

Savings: The Key to Unlocking Entrepreneurship

You don't have to be an economist to understand capital. Consider Abdul Saboor. Abdul runs a small television repair business in Kabul, Afghanistan. He received a small loan to increase his inventory of spare parts and hire two additional people to help manage his growing business, significantly improving his efficiency. "I used to have to go to the market [by foot] every day to buy parts," he said, adding that it was a 2 ½ hour round trip. "Now I go once every two weeks."

He used a loan to open a second shop, which increased his sales and thus his profits. More importantly, he increased his efficiency and productivity and provided jobs for two more people.

Economic Stimulus

Access to capital can unlock the enterprising potential inherent within every individual. Capital empowers men and women in poverty, allowing them to improve their bargaining power and leverage, which can lead to lower costs, higher productivity and an improved standard of living. According to Peruvian economist Hernando de Soto, "Capital is the force that raises the productivity of labor and creates the wealth of nations. ... It is the foundation of progress and the one thing that poor countries cannot seem to produce for themselves, no matter how eagerly their people engage in all the other activities that characterize a capitalist economy."

Stated simply, it takes money to make money. The usual two ways to access that initial capital are through a savings account or a loan. If you ask individuals from virtually any culture who have succeeded in business, you will nearly



always hear a story about their first loan that helped put them on the path to building a successful business.

The benefits of capital seem obvious enough to Americans—and we're usually able to acquire the capital we need. Banks, financing companies, and affluent relatives abound in the U.S. and other high-income countries. However, 2 billion people around the world don't have access to financial services, most of them in developing countries. How can entrepreneurs in poverty access modest amounts of capital with which to start and grow their businesses?

Loans

One day, the mail carrier brought me three offers from credit card companies. One touted double airline miles, another guaranteed zero percent interest for all balance transfers for the life of the loan, and another boasted about the size of loan I was prequalified to receive. None of the offers interested me, and I quickly threw them out.

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However, during my lunch break, I visited Home Depot and was approached by a woman wearing an orange apron covered in badges. Linda offered me \$20 or 10 percent off my purchase if I signed on a dotted line and accepted a Home Depot credit card. Now that was an offer I couldn't refuse—\$20 was enough money to help pay a babysitter so I could have an evening out with my wife!

My access to easy and relatively affordable credit could not be further away from the reality of individuals living in Parola, Philippines. When we visited this high-crime area, the going rate for moneylenders was 20 percent. Not a bad interest rate—until we realized that this rate was for four days! Apparently theft in this area did not just result from robbers and pickpockets; it also came through usurious interest rates on capital and individuals who preyed on those with no other options.

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In many parts of the world, “5-6” loans are the norm. Individuals borrow five units and repay six, equaling a 20 percent interest rate. Again, the problem is that this rate is either daily, weekly or monthly, depending on the loan shark. How would it be possible to escape a vicious loan cycle with rates this high? Consider a loan of \$100, perhaps used to take a sick relative to the city for medical treatment. At 20 percent weekly interest, that \$100 loan could quickly grow to a staggering \$1,849 after just 16 weeks. It would be an inescapable trap for all who fall into it.

If rates for loans are so ridiculously high for many, perhaps savings is a better route to accumulate the modest amount of capital necessary to launch a business.

Savings

There are many benefits to saving instead of taking a loan. Saving is less risky and more flexible, allowing people to accumulate money to invest in a business or provide for emergencies. So why doesn't everyone save? Our situation in the West differs markedly from the experience of most of the world. I remember opening my first savings account with my father at Middlesex Bank on Main Street in Concord, Massachusetts, and how I began saving small amounts. I put an advertisement in the local paper expressing my willingness to work hard and do any odd jobs. Within a week, I was flooded with opportunities to move pianos, paint sheds, haul rocks and mow lawns. Each week, I would first tithe then put a portion in savings at Middlesex Bank. Slowly these savings grew, and I remember my excitement at having accumulated enough in my account to purchase my first mountain bike.

Contrast my experience to Geetha, who in seven months will need 1,000 Indian rupees—about \$15—for school fees for her daughter. She makes \$17 a month, so if she doesn't start saving the money now, she'll never have such a large sum.

No banks or formal services are available to Geetha. So, to save for her daughter's school fees, she agrees to save with Jyothi, her friendly neighborhood “savings collector.” Jyothi has recognized the need for a safe place to save money and has developed a business to meet that demand. Jyothi goes to Geetha and her other clients each day to collect savings deposits from them. In this way, Geetha saves 5 rupees a day. After doing this for 220 days, Geetha will have deposited 1,100 rupees, and she will get back 1,000. Jyothi keeps 100 as her fee for providing this valuable service.

Geetha has saved the 1,000 rupees needed to pay her daughter's school fees—but by getting back less than she put in, she actually paid to save! How much has Geetha paid to save for the school fees for her daughter? She's paid 30 percent annual percentage rate. Can you imagine? We Americans earn money on our savings, while Geetha and others in similar situations are forced to pay for the privilege. And many in the world do not even have access to a savings collector.

