

Asset-Building for Microenterprise through Matched Savings in Low-Income Countries

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Abstract

Can Individual Development Accounts help the self-employed poor in low-income countries build assets? IDAs provide matches for savings used for microenterprise and other asset-building purposes and are being tested in several high-income countries. In the United States, microentrepreneurs have indeed used IDAs to build assets. IDAs are also a promising innovation for low-income countries. For politicians and donors, IDAs are popular. For programs, IDAs are simple to target and—compared with loans—IDAs can reach more people and poorer people. For poor people who are willing and able to save, IDAs provide not only a “hand out” (matches) but also a “hand up” (structured assistance with saving). Matches help motivate participation and also turn small amounts of savings into larger amounts of assets. This paper recommends that matched savings for microenterprise in low-income countries take the form of high-interest savings accounts labeled for microenterprise. Of course, matched savings are not a cure-all, and not all poor people are in a position to save, but access to highly rewarding savings structure should improve the long-term well-being of many poor people.

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Asset-Building for Microenterprise through Matched Savings

1. Introduction

The only permanent way to escape poverty and steadily improve long-term well-being is to build assets, be they physical (land or homes), financial (bank accounts), social (networks), or human (education and experience). For many of the world's poorest, microenterprise is one way to build assets.

Aid for asset-building through microenterprise has focused on loans (Daley-Harris, 2003) but has also included savings services (Hickson, 2001), grants (Pretes, 2002), and training (Edgcomb, 2002). An innovative fifth approach is matched savings. Like grants, matched savings do not indebt the poor. Like savings, matched savings require the user to contribute. Like training, matched savings may include financial education. And like loans, matched savings leverage the entrepreneur's own assets.

Individual Development Accounts (IDAs) are a matched-savings structure designed to help the poor save and build assets (Sherraden, 1991 and 1988). For example, a microentrepreneur who saves \$100 in an IDA with a 1:1 match rate can withdraw \$200 to invest in the business.

IDAs that provide matches for microenterprise, home purchase, and post-secondary education are being tested in the United States and in other high-income

countries (Boshara and Sherraden, 2004). IDAs enjoy broad political support and have been targeted to some of the poorest groups in the United States:

- Racial/ethnic minorities (Schreiner *et al.*, 2001)
- Recipients of public assistance (Zhan, Sherraden, and Schreiner, 2004)
- Youth (Giuffrida, 2001)
- Native Americans on tribal lands (King *et al.*, 2003)
- Refugees (O'Conner, 2000)
- The recently homeless (Aitchison, 2000)
- The disabled (Leydorf and Kaplan, 2001)

U.S. microentrepreneurs have used IDAs to save and build assets. For example, about one-fifth of the 2,350 participants in the four-year American Dream Demonstration were involved in self-employment when they enrolled, and one-fourth of all participants who made matched withdrawals made one for microenterprise. Those who made matched withdrawals for microenterprise saved an average of \$800. With an average match rate of about 2:1, they accumulated about \$2,400 through IDAs.

Can matched savings also help the self-employed poor in low-income countries to build assets? The experience in the United States offers several lessons:

- Although it is difficult, the poor can save. Providing a formal structure helps
- Matches attract participants and help keep them motivated
- Microentrepreneurs seem particularly attracted to matched savings
- Matches can turn small trickles of savings into larger lumps of assets
- Participants should always have free access to their savings—they may need it in an emergency—but only withdrawals used for asset-building should be matched
- Matched-savings programs can be expensive unless they focus on simply providing a highly rewarding saving structure

While low-income countries probably cannot replicate IDAs as implemented in the United States, they can adapt the concept of matched savings. First and foremost, matched-savings programs must be very simple, as this provides transparency, includes people with little education, and keeps administrative costs low. Programs should target the poor through account design, for example by labeling the account “Savings for Microbusiness Assets” and by keeping matches low (say 1:1 on \$50 per year). Finally, programs should not attempt to monitor the use of matched withdrawals, trusting that the program’s institutional structure will encourage most participants to use matches for asset-building. All in all, matched savings of the self-employed poor in low-income countries will look a lot like high-interest savings accounts labeled for microenterprise.

