

A POLICY TO MOBILIZE RURAL SAVINGS IN LESS DEVELOPED COUNTRIES*

1. Agricultural development in less developed countries (LDC's) involves an increasing use of capital resources and, since capital inflow from abroad is likely to cover only a small portion of the amount needed, it is quite clear that the major contribution to capital formation has to come from sources within the countries themselves.

Domestic savings are conventionally classified as public savings, business or corporate savings (1) and personal or household savings. This classification is drawn only on the basis of decision-making centres. Accordingly, the formation of public savings falls within the decision-making sphere of central or local government and governmental agencies, whereas in the case of business savings these decision making centres lie with top management and entrepreneurs. Looking at personal savings, we find that only a fraction of what is actually saved derives from a deliberate decision to save; the rest may be considered as merely residual, i.e. non-consumed income.

To some extent public and business savings can be channelled into investments for agricultural development, but if we consider that these savings are also generated by reducing the disposable income of farmers through taxation or pushing up prices for agricultural inputs and keeping down prices for outputs, the net inflow of capital to rural areas from these sources is probably much less than it appears to be in official figures. Furthermore, no substantial flow of personal savings formed in urban areas can be expected to gravitate into investments in farming, because of more attractive opportunities offered in other sectors of the economy or in foreign countries.

In conclusion, agricultural investments have to rely chiefly on what can be saved by farmers' households within the rural areas themselves.

2. There is little or no difficulty in mobilizing public and business savings and indeed they are frequently embodied in investments without using any financial channel. On the other hand, it is well known that only a small portion of household savings finds its way to productive investment or is directly em-

(*) This article is an enlarged and updated version of the speech delivered at the «World Conference on Credit for Farmers in Developing Countries», organized by F.A.O., Rome, 14-21 October 1975.

(1) In fact business savings have a broader connotation than corporate savings as they also include savings generated by unincorporated businesses. In many cases, the latter type of savings is grouped under household savings owing to the difficulty of ascertaining separate figures.

bodied in investments, as for example in agriculture, when a farmer's labour is devoted to land improvement (2). Major efforts should therefore be made to help locate suitable investment outlets for household savings even in rural areas, thereby mobilizing them to productive ends.

The general view, influenced by official statistics on income per capita in LDC's and by estimates of rural incomes in these countries, is that it is very doubtful whether anything at all can be saved. Closer analysis shows, however, that, despite everything, the rural areas of these countries potentially have a positive savings capacity.

Here it is important to note the distorting effect of the use of exchange rates in international comparisons and underestimations of the contribution of a subsistence economy to GNP. Furthermore, it should be borne in mind that the savings threshold, i.e., the minimum income level above which savings can occur, is generally much lower in these areas than in industrialized countries, and even lower than the threshold in urban districts of LDC's themselves.

Several factors are responsible for this, such as climatic conditions (which connote lesser requirements in terms of housing, heating, clothing and food), though natural selection which enhances resistance to hardship, thrifty habits and the absence of the demonstration effect of affluent consumption.

The evidence for these conclusions can be found in the fact that in rural areas of LDC's it is possible to abstract part of the disposable income of the household sector from consumption (3). It is sufficient to mention the widespread phenomenon of hoarding, i.e. non-mobilized savings, which is very common in LDC's for a number of fairly well known reasons (4). Real assets such as

(2) E.g., rural building, irrigation systems, tree planting and land clearing.

(3) See, for example: M.L. Ong, D.W. Adams, I.J. Singh, *Voluntary Rural Savings Capacities in Taiwan, 1960-70*, in AMERICAN JOURNAL OF AGRICULTURAL ECONOMICS, Vol. 58, no. 3 (Aug. 1976), p. 578-582; Kumar, Ram and others, *Mobilization of Rural Surpluses - A study of Savings in Rural Hissar*, in INDIAN JOURNAL OF AGRICULTURAL ECONOMICS, Vol. 30, No. 3 (Jul.-Sept. 1975), p. 16-25; R.A.J. Roberts, *The Role of Money in the Development of Farming in the Mumbwa and Katete Areas of Zambia*, Dept. of Agriculture, University of Nottingham, Ph.D. dissertation, 1972.

