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REPORT OF THE ECONOMIC AND SOCIAL COUNCIL

Results of the 1980 International Symposium on the Mobilization of Personal Savings in Developing Countries

Report of the Secretary-General

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I. BACKGROUND

1. The resolutions adopted by the General Assembly, the Economic and Social Council and the United Nations Conference on Trade and Development have frequently affirmed the desirability of attracting foreign capital to developing countries in fields and on terms that are politically acceptable as well as economically and socially beneficial. However, despite all efforts to increase the flow of foreign capital to developing countries, the current experience of these countries confirms the earlier experience of the developed countries in that the role of foreign capital, in whatever form, has been and will remain limited to supplementing domestic savings. Indeed, as the International Development Strategy for the Third United Nations Development Decade observes (para. 96), "external financial resources constitute an indispensable element of support for the developing countries' own efforts" and those countries "will continue to bear the main responsibility for financing their development and will adopt vigorous measures for a fuller mobilization of their domestic financial resources".

2. The International Development Strategy for the Third United Nations Development Decade thus echoes the International Development Strategy for the Second United Nations Development Decade, which stated in paragraph 41 that:

> "Developing countries must and do bear the main responsibility for financing their development ... Every effort will be made to mobilize private savings through financial institutions, thrift societies, post office savings banks and other savings schemes and through expansion of opportunities for saving for specific purposes such as education and housing. The available supply of savings will be channelled to investment projects in accordance with their development priorities".

3. Furthermore, the Committee on Review and Appraisal established to monitor the implementation of the International Development Strategy for the Second United Nations Development Decade recommended in the report of its second session that "developing countries should reinforce their efforts to raise their savings ratio" and that "appropriate financial institutions should be fostered to mobilize individual savings and to channel them to priority uses". 1/

4. The belief of the developing countries themselves in the feasibility and desirability of mobilizing personal savings in order to generate additional financial resources for development is frequently reflected in their development plans and policy statements. With a view to assisting them in converting that belief into practical action, and against the background of paragraph 41 of the International Development Strategy for the Second United Nations Development Decade, the United Nations Secretariat initiated in 1971 a programme of workshops aimed at providing a forum for an international exchange of experience concerning policies and techniques which have proved effective in mobilizing personal savings for development. The programme was financed out of funds provided by the Swedish

1/ _Official Records of the Economic and Social Council, Fifty-fifth Session, Supplement No. 11_ (E/5316), para. 40.

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International Development Authority and carried out with the technical co-operation of the International Savings Banks Institute and the Swedish Savings Banks Association. During the 1970s, four interregional workshops were organized, the first in Stockholm in August 1971, the second in Bangkok in August-September 1974, the third in Santa Marta, Colombia, in February 1976 and the fourth in Algiers in February 1978.

5. An Evaluation Committee composed of representatives of the Department of International Economic and Social Affairs of the United Nations Secretariat, the International Savings Banks Institute, the Swedish Savings Banks Association and the International Monetary Fund met in August 1978 in Stockholm to assess the results of the four workshops. The Committee considered that the success achieved in the past decade by developing countries in their efforts to mobilize a greater volume of personal savings and to improve the intermediation process linking personal savings and investment seem to indicate that it would be worthwhile for the international community to pursue action aimed at helping those countries to intensify their savings mobilization efforts and thus to increase their financial self-reliance. To that end, the Committee drew up a follow-up course of action which may be regarded as the second phase of the programme, the series of four workshops having constituted the first phase.

6. The second phase of the programme involves original research and studies encompassing areas of special relevance to the savings problems faced by developing countries and based as far as possible on information gathered from primary sources. The findings of the research form the basis for the formulation of suggestions relating to savings mobilization policies and techniques which are to be discussed and finalized at a series of high-level symposia attended by bankers, economists, officials of ministries of finance and representatives of international organizations. The findings of the research and studies, as finalized by the symposia, are intended to constitute a working tool for policy-makers and savings and credit officials in developing countries.

