. In April 2001, the government announced two linked proposals, the Child Trust Fund (CTF — "baby bonds") and the Saving Gateway, a programme similar to US IDAs. Both were set forth in a first consultation document, *Savings and Assets for All* (HM Treasury, 2001a). Following the general election in June 2001, the first consultation period ended and in November a second paper appeared, *Delivering Savings and Assets for All* (HM Treasury, 2001b). The second consultation period ended in March 2002, and in August a series of Saving Gateway pilot projects began, with accounts to run for 18 months. The Treasury's *Pre-Budget Report* (November 2002) describes the current states of play of both the Child Trust Fund and the Saving Gateway, and the 2003 Budget (HM Treasury, 2003) provides for the CTF's launch.

Chapter Five of the *Pre-Budget Report*, entitled "Building a Fairer Society", deliberately and very skilfully places the United Kingdom's asset-building initiatives in the wider context of overall UK welfare policy. Most of the chapter, in fact, discusses proposals for improving traditional income-support programmes. The Saving Gateway and CTF are woven carefully into the overall treatment as complements to the broader policy and not as shifts in it. The identically titled Chapter Five of the 2003 Budget document contains a similar treatment.

Paxton and Regan (2002) of the IPPR provide a concise summary of the social policy justifications that underlie Asset Building in the United Kingdom. The following excerpts (pp. 1-2) give the flavour of this thinking:

> "An asset-based policy can meet core centre-left values of opportunity for all and social inclusion, but it also marries well with a Right agenda of individualism and private provision…. [T]he Left's proposals have a progressive element and a core concern for greater equality…. Social exclusion is a multifaceted problem and therefore requires a range of different responses. Assets and the control that they give over people's lives are increasingly being recognised as an important part of strategies to deal with social exclusion. Likewise increasing all people's opportunities requires people to have greater autonomy and control over their future…. [T]he Left also emphasises the *additionality* of its proposals — they are designed to complement and sit alongside current provision. In the short term an asset-based policy is not a substitute for incomes policy. In fact the two need to work together and a progressive assets-based policy will only be successful with corresponding improvements in the adequacy of income levels. In the long term the funds accumulated in a Child Trust Fund would not be an alternative source of funding for areas of welfare currently funded through general taxation…. Asset-based policy

32. See also Kelly and Le Grand (2002) for an interesting historical exploration of the key ideas and their evolution in British society over several centuries.

could become the *third pillar of the welfare state* alongside income based policy and service provision (…).”

The Saving Gateway proposal has both obvious similarities to and strong differences from its US counterpart, IDAs. It is designed to kick-start the saving habit by providing a transparent incentive to save through Government funded matching of all money saved. Tailored financial education and information are provided alongside the account to enable individuals to make informed saving choices.

Poor individuals will open savings accounts running for a maximum of five years rather than the US norm of three. The UK government will match these savings, up to £25 per month and a limit of £ 375 over the full period.

The scheme is limited to people of working age with low incomes. The income/eligibility test, not the same as in the United States, is based on receipt of income-support benefits (tax credits or working-age benefit), on which the government already has records and through which it has established lines of communication with potential participants. Note the connection with income support as a criterion for eligibility rather than a benefit that shrinks when people accumulate assets.

As in the United States, savers will have access to their own money but not to the matching funds until the end of the saving period. Similar withdrawal penalties apply as well. The financial assets would be held as cash deposits, *i.e.* no equity or other non-cash investments.

In a major difference from US practice, savers will face *no restrictions* on the use of the accounts when they mature. In fact, the scheme puts a much heavier focus than do US programmes on encouraging long-term saving. It will add incentives, such as exemption from annual limits for stakeholder pension or Individual Savings Account (ISA) contributions, for participants to roll their Gateway savings into standard savings vehicles. The ISA, a very popular product (14 million accounts), is the United Kingdom’s main tax-advantaged saving scheme for the entire population, similar to IRAs in the United States. One of the aims of the Saving Gateway is to provide a bridge enabling poor savers to move seamlessly into the “mainstream” saving behaviour epitomised by ISAs.

Financial education of course forms part of the programme. It focuses on three critical points in the saving process, beginning in the account creation phase, continuing during account lifetimes to help savers internalise regular saving habits and ending with training and counselling when the accounts mature.

The Saving Gateway relies heavily (as does the Child Trust Fund) on financial institutions for service delivery in a way that goes beyond their use simply as depositories, as in most US community-based IDAs and the AFIA demonstration. In this respect, the UK scheme looks more like that envisioned in the proposed US SWFA legislation, with one key difference. The SWFA would have the banks provide the matching funds and compensate them with tax credits, whereas the Saving Gateway would subsidise the matching funds directly.[33]

33. Financial institutions thus would expect to make their profits on the outstanding account balances. This may explain why, during the UK consultations, financial houses expressed much more interest and found much more market potential (ease of bringing the scheme to market) in the Child Trust Fund than in the Saving Gateway. Trust Fund accounts would be larger, less costly to administer, much longer in term and (as the bankers would see it) more stable. For this reason, the government decided to engage a single licensed provider for the Saving Gateway

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According to a *Times Online* report (7th October 2002), the Saving Gateway eventually would reach some 7.2 million poor people (incomes under £15 000 per year) and cost "at least" £700 million annually. This estimate was based on government matching contributions of £1 500 per year per account rather than the £1 000 that HM Treasury appears from the *Pre-Budget Report* to have settled upon. With the same numbers of participants, this cut would reduce the estimated cost to about £470 million.