(4) A.G. Chandavarkar, *The Nature and Effects of Gold Hoarding in Underdeveloped Economies*, in OXFORD ECONOMIC PAPERS, Jun. 1961, p. 171; Y. Gaillard and G. Thuillier, *Sur la thésaurisation*, in REVUE ECONOMIQUE, 1965, p. 796; R. Rousseaux, *La thésaurisation en milieu paysan au Burundi*, in ECONOMISCH EN SOCIAAL TIJDSCHRIFT, 1966, p. 97-108. A. Daubrey and P. Drouet, *La mobilisation de l'épargne pour le développement rural en Afrique*, 5th World Congress for Agricultural Credit, Milan 1973, p. 6-9.

jewelry and precious metals, cattle and durable goods of various kinds are hoarded, and the extent of hoarding is a measure of the gap between what is productively invested and what could be invested without substantially changing the current consumption pattern (5).

Where the economy has already attained a certain degree of monetization and cash crops are produced by farms in addition to subsistence crops, a surplus in money may emerge. This achievement is not however per se enough to trigger off the savings mobilization process, for the very simple reason that money itself can be hoarded. The hoarding of national currency is of course somewhat different from the macroeconomic standpoint, being less deleterious than hoarding physical assets or foreign currency, since it does not necessarily bring about any unproductive immobilization of resources. Even so, it does not stimulate agricultural development and from the microeconomic standpoint one may conclude that it works mainly to the detriment of the saver himself (6).

3. The setting up of banking facilities devoted to collecting savings and more generally of financial outlets in rural areas has a significant impact on savings mobilization, because it not only enables savings which would otherwise have been kept idle and sterile to be properly invested, but also encourages farmers to save or to save more, and thereby steps up the formation of domestic savings as a whole.

The presence of collecting counters (fixed or mobile branches) of financial institutions in rural areas does not however guarantee that farmers' savings are mobilized in favour of agricultural development.

In many developing countries, the establishment of extensive branch networks by commercial banks has contributed a great deal to monetization of the economy and these intermediaries could play a key role in the savings mobilization process. Commercial banks however are not greatly interested in attracting small savings accounts, as they find them troublesome and very costly to handle. Also, if one examines the lending policies of these institutions, it

(5) Hoarding is clearly disregarded by those who equate savings and investments. In fact, for national accountants, real assets hoarded are classified either as consumption of durable goods or as investments.

(6) B. Rossignoli, *Considerazioni sul risparmio e sul credito agrario nei Paesi in via di sviluppo*, Milan 1975, p. 74.

emerges that even when they collect small deposits from peasants, they give preference to loans to medium- and large-size customers in the commercial, industrial and building sectors. In countries where the bulk of GDP is generated by farming, it is not uncommon to find commercial banks making available only between five to ten per cent of their total lending to the agricultural sector. Furthermore within this small percentage, most of the funds are lent to big farmers, plantations and firms involved in marketing agricultural produce.

The behaviour of commercial banks (it makes little difference whether they are expatriate or not) can easily be explained: they are traditionally concerned with short-term and low-risk lending transactions based on well-proved "sound banking principles", quite a different matter from the technical features of agricultural credit in LDC's (7). By following this lending policy they cause savings to flow from rural to urban districts. Post Office Savings Banks also have the same effect, albeit by a different route, when their branches act simply as collecting points for savings, which are then invested by law or statutory requirements in government securities or simply deposited with the Treasury, and the actual flowback of funds to rural areas is generally only a fraction of what has been collected (8).

In citing these causes of capital drainage from the small farming sector in LDC's one cannot overlook taxation and, above all, the presence of landlords and various kinds of middlemen. The latter take advantage of monopolistic and/or monopsonistic market structures, which by curtailing small farmers' incomes, restrict peasants' saving capacity, while excess profits are in most cases invested elsewhere. Even positive factors involving changes in land tenure, such as farmers coming into ownership of land by buying it from the Government or urban landlords, lead to a capital outflow from the agricultural sector.

4. Having noted that the increasingly widespread use of money and even the presence of banking facilities are positive factors, but per se insufficient, to

(7) A. Mauri, *Il mercato del credito dei paesi sottosviluppati*, Milan 1966, p. 55.