This paper describes the theory behind asset-building policy for the poor. After describing IDAs and reporting on savings outcomes for microentrepreneurs in the American Dream Demonstration in the United States, it proposes adaptations to the concept of matched savings for low-income countries. The conclusion argues that matched savings, while useful for many of the self-employed poor, is not a panacea.

2. Asset-building in theory, policy, and politics

More assets are better than fewer; it would be difficult to disagree. But why look at development through an asset lens? This section describes basic asset-building theory, how it matters for development policy, and why asset-based development is attracting broad political support.

2.1 Theory

The traditional view is that poverty is a trap of low income. But income comes from assets, so poverty is really a trap of low assets. If development assistance focuses consciously and explicitly on assets—the true source of sustainable improvement in well-being—it will be more likely to achieve its goals.

Income is resource inflows in a time period. *Assets* are resources kept through time. Using up resources is *consumption*, and *saving* (when income exceeds consumption) increases assets and leads to *asset-building*.

Income is the product of combining human capital (time, effort, and know-how) with other physical, financial, and social assets. The key income-producing asset—especially for the poor—is human capital. While the non-poor may get income from rent and interest by employing physical and financial capital, the poor get most of their income from wages, farming, or home-making, that is, from employing human capital.

What keeps the poor poor is their low human and complementary capital. With incomes barely above subsistence, they can save little and thus build few assets. With

few assets, they lack tools or land that would improve the productivity of their human capital. With low productivity, they must start to work young and so cannot invest time in education to increase human capital. The need to work long and hard also takes a toll on their health, further decreasing productivity. With few assets to share, the poor have poor friends, so their social networks produce less. All this keeps income low.

2.2 Policy

Even though development economics has always emphasized that income comes from assets (Besley, 1992; Deaton, 1992; Gersovitz, 1988), most development policy states its goals in terms of boosting income, perhaps because poverty is usually measured in terms of income. Even the term “low-income country” reflects this.¹

The danger of basing policy on an income lens is that it implicitly equates well-being with consumption. While consumption is part of well-being, it is not the only part (Sen, 1999). Furthermore, greater consumption now affects saving and assets and so means less income and consumption in the future. People choose to save or consume income, but policy and institutions affect their choices. Furthermore, because the costs of saving are immediate but the rewards are delayed, people often welcome structures that help them resist the temptation to choose what is easy in the short-term over what is best in the long-term (Benartzi and Thaler, 2004; Ashraf *et al.*, 2003; Owens and Wisniwiski, 1999; Maital, 1986). For example, Rotating Savings and Credit Associations

¹ People in “high-income” countries do not work harder or longer; they just have more complementary capital to work with because they live in “high-asset” countries.

(Gugerty, 2003; Bouman, 1995; Adams and Fitchett, 1992) are an institution that helps people—especially poor women—exert the effort required to save up a lump sum to buy assets such as bicycles or pots and pans. Unlike the income lens, the asset lens reminds policymakers that people want to save and that they also can use some help.

The income lens has contributed to microfinance policy’s almost-exclusive focus on increasing income via microenterprise loans. Although microfinance claims to value broad, deep outreach, it has largely ignored that—compared with loans—savings services are useful to more people and poorer people. Saving might get more attention if policy recognized that it is not income itself but rather saving income that builds the assets that lead to long-term improvement in well-being.

2.3 Politics

In high-income countries, welfare policy under the income lens has transferred enough cash to provide the poorest with subsistence but not enough to help them escape from the low-asset trap (Sherraden, 1991). Furthermore, cash transfers are seen as something-for-nothing and so are politically unpopular.

In low-income countries, cash transfers are not only insufficient but also infeasible; too many people need too much for too long. The development challenge, then, is to help the poor save. Corollary challenges—as in all development aid—are to provide assistance efficiently and to target well.

In high-income countries, the political movement toward asset-based development began in 1988. Friedman’s *The Safety Net as Ladder* proposed changing the structure of cash transfers to encourage development beyond mere subsistence. Haveman’s *Starting Even* said that “transfer payments are necessary but not sufficient” (p. 149) and called for increased investments in human capital and for publicly funded, restricted-use accounts for youth. Sherraden’s “Rethinking Social Welfare: Towards Assets” critiqued exclusive reliance on income-based welfare policy and proposed Individual Development Accounts as a step toward asset-based development policy.