Although financial institutions will serve as the main service providers, the UK government has not yet fully defined the role of community-based organisations in Saving Gateway service delivery. It knows that this role must be important because such groups are best placed to reach, deal with and be trusted by potential participants. It also knows that the government and financial institutions will need to work closely with them. Yet doubts remain about their capacity to manage and co-ordinate their pieces of a major national programme. In the United States, the successful IDAs began as grass-roots initiatives and thus proved their capacity, and the AFIA (along with other long-standing welfare programmes) has given the government experience in selecting community organisations as grant-eligible through competitive bidding. Canada, too, knows that it has competent and efficient community institutions in place as potential service providers. The UK planners, however, still struggle with top-down ideas largely untested in their own local contexts. The Saving Gateway pilots now underway should help to resolve the dilemma.

The pilot projects, which will end early in 2005, cover five different communities[34] and aim to attract a total of 1 500 participants with annual incomes below £11 000. Some 700 people had opened accounts by 30th March 2003, with total deposits of nearly £38 000. Final figures for open accounts are not yet available but the UK Government expects over 1 250 accounts to be opened. Because of their shorter duration (18 months), the pilots are truncated versions of the scheme as described above but similar in all the essentials. They are administered through the Community Finance and Learning Initiative (CFLI) of the Department for Education and Skills. CFLI's main mission involves support for community organisations in combating financial exclusion through financial education, training and counselling. The single service provider (see footnote 46), Halifax plc, furnishes branch, staff and account management. In the pilots, the maximum allowable saving rate is £25 per month and the account limits are £375 in savings and matches (1:1), for a total of £750. Like the ADD in the United States, the pilots' design provides for a stream of information and data to support evaluations that will inform the final design of the eventual national programme. The 2003 UK Budget document pledges that "Further development of the Saving Gateway, including the appropriate level of the match rate and the criteria to be used to determine eligibility, will follow in light of evaluation evidence" (HM Treasury, 2003, Ch. 5, p. 13).

The Child Trust Fund has no counterpart in the United States, although some asset-building advocates there have started to promote similar ideas. These include various "stakeholder" schemes, all based on endowments of one sort or another. Indeed, although it has not yet taken root in policy, the idea had its origins in the United States, where a debate was launched with the publication of *The Stakeholder Society* (Ackerman and Alstott, 1999). The basic, common thread of argument for all these proposals rests on the assertion that growing wealth (asset) inequality is the key determinant of inequality of opportunity. Among the more recent proposals, Boshara (2003) urges a system of "American Stakeholder Accounts" that would provide each newborn child with an endowment of US$6 000 and operate much like the UK CTF. His argument for it draws on successful historical US asset-building programmes, particularly the 19th-century Homestead Act and the GI Bill in the 1950s.

Given the relatively enthusiastic response from financial houses during the consultation process, the UK government decided that open market competition among financial institutions for Child Trust Fund

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pilot projects rather than turn to open market competition. HM Treasury (2001b) indicates that this decision will also extend to the full programme when it is launched.

34. Gorton (Manchester), Tower Hamlets and Toynbee Hall (East London), Cumbria, Cambridgeshire and Hull.

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accounts can work and will use it. Other key implementation decisions remain to be taken after further consultations, however. They include the structure and value of endowments, consumer protections, fund investment options (because these will not be all-cash funds) and delivery methods for financial information, education and advice. Leading up to the April 2003 Budget proposals, the following basic outlines of the Child Trust Fund had emerged:

> The system will embody the principle of "progressive universalism". It will be universal, with accounts established and endowed for all children at birth, and progressive because children from poorer families will receive larger endowments than will children from richer ones.
>
> The government would add additional deposits, also progressive, to the initial birth endowments at ages five, 11 and 16. The 2003 Budget does not include them, but *The Economist* (12th April 2003) reports that the government may announce them later.
>
> Families, others and the children themselves will have freedom to make additional, voluntary deposits to the accounts up to an annual limit of £1 000.
>
> The accounts will mature at age 18. No access to the assets (including voluntary contributions) would be permitted before then, chiefly to avoid confusion between short-term and long-term saving objectives. At maturity, no restrictions will apply to the uses of the assets.
>
> An integrated system of financial education will be administered through the school system, the financial institutions and other providers.

The CTF programme acquired some firm numbers and a firm rollout date in the recently announced 2003 Budget. The basic endowment would provide children born to poorer families with initial endowments of £500. This group, estimated as about one-third of all UK children, is identified as children from low-income families who also qualify for the full Child Tax Credit. All other children will receive half as much, £250. As noted above, the 2003 Budget does not include top-ups as the children grow. The additional permitted contributions of up to £1 000 from family and friends are included, however. The government expects actual account provision to become available by 2005, but it has backdated the entitlement to cover all children born in September 2002 and later. Provision will be based on open competition among authorised institutions that meet the CTF conditions. As these initial Budget proposals are fairly skeletal, the government will publish its full proposals later in 2003, including missing pieces like savings product specifications, sales regulation, limits on investment risk, a default investment option and the extent of any incentives (*e.g.* matches) for additional CTF contributions.

