

Savings and the Poor: A Review of Savings Products Offered by Microfinance Institutions

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Abstract

There is ample evidence indicating that the poor want to save, so much so that they are willing to pay for it. Several microfinance institutions have taken lessons from the informal savings products that exist in the developing world in order to create formal products that can reliably serve the needs of the poor and allow them to accumulate positive savings. This paper presents a global taxonomy of formal and informal savings products serving the poor. Formal savings products can be ordered into five broad categories that encompass twelve discrete savings products. This paper describes and analyzes five categories of savings products: savings accounts, group savings, door-to-door deposit collectors, bonds, and in-kind group savings. The most popular and successful formal savings products draw upon what has proven popular in the informal sector. However, despite the popularity of the innovative formal savings products that currently exist in the marketplace, many MFIs still do not offer savings products for their clients. For example, Peru is consistently rated as the best environment for microfinance but Peruvian MFIs offer relatively few savings products. Peru offers a significant opportunity for further research into the behavioral, conceptual, and institutional barriers to savings product adoption, as well as fertile ground for randomized controlled trials on the comparative effectiveness of different savings products.

INTRODUCTION

Saving products have been called the “forgotten half of microfinance” (“What is microfinance?”, 2013). While microcredit has been touted as a successful tool in the fight for poverty alleviation, it has been suggested that microcredit alone is not sufficient to make a major sustainable difference in the lives of the poor (Hollis & Sweetman, 1998, p. 1888). One potential avenue for a more holistic approach to poverty alleviation is the inclusion of savings products in the product mix of the microfinance institutions (MFIs) that serve the very poor. Savings products allow the poor to accumulate assets, not just debt. This accumulated savings can then be used to smooth consumption in times of strife without taking on more debt. Savings can also be accumulated for a specific purpose, such as schooling or medical expenses. The move towards savings products for the poor has surged in popularity in recent years. In January 2010, the Bill and Melinda Gates foundation pledged grants worth \$38 million to 18 MFIs across Latin America, Africa, and South Asia to encourage them to expand their savings products (“Savings and the poor: a better mattress,” 2010).

There is ample evidence that the poor want to save. Many informal savings products currently exist in the marketplace, and in many cases the poor actually pay to save in these informal capacities. According to microfinance consulting firm MicroSave, “It is generally believed that the informal market, whatever its scale, cannot offer a wide scope of financial services” (“Savings—An Essential Service for the Poor,” 2010, p. 22). Savings products offered by MFIs are an improvement over informal mechanisms because they allow the poor to store their savings in a safer, more structured manner often supplemented with

financial bonuses and educational components. Additionally, many MFI savings products allow the poor to accumulate interest rather than paying to save.

Drawing on lessons from informal savings products, several MFIs around the world have begun to innovate formal savings products to address the desire to save among the poor. These products can be ordered into five broad categories: savings accounts, group savings, door-to-door deposit collectors, bonds, and in-kind group savings. MFIs that offer these products have seen them met with great enthusiasm from their clients. But despite the popularity of innovative savings products among the poor, relatively few MFIs include savings as a part of their product mix. In one sample of 166 MFIs, only 27 offered savings (Calcut, 2010). MFIs should look to successful savings products, formal and informal, that currently exist in the marketplace to understand what kinds of products appeal to the poor. Savings is a necessary component in the move towards financial inclusion, and the current first movers in the marketplace are paving the way for greater savings product innovation in the future.

SAVINGS AND THE POOR

Along with lack of access to credit, lack of access to savings for the poor is considered a major barrier to economic development (Donnelly, 2008, p. 2). Credit services offered by microfinance organizations have assisted many poor women in improving their financial situation. However, in order to approach true financial inclusion for the poor, MFIs need to incorporate savings products into their product mix.

Borrowing is typically riskier than saving for the client because it can cause debt accumulation. An over-reliance on loans can lead to a cycle of indebtedness that is difficult for the poor to escape. 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 & Schreiner, 2002, p. 603).

Savings products offer financial opportunities that credit cannot, and avoids some of the traps that over-reliance on credit falls into. Accumulated savings can smooth 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 give the poor the capacity to take advantage of unexpected investment opportunities that may lead to increasing returns in the future (Vonderlack & Schreiner, 2002, p. 603). True financial inclusion can only be reached by combining both savings and credit for a holistic approach to financial health. Additionally, a 2010 study indicated that MFIs that offer microsavings are more financially sustainable than those who do not (Bergsma, 2011, p. 15). The same study indicated that there is no significant evidence that MFIs that do offer savings abandon their poorest clients (Bergsma, 2011, p. 15). Savings has the potential to benefit the MFI as well as the client.