In the past decade, the asset lens has gained intellectual momentum (Shapiro and Wolff, 2001; Ackerman and Alstott, 1999; Conley, 1999; Oliver and Shapiro, 1995). It has also attracted support from all points along the political spectrum. For example, Bill Clinton—who as governor of Arkansas wrote the foreword to Friedman’s *The Safety Net as Ladder*—supported IDAs in his 1992 campaign and later proposed a large matched-savings program (Clinton, 1999). Both George W. Bush (2000) and Al Gore (Kessler, 2000) had billion-dollar IDA proposals in their platforms. Bush has continued to call for expanding IDAs, and John Kerry (2002) has proposed matched savings in “Empowerment Accounts”. About 34 states have IDA legislation (Edwards and Mason, 2003), and the Assets for Independence Act of 1998 authorized \$250 million for IDAs in 1999–2009. Furthermore, the Savings for Working Families Act—if passed—would provide \$450 million for 300,000 IDAs over 10 years.

Outside the United States, Taiwan has an IDA demonstration (Cheng, 2003), and Canada has a randomized IDA experiment. In the United Kingdom, the Savings Gateway resembles IDAs (Kempson, McKay, and Collard, 2003), and the new Child Trust Fund gives each newborn an account and a deposit, with larger deposits for poor children (H.M. Treasury, 2003).

As political support for IDAs in high-income countries has grown, governments and donors in low-income countries have also come to realize that all people—especially the poor—benefit from safe, reliable, convenient savings services. Rutherford’s *The Poor and Their Money* (2000a) explains how the poor can use formal savings services to turn small, frequent trickles of income into lump sums for emergencies, life-cycle expenses, and asset-building. *Microfinance* is more than just *microcredit* (Schreiner and Morduch, 2002; Zeller and Sharma, 2000; Adams and Von Pischke, 1992). After all, not everyone is creditworthy or wants debt, but everyone is depositworthy and wants savings.

Politicians in low-income countries also have reasons to support saving by the poor. Unlike cash transfers, savings assistance does not look like something-for-nothing. (Anyway, low-income countries lack the budget for cash welfare.) Unlike cash transfers, savings assistance promises to leverage savers’ own funds. It self-targets those able and willing to sacrifice now in return for future reward. Finally, saving and asset-building for the poor just makes sense; as Sherraden (1991, p. 7) says, “Few people have ever spent their way out of poverty.”

Innovation in savings services for the poor in low-income countries has mostly meant imitating informal savings schemes such as money-guards, mobile deposit collectors, and safety-deposit boxes for in-kind savings (Vonderlack and Schreiner, 2002; Rutherford, 2000b). Organizations usually provide standard savings accounts, only with lower fees, smaller minimum balances, lower transaction costs for savers, and lower administrative costs for intermediaries (Bredenbeck, 1997; Robinson, 1994).

While saving by the poor is now seen worldwide as a key for development, approaches to savings assistance have diverged in the North and South. High-income countries assume that the poor are unable and unwilling to save without financial incentives, leading to matched-savings schemes such as IDAs. In contrast, low-income countries assume that the poor are able and desperate to save, leading to customization of otherwise-standard savings accounts.

Of course, both approaches have merit. Access to formal mechanisms does help the poor save, as do matches. The rest of this paper explores the experience of matched savings through IDAs in the United States and speculates how the concept of matched savings might be adapted to low-income countries.

3. Individual Development Accounts

This section describes IDA design and reports on savings outcomes from a large IDA demonstration for participants who were involved with self-employment or who enrolled planning to make a matched withdrawal for microenterprise.

3.1 Structure and design

IDAs provide matches for savings by the poor. IDA participants also receive financial education and encouragement from program staff. Participants make deposits in passbook accounts in regulated financial intermediaries. The participants own the accounts, and they may make withdrawals at any time for any reason. The IDA program, however, provides matches only for withdrawals for post-secondary education, home ownership, or microenterprise. So far, almost all IDAs programs are in the United States and are run by non-profit organizations.