Canada[35]

Until as recently as 2001, Canada had only two community-based IDA programmes, one in Calgary (Alberta) and the other in Kitchener-Waterloo (Ontario). Both had proved successful. The number has since multiplied. Seeing the early successes, a Toronto-based non-profit group, Social and Enterprise Development Innovation (SEDI) decided in 1997 to research the potential for a significant IDA demonstration project. With positive findings, it prepared a proposal and in June 2000 obtained both official approval and government funding from Human Resources Development Canada (HRDC). A year later, Learn$ave/$avoir en Banque came to life and in 2002 it started to grow strongly.

35. Material in this subsection is drawn from Boshara (ed.) (2001), Appendix D; the CFED quarterly *Assets*, Spring 2002; Nares, Robson-Haddow and Gosse (2001); a SEDI presentation at the Windsor IDA Learning Conference in April 2002; SEDI promotional materials; and telephone conversations with SEDI personnel in Toronto.

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Learn$ave is large, bigger than the ADD demonstration in the United States. A five-year programme, it plans to reach some 3 675 low-income Canadians with IDA accounts. All matched savings and the delivery phase of the programme will end in 2007, and the substantial evaluations built into the project will continue until 2009. The programme is national in scope, with service delivery by community partners in ten sites around the country.[36] The project is a partnership. SEDI, the lead agency, oversees project design, administration and actual programme operation. HRDC provides the funding. The Social Research and Demonstration Corporation (SRDC) has responsibility for the evaluations, including research designs built into the operational side of the project. Partner financial institutions are the RBC Royal Bank (at nine of the ten sites), the Assiniboine Credit Union (Winnipeg) and the Caisse d'économie Desjardins (Montreal). Through its network of community partners, SEDI has taken care to keep the focus of delivery on a strictly local, community basis. Canada has developed community organisations over three decades into a sophisticated, high-capacity service delivery infrastructure fully able to deliver asset-building measures effectively (Nares, Robson-Haddow and Gosse, 2001).

Participants must be persons of working age earning less than Statistics Canada's low-income cut-off for their family size. The programme limits the allowable saving goals and use of the funds to just two: learning (adult education and/or training for the saver or a family member) and micro-enterprise establishment.[37] Participants must commit to save at least $10 a month for a minimum of one year and a maximum of three years before withdrawing saved and matched funds. For learning uses, the match funds are paid directly to the educational or training institution. The programme is expected to generate some $18 million in financial assets, of which $4.5 million will represent personal savings and $12.5 million will be matching funds from HRDC. The match rates vary from a minimum of 2:1 to a maximum of 5:1. Most sites have match rates of 3:1 for up to $1 500 saved. Participants can get both financial management training and individual case management, but they are not mandatory as a condition of participation.

Probably even more systematically than in the US ADD or the UK Saving Gateway pilots, the programme itself has been structured to facilitate the later evaluation research. SRDC, the evaluator, is an independent consultant. Participants at some sites receive assignment by lot to different research and control groups in a way that will allow comparative study of the effects of deliberate programme variations, including more and less financial education. Six site case studies will examine the effects on savings incentives and programme performance of varied match rates, different overall saving limits, reduced saving periods, and even saver performance bonuses. Another will evaluate a site project to recruit savers with significantly lower incomes than the programme norm. All participants receive encouragement to participate in voluntary entry (account start-up) and exit (account liquidation) surveys. Researchers follow them throughout the saving period and for two years afterward.

Like the United Kingdom and the United States, Canada has a growing coterie of people convinced that Asset Building should be a part of progressive social policy and prepared to promote it on practical, theoretical and moral grounds. For the moment, interest focuses on launching matched saving programmes of the IDA type, but ideas with endowment features similar to the UK Child Trust Fund have spread across the Atlantic and begun to gain a foothold throughout North America.

36. Vancouver (British Columbia), Calgary (Alberta), Winnipeg (Manitoba), Grey-Bruce Counties (Ontario), Kitchener-Waterloo (Ontario), Toronto (Ontario), Montreal (Québec), Frederickton (New Brunswick), Digby and Annapolis Counties (Nova Scotia) and Halifax (Nova Scotia).

37. SEDI is also leading an exploration of the viability of IDAs in Canada for matched saving towards acquisition of affordable housing. It finished research and consultation projects on the issue in August 2002, whose results are soon to be published and may lead to one or more new demonstration projects on IDAs for housing.

Mexico

Mexico has no asset-building "movement" *per se*, but interesting developments are afoot. As the first part of this chapter points out, microfinance is popular, widespread and successful in Mexico. In fact, Mexico's *cajas populares* include a wide variety of institutions that offer financial services more or less informally to the low-income population with no or limited access to traditional banks. In 2001, new legislation transformed the National Savings Board, established more than half a century ago to promote small-scale savings, into the Bank for National Savings and Financial Services (BANSEFI). BANSEFI has far broader powers and a wider mandate than its predecessor. With 390 small urban branches and 299 rural ones (1.4 employees per branch), it acts both as a popular bank (average account balance: P2 368 = US$212) and as a central bank for the *cajas populares*, including MFIs in general and RoSCAs. It is growing fast. Its many programmes and services promote small savings and credits, with an emphasis but not an exclusive focus on housing finance. None of BANSEFI's products or services offer matched-savings options. Yet Mexico's poor, as is shown below, can be avid savers if given the opportunity. It is clear that the Mexican Government uses BANSEFI and the many public and private institutions that it supports in a centralised effort to overcome the financial market failure that denies such opportunities.