There has been a 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.

The Poor Want to Save

According to Stuart Rutherford, author of *The Poor and their Money*, “even the poorest households [in a study in Bangladesh] had some means, however fragile, of storing some cash against future needs” (“Poor Peoples’ Savings: Q&As with Experts,” 2006, p. 3).

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 & Schreiner, 2002, p. 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 & Schreiner, 2002, p. 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 need assistance with deposit discipline. Having cash in hand is certainly 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.

INFORMAL SAVINGS PRODUCTS

Group Savings

The most common informal group savings method in the developing world is Rotating Savings and Credit Associations, or RoSCAs, are small informal groups of individuals who 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 (Allen and Panetta, 2010, p. 2). 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 & Schreiner, 2002, p. 605).

This savings method is very popular, particularly in Africa because it is "simple, transparent, easy to manage, accessible, and tailored to the financial realities of the members" (Allen & Panetta, 2010, p. 2). However, RoSCAs and other informal group savings mechanisms have drawbacks. RoSCAs are typically a viable option only for people who have a steady source of income. Additionally, "money is often not available when needed or in the amount needed" (Allen & Panetta, 2010, p. 2). The "books" are often kept via memorization and cash deposits are stored in locked boxes, leaving the deposits vulnerable to theft as well as inadvertent or intentional accounting errors on the part of the RoSCA leaders.

Despite the drawbacks, RoSCAs are very popular and provide an excellent foundation for introducing formalized group savings mechanisms.

In-Kind Savings

The poor often purchase non-financial items such as jewelry or livestock as a store 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 either by strangers or relatives (especially if kept at home). Additionally, while in-kind savings can act as a store of value, it does not lend itself to accumulation of savings.

Door-to-Door Deposit Collectors

Deposit collectors visit customers daily to pick up a small, fixed amount of cash that they hold onto and then redistribute at the end of the month. 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 & Schreiner, 2002, p. 604). The poor are willing to pay the deposit collector for their service 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.

The success of door-to-door deposit collectors demonstrate how far the poor are willing to go to save, particularly if the savings is made as convenient as possible. However, the deposit collectors do not assist in savings accumulation precisely because they charge for holding the money. The poor would be better off in a formal scheme where they *earned* interest as opposed to paying to save.

Lessons from Informal Savings Mechanisms

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Because there are so many outside demands on the women's money, they need assistance with deposit discipline. Having cash in hand is certainly 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. These informal mechanisms are structured to address these requirements, and successful formal mechanisms need to take these needs into account as well.

While 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 & Schreiner, 2002, p. 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 in developing countries deserve that option.

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. Addressing this desire through MFIs that already serve these poor women will help give them access to the tools and knowledge for greater financial health and inclusion.

Why Do the Poor Rely on Informal Savings?

It was estimated in 2007 that over 133 million people worldwide had been served by microfinance (Donnelly, 2008, p. iii). However, a “credit-led approach [as opposed to a savings-led approach] is used to serve 97% of customers and receives 98% of public donor funding” (Donnelly, 2008, p. iii). 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, 2008). When savings products are offered, they are generally targeted towards more wealthy clients that can afford their own individual lines of credit. Very poor women, who can only save in very small increments, have few formal

options. As a result, these women rely heavily on informal savings mechanisms. While informal mechanisms give women some options, they lack security and institutional support.

Conventional savings accounts that are common in the developing world are not appropriate for a developing world context because the poor can only save in small increments. 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, 2002, p. 992). There is a serious market failure that has not yet been seriously addressed.

Successful formal savings products need to tap into and improve upon the qualities that make informal mechanisms popular. While there has not been a concerted effort in the field of microfinance to include savings products as a major feature of their product mix, many individual MFIs have introduced innovative savings products in an attempt to address the market failure.

FORMAL SAVINGS PRODUCTS

While the movement towards savings-led microfinance is a relatively new phenomenon, several MFIs are leading the way in offering innovating savings products for the poor. These savings products can be organized into a “taxonomy” based on their features (Appendix A).

Individual Savings Accounts

The most obvious savings product to offer to the poor is a basic savings account. Savings accounts allow the poor to deposit in small increments and then withdraw the case

when necessary. MFIs have implemented a variety of types of savings accounts with different terms in order to encourage savings among the poor.