(8) A. Mauri, *La promozione del risparmio nei Paesi in via di sviluppo*, Milan 1969, p. 18 and M. Masini, *Il contributo del sistema bancario alla politica del risparmio nei Paesi in via di sviluppo*, Milan 1970, p. 21-22.

ensure the formation and the mobilization of rural savings, policy-makers in LDC's should develop and implement suitable measures to activate the savings mobilization mechanism in rural areas of these countries.

The following measures can be recommended (9):

- a) reform of the land tenure system;
- b) the setting up of proper infrastructure in rural areas;
- c) steps to increase the proportion of cash crops in the small farm sector without reducing the production of other items below a minimum subsistence level;
- d) supply of agricultural inputs on terms that are not too onerous;
- e) set up efficient marketing channels for agricultural outputs;
- f) provide free or subsidized extension services to small farmers;
- g) place the accent on campaigns and training programmes aimed at instilling an entrepreneurial mentality into rural communities;
- h) create a financial institutional apparatus suited to collecting household savings in rural areas and ploughing back the resources it raises into agriculture via a widespread branch network.

All the measures listed above specifically involve rural savings. They should of course be complemented by action at a variety of levels mainly in terms of fiscal and monetary policy, which affect the formation of household savings as a whole in the LDC's. This is not the place to deal with these aspects in detail: it will suffice to say that the most important end is to create a political and economic climate that encourages personal savings (10).

5. To return to the proposed list, it is worth noting that measures (a), (b), (c), (e), (f) and (g) are aimed at removing obstacles of a social, economic, psychological and technical nature that hamper increases in peasant incomes in a rural society in LDC's. Measure (g) in particular aims at eliminating residual psychological resistance typical of a backward subsistence economy, which

(9) Some of these measures have already been adopted in various countries.

(10) G. Dell'Amore, *Economia del risparmio familiare*, Milan 1972, p. 123-163.

could cancel out other action taken to raise incomes (11). Measure (h) has the twofold aim of mobilizing rural savings and raising agricultural income, which is obviously an interacting process.

In fact the introduction of an efficient mechanism for capital mobilization in rural districts of LDC's not only enables savings which would otherwise have been fruitlessly hoarded or siphoned off elsewhere to be invested locally, but it also stimulates new savings. The latter action is exerted on two fronts: in the short term, it enhances the propensity to save while in the medium and long term it provides a further impetus to the accumulation of savings, generated by an increase in income that in turn comes about from investments greater in quantity and better in quality. Still on the subject of measure (h), it should be stressed that the financial institutions which collect rural savings must be the same as those which provide small farmers with borrowing facilities. In theory, a variety of types of financial intermediary would be in a position to undertake these functions. From practical experience, however, only a few types have specific competence in this particular field. These include savings and credit banks, agricultural banks, credit unions, rural banks and co-operative bodies for agriculture in general. Savings and credit banks in a number of European countries have been extensively engaged in this field before the beginning of this century and stand ready to make their useful experience available to LDC's (12).

6. A special kind of financial apparatus for agriculture should therefore be built up in developing countries. This apparatus should take the form of a combination of financial intermediaries and co-operative bodies, with the latter representing the base of the pyramid while its apex could be represented by a savings and credit bank or some other suitable institution. Where such an institution does not exist, its role could initially be played by an agricultural development department set up ad hoc at the central bank. Here it is worth adding that even where a specific apex institution does exist, the central bank

(11) It has been found that in some cases an increase in prices of agricultural output leads to a decline in production of cash crops in the medium term. Small farmers in these cases seem to prefer to maintain a constant standard of living with less effort. See H. Belshaw, *Agricultural Credit in Economically Underdeveloped Countries*, Rome 1959, p. 38.

(12) G. Dell'Amore, *I sistemi bancari*, Milan 1969, p. 298; R. Ruozzi, *Savings Banks and Agricultural Credit*, Conference on the Mobilization of Savings in African Countries, Milan 1971.

still has a fundamental role to play in channelling funds obtained from international financial organizations and foreign countries into the agricultural credit system and arranging refinancing facilities as well as providing supervision, advice and inspection (13).

