

ABSTRACT

The Impact of Commitment Mechanisms on Savings for the Poor

by

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Savings mobilization is a critical issue in developing countries. Many informal mechanisms, such as ROSCAs, exist to facilitate savings, and many microfinance institutions now include a savings component in their products. The evidence suggests that when poorer individuals are given a safe, accessible, appropriate mechanism for savings, the amounts they manage to save are surprisingly high (Robinson, 2001).

While savings needs may differ, most individuals face a common problem: the temptation to put off savings until tomorrow, rather than saving today. While there is a great deal of anecdotal and circumstantial evidence that psychological barriers to commitment impede savings, there is relatively little research documenting this effect or showing the impact of savings programs with a commitment mechanism in raising savings levels. This is particularly true for developing countries.

Our project presents an opportunity to rigorously test whether, as both anecdotal evidence and theory predicts, savings products that are designed with a self-control mechanism can indeed raise savings in developing countries. If, indeed, we find that design of savings products matters, it would have significant implications for individuals who hope to save more, for institutions who wish to facilitate financial development amongst the poor, and for governments hoping to encourage savings among their population and thereby spur their own growth.

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For full research/trip experience read below:

Field

Trip Report
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This report details activities on a recent field visit for research funded by SAGA. This research began in August of 2002 in collaboration with ESRF as a pilot project in Kenya; the purpose of this most recent trip was to report to ESRF on the progress of the research and to further develop the pilot through testing of the baseline survey and training of surveyors at the pilot site. The intervention we are studying (called “DrumNet”) links buyers in Nairobi with farmers in rural Kenya and provides the farmers with price information. This type of information product is quite innovative and has not yet been field tested. The field research trip was undertaken by Nava Ashraf, one of the lead researchers on the project. Based on the timeline suggested by ESRF to maximize the number of ESRF researchers who would be available during the trip, Nava went first to the pilot site in Kenya.

The bulk of Nava’s time in the field was spent beginning and setting up a schedule to finish intensive market testing of the DrumNet product. The product will be introduced in an experimental format, with a randomized treatment group offered access to the product. It is therefore critical to ensure that the product is properly designed so that there is sufficient adoption by the treatment group at the time of introduction. In addition, a great deal of time was spent developing, refining, and testing the baseline questionnaire, working with an agricultural economist at the Institute for Development Studies at the University of Nairobi, aimed at assessing changes in farmer welfare. Four excellent surveyors from the region were trained to carry out these baseline surveys for approximately 500 farmers.

Once the research schedule had been set up and the appropriate people trained, Nava arrived at ESRF in Tanzania. She met with Prof. Amani and Dr. Oswald Mashindano, head of research at SAGA, as well as a SAGA researcher in microfinance. It was a very productive meeting where all agreed on the significance of the question being studied for farmers in all of East Africa. Prof. Amani particularly stressed that this project fits well into SAGA’s major research area of growth in the agricultural sector and in making macro-micro linkages. This will be particularly true as the project expands to start working with exporters, major food processing groups, etc. and the research is put in the context of macroeconomic liberalization changes in the country.

The group also talked in detail about ESRF’s desire to learn more about how to do analysis on macro-micro linkages – how macroeconomic changes affect people on the micro level and Nava offered to do a methodology training workshop on exactly this question, providing tools to ESRF’s researchers to carry out this type research. The workshop was scheduled for the next day, following the seminar presentation.

After the meeting, Nava paid a courtesy visit to the USAID mission, as ESRF had had trouble contacting the mission to find out if they could host seminar for Nava or whether they would prefer to send representatives to the seminar at ESRF. Nava met with Daniel Moore, director of the environment/agriculture and enterprises division, and described the project to him. He felt the results of the research would be very relevant for the USAID Tanzania mission, and mentioned in particular a USAID funded project that is trying to provide market information for micro & small enterprises in the agricultural sector that would benefit greatly from knowing more about our project and research. Nava offered to conduct a seminar at the USAID mission on the project, but because the mission is on half-staff at the moment due to heightened security concerns he preferred to send two representatives to the ESRF mission, one from private sector development and another from the USAID funded project on sub-sector development (DAI PESA).

The next morning Nava conducted the main seminar for ESRF on the project progress and research design. The seminar was attended by all of the ESRF staff including all researchers, Nura Mtluia, project management specialist at USAID, and Joseph Burke, Chief of Party of USAID funded project on sub-sector development (DAI PESA). Attendees saw many ways to apply our findings and experience to what USAID was currently trying to develop in Tanzania. They also saw much scope for future collaboration on an expansion of DrumNet to Tanzania. In particular the sub-sector project is trying to redefine what services it would provide to farmers and SMEs in the agriculture sector. Nava shared our baseline survey with them, which they found quite useful. DAI PESA had already began talks of research collaboration with ESRF, so there is much scope for future collaboration.

The ESRF staff were all very engaged in the seminar and found it to be a very important area of research; many of them had had personal experience with the difficulty of farmers to access market information and buyers, and thus felt strongly about the project.

After the morning seminar, Nava held the methodology training workshop for the ESRF research team. The training workshop was focused on the differences-in-methodology as a way of accurately evaluating major policy shifts using micro data. Significant time was spent talking about which policy shifts the researchers might be interested in studying using micro data sources in Tanzania, including Tanzanian Household & Demographic Surveys, as well as how the methodology could be applied to these issues. As promised, Nava sent researchers at ESRF Jonathan Gruber's paper on Mandated Maternity Benefits, which uses differences –in-differences methodology to analyze a policy shift, and they have circulated it among the research team and are currently brainstorming particular research topics they would like to work on. It was Nava's impression that this training and subsequent follow-ups were very helpful for them in institutional capacity building in the area of researching micro-macro linkages. This field trip was tremendously helpful both in advancing the project and research, and in working collaboratively with ESRF for mutual learning. Both we and ESRF are grateful to SAGA for this opportunity.