IDA design addresses three hurdles between the poor and asset-building: low income, lack of access to asset subsidies, and inaccurate views about saving.

Given their low incomes, the poor have fewer resources available to save after paying for necessities. Thus, saving requires more sacrifice, and asset-building requires more time. The IDA match increases income by increasing the return on saving, just like a high interest rate would. For a given amount of savings, the match also increases the amount of asset-building. Of course, the match also attracts people to IDAs.

IDAs give the poor access to asset-building subsidies. In the United States, saving by the non-poor is heavily subsidized (Seidman, 2001; Howard, 1997; Sherraden, 1991). The largest, most widespread, and most important subsidy is public education, but the poor are more likely to live in low-quality school districts where they get lower human-capital subsidies. While mortgage-interest deductions subsidize home ownership (the bedrock of the middle class), the poor are less likely to own their homes and, if they do, they get smaller loans—and smaller subsidies—and are less likely to experience appreciation (Katz Reid, 2004). For the non-poor, tax breaks subsidize retirement savings, but tax breaks mean little to poor people in low tax brackets (Gale, Iwry, and Orszag, 2004). Unlike traditional asset-building subsidies, IDAs reach the poor because they are not based on location, quality of housing, or tax breaks.

IDAs send the message that the poor can (and perhaps should) save (Schreiner *et al.*, 2001). The mere existence of IDAs sets a social standard that facilitates choosing to save. Public policy already does this for the non-poor (Sherraden, 1991, p. 127): “The middle class accumulates its wealth, not so much through superior individual investment, but through structured, institutionalized arrangements that are in many respects difficult to miss. . . . This is not a matter of making superior choices. Instead, *a priori* choices are made by social policy, and individuals walk into the pattern.” IDAs aim to make saving a “no-brainer” for the poor, that is, a social pattern requiring little deliberate choice.

Other IDA design features also aim to help the poor save:

- Financial education highlights the benefits of saving and teach savings techniques such as tracking expense, budgeting, and “paying yourself first”
- Match caps limit matchable deposits, but IDA participants mentally turn the limits into goals, aiming to “max out” their match eligibility
- Monthly statements provide feedback showing progress
- Explicit exhortations to deposit something—even if just a pittance—each month in the hope that “slow and steady” will build assets
- Exercises in planning for matched withdrawals promotes future orientation, that is, hope (Sherraden *et al.*, 2004)
- Matching only purchases of specific assets helps curb temptations to withdraw savings for consumption

Overall, IDAs tell the poor that they can save and then help them to do it. The institutional theory behind the design suggests that if you build a savings structure, participants will come to save.

In addition, funders will come to provide matches. For example, the American Dream Demonstration of IDAs (described below) used both private and public funds. In principle, IDAs can be opened at birth and can remain open until death. (This principle lies behind the Child Trust Fund in the United Kingdom and the proposed KIDS Accounts in the United States.) Once an IDA is open, almost anyone—government, employers, or development organizations—can plug into the structure by offering

matches. In this way, IDAs can provide an institutional infrastructure for asset-building (Goldberg and Cohen, 2000).

3.2 American Dream Demonstration

The American Dream Demonstration (ADD) ran for four years with 2,350 participants at 14 IDA programs across the United States. All programs provided matches for home purchase, post-secondary education, and microenterprise, and some also provided matches for job training, home repair, and retirement saving. Most programs were hosted by non-profit community-development organizations. Schreiner *et al.* (2001) give more detail on each program.

ADD participants held IDAs as passbook accounts in banks or credit unions. Match monies were kept apart from participant savings. Participants had to attend financial-education classes. Program staff collected participant data and tracked savings with a special-purpose software package (Johnson, Hinterlong, and Sherraden, 2001).

3.2.1 Participants

ADD limited eligibility to those with income under 200 percent of the poverty line. About 49 percent of participants were below the poverty line, and 20 percent were below half the poverty line. In terms of assets at enrollment, passbook and checking balances together averaged about \$500. Average net worth was about \$3,000 (median \$200). About 16 percent of participants owned a home, and 65 percent owned a car.