This kind of financial structure has the advantage of a high degree of flexibility and enables a widespread branch network to be used for both collecting deposits and granting loans without entailing a high administrative cost burden. Clearly a synergetic effect could be achieved with the adoption of the measures listed above, particularly in bringing innovations into marketing mechanisms for agricultural inputs and outputs and establishing adequate extension services. As far as marketing and extension services are concerned, it may sometimes also be useful to create additional integrated functions within the agricultural credit system.

7. Ways and means of promoting and attracting household savings in rural districts of LDC's should be worked out, taking into account the requirements, habits and motivations of small farmers in each particular area.

Only when detailed information on any particular local situation has been gathered and considerable familiarity with the problems involved has been gained, can a suitable combination of measures be devised to fit its needs. Action is likely to include the launching of savings campaigns, educating the population to save, especially in schools, and various kinds of incentives.

On a technical level, a broad variety of financial instruments should be brought into play in order to attract the widest possible range of savers and to induce each saver to deposit the maximum amount of money. Terms and conditions of financial assets offered should be suitably diversified (14).

This diversification available on institutional savings should be reflected in interest rates and, more generally, in returns and rewards of various kinds (monetary as well as non-monetary). The return on financial instruments should be made to vary in an inverse direction to their degree of liquidity.

At this juncture it is necessary to discuss briefly the question of interest rates

(13) Some central banks in LDC's participate in the share capital of apex institutions of the agricultural credit systems.

(14) See Report on the U.N. *Interregional Seminar on the Mobilization of Personal Savings in Developing Countries*, Stockholm 1971, p. 20-23.

seen in terms of both their level and structure. The structural aspects of interest rates policy have just been mentioned when dealing with diversification of rewards according to the technical features of the deposit accounts. A further diversification of conditions may be established on the basis of classes of depositors.

The question of the actual level of interest rates is more controversial in that economic literature does not identify any clear and significant causal link between the level of interest rates and accumulation of savings (15). The monetary and banking authorities and managements of financial institutions in many LDC's have tended to accept this viewpoint en plein and apply it to the accumulation of financial savings as well. The result has been the adoption of cheap money policies, to keep down the cost of capital for Government and private business, thereby providing an incentive for investments and hence a factor of economic growth. In the context of these policies rural financial savings earn the lowest rates, given the higher cost of collecting deposits and the backwardness of peasant societies.

Because of widespread inflation, which has risen sharply in recent years, the outcome in many cases has been a quite definitely negative real interest rate in the organized capital markets. Apart from the ethical and social implications of these policies, which tend to impoverish small savers and cause unfair redistribution of income, we could object also on the economic ground. In fact these policies inevitably encourage hoarding and lead to sub-optimal allocation of resources and do not contribute to speed up the economic growth. While there may be no proof that interest rate level significantly affects the propensity to save, it is a different story when we come to the actual volume of savings that flows into the savings mobilization mechanism.

Yet, recent empirical surveys carried out in selected Third World countries, which have also covered rural districts, seem to demonstrate that the level of interest rates has a positive impact on the mobilization of savings and suggest that conventional views on this matter need to be reconsidered (16).

Recommendations have been made from a number of quarters to adopt more

(15) T. Balogh, *The Economics of Poverty*, London 1966, p. 26.

(16) A.G. Chandavarkar, *Some Aspects of Interest Rate Policies in Less Developed Economies: the Experience of Selected Asian Countries*, IMF « STAFF PAPERS », March 1971, p. 48-112.

realistic policies in terms of the returns available on financial savings (17). Although action taken in this direction would tend to reduce the gap between institutional and non-institutional rates, it could certainly not have any significant effect on this gap owing to the very high interest rates, even in real terms, of the unorganized capital markets (18).

However, when discussing the question of rewards on financial savings, it should not be overlooked that one of the major incentives for a small farmer to deposit his savings with a financial institution is represented by the possibility to obtain loans for productive purposes when in need.

8. The security of savings deposited merits separate consideration. Security is a basic requirement common to all savers in developed and developing countries alike. No kind of reward or incentive that may be offered will be quite effective unless the saver has total confidence in the financial institution in which his money is deposited. Appropriate rules and arrangements must thus be devised to protect depositors against frauds and institutional bankruptcies.

