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PROMOTING THE USE OF INDIVIDUAL SAVINGS ACCOUNTS: THE CASE OF SAVERS ASSISTED BY THE SIERRA SUR DEVELOPMENT PROJECT*

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The Sierra Sur Development Project, hereafter referred to by its Spanish name, Sierra Sur, is a public investment project of the Peruvian government, mainly financed with resources from external debt and implemented by the Ministry of Agriculture through AgroRural. Sierra Sur receives technical and financial support from IFAD.¹ This brief paper describes the Sierra Sur Project's efforts to promote financial inclusion, and is based on information provided by the project.

The project's mission is to facilitate processes and initiatives that enhance human, natural, physical, financial and social activities, contributing to increased opportunities for gener-

ating income and improving living conditions for residents of Peru's southern highlands.²

Sierra Sur has three components:

- * Enhancing natural and productive resources.
- * Recognizing and valuing know-how and cultural assets of residents of the southern highlands.
- * Strengthening access to markets and developing local businesses, but also supporting rural financial intermedia-

1. International Fund for Agricultural Development (IFAD).

* The complete document is available at The Capital Project web page: http://proyectocapital.org/index.php?fp_verpub=true&idpub=115

2.Cf. Link: <www.sierrasur.gob.pe>.



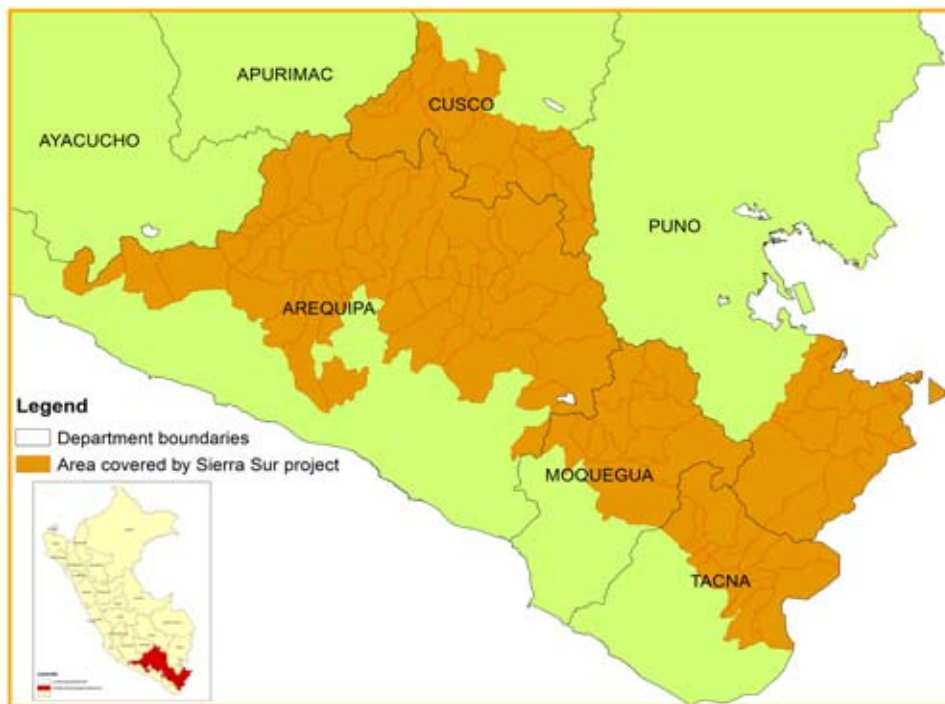
tion. This will be achieved by promoting financial inclusion through the use of savings accounts in the regulated financial system.³

The goal of these three components is to help small farmers and microentrepreneurs in the southern highlands increase and value their income, tangible assets, knowledge, social organization and self-esteem.

Who are these farmers and microentrepreneurs in the southern highlands? Based on the Poverty Map published by FONCODES⁴ in 2006, the area in which the project operates has 149.381 families and a total of

552.711 inhabitants, of whom 62,7 percent are in quintile 2 (extremely poor), 29,8 percent are (very poor), 6,6 percent are in quintile 3 (poor), 0,1 percent are in quintile 4 (moderate), and 0.8 percent are less poor.⁵

The families involved in the project live in 120 highland districts in 16 provinces of the departments of Arequipa, Cusco, Moquegua, Puno and Tacna. The six areas where the project operates are Chuquibamba, Chivay, Omate, Tarata, Ilave and Yauri, which cover an area of 73,514 square kilometers. Sierra Sur focuses on districts with higher poverty rates.



