Matching Products with Preferences: Innovations in Commitment Savings for the Poor

Q&A Transcript

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Jason Wolfe: Thank you John and Jessica and Aishwarya and everybody else for sticking around. We went a little bit longer than we expected, but the material is just so darn good. So open the floor now for a few Q&A. I know some of you probably have to run away and get on with the rest of your lives today, but yeah. And please use the microphone and mention who you are and any affiliation.

Audience Member: I am Bob Vogel and I am the author of the *Savings Mobilization: The Forgotten Half of Rural Finance.* And it's very flattering to find that most of this really demonstrates what we found to be the most important thing, which was security, after that transactions costs, after that, way down was fees and interest rates and such. And that was only important – the thing was done in Peru in an inflationary period. And subsequent to that I would say that's, you know, not important.

And last and least, but not perhaps least, reciprocity. Because in recent work by Glenn Wesley the costs and benefits of offering savings accounts to small depositors, he finds that reciprocity is really very important from the point of profitability.

Also on the RSCA thing, there's a fellow named Fritz Bowman, who has been dead for a lot of years, but did a tremendous amount of important work on RSCAs in the '70s and '80s. And a lot of it was reported on it later on J.D. VonPiskey, and Dale Adams, and one of the things they talked about was the illiquidity principle, that people wanted to get rid of the money they had and that the RSCAs were scheduled precisely when people had inflows of money, so they could get rid of the money and be free of the claims of outsiders. Okay?

So just a few points. Now the thing that I've been working on most recently is trying to convince bankers and others to offer attractive accounts, and specifically commitments accounts. And everybody is hung up by time deposits, which to me is a terrible product. What I like are contractual savings. But the point that I come down to, it's very hard to convince bankers to offer in an attractive way these things. So I have a question for you guys, how much did you have to pay the institution to participate, you know, in the program? I think it's very important, because bankers just won't listen to blah blah blah – or at least my blah blah blah.

Jessica Goldberg: So this is Jessica and I'll answer the last part of that question, which is that we didn't pay anything. And I really think it's important actually to give Opportunity International and Opportunity Bank of Malawi a lot of credit, they've been involved in this research project and other research projects, and I can't overstate how much I respect the organization's commitment both kind of within Malawi and internationally to really innovating and trying new things and being open to not only trying new products, but also to the sort of rigorous evaluation that John and Aishwarya and I really believe in and the organizations we work with really believe in, you know, in really setting up studies that give us clear answers about do these things work.

Now the other piece of that is that it is actually in the bank's best interest to want to offer this kind of product, because a commitment savings account provides a more stable, more predictable deposit base for the financial institution than an ordinary deposit account. A commitment savings account, you know as the bank, once you have this money you know how it's going to stay there. And so if you are a bank with a commercial banking license and you're able to ______ the funds, one of the reasons that opportunity likes this is because it lets them have better information. If they know that this money that has landed in the account is going to stay there, they like it because they know that it's going to stay there. And so our experience was that we didn't have to pay for this.

We did provide – so we provided a lot of technical assistance in the form of helping with account opening and things that you might think of as marketing in a sense that we approach these potential clients, but we didn't make any payments directly to the organization. John?

John Robinson: Yeah, it's actually the same for us; the people were actually pretty – basically we didn't do anything other than just provide accounts as-is with the banks. And so they were really perfectly happy to participate, so we didn't – other than paying for the account-opening fee, they were very happy to participate in this study.

And then just about this other point, about the really interesting work about RSCAs and illiquidity issue, I think that there's actually another study by somebody at the University of Washington named Mary Kay Gugerty who found something very similar, which is that people actually wanted to pay out – it's related, but a little bit different, I think that people wanted to get their payout right after the harvest, because that would be a time in which people wouldn't be asking for the money, so the time when they wanted to get the money back was actually the time when they would kind of need the money the least, in which demands would be the least.