In one innovative programme to promote education, actually a variant form of ILA, a BANSEFI trusteeship administers the funds for the Youngsters with Opportunities programme of the ministry for Social Development. Started in 2002, this scheme aims to encourage poor students to finish secondary school and enter university. It provides endowment grants to students based on "points" earned through secondary school attendance. It now (2003) has some 800 000 student participants.

A paper presented at the Windsor IDA Learning Conference by a Mexican academic (Duran, 2002) describes a housing programme that is in fact the germ of an asset-building scheme. It begins by pointing out, using household expenditure data, that people in the lowest two deciles of the Mexican income distribution actually save astonishingly high proportions of their disposable incomes. In 2000, those in the first decile (average income/expenditure of US$3 149) saved at a rate of 30.44 per cent. Those in the second decile (average income/expenditure of US$5 521) saved 40.42 per cent. These figures measure proportions of total outlays that went into deposits in bank (or MFI) savings accounts, community savings banks and informal RoSCAs. They are not just higher but are multiples of saving rates in the higher income deciles. This is strong evidence that the propensity to save among the poor can be high.

The paper concentrates on measures to translate this capacity to save into more power to acquire and hold assets, specifically housing. It reviews the history of Mexican housing policy and of progress on weaning it from a focus on unionised workers at the expense of low-income groups. The history culminates with VIVAH, the *Programa de Ahorro y Subsidios para la Vivienda Progressiva*, which began operation in 1998. Under it, people with low incomes, defined as non-homeowners with dependants and monthly family incomes below 2.5 times the Mexican minimum wage, register and are screened to check their eligibility. From among the eligible, drawings by lot (rather like selections for the savings pots in RoSCAs) pick "winners" who are then asked to make down payments (savings deposits into the programme) of about US$750. This is called the "Progressive Savings Scheme", and it gives persons the right to acquire without further expenditure homes heavily subsidised (in effect the savings are "matched" in high ratios) by both the federal and state governments. The federal government provides an additional US$2 600 towards the purchases and the state governments furnish land and infrastructure for housing developments. The national average "match" rate is 7.28:1 (Duran calls it a "multiplier effect") and it varies by state, from a low of 4.05:1 (Hidalgo) to a high of 18.93:1 (Sonora).

This programme, whose cost effectiveness might be open to question, given the high "match" rates and the selection of poor households from those that already have some savings, looks like a variant on both matched savings of the IDA type and UK-type endowment or "stakeholder" schemes — the latter

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because the "match" rates are so high that they exceed the amounts necessary just to create savings incentives. They seem designed to overcome a market failure that puts house ownership out of reach of Mexico's poorest people, even if they are strong savers. The programme is specific to one OECD culture, to be sure, but that is the point: asset builders argue that their ideas have an adaptable universality.

Ireland

Ireland adopted Asset Building in 2001 with a closed-end matched-savings scheme for the entire population. It is not targeted specifically for the poor, but periodic savings are sufficiently small that it can attract them. It opened on 1st May 2001 and closed for new accounts on 30th April 2002. Irish banks maintain the accounts, which must be held for five years to obtain the full matching benefits. The government provides matching funds at a rate of 0.25:1 — £1 for every £4 saved monthly. Each deposit, in other words, obtains a 25 per cent return in the first year before regular interest is credited. The scheme proved popular (Boshara, 2001). With its low but significant matching rate and closed-end character, this programme represents yet another possible variant on the IDA idea, but it has encountered domestic criticism on the grounds of its fiscal cost and the obvious bonus it provides to middle-class savers. Debate has also begun in Ireland on the merits of an endowment scheme along the lines of the UK CTF or the various US "stakeholder" proposals.

Individual Learning Accounts (ILAs) in OECD Countries[38]

As Chapter One noted, ILAs are fundamentally asset-building vehicles with spending of the accumulated assets limited to education or training, usually of adults. Some are targeted towards the poor and some are not. At least five European countries have experience with them either on an experimental basis or in formal national programmes.

The Basque Region of Spain began in September 2000 a pilot for training vocational-training teachers, then subsequently added separate programmes targeted to women, the unemployed and potential entrepreneurs. The delivery mechanism common to all these initiatives involves providing beneficiaries with a species of credits, from which they can use "learning account cheques" to pay in part for approved training or education at approved institutions. Depending on the programme, that training may be narrowly defined — *e.g.* computer literacy training for women.

The Netherlands has or has had three different ILA initiatives. The first, consisting of eight projects, aimed mainly to help further train employees with low education levels. It opened about 1 100 accounts (150-200 in each project), as planned, between its inception in March 2001 and its end a year later. Contributions came from individuals (beneficiaries), employers and the local and national governments. The second, the "Free Port Project" launched in 2000, experiments with personal training vouchers in "installation technology" companies (plumbing and heating). It has reached some 1 500 people. The third, the @point System, is a "savings" system with a unique, innovative target — temporary and seconded employees in the ICT/multimedia field. Developed in co-operation with Appoint, a temporary employee agency, it allows these workers to accumulate "points" for hours worked. These points are convertible essentially into vouchers, which can be used to finance further training.

