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Finding the Right Knot for Each Odysseus: Innovations in Commitment Savings

SUBMITTED BY [MICROLINKS TEAM](#) ON MON, MAY 21, 2012 11:58 | [COMMENTS \(2\)](#)

This blog post was written by Aishwarya Ratan of Innovations for Poverty Action and Yale University who recently presented at After Hours Seminar #61, "Matching Products with Preferences: Innovations in Commitment Savings for the Poor." It was co-authored by Bobbi Gray of Freedom From Hunger and Alex Kobishyn of Innovations for Poverty Action.



Most people, regardless of age or socioeconomic status, find achieving financial goals for themselves and their families challenging and often don't save as much as they'd like. The consequences of sub-optimal saving can be grim, but they are particularly severe for the world's poor and financially excluded. In the absence of savings, the poor are often forced to resort to far more costly alternatives to finance their goals, like high-interest debt. Therefore, finding innovative

ways to help the poor save more is a policy imperative and was the subject of a lively and interesting seminar presented by USAID Microlinks on May 16 in Washington, DC. The seminar discussed results from several research projects that used randomized controlled trials to evaluate savings product innovations for the poor in Kenya, Malawi, and elsewhere. It featured an introduction from Aishwarya Ratan (Yale University), presentations from Professor Jessica Goldberg (University of Maryland) and Professor Jonathan Robinson (University of California at Santa Cruz), and moderated by USAID's Jason Wolfe.

The innovations at the heart of the studies were fairly simple – a savings lockbox where users do or do not have the key, a passbook account label, such as “daughter’s wedding” or “school fees,” or a withdrawal-restricted account until a pre-specified date or an amount was reached. These features are examples of commitment devices, or ways to help overcome competition from short-term demands on an individual’s long-term preferences (e.g. retirement savings). Competing demands could come in the form of expectant social networks or even an individual’s own impatience and lack of self-control. The literature likens commitment devices to the Greek hero Odysseus, who, in advance of hearing the Siren’s beautiful but deadly song, had himself tied tightly to his ship’s mast to avoid certain death.

The projects presented by Jessica and Jonathan revealed a positive, but complex impact story behind commitment savings products. In the case of the Malawi study, which focused on tobacco farmers, a commitment savings account along with an ordinary savings account led not just to higher savings balances but also to increased investment in agricultural production and higher profits for farmers. In the case of the Kenya study on healthcare savings, a “less rigid” commitment device, in the form of a safe box where the key resides

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with the ROSCA, achieves better impact in terms of savings accumulated to fund health expenses compared to a “more rigid” lock box, where the key was inaccessible to the group. This study highlighted a variety of commitment devices including the use of one’s peer group as a commitment-inducing and enforcing support structure.

The challenge now is to identify in which context, for whom, when, and what type of commitment savings and/or payment product might work best. This will require extensive iterative research of new designs and rigorous replications of promising products, such as the ones tested in Malawi for agricultural savings and in Kenya for healthcare savings. The researchers have yet to pin down a definitive explanation of the mechanisms behind the effectiveness of various commitment products, such as whether evidence of savings was due to “tying of the hands” or “mental accounting.” The seminar was successful in discussing the encouraging findings revealed so far and in identifying new research needed to unearth additional compelling, robust, welfare-enhancing results that can then guide policy and practice moving forward.

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During the question and answer period of the presentations, we slightly touched on the incentives for financial providers to provide commitment savings products. However, could the researchers talk more about what data, whether quantitative or qualitative, that suggests that these products have a positive financial return to the financial provider? We can assume positive benefits to the financial provider if we assume improved take-up of a product results in improved client growth rates, improved client savings balances, particularly if these savings are used for on-lending. However, do we have any data to suggest that this is actually true, particularly if savings balances are low and the transactions are frequent (resulting in more costs to the financial provider)? When Freedom from Hunger worked with RCPB in Burkina Faso, RCPB had a health savings account that was linked to a health loan product. The client had to save for 6 months or reach a minimum savings balance before they could withdraw the money for health and medical purposes (to pull out money required health-relevant documentation). By the end of three years in operation, RCPB held nearly \$55,000 in health savings on deposit across 12,099 accounts (about \$4.50 per account). Because RCPB already had processes in place to support individual savings accounts, the direct costs of offering a commitment savings product were marginal, and it was estimated that by the third year of operations, the health savings accounts would break even. However, when it came to show that these were profitable, it was difficult because RCPB wasn’t necessarily on-lending the health savings and if they were, this would have resulted in a break-even and even profitable scenario much earlier. Can the researchers or others talk about more examples or evidence of

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