Aishwarya Ratan: Just to add something very quickly to that. So I think one of the – 'cause we work a lot on the operational side of this, which is to actually get these projects going, so we have a lot of conversations with partners. And of course, you know, some partners are not as willing, but my experience so far has been to distinguish between people who basically need to see evidence upfront that this might be a promising thing to try out, and this seems to be especially important for private sector people to say, you know, "What do you know so far and why is it going to be not-so-costly for me to try this new product." And so that's part of our mandate, to build that evidence and to convince them that this might be worthwhile for them to try.

But I think for the other kinds of people who are – and I think this is true for all development organizations, if we are motivated by the fact that we want to do good in the world then we have got to accept the truth of it. You know, critique the methods. Don't like, you know, accept the rigor of the methods for what they are and understand what's going on. But when we see results engage with the results, don't shy away. Don't close the door and say, "I don't want to accept that because that's been my vision for N years," because then we're not living up to what we've set out to do. And that kind of honesty is a personality trait and you can't convince everybody about that.

Jason Wolfe: Good. Meaghan.

Audience Member: Thanks a lot for the great presentation. My name is Meaghan Murphy; I'm with FHI 360. And my first question was just for John and if, John, you were looking at all at any of these savings initiatives, like designed or targeted towards health outcomes, if you looked at any or planned to that are linked to health delivery services at different levels.

And then the second question was just a quick one about if given some of the discussions about trust, if you were looking at all, Jessica, conducting kind of another year of the study that you did to see if peoples' putting only a little bit of money into that second account, was it all because they may not have trusted it? So thanks.

Jason Wolfe: John, do you want to go first?

Jonathan Robinson: Sure. No, thanks very much for the comment. We actually, we haven't really thought too much about doing savings for health delivery. Right now, so like at this point a lot of our work is actually trying to see if that first study generalizes to other contexts. So we're in the process of running that, very similar to the study in four countries together, so we can kind of see where we might think that it works and where it doesn't. And so far what we've actually found is in the two African sites, which are Malawi and Uganda, which work very similarly – very similar types of things to the ones we used in Kenya, that there seem to be pretty good take-up effects, but we don't have anything beyond that yet. Whereas a third site in Chile, in which it's much easier to get a bank account we find, while there are still pockets of people who are unbanked, those who choose not to have a bank account really don't benefit from one. So I think it would be really interesting to look at this health delivery issue, but right now we're kind of focusing more on seeing how this relates on like a worldwide scale.

Jessica Goldberg: And on the issue of trust, we're actually working in an interesting context where concerns about trust are probably lower than they would be in another context. So the farmers in our sample are all loan customers of the same organization. Oh, IBM has a commercial banking license in Malawi, so they take deposits as well as issue microloans. And these farmers all have microloans. Some of them are on their second or third cycle of microloans for the organization. So of course with lending it's the institution that bears the risk, and with savings to some extent it's the individual. And so they're already engaged in this relationship with the organization.

I would offer a different explanation, which is simply that by chance the year in which we ran the study was a terrible year for tobacco in Malawi, and so peoples' actual profits were much lower than their expected profits, and so the trigger levels that they set were too optimistic. And so what happened really is that people didn't reach the trigger levels, they didn't have as high profits as they anticipated, in part because the rains weren't good and part because the price of tobacco was substantially lower than it had been in previous years. And so I think the explanation is more on that side than the trust issue, although trust would be important in a different context, where the bank wasn't so known and particularly well-known among the population who had the accounts.

Jason Wolfe: Yeah, if I could-

Aishwarya Ratan: Can I just respond, please?

Jason Wolfe: Oh yeah, please. Sorry, Aishwarya.

Aishwarya Ratan: On your health delivery question, I think we have a couple of projects that we're just starting, especially on pregnancy-related savings account that directly link into the pregnancy payment. And we're testing variations and committed payments versus committed savings. So you should take a look.