Regular Savings Accounts

The most basic type of savings account is a regular account. These accounts basically act as a repository for cash in order to keep the poor from spending it immediately. Most accounts require regular deposits, often at a fixed rate, in order to keep savings flowing in. Some accumulate interest and some do not, depending on the MFI. Unfortunately, depending on how savings are collected and the terms of the account, it may not be worth it for many of the poor to open an account. If they need make deposits at the MFI office, they may be deterred by the transaction costs of the journey. Additionally, some accounts put limits on withdrawals. The poor value liquidity, and the more difficult it is to access their savings, the less likely they are to commit to it.

One popular savings account is the Super Savings account offered by Banco Santander in Chile. Serving around 90,000 clients, the Super Savings accounts are targeted specifically towards microentrepreneurs and salaried employees. Monthly deductions are automatically taken from the client's credit card or checking account and placed in the Super Saver account (Ashraf et al., 2003, p. 20). While these kinds of accounts are wildly successful in Chile's urban areas, this kind of account would never work for poor female MFI clients that are members of solidarity groups because it requires an existing checking account.

Another example of successful savings accounts targeted more towards the very poor is the SIMPEDES and SIMASKOT accounts offered by Bank Rakyat in Indonesia. Bank Rakyat has been touted as one of the largest and most successful microfinance institutions

in the world (Patten et al., 2001, p. 1057). 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. This liquidity and flexibility is a major factor in the bank's success. The bank also offers another special feature: account holders participate in a lottery that holds a prize drawing twice a year (Ashraf et al., 2003, p. 18). Bank Rakyat has been lauded as a leader in micro-savings—they were able to accumulate “close to 3 billion in voluntary savings through 16.1 million savings accounts in the late 1990s” (Ashraf et al., 2003, p. 18).

Tailored Savings Accounts

Tailored savings accounts are savings accounts with terms that allow withdrawals only for specific pre-agreed upon purposes, namely education, financing microenterprises, or other major family events. This allows the poor to set specific goals, as well as ensures the money ultimately goes to something that will benefit the family, particularly health, education, housing, etc. The drawback of this type of savings account is that it is relatively illiquid. However, tailored savings accounts, particularly those geared towards women, have seen great success around the world.

Women's Savings Accounts offered by the Guayacan Credit Union in Guatemala are targeted to women who are saving for birthdays, holidays, and other family-oriented events. The women 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, giving them incentive to agree to the restrictions. Guayacan also employs deposit collectors collect funds monthly in order to lower transaction costs and encourage savings (Ashraf et al., 2003, p. 16).

The Education Savings Accounts, offered by Bandesarrollo Microempresas in Chile, 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., 2003, p. 21). These kinds of restrictions are excellent for devoting resources towards a specific goal, like education, but many of the poor may be apprehensive to commit to restrictions in case they may need the savings for unexpected expenses.

Matched Savings Accounts

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. Usually, "the participant's savings are matched according to a predetermined goal and ratio, with a cap on the total amount of matched funds" (Zimmerman & Banerjee, 2009, p. 1). There may also be a specific time-frame or goals that need to be met. Often the money may only be used for a specific purpose (a tailored savings account), such as school fees or a religious holiday (however, this can be difficult for the MFI to enforce). Depending on their terms, matched savings accounts can help the poor set goals and use their savings wisely. The goal of these accounts is tackling poverty by "offering an incentive to build personal assets" (Zimmerman & Banerjee, 2009, p. 1). They also have the ability to be tailored towards women's concerns, such as education, to make them more accessible to that particular demographic.

A major drawback of matched savings accounts is that they can never truly be financially self-sustaining. They will always rely on outside donations or government

support in order to match the funds. Additionally, many matched savings accounts are only for first-time savers and only last a limited amount of time.

One of the largest and most successful matched savings programs is MatchSavings.org in Mexico. MatchSavings.org collected donations in order to “match the deposits in a savings account of someone who [had] never before saved in a formal financial institution” (Zimmerman & Banerjee, 2009, p. 4). The participants had to identify specific goals, such as expanding a microenterprise, education, or paying medical bills. Participants then had to make regular monthly deposits of a set amount for six months and save a total of 900 pesos. Only once they saved the required amount, they received a maximum match of 900 pesos. The matches were given in-kind and in cash. After the first year, all but 2 of the 120 participants in the pilot completed their six-month savings goal. After the pilot phase, another 120 were entered into the program. During this second phase, only in-kind matches were provided; cash matches were discontinued (Zimmerman & Banerjee, 2009, p. 4-5).