7. At the invitation of the Government of Jamaica, the first Symposium in the second phase of the programme was held in Kingston from 4 to 9 February 1980. 2/ A second symposium is scheduled to be held in an Asian country in the first half of 1982. Its central theme will be the mobilization of savings for the provision of credit facilities for small-scale agricultural, industrial and handicraft enterprises.

8. The present report concerns the results of the 1980 Symposium and is submitted to the Economic and Social Council pursuant to a decision taken by the Committee for Programme and Co-ordination at its twentieth session, whereby that Committee recommended that a "report on the results of the Symposium should be submitted to the Economic and Social Council and to the General Assembly". 3/

2/ The report of the Symposium (ST/ESA/110) will be issued as a United Nations sales publication.

3/ Official Records of the General Assembly, Thirty-fifth Session, Supplement No. 38 (A/35/38) para. 260.

II. CONCLUSIONS AND RECOMMENDATIONS OF THE 1980 INTERNATIONAL SYMPOSIUM ON THE MOBILIZATION OF PERSONAL SAVINGS IN DEVELOPING COUNTRIES

9. The Symposium observed that, if the hope of the developing countries for definite progress towards the establishment of a new international economic order is to be fulfilled and greater economic equity prevail, not only among the countries of the world but also within each country, the developing countries would have to attain a much higher level of capital accumulation. The Symposium emphasized in that connexion that, if theories of economic growth had a common denominator, it was the premise that capital accumulation was a major prerequisite for economic development and that saving, that is, abstention from current consumption, was an essential pre-condition for capital accumulation.

10. The Symposium noted that despite the unprecedented financial flows from developed to developing countries recorded since the Second World War, domestic savings had financed the bulk of investment in developing countries in that period. The Symposium also noted that the growth performance of the developing countries had on the whole remained relatively weak as a result of an inadequate level of capital accumulation and that any significant improvement in the growth prospects of many developing countries would require substantially increased foreign financing of their capital formation and additional efforts by the countries concerned to increase their aggregate savings and channel them to optimal uses. The Symposium further noted that, if the volume of savings were inadequate to meet investment requirements, either because of the low level of savings in general or because only a portion thereof became available for productive investment, directly or through financial intermediaries, major bottlenecks were likely to develop in the process of capital formation and the drive for development.

11. The Symposium felt a successful savings mobilization programme would require a mix of complementary government policies aimed at the optimization of the country's saving pattern and the most efficient allocation of savings to productive investment. Since the developing countries did not represent a group of homogeneous economies, there were no hard-and-fast rules and no general policies, the automatic application of which would mobilize maximum savings for development. Every country constituted a special case that needed to be examined on its own merits. Nevertheless the savings mobilization problems faced by developing countries had many common elements and hence there were a number of general policies which might be expected to give a significant impetus to the mobilization of savings if carefully formulated on the basis of a wide range of experience and expertise. It would be for each Government to adapt those general policies to the particular needs and conditions of its country. For example, before establishing a given type of savings mobilization institution, a Government had to consider whether it might fail to become self-sustaining because the necessary skills were lacking or because potential users undervalued its advantages. Furthermore, the previous lack of an adequate savings mobilization framework would have produced patterns of behaviour that constituted obstacles to change and whose removal might in many cases involve political and social as well as economic factors.

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12. The Symposium recommended that developing countries should continue in their efforts to stimulate both public and private saving as an essential ingredient in the development process.

13. The Symposium observed that a climate of confidence in the economic policies of the government is an important factor in saving behaviour. It was agreed that the forms of saving were as important as the aggregate level and that every effort should be made to foster the growth of those forms which were regarded as especially important for the development of a particular country. In that connexion, the Symposium emphasized the need within the context of the United Nations programme on the mobilization of personal savings in developing countries for further analysis of the optimal formation of savings, with special reference to the needs of rural areas. The findings of such analyses should be discussed at subsequent symposia and could provide the basis for the formulation of appropriate policies.

14. The Symposium strongly recommended that the funds accumulated under social security and similar schemes, pending their use to meet the scheme's obligations, should be channelled into productive investment so as to yield an adequate real return.