Source: Instituto Nacional de Estadística e Informática (INEI)⁶

3. In Peru, this consists of various types of entities: banks, financial institutions, municipal savings and loans, rural savings and loans, and EDPYMES, although the latter cannot capture savings from the public.

4. Cooperation Fund for Social Development (Fondo de Cooperación para el Desarrollo Social).

5. Cf. Link: <www.sierrasur.gob.pe>.

6. Cf. Link: <www.inei.gob.pe>.



This paper focuses on the financial inclusion component. The purpose of this component is to facilitate the inclusion of rural women in the regulated financial system,⁷ through the use of savings accounts. This “financial” component is based on the experience of the Puno-Cusco Corridor Project,⁸ from which the strategy and system of formation of groups, based on a simplified incentive model, is taken.⁹

PROMOTION OF SAVINGS IN SIERRA SUR

One of the causes of rural poverty is the lack of opportunities and access to various services, including financial services. The goal of the project’s financial component is to facilitate the use of financial products and services by traditionally excluded groups in these regions of the southern highlands. It particularly targets low-income rural women, as an affirmative action measure. Unlike most financial inclusion initiatives, this one encourages the inclusion of clients in the financial system through the use of savings accounts, or passive services (as opposed to the traditional approach, which uses credit).

The goal of the savings promotion component, therefore, is to enable people who traditionally have been excluded from access to the financial system not only to have access but also to use the financial system for various purposes. The goal is to help savers use their savings accounts to better manage their liquidity (to protect consumption, for exam-

ple) and promote safe models of savings and accumulation. The savers’ deposits are not only protected by the Deposit Insurance Fund (because they are in regulated institutions), but are also readily available.

The project’s target is to assist approximately 10,000 women in the project area in this process of financial inclusion through the use of individual savings accounts. Activities include promotion and dissemination of information, financial education, and a monetary subsidy as an incentive for saving.

a) Promotion of savings

- * Through informational meetings in the project area, the staff of the Sierra Sur Project and its financial facilitators promotes the formation of savings groups consisting of approximately 25 women (to minimize costs). These savings groups will be the basic organization for the savings program. In all cases, however, the savings will be individual, and each beneficiary will have her own savings account in a regulated financial institution. The savings group will act as a support group and as the place where women will receive training in financial matters.
- * Once a group of women decides to save and forms a savings group, it receives training (provided by the project’s financial facilitator) about the financial system, savings accounts, legal mechanisms for protecting savings in Peru, how financial institutions work, and the “incentives” offered to savers by the Sierra Sur Project.

7. Low-income rural women.

8. Another initiative of Peru’s public sector, with support from IFAD.

9. Like the Puno-Cusco Corridor Project, this is a modified version of Individual Development Accounts (IDAs) (Sherraden, USA).



Sierra Sur ID. DVD01-112

- * The project follows the women from each savings group on a guided tour, so they become familiar with the financial institution where they will open their accounts. After the visit, the women open their savings accounts by making an initial deposit.
- * Periodic meetings are also held with the savings groups to oversee the members' individual savings plans and for training or visits to the financial institution.
- * When the women open their savings accounts in the financial institution, they sign a contract with Sierra Sur in which the project agrees to provide the agreed-upon incentives (described below) and the savers agree to leave those incentive

payments in their accounts until the end of the contract period, 24 months after they open their accounts. Once the 24-month period ends, the savers may withdraw the entire amount of incentives received.

b) Incentives offered by the Sierra Sur Project

The Sierra Sur Project offers a series of monetary incentives to savers to motivate them and interest them in financial savings, and to support a process of capital accumulation for possible subsequent purchase of assets. There are four types of incentives, which are delivered during the period covered by the contract between the saver and the project:



- * An incentive for opening the account, equivalent to 100 percent of the initial deposit (up to S/. 100 per saver), which is automatically deposited in the saver's account once it is opened, but which can only be withdrawn after 24 months.
- * An incentive for maintaining a balance in the account. This incentive is delivered through a passive subsidized interest rate, currently 1,5 percent per month.¹⁰ The maximum amount that each saver can receive with this incentive is 164 soles in the 24 months during which they are involved in the project. If the ceiling is reached before 24 months are up, the saver begins to receive the regular market interest rate offered by the financial institution.
- * Self-Help Incentive, an additional monetary incentive received by women who establish a self-help group within their savings group and define and stick to a pre-determined savings plan. This incentive has a ceiling of S/. 80 over the 24 months, and is granted if all the women in the self-help group comply with their savings plans. The purpose of this incentive is to create mechanisms for collaboration among the savers in each savings group, foster savings discipline, and help the women increase their equity.
- * Incentives for investing in human capital, which reward the use of the women's savings for investment in human capital (health and education). When a saver

withdraws money for these purposes, the project provides a subsidy equivalent to 10 percent of the amount withdrawn, to a maximum of S/. 150 over the 24 months.

c) Formation of Self-Help Groups

Besides receiving incentives, the beneficiaries are members of Self-Help Groups, which motivates them to maintain a "relationship" with the financial system and to make an effort to save regularly.

The women savers form small groups, with an average of five members each, and propose a Savings Plan for each saver. The plans are individual, but also interrelated, allowing the women to commit to mutual support to ensure that they meet their savings goals.

The groups encourage solidarity, because if one saver fails to comply with her savings plan, the entire group loses the incentive for compliance with savings plans.

FINANCIAL PARTNERS¹²

The Sierra Sur Project collaborates with various financial institutions, depending on which ones operate in the various areas where the project is working.

Insofar as possible, therefore, the women savers are able to choose the institution in which they would like to open their savings accounts. The following table shows the number of savings accounts opened as of August 2008 in the various financial institutions with which the Sierra Sur Project works.

¹⁰. Above market rates, since the average rate is 1,4 percent annually (April 2009).

¹². *Ibíd.*

Area	Number of accounts	Financial institutions
Chivay	743	Caja Sur ¹³
Yauri	3567	CREDINKA ¹⁴
Omate	512	Caja Sur CRAC Los Andes CMAC Tacna
Ilave	2330	CRAC Los Andes ¹⁵
Tarata	123	CMAC Tacna ¹⁶ Caja Sur
Chuquibamba	638	Caja Sur
Total	7913	

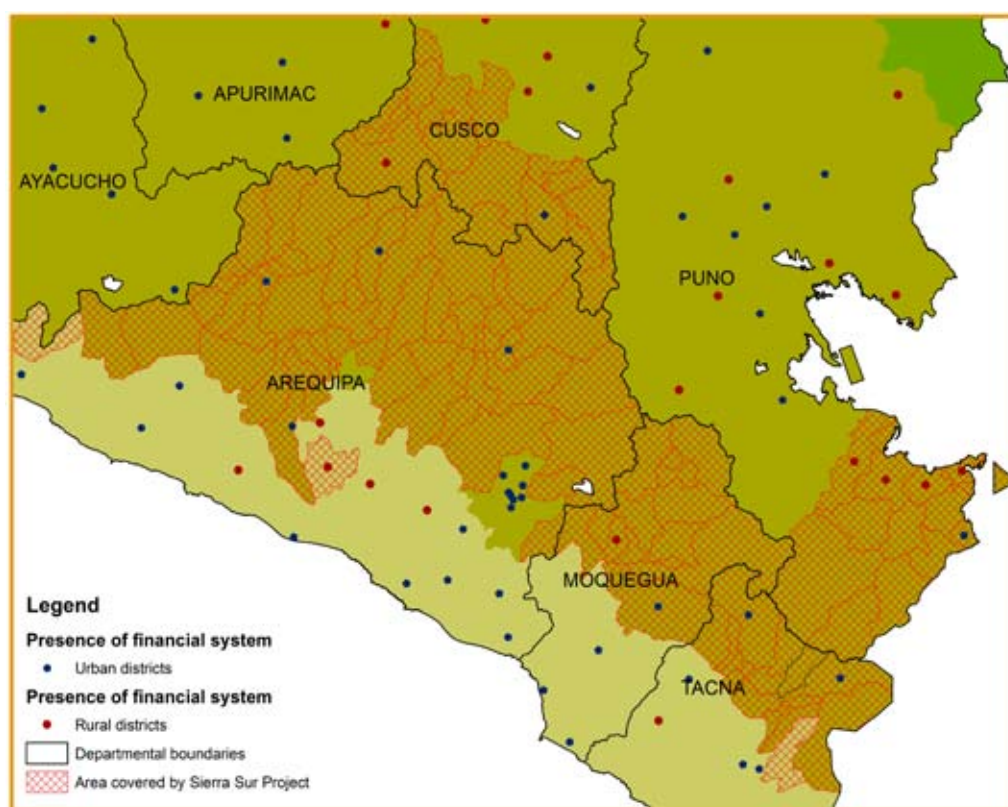
Source: Databases, Sierra Sur Project.