Another successful matched savings program was the SEED program in Uganda. Accounts were held in children’s names and matched at a 2:1 ratio up to a maximum of \$60. The savings then had to go to the child’s education. At the end program, evaluations indicated that an average of \$76 was saved over the course of the year, and the number of children planning to continue their schooling increased by eleven percentage points (Zimmerman & Banerjee, 2009, p. 10).

Group Savings

Formalized groups savings works in a very similar way to the informal Rotating Savings and Credit associations mentioned previously. As seen in a CARE project in Niger,

in the most basic form of formalized savings groups, “women met weekly, everyone saved the same amount, one-month loans were approved by the members, and all of the group’s money was shared out equally at the end of an agreed-upon cycle...timed to coincide with a period in the year when there was a predictable need for cash” (Allen & Panetta, 2010, p. 7). Partner organization such as CARE typically offer training and education, improved record keeping, and greater security to savings groups that could not be achieved in an informal environment. The group savings model is appealing because it is very similar to existing informal mechanisms, and it leverages the solidarity group model that already exists in microfinance.

Group savings takes two main forms: mandatory/compulsory and voluntary. Compulsory savings generally acts as collateral for loans, and thus does not actually improve women’s financial situation. Fortunately, MFIs have evolved to more voluntary savings that allow more flexibility for clients.

Mandatory/Compulsory Savings

Many MFIs have a compulsory “savings” requirement. In Bangladesh in particular, the birthplace of microfinance, most MFIs (including Grameen) started with compulsory savings programs. These MFIs typically required weekly deposits of between two and ten takas (three to thirteen cents) into the group savings fund as a precondition for receiving credit (Dowla & Alamgir, 2003, p. 973). Sometimes the women’s committees themselves were able to determine the per-person savings rate. However, a major drawback of these compulsory savings programs was that clients could not withdraw their savings unless they were leaving the organization permanently.

The majority of Bangladeshi MFIs, including Grameen, viewed the savings as cash collateral for loans as well as a cash source for giving out more loans. The compulsory savings requirements were largely for the benefit of the MFI, rather than actually improving savings among the clients. In return, clients almost universally disliked this compulsory savings and viewed it as simply part of the cost of the credit, rather than an opportunity to build for the future (Wright, 1999, p. 4).

Some MFIs, like Proshika, allowed clients to withdraw for medical treatment or emergencies. Clients could borrow from the group savings fund with the approval of the group for a purpose that was acceptable to the group as a whole (Dowla & Alamgir, 2003, p. 974). However, the withdrawal from the group savings was considered a loan that had to be repaid rather than a use of accumulated savings. While clients were fine with making regular small deposits (as this was already a common practice in RoSCAs), they were generally dissatisfied with the “locked-in” aspect of compulsory savings. According to a report on Bangladeshi MFIs by the Consultative Group to Assist the Poorest (CGAP),

In years up to 1996, Grameen and BRAC members became increasingly vocal about their dissatisfaction with the denial of access to their savings, and many mature members were leaving the Organizations in order to realize their (often substantial) compulsory savings. By the end of 1995, there was a widespread strike among Grameen Bank members in Tangail District in support of demands for access to their locked-in "Group Funds", generated through compulsory savings. The financial consequences of this strike were profound. According to an unpublished Grameen Bank internal report (1996), in Tangail District there were nearly 60,000 general loanees with repayments more than 25 weeks overdue, and the cumulative un-repaid amount had climbed to over Tk82 million or US\$2 million. In 1995, Khan and Chowdhury noted that nearly 57% of membership discontinuation in BRAC's program is attributed to the lack of access to group savings during emergencies. (Wright, 1999, p. 5)

In response, BRAC introduced open-access savings accounts and saw an immediate improvement in customer satisfaction.

Flexible Savings

As the microfinance industry in Bangladesh matured, more flexible savings products began to be offered. Flexible savings were often collected in the same way as compulsory savings, but allowed for unlimited deposits as well as withdrawals as necessary. The poor were finally able to leverage their savings for their own benefit.