Compared with low-income people in general, participants in ADD were more disadvantaged in that they were disproportionately female (80 percent), African-American (47 percent), and/or not married (about 75 percent) (Sherraden *et al.*, 2000). About 44 percent were single mothers, and 50 percent had received cash transfers (“welfare”) at some point before enrollment. Participants were more advantaged in that they were more likely to be employed or to be students (90 percent), to have a college degree (24 percent), and/or to own a bank account (77 percent).

3.2.2 Microenterprise

At enrollment, 17 percent of ADD participants had self-employment income, 10.5 owned business assets, and 2 percent had business debts. All in all, about 19 percent of participants were involved with microenterprise before ADD. This far exceeds the incidence of self-employment among the poor in general.

At enrollment, 19 percent of ADD participants reported that they planned to make matched withdrawals for microenterprise. Of these, 62 percent were “start-up” microentrepreneurs who were not already involved in self-employment.

What attracted the self-employed (and those interested in self-employment) to IDAs? Foremost were matches for microenterprise. Also, some host organizations in ADD already ran microenterprise programs (such as the Women’s Self-Employment Project in Chicago), and they referred some existing clients to IDAs. Furthermore, entrepreneurs have an above-average need to save. New ventures are mostly funded by savings (Berger and Udell, 1998; Bates, 1997). Business income is far from smooth, so

owners must save not only to invest in business assets but also to fund household consumption during revenue slumps (Schreiner, 2004a). Microenterprise requires savings, and IDAs are a direct way to help microentrepreneurs to save.

Among ADD participants who actually ended up making matched withdrawals, 25 percent did so for microenterprise. Of these, 51 percent were not involved in self-employment at enrollment. Among those planning a matched withdrawal for microenterprise, 40 percent actually ended up making one. Among those planning for some other matched use, 2 percent made withdrawals for microenterprise.

3.3 Microenterprise and IDA savings outcomes in ADD

This section looks at savings outcomes for four groups in ADD:

- All participants
- “Growing owners” (self-employed, planning a microenterprise matched withdrawal)²
- “Start-ups” (not self-employed, planning a microenterprise matched withdrawal)
- “Non-growing owners” (self-employed, not planning a microenterprise matched withdrawal)

ADD had 2,350 participants, with 170 “growing owners”, 62 “start-ups”, and 274 “non-growing owners” (Figure 1). Overall, savings outcomes were better-than-average for owners—whether “growing or non-growing”—and worse-than-average for “start-ups”.

² “Growing” is a shorthand term that assumes (without direct evidence) that existing owners who planned microenterprise withdrawals had a growing business.

For example, net IDA savings per month—the central savings outcome³—was \$16.60 for all participants but \$18.98 for “growing owners” and \$22.07 for “non-growing owners”. At \$13.07, net IDA savings per month was lowest for “start-ups”.

Total net IDA savings across all months of participation had the same pattern. After accounting for matches, asset accumulation (assuming all net IDA deposits were used in matched withdrawals) was \$1,993 for “non-growing owners”, \$1,743 for “growing owners”, \$1,607 for all participants, and \$1,231 for “start-ups”.

IDA programs in ADD exhorted participants to make regular deposits. “Non-growing owners” were the most regular, with deposits in 57 percent of months. “Growing owners” and “start-ups” had deposits in fewer than half the months but still had greater frequency than the average participant.

Finally, participants associated with microenterprise (whether “growing owners”, “start-ups”, or “non-growing owners”) were more likely than the average participant to have net IDA savings of at least \$100. About 52 percent of all participants reached this benchmark, versus 56 percent for “start-ups” and “non-growing owners” and 69 percent for “growing owners”.

In sum, those involved in microenterprise at enrollment saved more than the average participant, while those who apparently wanted to start a new microenterprise saved less than the average.

³ Schreiner (2004b) defines the measures of IDA savings outcomes used here.

Given the many motivations of entrepreneurs to save, it makes sense that existing owners saved more. Lower saving by “start-ups” may reflect self-selection. First, many aspiring owners will fail (perhaps in part because they save too little), whereas many failures (and possibly low savers) are no longer in the pool of existing owners. Second, the alternatives to microenterprise as a matched use in ADD (usually home ownership or post-secondary education) required much larger commitments and more complementary assets. Thus, participants who expected to save less may have planned for microenterprise because they knew that while they probably would not save enough to go to college or make buy a home, they would save enough to buy a lawnmower, a set of playground equipment for a day care, or some other small microenterprise asset.

