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Asset-building Initiatives in Peru and Colombia: Pilot Study and Directions

By Yves Moury

Summary

Three asset-based poverty alleviation initiatives are underway in Peru and Colombia. The first, a six-year asset-building pilot program, is now underway in southern Peru as an important component of the Corredor Puno-Cusco Project, a rural finance support project focusing on savings mobilization, savings enhancement, and economic development. The second, the Southern Highlands Project in rural Peru, began in early 2005. The third, the Activos project in rural southern Colombia, is in the pre-approval stage, with its final design still in a discussion and adjustment process with the Colombian Government. The goals of all three projects are to build assets and increase access to financial services (such as savings deposits, micro insurance, non-cash transfers, remittances management, and micro-credit) among the rural poor, especially poor women.

Experience with Individual Development Accounts (IDAs) in the United States has informed the design of the three pilot projects. With initial data from pilot projects becoming available at the end of

2006, research to document and learn from this experience is a high priority.

Plans

Two major asset-building pilot initiatives have begun in Southern Peru and one is soon to be approved in Colombia. In rural Peru, a six-year (2005-2011) asset building pilot initiative aims for increased savings mobilization among poor women. The savings initiative was designed by Yves Moury with the help and support of colleagues from the International Fund for Agricultural Development (IFAD), and operates under the umbrella of the *Corredor Puno-Cusco Project*. Through personal savings accounts in regulated financial institutions, deposits by more than 5,000 female participants are rewarded with matching grants. Criteria for matching grants are that participants open a personal saving account, increase their average monthly savings balance, and make productive withdrawals for the purpose of building asset in education, health, housing, or micro-enterprise. Matching grants take the form of a direct and automatic monthly transfer



Washington University in St. Louis

to personal bank accounts, and sometimes a collective account for a group of beneficiaries.

Extending this concept, the *Southern Highlands Project* in Peru, which began in early 2005, aims to create accounts for about 37,000 women, and the *Activos Project* in southern Colombia, which began in late 2005, aims to create accounts for 4,500 women. Both of these projects were designed by Yves Moury using a structure similar to the *Corredor Puno-Cusco Project*.

Role of research

Research on Individual Development Accounts (IDAs) in the United States was instrumental in designing the initiative to enable the poor to build assets in Peru. In addition, other public saving promotion schemes, such Italy's "Posta" and France's "Livret A" savings accounts, were examined for adaptation to low-income women savers in rural areas of Peru.

Research on the *Corredor Puno-Cusco Project* and the *Southern Highlands Project* will now be critical for learning to what extent and how matched savings can improve the lives of impoverished farmers in Latin America and elsewhere, with particular attention to how commercial banking successfully engage this population. As many people in development finance are beginning to realize, the most hopeful way to "scale"—reaching millions of people—with savings and other financial services, is through commercial banking.

Discussion

In South America, building assets for the poor is increasingly viewed as a promising poverty reduction strategy, with relatively low cost and high return over time. The focus is on the medium to long term. In the specific context of Peru, rural financial access is a priority—a bank account has been identified as basic and indispensable for access to financial services.

The savings initiative is viewed as an inclusive strategy for financial education as well as financial access for the general public. In addition, asset

building is viewed as a tool for empowerment of women. This is the rationale for reaching out to the unbanked female rural population.

Media interest in asset-building efforts is growing. A 2006 article in *El Comercio* of Lima, Peru, entitled "down the path of savings", begins by saying that when a poor *campesina* has her own money, two miracles occur: she begins to want more for herself, and she begins to think bigger. The article goes on to detail positive experiences of the participants, and also the involvement of commercial banks, which is viewed as critical for success.

Caveats, concerns, challenges

(1) The pilot projects are still in their early stages. Although the potential seems great, it is not possible to predict how the projects will develop. (2) The most critical challenge may be in studying and documenting results of these projects to inform more comprehensive strategies to reach all the rural poor in Peru and Colombia, especially woman and children who are largely left out of both economic development and social benefits.

Funding

The International Fund for Agricultural Development has supported implementation of the asset-based initiative of matched savings in Peru and Colombia, with strong interest from the Ford Foundation.

At this time, no funding allocation has been made for research. A high funding priority is to support the studying of these path-breaking pilot projects in Peru and Colombia.

Continuing discussion and potential

The low-cost, high-return structure of asset building is attractive in the Latin American context. Matched savings accounts create a structure for the poor, especially poor women, to accumulate assets for long-term development, which has the potential to empower the poor and increase the well-being of poor households in Peru and Colombia.

A regional South American initiative is being discussed. It would promote access to formal savings for the rural poor through small-sized matching grants. The goal would be to reach one million of the rural poor, mainly women. The plan is to finance the initiative from the annual return of a finance-oriented rural investment fund operating in Latin America and the Caribbean.

References

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Authors

Yves Moury, Executive President,
Edge Finance S.A.
ym@edgefinance.net

Contact Us

Li Zou, International Director
lzou@wustl.edu
(314) 935-3469

Center for Social Development
George Warrern Brown School of Social Work
Washington University in St. Louis
Campus Box 1196
One Brookings Drive
St. Louis, MO 63130

csd.wustl.edu



CENTER FOR SOCIAL DEVELOPMENT

George Warren Brown School of Social Work
Campus Box 1196
One Brookings Drive
St. Louis, Missouri 63130-4899