

Applying Lessons from Women's Economic Behavior to Create MFI Savings Products for
Women's Committees

Amanda Nelson
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Introduction and Background

Along with lack of access to credit, lack of access to savings for the poor is considered a major barrier to economic development (Donnelly, 2). Credit services offered by microfinance organizations have assisted many poor women in improving their financial situation. However, many microfinance organizations lack formal savings products for the poor women they serve, specifically women's committees.

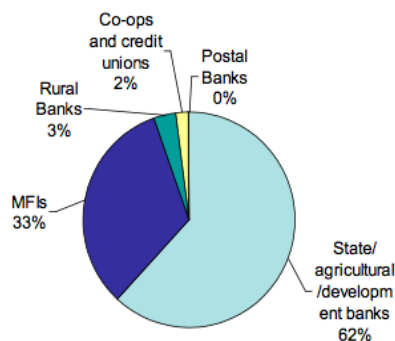
While spending the summer at Fundación Paraguaya, I was floored by the progress that the women were making through the use of their loans. But borrowing is typically riskier than saving, and reliance on loans can lead to over-indebtedness. A focus on debt rather than saving can contribute to a cycle of debt and poverty. While saving requires current sacrifice and delayed gratification, it offers increased flexibility. And while borrowers must pay interest, savers earn it (Vonderlack and Schreiner, 603).

Savings offers financial opportunities that credit cannot, and avoids some of the traps that over-reliance on credit falls into. Accumulated savings can buffer spikes in expected household expenses due to life events like childbirth, school fees, or religious events as well as unexpected expenses such as natural disasters or widowhood. These accumulated savings also gives the poor the capacity to take advantage of unexpected investment opportunities that may lead to increasing returns in the future (Vonderlack and Schreiner, 603). Fundación Paraguaya, like many other institutions, lacks significant savings products to balance their lending. Only by combining both the saving side with credit, can financial inclusion truly be reached.

There has been an ideological frame shift within the development world from microcredit to microfinance and now to financial inclusion that recognizes that savings

products, not just loans, are a key component to assisting the poor, particularly women. And while microfinance is typically targeting towards women, the design of products rarely

Active loans by Institution Type
100% = 150 million



Savings accounts by Institution Type
100% = 570 million

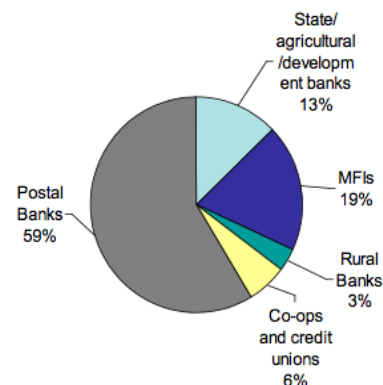


Figure I: Loans and Savings Accounts by Institution Type (Donnelly, 11)

addresses gender-specific aspects if the use of these financial services (602). In order to move forward towards financial inclusion, effective savings products that take into account women's economic behavior need to be implemented in the marketplace.

A Lack of Formal Savings Mechanisms

My experiences at Fundación Paraguaya reflected the lack of formal savings products for the poor among microfinance institutions. When savings products are offered, they are generally targeted towards more wealthy clients that can afford their own individual lines of credit. In a sample of 166 MFIs, only 27 offered savings (48 offered insurance, 35 offered other services). Among those 27, the only savings products offered were regular savings accounts, fixed term deposits, special purpose savings account and checking accounts (Calcut, Social Performance Blog). Very poor women, who can only save in very small increments, have very few formal options. As a result, these women rely heavily on informal savings mechanisms. While these informal mechanisms give women some options, they lack security and institutional support.

Do Women Save Differently?

Women, particularly poor women, think about money differently. Poor women face unique financial pressures – they are often the “managers” of their household and carry greater parenthood responsibilities. Understanding the “uniqueness” in the way women save can be used to create savings products specifically for women’s committees served by MFIs.