The MFIs still required compulsory savings as a requirement to receive credit in order to establish collateral, but they began to realize that there was a demand for real savings products amongst their customers. Flexible savings were particularly important because “flexible savings are in line with the realities faced by the poor” and allow them to smooth consumption (Dowla & Alamgir 977). Additionally, flexible savings made sense for the MFIs as they “are gradually shifting towards commercial sources of fund to become more sustainable. The mobilization of savings from the public—similar to that of commercial banks, positions those (MFIs) at that level. This approach probably makes them more sustainable in terms of cost of funds and type of funds” (Dowla & Alamgir, 2003, p. 977).

Bangladeshi MFIs like BURO and ASA were first movers in deciding to allow unlimited savings as well as offering interest on savings (Dowla & Alamgir, 2003, p. 980). Evidence from BURO and ASA also indicated that “when members are allowed to withdraw their savings at will they continue to save” (Dowla & Alamgir , 2003, p.985). Bangladeshi MFIs found that their customers took advantage of and benefited from formal opportunities to save with the MFI as long as they were able to access their savings when they needed it (Wright 4).

Door-to-Door Deposit Collectors

Door-to-door deposit collectors employed by MFIs are another example of MFIs utilizing existing informal mechanisms. Formal deposit collectors are more advantageous than informal collectors because the poor do not have to pay extra for the convenience; it is merely part of the MFIs service. This model is particularly appealing because it offers low transaction costs for the depositor. Additionally, most deposit collectors collect on a regular basis (weekly or monthly), giving the client a regular incentive to save. SafeSave Bangladesh is a Bangladeshi MFI that employs door-to-door collectors to visit clients daily and either collect deposits or take requests for withdrawals to be delivered. SafeSave has found that “daily deposit collection provides discipline without the obligation and compulsion that goes with the established fixed installment model” (Ashraf et al., 2003, p. 17). Deposit collectors are often a feature of various types of savings accounts. Both the Guayacan Credit Union in Guatemala mentioned previously and the SANASA Credit Cooperative in Sri Lanka use deposit collectors to allow clients to deposit in their accounts (Ashraf et al., 2003, p. 16-17).

Bonds and Savings Cards

Some particularly innovative MFIs have begun to offer bonds or savings cards to their clients. Clients essentially make a “deposit” by purchasing the card. They hold on to the savings card for a specified period of time until it matures and then redeem it for their initial deposit plus interest earned.

The Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand offers a lottery style savings card called Om Sap Thawisin Savings Card. Savings cards that function like bonds 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., 2003, p. 16).

In-Kind Group Savings

Monetary savings is preferable in the movement towards greater financial inclusion because monetary savings can be applied to expenditures that improve quality of life such as health and education. However, commodity and in-kind savings can be useful to establish food security systems as well as provide access to surplus seed that can be used in times of distress. The National Bank for Agriculture and Rural Development (NABARD) in Bangladesh uses group grain banks “for saving the grains during the harvesting seasons and using them to meet their consumption requirements during the lean/dry periods” (Mukherjee, p. 11-12). Group livestock banks allow the group to tend to livestock together and share the output. Commodity savings are significant routes to saving for the extremely poor, who may possess little to no cash and use livestock as their preferred currency (Mukherjee, p. 14).

Special Feature: Entering Clients in a Lottery

An interesting special feature that is used in several types of formal savings products is entering clients in a regular lottery. This chance to win cash motivates clients to maintain savings as well as gives them an incentive to regularly engage with the MFI when the lotteries are drawn. Lotteries have been used as a feature of bonds such as the previously mentioned Om Sap Thawisin Savings Card Deposits by BAAC in Thailand as well as savings accounts such as SIMPEDES and SIMASKOT Accounts by Bank Rakyat Indonesia (Ashraf et al., 2003, p. 16).

Lessons from Formal Savings Products

The majority of formal savings products offered by MFIs draw upon features that exist among informal products. Group savings and door-to-door deposit collectors are very successful because MFI clients already understand how they work, and place stock in the social aspect of those products. Social pressures can be a very useful incentive for savings.

Matched savings accounts are some of the most popular products because they offer a tangible reward for meeting savings goals. Many of these matched savings accounts are also tailored for specific uses, which means they directly go towards positive outcomes like education. However, matched savings accounts are ultimately not sustainable because they rely on outside donations to fulfill the match. Additionally, many accounts are only matched for a certain limited period of time, and when the incentive is gone, people may struggle to save.

Overall, formal savings products have proved very popular when implemented by MFIs. Different formal products address slightly different needs, and a wide variety of savings products are necessary to truly address the financial needs of the poor, depending on their level of poverty and their savings goals. While it is disappointing that many MFIs have been slow to offer savings, there is a great opportunity in the market to pilot new and innovative products, as well as test the efficacy and efficiency of various products currently in the marketplace.