The problem of inflation is different, though it sometimes leads to the same consequences as far as the saver is concerned. Inflationary processes are not new in the history of world economy and today involve in greater or lesser degree all countries. Savers take some time to realize its effects, which are indeed less traumatic than a bank insolvency. However, severe inflation or hyper-inflation ultimately has an equal destructive impact on financial savings, which lose their purchasing power. Precisely because of its nature, inflation may have little influence on the placement decisions by savers in a peasant community at the initial stage, but once the destructive effects of inflation have been understood, savings may be syphoned out of the institutional framework unless proper measures are adopted in time to prevent this.

There is no point here in going into the causes of inflation and its incidence on personal savings. Its effects as a disincentive to financial savings are known well enough. Therefore economic and, particularly, monetary policies geared to holding inflation in check, even if the target of price stabilization cannot be

(17) G. Donald, *Credit for Small Farmers in Developing Countries*, Boulder 1976, p. 97-117.

(18) U Tun Wai, *Interest Rates Outside the Organized Money Markets of Underdeveloped Countries*, IMF « STAFF PAPERS », Nov. 1957, p. 80-142.

fully achieved, is a prerequisite to the growth of financial savings and a major element needed to create that political and economic climate favourable to personal savings mentioned previously.

Even if one accepts inflation to be an inevitable evil and thus an inescapable condition of economic life, the need again emerges for positive real rates of interest in a policy of savings promotion, by introducing for example some form of indexation for financial savings.

9. So far we have been discussing voluntary savings in rural households, which is the central theme of this paper. To complete the picture, mention should also be made of contractual savings. These differ from voluntary savings in that the only point at which the saver expresses a free choice is when he voluntarily enters into a commitment to make a predetermined series of payments at certain dates and on certain terms. From that time on, the process of saving is automatic, as it is an obligation; though in some cases the saver may be entitled to pull out, this always involves penalties or losses.

The most common forms of contractual savings are various types of life insurance policy and savings schemes for housing. It is not felt, however, that contractual savings are of great significance in rural districts of LDC's. For various easily comprehensible reasons, such as the lack of life policy sales networks, difficulties in handling the procedures involved in this business and the reluctance of peasants to commit themselves to these policies, it is improbable that life insurance will catch on outside urban districts, where anyway the bulk of regular wage earners live. Moreover, it should be recalled that insurance companies are most unlikely to invest in rural areas, and hence also tend to drain savings out of the countryside. Savings schemes for housing might be more successful in LDC's than life insurance, but here again they are likely to be more popular in urban areas, in view of the traditional type of dwelling still common outside the towns. It would be advisable to devise other kinds of contractual savings more closely tailored to the needs and to the habits of peasant society, i.e., by introducing schemes linking the formation of savings to the attainment of specific goals for the farmer's family (19).

Such schemes should be arranged by the financial institutions engaged in

(19) V.V. Bhatt, *Structure of Financial Institutions*, Bombay 1972, Chapter 4.

collecting deposits at periodic intervals, who would be prepared to grant loans on given terms towards the achievement of specific objectives, e.g., the purchase of capital goods, if possible for productive or social purposes, etc. Credit should be distributed to farmers on the basis of their savings deposit balances.

Within the general context of contractual savings one should also include the collection of money carried on by indigenous savings associations operating in many countries in Africa and Asia. The best known type of indigenous savings society is the rotating credit association, whereby, as a general rule, all members make regular payments to a common fund, from which they are entitled to withdraw money in turn. Here again the member's free choice is made when he joins the association, while his subsequent payments constitute obligations. However, increasing numbers of indigenous savings associations are now depositing the money they collect from their members with a financial institution, so we go back to the need for financial intermediaries which reinvest their deposits in rural areas. In any case it is advisable to attempt to direct the money distributed by these associations to their members so as to give a priority role to productive investment in agriculture vis-à-vis the consumer spending and hoarding that currently dominate the scene. These indigenous associations may thus complement, but not necessarily, compete with the financial institutions. They could therefore play a useful role if they were fully integrated into the overall mechanism for mobilizing household savings.