There are different societal pressures on men and women to save. In societies with an abundance of men, men tend to spend more and take on debt due to competition between males for mates (Griskevicius et al, 2). Men impress potential partners through spending money. Women, on the other hand, do not have the same societal pressures to spend. In fact, they tend to have pressures to save for education and family events that are considered a part of “running the home”.

Behavioral economics studies have shown that choices women make are less individually-oriented and more socially-oriented (Eckel and Grossman, 518). This corroborates evidence that suggests that women save more in a society that is female-biased (contains an abundance of females). Women are comfortable in a group context, and save more when influenced by social pressure. MFIs have already tapped into this “group” tendency by creating women’s committees.

Women, unlike their male counterparts, are comfortable with the long view. They prefer to focus on how spending and investing can support their life goals (Miller). Being the matriarch of a family, women’s concerns often include gifting and management of the assets. They're more end-result oriented, whereas, for example, men tend to be more concerned about issues such as rates of return and volatility (Miller).

However, despite women's role as "manager of the household" and all the responsibilities that go with it, cultural patriarchies and domestic violence that exist in developing countries make it difficult for women to maintain financial independence. While women may oversee household budget and purchases, many husbands jealously guard the family's cash and income. Women's savings face demands from children who need clothes or school fees, husbands who want to drink or gamble, and other family members who want gifts and loans (Vonderlack and Schreiner, 604). Family members, particularly husbands, who assert claims over a woman's money, leave the woman financially vulnerable and unable to accumulate meaningful savings.

It is crucial to create appropriate savings products for these women in order to help them achieve greater financial autonomy. MFIs typically choose to lend to women because evidence suggests that women spend their money on meaningful expenses like healthcare and education. By the same token, women should have savings products that are specifically targeted to them, and tap into their goals and unique economic behavior.

What Currently Exists in the Marketplace: Informal Savings Products

There is consistent evidence around the world that poor women make extensive use of informal savings mechanisms. This indicates that a desire to save and willingness to work hard to save does exist among poor women. The poor are already using several informal savings mechanisms such as door-to-door deposit collectors and Rotating Savings and Credit Associations to varying degrees of success (Vonderlack and Schreiner, 602).

The popularity of these kinds of informal savings mechanisms suggests that poor women prefer mechanisms with low transaction costs and assistance with deposit discipline (Vonderlack and Schreiner, 604). Transaction costs are the indirect costs to use

financial services, such as paying for transportation or childcare and the loss of time that could be spent working. For these poor women, the transaction costs are a crucial deciding factor in what kind of financial programs they will participate in. Mechanisms that reduce time spent and indirect costs are the most successful.

Because there are so many outside demands on the women's money, they also need assistance with deposit discipline. Having cash in hand is certainly the most convenient, but it is also the most vulnerable to family members or impulsive spending. Storing savings elsewhere, especially when combined with social pressures or formal requirements, can increase the amount saved.

Door-to-door deposit collectors

Deposit collectors visit customers daily to pick up a small, fixed amount. In Ghana, women make 30 small daily deposits during the month. At the end of the month, they receive the equivalent of 28 deposits back as a lump sum (Vonderlack and Schreiner, 604). The poor are willing to pay the deposit collector because they virtually eliminate transaction costs. The presence of the collector also gives them a social pressure to save, and storing their money with the collector with no easy access until the end of the month means they have a reason to turn down monetary requests from relatives.

Rotating Savings and Credit Associations

RoSCAs are small groups of individuals who already have existing social bonds that make fixed contributions to a group savings pot at certain intervals (typically monthly). At each interval, one member gets the whole pot. Like the door-to-door deposit collectors, this savings mechanism has low transaction costs (the members of the group have pre-existing social bonds and often meet regularly anyway or live near each other) and includes a social

pressure to save. Those who don't contribute are socially shamed and may be removed from the group (Vonderlack and Schreiner, 605).

Storing Value in Non-Financial Items

The poor often purchase non-financial items such as jewelry or livestock as a storage of value. These items can be quickly sold for cash if needed. Transaction costs are typically low, usually consisting of a one-time purchase of the high value item. The temptation to "withdraw" or quickly sell off the item is low because it may take time to find a buyer at a good price. However, these investments can depreciate or be stolen (especially if kept at home).