Jason Wolfe: So a question from our virtual participants on the webinar that I'm going to try to formulate here because there's been some sort of active discussion here around this topic. So hopefully I formulate this well and capture everybody's interest. But both from a workshop of CRS folks that's going on in Nairobi that is collectively listening to this, as well as our colleague, Jeff Ashet at OXFAM, and also Laura from Freedom From Hunger, some interest in looking at, you know, with savings group, like RSCAs or like ASCAs or whatever, that, you know, that there is this illiquidity that is implicit in the model. And to what extent is that a form of commitment savings, and is that enough by itself? I mean I think there's just some general interest in, one, recognizing is that a valid form of commitment savings, and number two, is that enough? I mean obviously that's part of John and Pascalline's research, is into looking at that, but I'm curious from the experts here.

Jessica Goldberg: Sure. So certainly that is a form of illiquidity, right? That is a form. And a RSCA is a form of illiquidity, both in when you can access the money, but it's also a commitment to save. So if you join a RSCA then you have made a commitment to your community that you are going to put away money each week or each month, whatever the frequency of this is, and one reason for joining a RSCA is actually to bind yourself to this commitment to save.

There's some research, and maybe John will chime in with the authors, because I've forgotten, that shows that women might want to join a RSCA if there is disagreement within the household and, for example, women want to save more than men. It could be vice-versa; empirically it tends to be women who want to save a bit more than men. And so if you sign up for the RSCA then you have to save, you have to follow through on this commitment. And so it's a way of having one discussion that resolves – that commits your household to a savings path for the future course of the RSCA. So yes, absolutely it's a form of commitment, it's a form of illiquidity. Whether or not it's enough really depends on the specific problems, the issues that the individual is trying to address, and also the difference between the community versus individual level dynamics. So a RSCA, only one person can withdraw at a time and one person has to withdraw each time. So if your RSCA meets every month then only one person gets the pot each month, and also one person must got the pot each month. It's not possible for everyone to get the pot right before the planting season, when everyone wants to buy fertilizer.

So if the demand for commitment is likely to be correlated, if the timing of these things is likely to be correlated, then this rotating type of a mechanism is potentially not as flexible or as effective as something that happens through an institution, like a bank, where people can, if they all want to choose the same release date or similar release dates they can do that. But John probably has more-

Jason Wolfe: Or like an ASCA, which is a similar feature.

Jessica Goldberg: Yeah, agreed.

Jason Wolfe: John, do you want to chime in with any observations?

Jonathan Robinson: Sure. Yeah. No, I think that's it. I think these are really interesting points. There are two pretty famous studies about RSCAs that look at those two issues. So there's one by Shivan Anderson and John Rebalan, which is in the Nairobi slums, which look at, you know, why is it that, as Jessica said, women are much more likely to be in RSCAs in those areas than men, and their argument is that it's a commitment mechanism, but it's a commitment against the spouse. So their argument is that once you join a RSCA, you know, which seems to inherently be true, it's very unlikely that people miss a payment or drop out of the RSCA once the cycle has started, because these are your friends and so forth, that it's a way of committing the household to save for something that maybe the female – the wife prefers than the husband. So that's one study.

And then the other study is from the author I mentioned a little bit ago, Mary Kay Gugerty at the University of Washington. So she has some – it's a little bit more I guess qualitative in nature, but her work, interviewing RSCA participants she does find a lot of evidence for people saying that they do it to kind of bind their hands, it's a way of overcoming a timing consistency problem interpersonally rather than intrapersonally. But on the other hand, just, you know, about this general issue is that I think the project we did with RSCA suggested that while they do a lot of great things, it also seems to be that products that we kind of introduced to them, they were really taken up quite readily, so things are not anything to be forced upon people. It's very clear that they could do it if they wanted to or not. But just the fact that people really responded well to this idea about trying to set up maybe a side health savings account in the RSCA or to set up this health pod in addition suggests that there probably is some scope for thinking about, you know, providing additional services through these mechanisms.