Compiled by: IEP.

Sierra Sur also works with the following institutions:

- * Caja Municipal de Ahorro y Crédito de Arequipa
- * Banco de Crédito del Perú (BCP).
- * Banco de la Nación (BN).

Collaboration with these three institutions involves the delivery of resources to organizations of producers and microentrepreneurs through fairs for technical assistance, natural resources management and knowledge management.



Source: INEI.

Compiled by: IEP.

13. Link: www.cajanorperu.com.pe/cs.php (the Office of the Superintendent of Banking and Insurance authorized Caja Nor to absorb Caja Sur. The merger of Caja Sur, Caja Nor Perú and EDPYME CREAR Tacna resulted in the formation of Caja Nuestra Gente).

14. Link: www.credinka.net.

15. Link: www.cajarurallosandes.com.

16. Link: www.cmactacna.com.pe.



OUTCOMES AS OF AUGUST 2008

As the following table shows, Sierra Sur currently works with approximately 8.000 savers organized in nearly 400 Savings Groups. These 8.000 accounts were opened with deposits exceeding US\$ 217.000 (in other

words, they were opened with an average of nearly US\$30 each).

As of the end of 2008, these 8.000 women had deposited a total of more than US\$ 650.000 in their accounts, in more than 58.000 deposit transactions.

CHARACTERISTICS OF SIERRA SUR PROJECT SAVINGS ACCOUNTS – BY YEAR, IN US DOLLARS (\$)

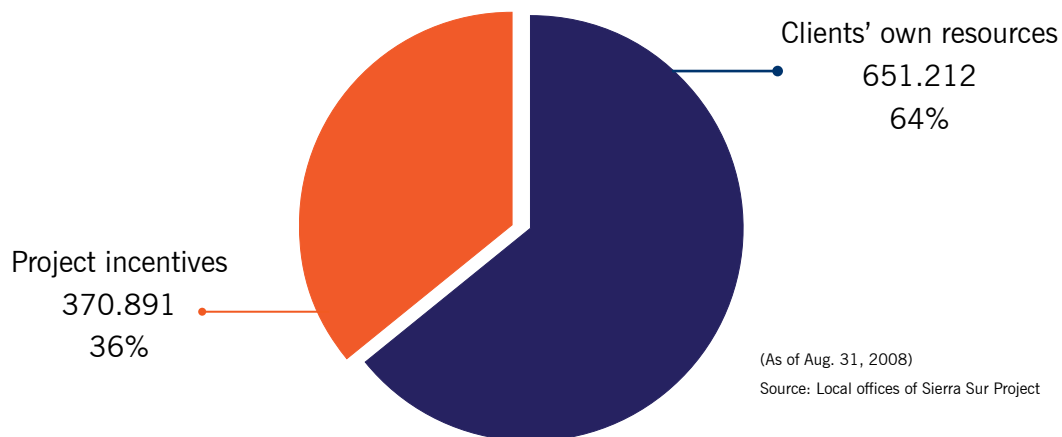
	2005	2006	2007	2008	Total	
Number of savings groups formed	3	35	259	90	387	
Number of accounts opened	52	787	5.248	1.826	7.913	
Number of savers per group	17	22	20	20	20	
Total account opening amount (\$)	1.407,5	20.147,6	132.515,5	63.465,6	217.536,3	
Average account opening amount (\$)	27,1	25,3	25,4	34,4	27,5	
Total amount of withdrawals (\$)	-	5,280	87.270	149.667	242.217	
Number of withdrawals	0	178	1.376	1.458	3.012	
Average withdrawal amount (amount/number)	0	30	63	103	80	
Total amount of deposits (\$)	1.407,5	43.063,5	297.028,4	309.712,3	651.211,7	
Total deposit amount without opening (\$)	-	13.187,7	95.079,5	107.777,56	216.044,8	
Number of deposits	52	4.281	21.809	32.310	58.452	
Average deposits (amount/number)	27	10	14	10	11	
Number of transactions (withdrawals and deposits)	52	4.459	23.186	33.768	61.464	
Incentives	Opening	1.386	20.117	131.277	62,492	215.272
	Growth	-	9.350	59.167	87.102	155.619
	Total	1.386	29.467	190.444	149.594	370.891