Sweden has developed an earlier ILA pilot into a national programme that began in April 2002, aimed to reach 15 per cent of the labour force (650 000 people) in its first year, and will stabilise at about two million accounts in ten years. The accounts are built with a combination of individual contributions

38. Sources for this subsection are OECD (2001b) and OECD (2003).

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(tax deductible), a government premium furnished as a tax deduction and a similar officially provided "competence premium", contingent on use of the accounts for individual learning and skills development. All these contributions become taxable when drawn upon, so that tax revenues are eventually clawed back and the beneficiaries enjoy tax deferral but not permanent tax credits.

In *Switzerland*, a programme launched in 2001 and administered by the Geneva Cantonal Department of Careers and Vocational Training provides individuals with annual training cheques worth €500 each for up to three years. Beneficiaries must use each cheque within three years of receipt to finance updates of their professional qualifications.

The United Kingdom started an ILA scheme in September 2000 that rapidly became popular and successful then had to be closed in November 2001 due to allegations of serious fraud and theft — apparently mainly at the level of training providers. A December 2001 evaluation study gave a positive verdict on the merits of the programme itself, and the government has pledged to announce a successor programme. Like its predecessor, the new programme likely will be universal, with the accounts based on subsidised discounts for beneficiaries at educational and training institutions.

Asset Building outside the OECD Area

Aside from microfinance, a few non-OECD countries have adopted asset-building schemes of one sort or another. The largest, most comprehensive and most interesting ones are in Singapore, but programmes that deserve brief mention can also be found in Chinese Taipei and South Africa.

Singapore

Sherraden (2001) labels Singapore as "probably the most innovative nation on the planet" in domestic social policy, although its measures can sometimes be rather too *dirigiste* for western tastes. Most Singaporean social policy is asset-based in one way or another. For example, the city-state's Central Provident Fund (CPF) is the most comprehensive such scheme in the world, used by citizens for a host of purposes such as home ownership, insurance, hospitalisation, retirement and investment in real property and financial assets. Another programme, Edusave accounts, began in 1989 to provide school children with annual deposits that can be used to defray supplemental education expenses.

Against this background, Singapore launched on 1 April 2001 its "Children's Development Co-Savings (Baby Bonus) Scheme" (see Singapore Government Press Statement of 16th March 2001 and Sherraden, 2001). A comparison to the UK CTF comes immediately to mind, but the Singapore innovation actually is quite different in both its operation and its intent. It represents yet another possible type of asset-based programme. It works as follows:

> The "baby bonus" itself provides entitlements for a family's second and third children (but not the first child) to asset accounts endowed with cash gifts from the government. The second child gets S$500 at birth and an equivalent amount each year for five years, up to a total of S$3 000. The third child receives twice as much in each payment, for a total of S$6 000.
>
> Next, the new Children's Development Account (CDA) provides one-for-one matches by the government of parents' savings deposits, up to S$1 000 for the second child and S$2 000 for the third.

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> Parents manage both accounts. They can use the baby bonus funds for "whatever expenses they may need to incur for the care and development of the child." They may use the CDAs to pay similar expenses for all their children. Moreover, unused money in both accounts can eventually be rolled over into existing Edusave accounts and ultimately into the CPF. If no Edusave accounts have been opened, the funds revert to the parents' personal bank or CPF accounts when their children reach eight years of age. This links the new scheme to Singapore's larger panoply of asset-based programmes.

Two policy purposes lie behind these schemes. The first, to raise the birth rate (which has fallen below the population replacement level) resembles the rationale behind European family allowances.[39] They began as early as the 1930s and still exist in some countries, although they were and are income-support rather than asset-based policies and they generally apply to all children in a family.[40] The second, but far from secondary objective is to promote human capital development, which Singapore correctly recognises as key to its continued economic prosperity. This aspect, not replicated elsewhere, may well be the more innovative of the two.

Note that these schemes have little of the long-term endowment flavour of the United Kingdom's proposed CTF. Parents can access them in their children's early years to pay for the intended expenses. The Government Press Statement cited above and issued by the Ministry of Community Development and Sports (MCDS) signals this clearly. Only the eventual rollover of unspent funds into Edusave and CPF accounts begins to take on a longer-term character along the lines of programmes elsewhere. Note also that parents, not their children, have control over the funds and that the officially intended uses for human capital development are fairly narrowly defined — more like Canada's Learn$ave (which is for adults, however) and less like either the CTF or the Saving Gateway in the United Kingdom.

Somewhat surprisingly, the Press Statement is silent on how the limitations on the intended uses will be enforced, especially for the baby bonuses. For the CDAs, MCDS will control which child-care centres, nurseries, kindergartens and special education schools (with pre-school programmes) are invited to participate in the programme as providers. Here too, however, there seems to be no mechanism to guard against under-spending by parents on their children's development. Yet Singapore may well be justified in relying on "social capital" in the form of peer pressure on parents to see to it that the funds are spent (almost competitively) on child care and education. The policy may also fill a real need for working parents.

Chinese Taipei

The city of Taipei is now in the midst of running a Family Development Account (FDA) demonstration, the first in the country. It is modelled closely on the US ADD programme. It was designed with the collaboration of the CSD in St. Louis, and the programme evaluator is a former student of Professor Sherraden. This programme, launched in 2000 with 100 account deposits, also has strong local political support. The former Taipei mayor and now the country's President was an early promoter of asset building. During Taipei's 1998 mayoral election campaign, both candidates proposed asset-based schemes for the city, and the winner followed through on his promises. The FDA demonstration, although

39. It is still too early, after just two years, to conclude firmly whether Singapore's variation on baby bonuses has begun to affect fertility behaviour systematically.