And I think as Jessica was saying, there are some rules I which a RSCA is going to be difficult to really help in terms of, for instance, the timing of payouts for input usage. So I think it might really be a role for trying to kind of integrate these with a more formal financial sector.

Aishwarya Ratan: Just to respond to that very quickly, I think two things which may be additional. Our first to think about what part of commitment is actually a reminder, and that's something we're trying to distinguish as well. So to say that the weekly meeting that you attend, how much of it is that to tie your hands and commit yourself, or how much of that is just to remind you that, "Oh, I have to go to a meeting where I have to save"? And that's the same principle as the label savings account, right? It's more a reminder to yourself that you will follow through psychologically.

And the other thing is to think about timelines of products. It may be that in the initial stages you need something a little harsh to overcome some of these self-restraint, whatever – self-control issues. But over time you can imagine a situation where you've reminded yourself enough that it becomes a habit, and then you don't need the reminder so much. Then you're on autopilot and you keep saving and you don't need to go to a weekly meeting.

Audience Member: Hi. I had a question. You know, I think we all agree that there's a lot of good reasons for people to save, and in theory the argument is pretty clear. But I can't keep from thinking about the reality on the ground. So for example, Malawi, they've just gone through, what, a huge devaluation? If people have their money tied up in a commitment savings account I think the lessons they would learn from that exercise would set savings back, you know, for years. So, one, I want to know whether you're still doing the experiment in Malawi. Two, I want to know if – in Malawi of course, too, the whole thing for farmers is around buying fertilizer, which is a very specific case. So have you done any experiments where you look at the case of people purchasing fertilizer at harvest time and saving it until the next harvest, and to see whether the returns from purchasing fertilizer are actually better than the returns to putting the money into a commitment savings account?

Jessica Goldberg: Sure. So briefly, for everybody who isn't up on what's going on in Malawi, Malawi for a long time had a fixed exchange rate, which was most recently about 167 kwacha to the dollar. And about a week-and-a-half ago the exchange rate was allowed to float and went immediately to about 250 kwacha to the dollar. So we're talking about a 40-percent devaluation, which took it in line with what had been the black market rates. And so absolutely, I mean people who had any – now it's not just if you had a commitment savings account really; this happened overnight, it was unanticipated. If you were holding kwacha at home, you know, you were also affected by this devaluation.

Now certainly when things like this happen it makes people more suspicious of banks. If people now want to go and take money out of a commitment account and they were prevented from doing that, it's entirely possible that that would have an effect on how these things are perceived. We did not have any commitment savings accounts in place at the time that the devaluation took place. We just – we had actually just run a baseline for another project, and we will continue to look at commitment savings accounts, because they don't increase your exposure to an unexpected devaluation. But we share this, you know, this concern that the big and unexpected changes that happen in developing countries can lead to legitimate suspicion or weariness about using a whole range of different financial products.

And the second question about fertilizer I'm actually going to pass over to John for reasons that you'll see in a second. Yeah, John? John, _____ _____ fertilizer.

John Robinson: Sorry. Yeah. Actually just about the previous point, I mean really, you know, to the extent that people were expecting some sort of devaluation, we actually had a project ongoing in Malawi which is a savings project, doesn't have a ______ feature, so in fact right now I guess what we're expecting is that people are going to take all the money out of the bank right now. You could actually imagine that really, since there's no real commitment there, you can imagine it actually having some positive impact. And if people feel like they need to purchase food items, for example, to hoard for the next few months if they're worried about price fluctuations and so forth. So actually we're monitoring that pretty closely; it will be interesting to see what happens.

But I think in general to the extent that people expect these sorts of, you know, we're aware that there's a possibility that these sorts of big, macroeconomic shocks, it really is very similar to the health study, which was basically that people didn't want to tie up their money because they knew it wasn't devaluation they were worried about, but they were just worried about household sickness.