IMPLICATIONS FOR FURTHER RESEARCH

Given the diversity and popularity of innovative savings products that are currently in the marketplace, what is preventing more MFIs from offering them? Given the lessons

from this taxonomy of savings products, future research should investigate obstacles to and opportunities for the use of innovative MFI savings products in the marketplace.

Peru in particular offers a great opportunity to test MFI savings products. The Economist Intelligence Unit has ranked Peru as having the best environment for microfinance based on its regulatory practices and supporting institutional framework for the past five years ("Global Microscope 2012: Microfinance responds to call for responsible finance," 2012). However, of 23 Peruvian MFIs surveyed by the Microfinance Information Exchange in 2012, only 6 reported deposits (Appendix B). Peru would be an ideal location for further investigation into MFI savings products because it would be possible to initiate a comparative trial of the outcomes of different types of savings products among similar groups of MFI clients. A deeper investigation into the microfinance climate in Peru could also offer insight to the behavioral, conceptual, and institutional limitations that exist as barriers to savings product adoption among MFIs.

One promising methodology for investigating the effectiveness of different savings products would be to conduct a randomized control trial between three randomly selected Peruvian villages with similar characteristics served by the same MFI. One village would serve as the control and would not have any savings products (as per the status quo). In the two other villages, the MFI would then implement two different savings products. Data would be taken before the implementation of the products, at regular intervals during the trial period (probably one year), and at the end of the trial period to collect longitudinal data to show the effect of the savings products on the financial health of the households. This kind of experiment could serve to both investigate the benefit of formal savings products, as well as compare different kind of products.

CONCLUSION

The advent of microcredit has made a huge impact on the developing world, but focusing solely on loans is not a viable strategy for sustainable poverty alleviation. One potential avenue for a more holistic approach to poverty alleviation is the inclusion of savings products in the product mix of the microfinance institutions that serve the very poor. Savings products allow the poor to accumulate assets, as opposed to focusing on debt. There is significant evidence that the poor want to save, so much so that they will pay for it. This desire to save has resulted in several popular informal savings mechanisms in the developing world. Several MFIs have drawn on lessons from these informal savings products to create a variety of formal savings products to serve the needs of the poor. These formal savings products can be ordered into five broad categories that encompass twelve discrete savings products. The five categories include savings accounts, group savings, door-to-door deposit collectors, bonds, and in-kind group savings. However, despite the popularity and success of these formal products, the majority of MFIs have been reluctant to aggressively pursue savings as a critical component of their product mix. Of note is the fact that relatively few MFIs in Peru offer savings products, despite the country's consistent ranking as the best environment for microfinance. Peru offers a significant opportunity for further research into the behavioral, conceptual, and institutional barriers to savings product adoption, as well as fertile ground for randomized controlled trials on the comparative effectiveness of different savings products.

economy of Savings Products for the Poor in Developing Countries

			Regular Savings Accounts
			Tailored Savings Accounts
		Individual Savings Accounts	
			Matched Savings Accounts
			Mandatory Savings
		Group Savings	
			Flexible Savings
		Door-to-Door Deposit Collectors	
	Formal Savings Products		
		Bonds	
		In-kind Group Savings	
Products for the			
		Special Feature: entering clients into a lottery	
		Group Savings	
	Informal Savings Products		
		Individual In-kind savings	
		Door-to-door deposit collectors	

Deposits and Loans of Peruvian MFIs in 2012 (USD)

Nelson, 23

me	Average deposit balance per depositor	Average loan balance per borrower	Borrowings	Deposits
ndahuaylas			357,564	
PER			2,702,739	
tiva			1,167,655	
anzas			1,627,284	
		222		
ion Arariwa			7,059,060	
requipa	1,714	4,112	95,560,138	899,401,641
cusco	1,860	5,829	16,785,478	381,597,771
huancayo	1,767	2,722	37,268,327	350,496,122
ca	3,104	3,330	14,922,562	272,560,641
ullana	2,033	3,931	40,961,468	455,932,095
			9,044	5,245,452
quira				
rofinanzas	7,405	3,239	4,337,823	89,906,859
OSPO			2,172,445	
PER			2,559,494	
SURCO			22,228,534	
RAU			943,532	
a Ramos			2,848,985	
			2,250,110	
			3,095,807	
er - PER			24,461,300	

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