Prompting Microfinance Borrowers to Save in Guatemala

Researchers:

Jesse Atkinson

Alain de Janvry

Craig McIntosh

Elisabeth Sadoulet

Sector(s): Finance

Location: Guatemala

Sample: 1,375 microfinance clients of 20 Crédito Hipotecario Nacional (CHN) branches

Target group: Adults

Outcome of interest: Savings/deposits

Intervention type: Nudges and reminders Savings

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Partner organization(s): BASIS Research Program on Poverty, Inequality and Development, Crédito Hipotecario Nacional (CHN), United States Agency for International Development (USAID)

Savings can help families cope with sickness, injuries, or other economic shocks and allow households to make investments in income-generating assets. However, few commercial lending institutions offer products that help low-income families save more regularly. Researchers partnered with the largest public bank in Guatemala to measure the impact of light-touch financial products, such as reminders and suggested 'default' savings contribution levels, on the savings behavior of microfinance borrowers. Clients who were prompted to save through default contribution requirements and monthly reminders made more deposits and accumulated greater savings than clients who only had access to a basic savings account.

Policy issue

Savings can help families cope with sickness, injuries, or other economic shocks and allow households to make investments in income-generating assets. Even though many low-income households may want to save more, they often find it difficult to save regularly. While individuals in developed countries have access to a number of financial instruments that help them overcome behavioral barriers such as self-control and procrastination, few commercial lending institutions in developing countries offer such products to encourage saving. Existing evidence from developing countries has shown that commitment savings products that either restrict or heavily penalize withdrawals are effective at increasing savings. However, there is limited evidence on the efficacy of subtler interventions like information, reminders, and nudges. This study seeks to understand the impact of light-touch, scalable financial products on savings rates for microfinance borrowers in Guatemala.

Context of the evaluation

Guatemala is the most populous country in Central America. More than half of all Guatemalans live under the country' s official poverty line and roughly 13 percent live on less than US$1.25 per day.[1] The microfinance sector in Guatemala had been expanding rapidly until the onset of the global financial crisis in September 2008. Crdito Hipotecario Nacional (CHN) is the largest public bank in Guatemala offering a range of services such as mortgage credit, business loans, insurance, and microcredit. Approximately 14 percent of their portfolio is comprised of microloans of US$3,125 or less. The terms of these loans range from one to three years and clients are required to make monthly payments. At the time of this study, 85 percent of microloans were made for small business use and about 10 percent for housing repair, improvement, or financing.

Guatemalan quetzal. Photo: Shutterstock.com

Francisca de Iruarrizaga

Details of the intervention

Researchers partnered with CHN to estimate the effects of offering different savings plans on the likelihood that microcredit borrowers would open a savings account and make deposits into that account.

Twenty CHN branches, serving a total of 1,375 microcredit borrowers, were randomly assigned to one of two treatment groups or a comparison group, which received only the basic savings offer. Branches in the two treatment groups offered clients additional encouragement to save:

- *Basic Savings Group*: Clients were offered a basic savings account with a 4 percent interest rate. They did not receive any reminders and they did not have a default contribution option.
- *Reminders Group*: In addition to the basic savings account, borrowers were given the opportunity to select an amount to save each month and were reminded to save that amount by the cashier when making their monthly loan payments.

There were no penalties for deciding not to save.

- *Default Contribution Group*: In addition to the basic savings account, borrowers were told that, unless they explicitly indicated otherwise, they would be prompted to make a deposit equal to 10 percent of their monthly loan payment each month. Borrowers could opt-out of the default savings contribution, or select another level of savings.

Researchers used administrative data to monitor the savings behavior of each group of clients over the course of a three year period.

Results and policy lessons

Clients who were assigned to the default contribution arm, and to a lesser extent those clients who received reminders, made many more deposits and accumulated much greater amounts of savings than clients who only had access to the basic savings account.

Impact on number of savings accounts: Clients prompted to make the default contribution of 10 percent were much more likely to open a savings account. Over three-quarters of these clients opened savings accounts, compared to only about 40 percent of clients in the other groups.

Impact on frequency of deposits: While clients who received only the basic savings plan (with no reminders or commitments to save) made 0.78 deposits over the course of three years, those who received reminders or were assigned to the default 10 percent contribution made three and seven times more deposits, respectively, over the same time period. This suggests that simple reminders to save can increase the number of deposits microfinance clients make; as can having a financial institution propose a particular amount.

Impact on savings balances: After three years, clients who received reminders accumulated savings of US$16 on average, four times that of those with basic savings accounts. Those able to make default contributions saved an average of US$26, over six times the amount saved by clients with basic accounts only. These results suggest that widespread implementation of the default contribution product could substantially increase the amount saved by microfinance clients.

These results suggest a win-win' situation for banks and microfinance clients. By proposing a monthly contribution amount and providing clients with regular reminders to save, banks could increase both the number of savings accounts opened and the amount of savings accumulated. The specific contribution amount may make it easier for clients to decide on an amount to save, perhaps because they view the amount as being recommended by the bank.

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1. https://www.cia.gov/library/publications/the-world-factbook/geos/gt.html