Source: Databases, Sierra Sur Project. (August 2008)

As the following graph shows, of the total deposits in these nearly 8,000 accounts, more than US\$ 1 million, 64 percent represents

savers' deposits and 36 percent is from complementary contributions (incentives) deposited by the project.

AMOUNTS MOBILIZED (DEPOSITS + INCENTIVES) US\$



IN CLOSING

Building on lessons learned from the Puno-Cusco Corridor Project (see In Short No. 3, “Corridor Project First Savers: Evidence from the first cohort of savers of a pilot project”¹⁷), the Sierra Sur Development Project (Sierra Sur) has implemented a component promoting the use of savings accounts by rural women as a strategy for financial inclusion and capitalization. The Sierra Sur model includes significant changes from the model used by the Corridor Project. First, it offers a scheme of incentives for using the savings accounts that represents a lower total amount, and which is delivered through a subsidized interest rate. This has two advantages: it is easier to manage (it is completely compatible with the financial institutions’ operations), and it is in line with a financial education model that familiarizes the savers with the concepts and calculation of interest rates. It also has at least two down sides, however. It is far higher than the market rate, which could create a distortion in the savers’ perception about the return on savings in the market, and therefore possible disenchantment once they leave the program and no longer receive the subsidized rate. In addition, while the rate is high (1,5 percent per month), because of the amounts rural women save, they note, “It is just a few cents.”

Second, this program also includes a shorter period of accompaniment and oversight. The Corridor Project began with 48-month contracts, which were later shortened to 36 months, while Sierra Sur uses a 24-month

model. This change should be evaluated at the end of the project, to determine whether the habit of saving is established in 24 months, and whether the time frame is sufficient for solidifying the savers’ relationship with the financial system. Third, the financial education program is shorter, and its outcomes should also be analyzed.

It is crucial to continue this process of modification and innovation in these models for promoting the use of savings accounts. We should arrive at an efficient model for promoting savings, identifying the minimum necessary cost (in incentives, financial education, time frame and supervision) to ensure that savers achieve the financial inclusion that is the goal of the programs. It is therefore important to continue studies and evaluations of each innovation in these models for promoting saving among low-income groups.

The Sierra Sur Project’s financial component also includes an aggressive campaign for a basic level of insurance for the working population. Thanks to a partnership with an insurance company, Sierra Sur is co-financing a micro life insurance model. We will discuss this component in the next In Short.

It is important to note that this type of “evolution” in programs that have had good results (such as the Corridor savings program) is key to moving from innovative processes to efficient practices that can then become models for public policies that can be applied to large sectors of the population. It is hoped that future initiatives lead to new developments in these types of components (and others, such as microinsurance), to move toward better

17. Link: <http://www.proyectocapital.org/facipub/upload/publicaciones/1/101/inshort_3.pdf>.



(more effective and less costly) models.

The experiences and testimonials of the women savers in the Sierra Sur Project can be seen and heard in a video that is avail-

able on the Capital Project's Web site: <http://www.proyectocapital.org/index.php?fp_verpub=true&idpub=91>.18

18. Other videos, photographs of the savers and all publications to date are available at the project Web site: <www.proyectocapital.org>.

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