40. Sometimes, daughters (as future child bearers) were treated more favourably than sons were. In the 21st century and in countries with ageing populations, one can probably expect that countries will revive and strengthen their family allowance schemes. That might serve as an opportunity to build asset-building features into them in addition to income-support elements.

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administered by an arm of the city's government, may be unique in having a private, for-profit firm, the Polaris Securities Group, as its provider of the 1:1 matching funds (Boshara, 2001).

South Africa

The IDA Learning Conference in Windsor, Ontario in April 2002 received a rousing presentation from the Executive Director of NURCHA, an organisation devoted to unlocking finance for low-income households in South Africa. It focuses on housing and aims to ensure that every South African willing and able to save towards owning housing receives some sort of assistance. Apparently partly an MFI and partly an asset-builder, it serves about 20 000 clients and account holders.

The Importance of Evaluation

Asset-building programmes for the poor are still relatively new, experimental and untested. The US ADD, the Canadian IDA programme and the UK Saving Gateway pilot all were designed from the start to include evaluation research during and after their operational, active saving phases. Moreover, and even without the advantage of performance evaluation, both of the UK initiatives went through a period of ordered study and debate, which performed somewhat the same function *a priori*. The proponents of Asset Building are quick to point out, however, even as they plan for careful evaluation when their ideas go into practice, that not as much can be claimed for many if not most of the massively costly tax-credit and other subsidy legislation used to stimulate saving by the non-poor in OECD countries. They have a point. This does look rather like the "double standard" that they deplore.

Nevertheless, proper evaluation of new ideas does have benefits. Even if the "double standard" accusation may have some validity, it makes no sense to repeat potential errors on the grounds that prior programmes for the non-poor did not try to identify them. More positively, good evaluation should be seen as a tool for the best possible, most efficient programme design, not only to help "sell" the ideas, but also to make the programmes maximally effective in delivering savings services to the poor. As noted briefly above, the monitoring reports on the ADD already have uncovered useful information to this end — in dealing with saving targets, match caps, unmatched withdrawals, the right amounts of financial education and so on.

Three points need to be made about proper evaluation. Professional evaluators know them by heart, of course, but this essay is intended for policy people who may be seeking some guidance on what kinds of evaluation to insist upon. First, evaluations should be built into initial programme designs and should draw from prior, similar evaluation experience. Second, they must try as rigorously as possible to discover in programme performance what works, what does not and why. Third, they ought to be independent and/or either externally validated or capable of such validation.

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CHAPTER THREE
KEY QUESTIONS FOR AN INTERNATIONAL DIALOGUE ON ASSET BUILDING

The preceding chapters have tried to set out the basic ideas involved in asset-building programmes and proposals, as well as the social policy advantages that their proponents claim (Chapter One) and then to show by example what the existing institutions, programmes and demonstration projects look like (Chapter Two). Neither treatment nor the two together can quite suffice to establish the context for a fruitful debate on the merits and demerits of Asset Building. This short chapter tries to do so by posing some key questions and suggesting their implications. It attempts to avoid ideological and polemical dead ends and to focus instead on some hard, practical issues that need to be addressed. It also tries not to prejudge the answers or to take sides in what should be an open dialogue and debate.

1. One can make a credible argument that the case for Asset Building should always be assessed against that for direct subsidies for purchase of the assets in question. From one point of view, this raises straightforward questions about public cost. Which are less draining on the public purse — subsidised savings or outright subsidies for retirement pensions, house purchases, education and training, or business establishment? OECD countries have many schemes for such direct subsidies — as well as for subsidised saving for similar objectives — targeted towards the population at large. Have these policies actually been chosen in answer to this sort of direct trade-off question? If not, and if the trade-off were considered in this way, what would be the outcomes? To narrow the question further, would the same answers apply for policies directed specifically towards low-income people?

2. From another point of view, this issue is more difficult. Asset Building does not always subsidise the entire cost of the assets its proponents would like to see the poor acquire, although this is less true of endowment schemes than of matched saving programmes. Most kinds of Asset Building actively encourage the poor to save, which is to say that the savers bear part of the cost of the assets — more if the match rates are low, less if they are high.

   They also, however, encourage poor households to depress consumption in order to save. Is that welfare-enhancing? It may be acceptable for the working poor or households with incomes just above national poverty lines. They may be able to afford at least some saving if encouraged with incentives, but what about the very poorest ones? These are the people deeply in need of social assistance, with counterproductively low standards of living, bad diets, not enough heat in their homes and a virtual necessity to engage in highly inefficient survival behaviour in the absence of resources. Asking them to depress already inadequate consumption, even with incentives, some would argue, may be not only infeasible but also unjust.

   The proponents of Asset Building offer two answers to these kinds of questions, but they need much more evaluation and discussion. The first argument lies in the insistence that the encouragement of at least some modest saving should not in any way diminish but rather be accompanied by adequate levels of social assistance (income support) to the poorest people. This is the argument about the complementarity of Asset Building and the traditional social policies.