And so the second question was about fertilizer. So in previous work we had basically done a similar study to what Jessica described in Kenya in which we – it was more informal than what she had described. It was one in which we just visited people right at the time of harvest and allowed them to invest their harvest income and give us, you know, give us some of their money in exchange for a voucher for fertilizer. And that – people really took that up quite readily. So I think it would be really interesting to do this stuff with other products as well, but I think that that at least generalizes, I think to other African contexts.

Jessica Goldberg; And one more thing on the advanced purchase of fertilizer, which is that purchasing the fertilizer in advance rather than saving to purchase fertilizer helps you hedge a little bit against price risk. And so in Malawi the price of fertilizer predictably increases the closer you get to the planting season. And so if you can buy it in advance then you're buying it at a better price. So there is an advantage there; it's not always available in advance. It's a landlocked country, everything is imported.

There's also some issues about storability and some issues about once you've bought it are you really committing to use it or not. So you can sell fertilizer. And so one thing about buying it right before harvest, or as in John's study, receiving it right before harvest, you pay in advance but you receive it right before planting, then it goes in your field and you're less likely to sell it off. But it's another form – it's a stronger form of commitment in the sense that it commits you not just to a date at which you're going to use this money, but also to what you're going to use the money for. But it does have this flip side of the other advantage of addressing the price risk.

Audience Member: But additionally I think the returns on the savings at OIBM aren't that great either, compared-

Jessica Goldberg: No, definitely not.

Aishwarya Ratan: So the one thing to respond to that is so one of the things I think we know very little about is the comparative returns on various kinds of assets generally in developing countries. So savings account versus house investment versus cow versus goat versus something else, and that's data that we're trying to compile. We have a project on livestock cost and returns we're doing in India, which is going to give us an excellent, I think, set of data on why people invest in cows and whether they should and which kind of cows and over what timeframe.

John Robinson: Yeah, sorry about that ______. There is a ton of evidence that the return to capital in developing countries is really high. That's like one of the big puzzles as to why, you know, every study is finding, including our fertilizer work in Kenya is finding returns on the order of like, you know, 50 or 80-percent per year to investing in fertilizer. So it's just all part of like one big puzzle as to like why these credit interventions are not working so well, why anyone would put their money into a savings account when they could invest it in fertilizer instead, etc.

Jessica Goldberg: Right. Although a piece of that is that there is a time of year when the return to actually using fertilizer is zero. Right? So when you can't plant it. And so the commitment accounts typically span the time of year when the return to the advanced purchase would have to do just with getting a better price, not with anything that you could be using the fertilizer for during the period where otherwise you just have money in the bank.

Dasha: Thank you so much. We will be finishing up, but please stay and speak to the presenters after; they will be here for a little while. I would like to thank the 70 people who joined us online today, for their questions and for their attention. And, John, thank you for joining us today as well.

So this presentation will be available in a few days, and Aishwarya has agreed to write the guest blog as well, so that will be something that we will link and post on the events page, so please take a look at that.

The next seminar here will be on June 14th with AZMJ, Karena, and also with Inter American Development Bank, and we will also discuss attracting private investments to agribusiness. If you are interested to learn more about savings, we have a three-day online discussion that will start on June 5th on Microlinks, and it will focus on overview of formal savings mechanism. So that will be mostly formal. And we have facilitators from CGAP, New America Foundation, Global Asset Project, Grameen Foundation. We will also have participants from SEEP USAID. So it's a very good group. We have a very interesting agenda; it's already posted. So if you are interested, please speak to me, you can join the group at this point already and we will start on June 5th. Thank you so much.

Jason Wolfe: And, Dasha, if participants from today have questions down the road that occur to them later or after going and looking at some of the papers, are they able to ask those questions on Microlinks and we'll get some answers?

Dasha: Yes. We have – sure, sure. Comments. We have the option for you to leave your comments if you have any questions later on, and I will let the presenters know that there is. Thank you very much.

John Robinson: Thanks, everyone.

Jessica Goldberg: Thank you.

[Applause]

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