Why did “growing owners” save less than “non-growing owners”? Average self-employment income was about \$600 for both groups, while “growing owners” had about twice as much business assets (\$8,000 versus \$4,000). Still, this provides no obvious explanation for the observed patterns.

The broad lesson from ADD is that both existing and aspiring owners saved and built assets through IDAs. Existing owners saved more than aspiring owners.

4. Matched savings in low-income countries

While IDAs have some details specific to high-income countries, the concept of matched savings can be adapted to low-income countries. Drawing on theory and research in the United States, this section presents a series of recommendations for the design of matched-savings programs for the self-employed poor in low-income countries. The main point is that programs should be kept simple and low-cost.

4.1 Account design

Keep savings in regulated financial intermediaries. For safety and legality, the savings of the poor should not be held by non-profit organizations, self-help groups, or any other organization not specialized in deposit-taking. This reduces the risk that the poor will lose their savings.

Keep savings in unrestricted passbook accounts. Emergencies are a fact of life for the poor, so unmatched withdrawals must be allowed at any time for any reason. If the poor fear that their funds will be out of reach when needed, then they may avoid making deposits in the first place. To avoid delays with unmatched withdrawals (and to prevent fraud), programs should not be co-owners on participants' accounts.

Fees matter more than interest rates. Maintenance fees are the scourge of low-balance accounts. In exchange for good publicity (and the host organization's banking business), the financial intermediary should be asked to waive all fees. Interest rates can be bargained away; the match rate is what matters to participants.

Reserve enough funds to cover potential matches. Prudence dictates that programs should limit participation and set match caps to ensure that they can pay out all promised matches even if all participants “max out”. To renege would stain the reputation of all matched-savings programs and seem to punish the poor for saving.

Provide frequent statements. Even if the depository intermediary cannot or will not send statements to participants, the matched-savings program should arrange to receive the data monthly or quarterly. The program can then produce (and deliver to participants) a statement listing not only the current savings balance but also the corresponding match and remaining match eligibility. Regular statements keep saving in participants’ minds and also force the program to keep its records up-to-date.

Track savings carefully. When accounting for savings, mistakes are not permitted. Even with special-purpose software and monthly statements, ADD programs sometimes disbursed the wrong matches. Up-to-date tracking also helps ensure sufficient match reserves and discourages fraud. A project’s first step should be to establish a failsafe tracking system and to train at least two staff members to use it.

4.2 Matches

Advertise the match. The match attracts participants. In fact, because the match may sound too good to be true and because deposits are required up-front, poor people may fear that the program is a scam (Page-Adams, 2002). For this reason, advertising should ease fears by naming the financial intermediary that will hold the accounts.

Choose a high match rate, but not too high. In ADD, participation and asset-building increased with the match rate. At the same time, higher match rates decrease numbers of participants by increasing costs. Furthermore, match rates of more than 1:1 were associated in ADD with lower savings; higher rates apparently allowed participants to reach a fixed goal with less saving (Schreiner, 2004c). Match rates should be high enough to make people think, “I would be foolish not to take advantage of this.” A match rate of 1:1 is probably enough to make participation a “no-brainer”. Compared with higher rates, 1:1 is less costly and may also elicit greater saving.

Use match caps to target. It is costly—especially in low-income countries—to determine whether an applicant is poor enough to qualify for a matched-savings program. One way to avoid targeting costs is to set match caps (savings eligible for matches) so low that only the poor find participation (and its attendant time costs) worthwhile. The lower the cap, the poorer the average participant. One possibility is a \$50/year match cap with a 1:1 match rate.