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Yet it raises the immediate possibility of what some might consider a perverse result, namely that if income support is sufficiently "adequate", it would effectively finance the savings, which would then be subsidised further by matching. The proponents of Asset Building might actually be able to live with such a state of affairs because of their second argument, based on the posited — and positive — welfare effects of saving and even modest asset acquisition themselves. This is fundamentally an argument that the very act of saving and the accumulation of household assets in even tiny amounts create positive externalities that are welfare-enhancing and change survival behaviour in the absence of resources towards more socially and economically productive behaviour. Still, some would look upon these two arguments as dubious in the presence of really extreme poverty. They may or may not hold, but can policy makers run the risk that they do not?

The question may in fact be inaccurately or too starkly posed, however. Perhaps the real, practical issues concern poor people in households not quite at the extremes of poverty. Such households may be the best placed to begin to save with the encouragement provided by asset-building schemes. Indeed, the asset builders themselves almost admit that implicitly in practice. In going through the numerous examples of OECD-area asset-building programmes described in Chapter Two, one is struck by the focus of many, if not most, of the matched-saving schemes and demonstrations on the *working* poor or, at the limit, the potentially working poor. Could a focus on this group be where the middle ground lies, where the complementarity argument and the externality argument can become more easily acceptable and where traditional welfare policies and asset-building policies can take their places, side by side and in support of one another? Such a focus may fit acceptably with now-current notions of welfare reform in virtually all OECD Member countries and the push for helping people to move into productive work. In countries willing to experiment with asset-building policies, this appears to be one direction that they take.

3. The externality argument for Asset Building has another aspect that deserves some attention. Recall that Sherraden characterises his approach, based on the unique welfare effects of household capital (the externalities) as "dynamic". This has two possible economic and social meanings of interest here. First, it stresses the improvements that Asset Building is argued to unlock in the situations of poor households themselves. That is the focus of the questions in the preceding paragraph. Second, however, the enhanced permanent income streams reflected in higher consumption and investment spending by poor households would spill over into positive effects on the rest of the economy. In other words, some of the externalities created by social investment would be captured and enjoyed by society as a whole, not as exploitation but as a natural consequence of marginally higher economic growth and more socially productive behaviour on the part of the rescued poor. The key questions, of course, are: "Do these benefits arise? If so, how large are they?" It would be futile to pose them, however, unless or until one accepts that the effects of Asset Building can be dynamic and that the positive externalities can occur.

4. In any event, as soon as the complementarity and externality arguments enter the picture, the simple trade-off question posed in paragraph (1) above becomes much less simple. It can no longer involve a rudimentary comparison between the cost of public provision of assets to the poor and the cost of publicly subsidising saving to acquire them. Both costs would now need to be compared with benefits, because the positive benefits — to poor households in the first instance and to society as a whole in the second — would exceed both the acquisition value of the assets and the (equivalent) value of the savings. Even if we allow ourselves to be seduced by money illusion for a moment and to consider the savings and the assets as merely financial, this point would still hold. Sherraden bases the sociological or behavioural part of the argument on the positive welfare effects of the *act* of saving and the *possession* of financial assets. A focus on

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the real physical and human assets acquired just reinforces it by leading to firmer ground on which the economic analysis of externalities can come more prominently into play.

5. A major justification often used to gain taxpayer acquiescence in large expenditures for social welfare policies lies in an implicit and sometimes explicit moral argument that all citizens should have access to at least the socially minimal income levels in order to ensure their survival and as a last resort. But nothing more! Welfare is not for non-essential consumption! This kind of thinking lies behind the still-common practice of reducing or cutting off social assistance on evidence that recipients have accumulated even minimal levels of net worth. It is also easy to overstate. In fact, its degree of application is very country-specific, and, even where legislation contains such provisions, their enforcement is often very lax.

   In any event, asset-building proposals upset this view by arguing that net worth is itself welfare-enhancing and by lobbying for raising the cut-off points to more reasonable levels. If one accepts the welfare-enhancing argument, there is a case for raising the cut-offs even in the absence of the asset-building policy justification, because some poor people will save without incentives. Yet the basic last-resort view remains a strong reality in our OECD societies. Beyond making more reasonable, less dogmatic arguments that a few assets (like an automobile to find a job and get to the workplace) are not inconsistent with the real objectives of welfare policy, how can this reality be dealt with?

   The foregoing raises other questions too. The asset-building movement is not the only catalyst that has operated towards a reconsideration of the "minimum survival benefits only" view of social policy. The new emphasis on welfare reform to encourage work rather than social dependence also recognises a need to relax the rules so that at least they do not act as disincentives to finding work and raising incomes a bit through more productive, more directed behaviour patterns. The available evidence suggests a tendency for saving rates among the working poor to be much higher than in the rest of the population (or most of it). If it is correct, then a possibility opens up that such reforms by themselves may also encourage saving and asset acquisition, independently of asset-building schemes. To suggest that this effect is independent from that of Asset Building does not necessarily make an argument against social investment. It does, however, lead to two queries. First, would more emphasis on opportunities for saving and asset acquisition by the poor reinforce the case for welfare reform along currently popular lines? Second, would such reforms at a faster pace than currently complement social investment policies sufficiently that they could be implemented at much lower public cost — *i.e.* with lower match rates of less than 1:1, as in the Irish programme — with little or no loss in the saving-incentive effect? In other words, could welfare reform and Asset Building be mutually reinforcing in their effects on saving behaviour?