10. Compulsory savings also deserve a separate mention, although it is not always easy to distinguish them from contractual savings (20). All references here to compulsory savings mean only those savings accumulated irrespective of the saver's will, but always more or less to his direct advantage. These savings are defined as compulsory savings as they are governed by law or statutory requirements.

There is thus a sharp distinction between this kind of savings and the concept of forced savings as commonly used by economists to denote taxation, deficit spending and inflationary policies. The saver gains no direct present or future advantage from forced savings, which fall within the sphere of public savings.

(20) For example: membership in those co-operative societies, whose members are requested to reinvest a portion of their returns.

The most usual kinds of compulsory personal or household savings are those related to compulsory life insurance policies and pension and superannuation schemes based in many cases on deduction at source of wages, salaries and other types of income, or in the most general sense social security schemes. In rural areas compulsory savings may be also implemented through the control of crop marketing channels by price manipulation. In some cases even more drastic measures have been used such as unremunerated forced labour and expropriation of produce.

The various kinds of compulsory savings, which in many cases are not embodied in financial assets, can play a useful complementary role but only exceptionally they can be used as the sole way of generating savings. Even so, they do not represent a satisfactory alternative to voluntary savings and remind us of the paternalism of the colonial era, which did nothing to engender responsibility in farmers.

Instead, small farmers in LDC's must be made aware that if they voluntarily refrain from spending their disposable income in money or more generally save, they will not only gradually improve their own family's standard of living and build up reserves for its future needs, but will also make a real personal contribution to the economic and social progress of their community and their nation as a whole.

11. The promotion and the mobilization of voluntary household savings in rural areas of LDC's is then, in our view, one of the crucial issues in designing a viable strategy for agricultural development in these countries for two main reasons. First, voluntary savings enable more rapid accumulation of real capital in agriculture. Second, the challenge presented by a free decision on where, how and how much to save combined with a series of other measures and innovations, helps to engender and develop an entrepreneurial spirit. In effect, voluntary personal savings in themselves constitute a useful educational device bringing farmers more closely into a cash economy and instilling sound money management principles in them.

Much still remains to be done in this field, but there is a sound basis to go on. Positive experience gained from a number of well conceived ventures in some LDC's, which lend themselves to adoption elsewhere, promise well for favourable developments on a broader scale in the future.

Arnaldo Mauri

UNE POLITIQUE POUR LA MOBILISATION DE L'ÉPARGNE RURALE DANS LES PAYS MOINS DÉVELOPPÉS

RESUME

L'Auteur affirme qu'une grande partie des capitaux nécessaires pour le développement agricole des pays moins développés, et en particulier les moyens pour le financement des investissements des petits exploitants, pourraient être trouvés dans les zones rurales mêmes de ces pays. En effet, on a vérifié que contrairement à une croyance répandue, dans bien de ces zones il existe une capacité d'épargne pas négligeable. La question à résoudre concerne la possibilité de susciter et de bien utiliser l'épargne. Par conséquent l'Auteur analyse une série de mesures de politique économique et financière concernant en particulier l'agriculture, ainsi qu'une gamme d'innovations possibles pour la création de structures intermédiaires du crédit, dans le but de promouvoir et mobiliser l'épargne qui se forme au sein des familles paysannes. On analyse par la suite les techniques de récolte de l'épargne financière, soit volontaire soit contractuelle, et les différentes conditions et moyens d'encouragements qui les caractérisent.

Une attention particulière est réservée au problème des taux d'intérêt, dont les rapports avec la formation de l'épargne constituent un sujet très controversé, où cependant des expériences récentes semblent fournir quelques indications utiles pour la réévaluation du rôle du taux d'intérêt.

L'inflation aussi, un phénomène bien diffusé de nos jours, pèse de façon considérable sur l'épargne financière et rend nécessaire l'introduction de mécanismes de sauvegarde.

En conclusion on analyse l'épargne obligatoire, qui, selon l'Auteur, sauf dans des situations exceptionnelles et transitoires ne peut représenter une alternative à l'épargne volontaire et contractuelle, mais seulement jouer un rôle d'intégration.