Provide matches for home improvement, education, and microenterprise. The three cornerstone uses for IDAs in the United States are home purchase, post-secondary education, and microenterprise. In low-income countries, home improvement is often more relevant than home purchase (Ferguson and Haidor, 2002); many microenterprise loans are partially diverted to home improvement (Dunn and Arbuckle, 2001). Likewise, the poor in low-income countries are more likely to be concerned about primary and secondary education than post-secondary education. Finally, matches for

microenterprise will probably be much more common in low-income countries—given the larger number of self-employed poor people—than in the United States.

4.3 Costs

Keep program costs low. One more dollar for staff salaries is one less dollar for matches. IDAs in the United States have had high program costs. For example, non-match costs at the largest program in ADD were about \$3 per \$1 of savings (Schreiner, 2004d). One factor behind this was the provision of labor-intensive financial education and social supports such as calling participants each month to remind them to make a deposit. The assumption in high-income countries is that the poor will not save without classes and persistent encouragement. In contrast, the assumption in low-income countries is that the poor not only know how to save but are also desperate to do so. Thus, while a “high-touch” approach is helpful,⁴ low-income countries might skip it, opting to provide more matches to more participants.

Do not try to control the source of deposits. IDA programs state that deposits must come from “earned” income rather than gifts, loans, or government transfers. In practice, this boils down to requiring that participants be employed (or self-employed). Still, money is fungible (Von Pischke and Adams, 1980), so there is no way to know where any deposit came from. Acting otherwise only increases program costs.

⁴ There is evidence that classes (Clancy, Grinstein-Weiss, and Schreiner, 2002) and social support (Sherraden *et al.*, 2003) have indeed improved savings outcomes in IDAs.

Do not try to control the use of matches. IDA programs disburse matches directly to vendors. In low-income countries where matches may be on the order of \$50, disbursement to vendors may be costly. An alternative is to disburse matches directly to participants, accepting the risk that they may consume it rather than invest it. Because money is fungible, however, some such risk is unavoidable, even with disbursement to vendors. A less-expensive approach is to repeatedly tell participants that they should use their matched savings for asset-building and to label the account “Savings for Microbusiness Assets”. Such suggestions and labels can be as powerful as they are inexpensive (Mullainathan and Thaler, 2000; Thaler, 1994; Mischel, 1977).

Disburse matches into participants’ accounts. It costs little to put matches straight into participants’ accounts. Such matches might be based on the annual average balance and credited once a year, coinciding with asset-building seasons such as the start of school and not consumption seasons such as Christmas (Vonderlack and Schreiner, 2002; Johnson and Kidder, 1999). Here, matched savings are essentially high-interest accounts targeted to the poor and labeled for asset-building.

Do not try to inculcate habits. Believing that the poor must learn “saving habits”, many IDA programs in the United States require regular deposits—say, in at least 9 of 12 months—to qualify for matches. But this discourages those who miss a few months, and it forces those who come into a lump sum to spread it out over several months, increasing the risk that the cash will burn a hole in their pockets before making its way into an account. Microentrepreneurs in particular hardly need to learn saving habits

even though their irregular streams of revenues and expenses often lead to irregular deposits. To keep costs low, programs should simply track account balances.

Keep program design simple. The theme here is keeping costs low by keeping design simple. Low program costs mean more matches for more poor people. This supposes that outreach to the poor matters more than avoiding all leakage to the non-poor or losing some matches to consumption. The idea is that matched-savings programs should not try to control how the poor save but rather simply provide a highly rewarding saving structure and then let the poor use it as best they can.

5. Discussion

Income comes from assets, so the only sustainable path out of poverty is asset-building. Individual Development Accounts were the first attempt to use matched savings to help the poor save and build assets. This common-sense idea has been targeted to a wide range of poor groups in the United States and has attracted broad political support. Given their strong motivation to save, microentrepreneurs seem particularly attracted to IDAs, and those who already own businesses (but not start-ups) seem to have above-average savings outcomes.

Can matched savings also help the self-employed poor in low-income countries? Yes, but design details may diverge from IDAs as known in the United States. The differences derive from low-income countries' smaller budgets and greater numbers of poor people (and poor self-employed people). Achieving broad outreach requires simple, low-cost programs. The simplest, lowest-cost matched-savings programs are high-interest passbook accounts labeled for microenterprise. While match rates are high enough (say, 1:1) to attract attention, match caps are low enough (say, \$50/year) to keep all but the poor from taking a second look. Matches are made on annual average balances and deposited straight into the account each year. Participants can make deposits and withdrawals at-will, although they are exhorted to use their "Savings for Microbusiness Assets" account only for microenterprise.

