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Monday, May 31, 2010

MICROFINANCE PAPER WRAP-UP: Savings Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya, by Pascaline Dupas and Jonathan Robinson

» Posted by Conner Brannen in Category: Africa at 12:03 am

By Pascaline Dupas and Jonathan Robinson, published by the National Bureau of Economic Research (NBER), March 23, 2009, 48 pages, available at: http://ideas.repec.org/p/nbr/nberwo/14693.html

Ms Dupas and Mr Robinson conduct a field experiment to examine whether savings constraints prevent the self-employed from increasing the size of their businesses. In order to test their hypotheses, the authors opened interest-free savings accounts for a random selection of low-income earners in rural Kenya. Although the bank charged substantial withdrawal fees, take-up and usage was high among women. Furthermore, the savings accounts had substantial, positive impacts on their productive investment levels and expenditures. The results suggest that a significant proportion of daily income earners face important savings constraints and have a demand for formal saving devices.

The authors propose that there are strong theoretical and empirical foundations for the importance of savings. First, standard economic theory suggests that individuals should be able to save their way out of credit constraints, even though building up such savings takes longer than getting credit up-front. Furthermore, many individuals face significant savings constraints: theft, approbation by the spouse or other relatives and present-biased preferences (i.e. they are tempted to spend any cash they hold). These constraints are often so

great that many individuals are willing to pay a premium to be able to save securely. Consistent with these observations, recent research suggests the existence of a significant demand for formal savings mechanisms and a substantial positive impact from the provision of these services. For example, Don Johnston and Jonathan Morduch (2007) demonstrate that approximately 90 percent of Bank Rakyat Indonesia clients save but do not borrow. Joseph Kaboski and Robert Townsend (2005) find a significant impact of savings accounts on long-term asset growth in Thailand.

This paper examines the importance of savings constraints using a random selection of market vendors, bicycle taxi drivers, hawkers, barbers and artisans in Kenya. The savings accounts were interest-free and included substantial withdrawal fees, so the de facto interest rate on deposits was negative (even before accounting for inflation). The demand for such an account should be zero in the absence of savings constraints, and getting access to such an account should have no effect on users? investment and expenditure levels. To test this hypothesis, the authors examined a dataset collected from 185 self-reported, daily logbooks kept by individuals in both the treatment and the control group (i.e. those with and without access to a savings account).

The analysis produced three main findings:

1. Access to formal savings accounts had substantial positive impacts on business investment for women, but no effect for men. This suggests that women face large, negative returns on the money they save informally.

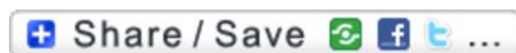
2. Access to a savings account had a positive impact on the daily expenditure levels of women, which suggests that the higher investment levels led to higher income levels.

3. Accounts had some effect in making women less vulnerable to illness shocks. While women in the control group were forced to draw down working capital in response to health shocks, women with a savings account were less likely to reduce business investment levels and were better able to smooth labor supply during times of illness. They were also more likely to be able to afford medical expenses for more serious illness episodes.

The paper presents two possible explanations for why the return on private savings is negative for so many women. One possibility is that women have present-biased preferences. Alternatively, many women face demands on their income from relatives or neighbors, and it may be difficult to refuse requests for money if it is available in the house. Ms Dupas and Mr Robinson find evidence that both factors may be at work. They find that women in the treatment group (i.e. those with a savings account) spend less of their current profits on consumption and transfer less of their profits outside of the household, which suggests that they are both less likely to spend on immediate consumption and better able to protect their income from others.

Overall, the results of the study suggest that the informal savings mechanisms that are available in rural Kenya are ineffective in allowing many women to save as much as they would like.

By Conner Brannen, Research Assistant



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