Conducting a study to determine if HOPE International should expand its services to a rural fishing village on the Congo River, our group asked several residents a simple question: “If you only have a little money to save, what choices do you have?” Most said they have only one option—

travel to the center of the next town and deposit their funds at a savings kiosk. And when they withdraw savings from the kiosk, they pay 10 percent of the maximum balance. One of the potential savers I met would be required to pay 15 cents for transportation plus a 10 percent fee to save \$1. If he wanted to save \$1 a week for six months, he just paid \$6.50, or 25 percent of his total savings, for the privilege. What an incredible negative savings rate!

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My first reaction to hearing these high rates was, “That’s crazy! Why pay someone to collect and hold your savings for you? Why don’t those in poverty just do it themselves, especially when this type of savings arrangement isn’t even FDIC insured?” This is a common response to learning that people in poverty like Geetha often pay deposit collectors 30 percent APR to save in a place that is only marginally secure and not protected from inflation.

The key to making sense of this is to recognize the enormous obstacles to saving in developing countries. These obstacles are related to the following:

I. Reality of Living Conditions

If you lived in a five-by-eight-foot tin house with no doors or windows and practically no furniture, where would you hide your cash? How would you protect against theft? Natural disasters can literally burn, rot, or sweep away the cash savings people have tried to squirrel away in hiding places in or near their homes. Pakistan’s severe floods of 2010 provide an example, when heavy monsoons damaged or destroyed approximately 1.6 million homes, leaving some 14 million people homeless. As they fled, many people reported seeing money floating by, likely savings that had been hidden in people’s homes. “I had nearly 100,000 rupees [about \$1,176] in cash buried in an earthen jar under the mud floor of my home,” shared Muhammad Rafiq, whose home was destroyed in the flooding. “There was confusion as we fled, and I thought my wife had retrieved it. But we both failed to do so, and now the money is gone.”

II. Societal Demands

In many developing countries, familial and communal ties are so strong it would be social suicide to deny someone money if you have some to spare. Those who have even a little are expected to share with a brother, aunt, cousin or neighbor who asks. Denying the request would lead to ostracism from the community. Although there are great benefits to a society that shares so completely, it holds people back from accumulating and investing capital—and thus moving forward economically. It is often a question of short-term gain at the cost of long-term progress.

III. Lack of Nearby Alternatives

If I need to deposit money in my bank, I can use my phone or choose from several branches or ATMs within 10 minutes of my home. However, in Rwanda, despite great improvements in account ownership, the average person is still a 53-minute journey from a bank branch or ATM. A trip to the bank would mean two hours of lost business. Interestingly, mobile phones are helping make banking much more accessible in remote areas, with the average Rwandan only 31 minutes away from a mobile money agent.

Alternative Piggy Banks

So how do families in poverty save? Out of necessity, they have created several innovative—though not always ideal—options.

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On a trip to Santiago, Dominican Republic, I met a woman who manufactures bamboo savings logs. She cuts 12-inch lengths of naturally hollow bamboo stems, seals both ends, and then cuts small slits through which money can be

deposited. She described how most customers bury them or hide them underneath a piece of furniture. When asked if they ever put them under their mattresses, she laughed and cautioned, “Everyone knows that’s where people hide their extra money, so you really shouldn’t hide your money there.”

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Another creative savings method was discovered by a British nongovernmental organization operating in Cambodia. At one point, its leaders noticed that many Cambodians raise pigs, so they concluded that it must be a profitable business. Perhaps they could help even more Cambodians take advantage of pig farming. However, after talking with several pig farmers and running the numbers, they were bewildered—the local farmers were losing money on their pigs! The cost of raising the pigs exceeded the income received when the pigs were sold. What was going on?

Further research revealed the truth: The Cambodian farmers were raising pigs as a way to save a “lump sum” of money that could be used for school fees, weddings or to grow their business.

One Cambodian farmer explained it this way: If I don’t have a pig to raise, each day I’ll fritter away whatever money I have, partly by responding to the requests of relatives and friends. In three months, I’ll have nothing more than I do now. However, if I have a pig, I have to take care of it. I have to invest my daily loose change into the pig—I can’t allow it to starve or get ill and die. After a few months of this, I’ll sell it and use the money for my son’s school fees. This farmer was using a literal piggy bank that could protect his money from constantly diminishing.