6. Any policy that encourages saving by subsidising it runs the risk that the resulting savings will simply substitute for at least some saving that would otherwise have taken place in the policy's absence. This introduces a dead-weight economic cost of the subsidy. Highly targeted asset-building schemes aimed at poor people who demonstrably have not saved in the past might minimise this risk, but not all schemes are so targeted. In fact, the more universal a saving incentive tries to be, the higher the risk. Hence, the risk applies the most to the saving incentives, widespread in the OECD area, aimed at the middle and upper classes. Is this really perceived as a problem? Most governments have selected it as a solution.

   It may be excessively utopian to imagine in the real policy world a saving-incentive scheme so perfectly targeted towards poor, former non-savers that it avoids substituting subsidised savings for at least some non-subsidised savings that would otherwise have taken place. The issue of

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dead-weight costs to the economy may not be avoidable. This raises two further questions. First, is the issue sufficiently important quantitatively to merit consideration? Second, even if it is, can one make an argument that a certain amount of redistribution (of assets rather than income here) might have merit on social policy grounds? Both of these questions lead back to the more general one raised in paragraph (1) above. The public-expenditure costs require evaluation against alternatives.

7. In any matched-saving scheme that offers attractive incentives to save, another risk arises: people may borrow to save. Financial institutions may actually design and market loan products that enable and encourage such borrowing. A convinced asset builder has raised this problem (Paxton, 2002). Yet is it a problem? The Grameen Bank and a host of other microcredit institutions (not to mention the World Bank) dedicated to fighting poverty in places much worse off than the OECD area would certainly argue otherwise. So would scholars who stress the positive effects of precommitment constraints on saving behaviour. From the viewpoint of the poor saver, it may be rational to borrow to save — *i.e.* to acquire assets — even if some of the resultant gains must be shared with the lender. (The real issue is access to the credit system in the first place.) From the viewpoint of a policy maker, however, the notion of selling to the taxpayers a savings-subsidy scheme intended for the poor but under which bankers might garner some of the subsidy is unsettling. Thus, there is a problem, but it has both positive and negative facets. How can it be controlled?

8. Many asset-building proposals build their justifications on a social-justice argument that points to empirical evidence of wide and sometimes widening inequalities in the distribution of wealth. Such arguments tend to stress inequalities of opportunity based on wealth rather than income inequalities (see Paxton, 2002 and Boshara, 2003, for example). Do these arguments matter, or is a continued focus on income inequality sufficient?

9. If saving incentive schemes could be made truly universal, with no barriers or market failures to bias them against the poor, would that suffice to solve the perceived problems without resorting to elaborate asset-building schemes? Even if market failures persist, would Asset Building not constitute just another set of market distortions piled on at heavy public cost to counter the failures created by other distortions? Conversely, is full universality even feasible? Can market failures, especially financial market failure and the problem of asymmetric information, really be eliminated? If not, perhaps Asset Building is an acceptable "second-best" solution. Moreover, do the poor face specific problems in saving that require targeting them and their saving habits with special policies? The asset builders argue affirmatively; dealing with market failure is part of their argument, but not the crucial part. Finally, does the British concept of "progressive universalism", with Asset Building for the poor embedded in a wider, universal perspective, perhaps represent an acceptable and effective middle ground?

10. For at least a decade now, labour policy makers have made a distinction between traditional "passive" labour market policies focused on unemployment benefits and "active" policies that take a more interventionist approach to make people more employable in a time of rapid economic and structural change. Is it justifiable to make the same sort of distinction in social policies, treating traditional income support as "passive" and asset-based approaches as "active"? If not, why? If so, what might this imply for a recasting or redefinition of the objectives of asset-building schemes?

11. This essay has treated highly localised, decentralised and personalised service delivery as essential to the success of asset-building efforts for the poor. While the emphasis on this condition certainly emerges from practically all the individual schemes studied, perhaps the

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treatment has been too dogmatic. As more and more programmes reach for society-wide scope, what really is the proper balance to strike between centralised programme administration and oversight and localised service delivery? Because public money is involved, what are the risks of fraud and/or mismanagement with too much decentralisation? How can they be controlled?

12. Judging from the record of microfinance across the developing world as well as from the evidence of Asset Building in practice in the United States, the majority of beneficiaries are women. The empowerment of women in unenviable economic and social circumstances has apparently become one of the major strong points of Asset Building — and women have shown themselves as constituting a powerful force in overall social and economic improvement. In microfinance they are far better credit risks than men are, and more entrepreneurial. In consequence of this evidence, how much policy weight should women's empowerment receive in considering the merits of asset-building policies?

13. As for social investment policies themselves, more serious thought needs to be given to the relative merits of matched-saving schemes and endowment policies. The endowment programmes have a great advantage in their long-term perspective, which, combined with matched savings to augment the original endowments, really does promise large bundles of assets at maturity for poor children born today. On the other hand, they are much harder to sell to a sceptical public precisely because the perspective is a long one and it yields no short-term gains that governments can promise or for which they can claim political credit. Moreover, the initial endowments themselves, even if welcome, have less power than matched savings to produce the positive behavioural changes and the welfare effects claimed for the act of saving itself. Matched savings also benefit working-age adults and their saving behaviour within a reasonable time perspective. Perhaps the UK government will have found an answer to emulate if, as proposed, it introduces the Child Trust Fund and the Saving Gateway more or less in tandem, so that each scheme draws from the strengths of the other.

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