This extremely simple, low-cost design may sound like a façade for give-aways to those willing to go through the charade of passing money through a savings account.

After all, some of the non-poor will jump through a few hoops for \$50, or some of the poor will borrow to fund deposits and then use the match to pay back interest on the debt. Without explicit targeting and monitoring, there will be leakage and diversion.

Still, many participants will honor the program's stated purpose. Simply being told that they can and should save to build assets makes it more likely that they will do so. As they wait for the match and mentally savor their savings, the risk that they will plan to spend frivolously decreases. Allowing unmatched withdrawals also provides a form of insurance for emergencies. In low-income countries, matched-savings programs should encourage and reward saving and asset-building through their structure and design rather than through their attempts to control specific behavior.

So far, IDAs in the United States have taken an alternate route, combining matched savings with extensive, labor-intensive supports such as financial education. These supports seem to improve savings outcomes, but their cost limits the design's scalability (Sherraden, 2000). The recommendations here reflect the judgment that (especially in low-income countries with small budgets) it is better to limit services to the provision of matches and the account itself, thereby increasing the number of poor people with access to highly rewarding savings structures.

Of course, matched savings is not a silver bullet. Saving requires decreasing consumption and/or increasing income; this is difficult for anyone, and it is especially difficult for the poor. Some microentrepreneurs cannot afford to tie up their capital in a savings account. Other people have few resources available to save. This is why

matched-savings programs should be voluntary, allow infrequent deposits, and permit unrestricted (though unmatched) withdrawals.

Borrowing can sometimes build assets faster than saving, at least for entrepreneurs with good business opportunities. At the same time, many entrepreneurs could invest without borrowing (and without paying interest) had they only saved (and earned interest) or had they had the chance to save (Rutherford, 2000a).

Saving is also risky, especially in low-income countries where hyper-inflation and currency devaluation are real threats. Microenterprise is also an extremely risky investment. Asset-building programs must recognize that saving can have a dark side.

Schwartz (2001) worries that asset-based development (building peoples' ability to do and to be what they have reason to want) may squeeze out relief (fulfilling the basic needs of those who cannot provide for themselves). But development aims to reduce the long-term need for relief, so the two approaches are complements. A related fear is that, for the poorest, saving would mean starving (Johnson, 2000). Of course, asset-building is meant as an option, not an obligation.

Others fear that matches are so strong an incentive that the poor will save too much, neglecting medical care or going without food. Matching does increase the return to saving, and the program design recommended here does trust people to judge whether the reward is worth the sacrifice. Still, the risk of harm is small, as participation is voluntary and unmatched withdrawals are always possible.

A political vulnerability of matched savings are their explicit, cash subsidies. While asset-building subsidies are common, explicit subsidies are uncommon (and asset-building subsidies for the poor are almost unheard-of). Furthermore, even if a bare-bones structure leads to low program costs, providing matches is still costly.

In sum, matched savings is not a panacea; nothing is. Asset-building for the poor is difficult, slow, risky, costly, and no substitute for relief. Matched savings will not make the poor get rich quick. It is, however, one way to nudge some people further along a path that may, with time and effort, improve long-term well-being. Regardless of whether matched savings ends up being an effective asset-building tool for the self-employed poor in low-income countries, asset-building in one form or another will always be the main development option for most poor people.

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Figure 1: Savings outcomes for IDAs in ADD

Savings outcome	All	“Growing owners”	“Start-ups”	“Non-growing owners”
Number of participants	2,350	170	62	274
Net IDA savings/month	16.60	18.98	13.07	22.07
Net IDA savings (\$) per participant	558	589	412	759
Ave. match rate	1.88:1	1.96:1	1.98:1	1.62:1
Asset accumulation (\$) (potential) per participant	1,607	1,743	1,231	1,993
Share (%) of months with IDA open and a deposit	50	47	44	57
Share (%) participants with net IDA savings \geq \$100	52	69	56	56