Lessons from Informal Savings Mechanisms

These informal mechanisms are extremely useful in helping poor women save, especially in environments that lack access to any formal mechanisms. However, these mechanisms cannot replace the advantages offered by formal savings – namely, greater safety, higher rates of return, and quicker access to funds. (Vonderlack and Schreiner, 605). These informal mechanisms have no institutional reinforcement. Deposit collectors may run off with their depositors money. RoSCAs have been shown to be vulnerable to embezzlement. Cattle or jewelry can be stolen by outsiders or even family members. In developed countries, most people choose formal savings products when available due to the increased security of their funds.

The poor desire a way to save so much that they are willing to pay for it, as shown through the use of deposit collectors. Formal savings would give them more attractive options with greater returns. Non-financial stores of value depreciate in most cases, so the savings has a declining value over time. Formal savings products provide a savings

mechanism that offers positive interest rates. Additionally, formal savings products offer easier access to funds. Deposit collectors only return funds at the end of the month, and RoSCA participants must wait their turn to receive the pot. In the meantime, they are completely on their own without access to their savings if there is an emergency.

Formal savings also has the potential to empower women to take control of their own finances. Formal services can assist women in accumulating savings secretly or at least without the influence of family members. This can strengthen their autonomy and position within the household, as well as provide a safety cushion in the case of widowhood or abandonment. Formal savings can also assist with savings discipline by creating terms by which the saver must abide or implementing “bonuses” or incentives to save. While it is difficult to target a group that relies heavily on informal savings, there is clear evidence that there is both a need and a desire for formal savings products among women in the developing world.

What Currently Exists in the Marketplace: Formal Savings Products

Conventional savings accounts that are common in the developing world are not appropriate for a developing world context. In Zimbabwe, many women choose to save in informal groups like RoSCAs, even when bank accounts are available, because these informal groups offer required discipline that is facilitated through social pressure and they can save in very small increments (Chamlee-Wright, 992). Successful formal savings products need to tap into and improve upon the qualities that make informal mechanisms popular.

Common Saving Products: Safe Deposit Boxes and Matched Savings Accounts

Safe deposit boxes and matched savings accounts are two of the most common formal savings products offered to women in the developing world. Safe deposit boxes allow women to keep physical goods and cash out of hand and yet still easily accessible. This reduces demand on funds from family members and keeps cash away from spouses who may spend it unwisely. However, cash stored in savings deposit boxes does not earn interest and the costs of maintaining physical safe deposit boxes may not be worth it to the bank or MFI serving the poor.

Matched savings accounts are one of the most popular and effective tools for savings currently employed in developing countries. Matched savings accounts offer a reward or bonus to clients who save a certain amount under guidelines outlined in the account. There may be a specific time-frame or goals that need to be met. Or the money may only be used for a specific purpose, such as school fees or a religious holiday (however this is difficult to enforce). Depending on their terms, matched savings accounts can help the poor set goals and use their savings wisely. They also have the ability to be tailored towards women's concerns, such as education, to make them more accessible to that particular demographic. Several types of matched savings accounts currently in place around the world are outlined below.

Innovative Formal Savings Products

Several enterprises in the developing world have developed innovative formal savings products that attempt to address the needs of poor women:

SafeSave Bangladesh – SafeSave has attempted to combine the formal with the informal by emulating the deposit collector model. Door-to-door collectors were hired to visit clients daily and either collect deposits or take requests for

withdrawals to be delivered. This model offers low transaction costs but does not assist with savings discipline or help women keep their finances private and away from husbands or family members (Vonderlack and Schreiner, 606).

Women's Savings Account by Guayacan Credit Union in Guatemala – Women's Savings Accounts are targeted to women who are saving for birthdays, holidays, and other family-oriented events. They choose an amount they wish to save each month and define a length of time during which they want to save. If they meet their goal, they receive interest on their savings (the interest is higher than other regular accounts). Guayacan also employs deposit collectors collect funds monthly (Ashraf et al, 16).