15. The Symposium agreed that it was not entirely clear how real interest rates affected aggregate savings and that their effect was likely to differ from country to country and from time to time. It recommended that further study of that question should be encouraged as a matter of urgency, given its practical importance.

16. The Symposium did consider that real interest rates significantly affected the structure of savings and recommended that interest rate policy be aimed at channelling savings into the most appropriate forms.

17. The Symposium recommended that Governments in developing countries use a number of incentives, such as tax and other means, to encourage personal saving, with particular emphasis on non-savers and small savers.

18. The Symposium recommended that attempts be made to stimulate the growth of contractual saving adapted to the real needs and possibilities of people. Such saving seemed to be at least in part complementary to other forms of saving.

19. The Symposium recognized that the precise effects of indexation on the propensity to save were difficult to determine. It suggested, however, that in some conditions of persistent inflation, some form of monetary adjustment, such as indexation, be considered. In any case, the Symposium also recommended that, when the savings of vulnerable groups of the population were seriously eroded by substantial inflation, consideration be given to special forms of protection. Further study on that subject was highly recommended.

20. The Symposium recognized that insufficient attention had been paid thus far to the encouragement of saving at the grass-roots level, and recommended that further attention should be given to that problem, including the optimal role to be

played by appropriately organized and managed co-operatives and other related institutions. In that context, it was noted that the proper co-ordination of such organizations with other related savings and/or credit institutions, including savings banks and development banks, were needed. It was further pointed out that co-ordination at the international level was also required.

21. The Symposium recognized the need for a better knowledge of saving behaviour, especially in developing countries. It recommended that steps should be taken to improve the available information and to develop new sources of information.

22. The Symposium, after discussing the various methods of adapting savings institutions and financial technology in the developing countries to the needs of each subsector of the economy, reached general agreement that savings institutions should have much greater autonomy in decision-making.

23. The Symposium, after considering the criteria for and implications of rapid expansion of banking facilities in rural areas, agreed that it would not be desirable to specify precise quantitative targets of branch expansion and that countries had to guard against uneconomic expansion of branches.

24. The Symposium felt that the following techniques and policies might be considered as a means of improving lending procedures:

(a) Reduction of emphasis on collateral requirements, development of available assets, such as crops, cattle, etc. ... as collateral through provision of agricultural insurance (crop insurance and livestock insurance), and above all an increased emphasis on evaluation of the viability of projects;

(b) Development of devices like the Rural Development Bank in the United Republic of Tanzania and the Credit Risks Insurance Schemes in India and Malaysia to encourage the granting of credit to small-scale and high-risk borrowers;

(c) Emphasis on the need to pay due regard to consumption credit in farm credit programmes, up to specified limits, for example, about one third of the credit sanctioned;

(d) Exploration of the feasibility of differential rates of interest in rural areas with a view to offering higher deposit rates and lower loan rates in such areas, for specified periods of time, as well as differential (that is, lower reserve) requirements for rural branches. It was, however, also recognized that the latter might complicate the operation of over-all monetary policy.

25. The Symposium, after discussing the problems involved in the setting up and functioning of the scope and limitations of the forward and future markets in primary commodities as a means of creating a favourable financial climate for rural savings and credit, observed that developing countries should seek to participate whenever feasible in such markets; they could do so in conjunction with other measures such as guarantee of purchase prices for primary producers, and more efficient marketing techniques.

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26. The Symposium also stressed the need to examine in depth the different linkages between savings, financial intermediation, and economic development in order to identify the significant transmission mechanisms between the real and financial sectors of the economy.

27. The Symposium noted that the Minister of Finance of Jamaica commended the idea of establishing an Advisory Committee on the Mobilization of Personal Savings under the auspices of the United Nations, in order to facilitate co-ordination of action and the exchange of ideas and information in that field. The Symposium considered that that idea had great merit and that the feasibility of establishing such a committee should be studied by the United Nations, the International Savings Banks Institute and the Swedish Savings Banks Association.