Other Benefits of Savings

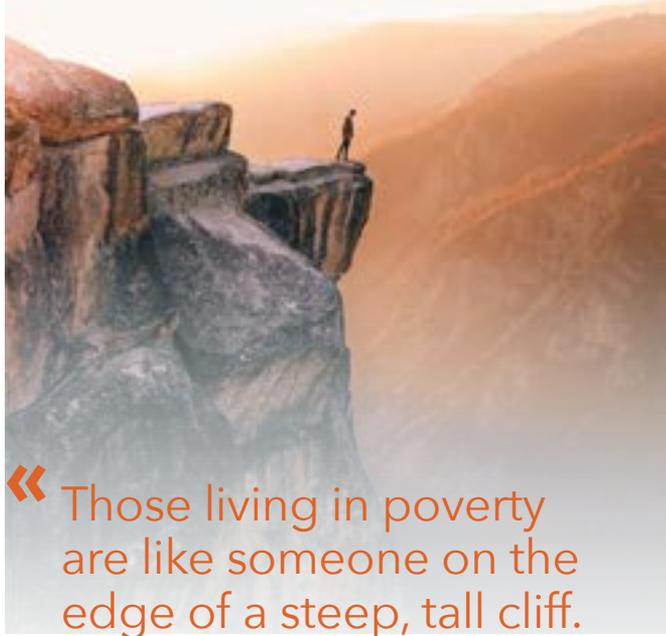
It might seem counterintuitive, but individuals living in poverty can’t afford not to save. There are few governmental safety nets in developing countries. Small emergencies can become disasters. Dave Larson, international development expert, describes savings this way:

Those living in poverty are like someone on the edge of a steep, tall cliff. Perilously near the edge, it won’t take much of a blow to force them over the edge into a tragic fall. A fire, a flood, a drought, an illness, an accident—these and other traumas could easily result in catastrophe. Savings helps people reduce their vulnerability. In effect, it allows them to take a few steps away from the edge. Farther away, they are at less risk. A blow may push them toward the edge—but not over. When we help people to save money, we’re saving lives—in less dramatic but perhaps far more effective ways than we see in the movies. Rather than arriving in a helicopter to grab someone dangling from tree roots atop a cliff, we’re helping them to stay away from the tree roots in the first place.

Mike Cahill, a homebuilder from Pennsylvania, traveled to the Dominican Republic to visit Esperanza International. In one small community outside San Pedro, Mike and the team visited Yaquelia, a woman who had just joined Esperanza. When Mike asked Yaquelia about her family, she told the group about her 5-year-old son, Juan, who was suffering from hydrocephalus, a buildup of fluid in the brain. It was obvious that this was a severe medical need and that Juan needed to be treated. Upon returning to the United States, Mike did everything he could to get medical treatment for Juan, even finding a doctor willing to perform the surgery. Unfortunately, after medical examination, they determined that it was too late to treat this abnormality. The tragedy is that Juan could have been cured if his mother had had the knowledge and money to get this treatment in time.

This tragic situation is repeated throughout the world. U2’s Bono calls this sort of situation “stupid poverty” and wonders why thousands of individuals should die every day from mosquito bites, starvation and preventable diseases. There simply is no good reason why 16,000 children should die each day. Poverty is behind almost every one of those unnecessary deaths, and in countless cases, a small savings account could have prevented tragedy.

Ephraim Kabaija, former chief of staff to President Paul Kagame of Rwanda, explained the critical need for a bank that offers savings accounts to the Rwandan people:



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Do you know how many people die in our country every year because their mothers cannot afford the \$2 or \$10 needed to buy medicines to treat diarrhea, fever, malaria, and other common illnesses? Do you appreciate how much angst, misery, and despair we could eliminate from our country if every family had \$50 in a savings account?

Preparing for the Future

For many in the developing world, everything revolves around today. What will I eat today? What will I wear today? Where will I find employment today? Beginning to accumulate savings helps shift an individual's focus from today to tomorrow. A family's timeline begins to change. The emotional benefits of this are hard to quantify, but a street vendor in the Democratic Republic of Congo summarized it best: "I'm not so afraid of tomorrow anymore."

The reality is that having a safe place to save small amounts of capital or access a loan is essential if people are to escape poverty and build a better future.

NOTE: This is an adapted excerpt taken from Peter Greer and Phil Smith's book, *Created to Flourish: How Employment-Based Solutions Help Eradicate Poverty*. To download your free copy of *Created to Flourish*, please visit <https://www.hopeinternational.org/createdtoflourish>. 

Building Christ Centered Communities

Just south of Rwanda, in neighboring Burundi, the Batwa is an ethnic group making up less than two percent of the country's population, having historically been marginalized in society with little access to education, employment, land ownership, or financial services. In 2016, HOPE began working with two church partners to serve Batwa families through savings groups. A year later, one partner's program had grown to serve 1,297 men and women.

Amelie is part of a savings group made up of Batwa and non-Batwa members. "Other people used to ignore us as if we were animals," she remembers. "Now we are people just like others." Eager to share the restorative impact of their new-found community, Amelie says, "Our savings group is all about people, and we invite others to join because our savings group is about restoring hearts."

Central to HOPE's holistic approach to poverty alleviation is our desire to see clients drawn out of isolation and into healing community. Our prayer is that men and women are drawn into deeper communion with their community, their local church, and ultimately, their Creator.

No matter where we live or what our income is, we're all familiar with feelings of loneliness. Discover the power of Christ-centered community to fight poverty and call us out of isolation into flourishing.

This is an adapted piece from the HOPE International blog.

Website: Learn more at blog.hopeinternational.org.

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About: The mission of HOPE International is to invest in the dreams of families in the world's underserved communities as we proclaim and live the Gospel. In obedience to Christ's command to love our neighbor and make disciples of all nations, HOPE provides discipleship opportunities, training, a safe place to save, and loans.