Om Sap Thawisin Savings Card Deposits by Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand – BAAC offers a lottery style savings card. Savings cards are purchased by clients, and when the card matures in three years, the client withdraws their savings with interest. While possessing the card, clients are entered into a lottery for a monetary bonus every three months. Winners are drawn based on the serial number of the card, so the more cards a person possesses, the higher chance they have of winning (Ashraf et al, 16).

SIMPEDES and SIMASKOT Accounts by Bank Rakyat Indonesia – Bank Rakyat's most popular savings accounts are known for their flexibility. Clients have unlimited withdrawals, no minimum balance, and earn a positive interest rate. Account holders participate in a lottery that holds a prize drawing twice a year (Ashraf et al, 16).

Education Savings Accounts by Bandesarollo Microempresas in Chile – The Education Savings Accounts give clients the opportunity to enact a long-term educational

savings plan for their children's school fees. The account has a maximum of six withdrawals per year and assists clients in mapping out a concrete savings plan (Ashraf et al, 16).

Each of these savings products is innovative and works to create savings solutions that target the needs of those at the bottom of the pyramid. However, there is little explicit focus on women, particularly those served by MFI women's committees.

Possible Application of Mobile Banking

The use of mobile phones is widespread throughout the developing world. Interestingly, many of the phone users in the developing world are without easy access to financial services (Donner and Tellez, 2008). It is estimated that there are actually more people with mobile phones than bank accounts across the developing world (Porteous, 2006). Many banks and social enterprises have attempted to harness this market opportunity by utilizing mobile banking to provide banking services to the poor and unbanked. Mobile banking is inherently more accessible and affordable because it only requires possession of a mobile phone and it eliminates the transaction costs associated with physically travelling to a bank. It also has the potential to allow women greater privacy, autonomy, and personal control over their finances. As long as the woman has her own phone and it is under her control, she can manage her own finances without interference. Mobile banking has the ability to address many of the obstacles that poor women face in terms of saving and should be explore further in the context of women's savings needs.

Lessons from Formal Savings Products

There are a wealth of savings products out there that seek to address the needs of the very poor. Many are beginning to harness lessons from successful informal mechanisms such as deposit-collectors and RoSCAs to tap into what works in a developing world context. It appears that the most successful savings products assist in deposit discipline, reduce transaction costs, and allow financial autonomy within a formalized structure with greater security.

Conclusion

It is abundantly clear that poor women want to save. It is the responsibility of the development community to help create an environment to assist them in saving to the best of their ability. In turn, this will hopefully help the women accumulate enough financial assets to improve their lives and the lives of their families.

In order to create the most effective savings products, institutions need to understand the needs of their market. The best products should take into account women's economic behavior and priorities, their social constraints, and the pre-existing informal products that have been successful. Informal savings mechanisms are a useful template because they demonstrate what these women are comfortable with. Of particular interest are the RoSCAs because they function in a group setting, a dynamic that MFIs already work with in their women's committees. However, RoSCAs don't necessarily help women accumulate savings for their future independently. This demonstrates that there is a place for many different kinds of savings products in the developing world that address different needs.

By the same token, MFIs are one tool in a bigger toolbox towards increasing financial inclusion. However, MFIs are very established throughout the world, already have

connections and relationships with rural women. Working with MFIs to incorporate well-tailored savings products represents a fruitful opportunity to take a step towards greater financial inclusion through savings.

While it is extremely important to create savings products that address poor women's needs and fit with their context, it is also essential to educate them on how to save and why saving is important. The most successful products should involve some form of education to change behaviors as well as offer services.

Finally, while this examining women's economic behavior in general and the social pressures on women in the developing world can give us some idea of what would be successful, the best tailored savings products can only be created after the economic behavior of women in developing countries has been studied more extensively.

Author's Note

I hope to extend this research into a further analysis of the intersection between the economic behavior of women (particularly in regards to saving) and how it can be harnessed towards effective savings products in my honors thesis. Because there is very little specific information on the economic behavior of women in developing countries, I may propose a possible economic experiment around these themes as a part of the thesis.

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