STUDY SUMMARY

Social Norms, Resource Sharing, and Worker Incentives in Côte d'Ivoire

In many low-income countries, people face pressure from family and friends to share their earnings. While this dynamic can insure individuals in the face of limited formal institutions, it may also restrict economic transformation and labor productivity. In Côte d'Ivoire, researchers partnered with the Caisse Nationale des Caisses d'Épargne (CNCE), the largest savings bank in the country, OLAM, a leading transnational agroprocessing firm, and IPA to test a financial innovation among workers in cashew-processing plants: a direct-deposit commitment savings account designed to make it easier for workers to convert productivity increases into long-term savings which cannot be accessed by others. Preliminary results suggest workers offered the account increased their labor productivity and earnings by 10 percent, while workers who actually opened the accounts experienced an 18 percent increase in earnings. The impact appears to be driven by workers increasing effort while on the job. Further results are forthcoming.

Policy Issue

In places with limited formal institutions, social and family networks play an important role in people's lives, with relatives, friends, colleagues, and neighbors sharing financial resources. While this solidarity norm could have important private and social benefits—for example, by enabling risk sharing among family—the evidence on their potential costs is extremely limited. For example, if someone knows they will not be able to keep their earnings, they may exert less effort at work or be less likely to engage in certain types of employment perceived to be more lucrative by the community, such as factory jobs or other formal employment. In other words, in contexts where formal social protection is lacking, does informal redistribution of resources and communal risk sharing affect workers' effort and earnings? This research contributes to the debate on this question.

Evaluation Context

This study was carried out at two cashew processing facilities, among mostly female workers performing manual tasks. Because workers in cashew processing are paid piece-rate based on their individual daily productivity, any changes in their productivity were easy to observe, and changes in effort translated directly into worker earnings and factory output.

RESEARCHERS
Supreet Kaur, Eliana Carranza, Aletheia Donald, Florian Grosset

COUNTRY
Côte d'Ivoire

PARTNERS
World Bank, Olam , Caisse Nationale des Caisses d'Épargne (CNCE)

PROGRAM AREA
Financial Inclusion

TOPICS
Commitments, Human Capital & Skills

TIMELINE
2016-2019

In the initial survey, workers reported facing heavy demands to share earnings with others: 83 percent of workers reported giving money to someone multiple times a month, and 75 percent of workers agreed or strongly agreed with the statement that redistributive pressures make it difficult for them to accumulate savings. Although 78 percent of workers strongly agreed with wanting to save more than they currently save, none of them had an account in the formal banking sector.

Details of the Intervention

Researchers partnered with the Caisse Nationale des Caisses d'Épargne (CNCE), the largest savings bank in Côte d'Ivoire, OLAM, a leading transnational agroprocessing firm, and IPA to test a financial innovation among workers in cashew-processing plants: a direct-deposit commitment savings account designed to make it easier for workers to convert productivity increases into long-term savings which cannot be accessed by others.

Across several waves, researchers randomly assigned 500 workers to either a treatment group or a comparison group. Those in the treatment group were offered the free commitment savings account, whereby a portion of their salary in excess of their historical earnings would be directly deposited into the locked account each paycheck. The aim of this account was to lower the effective "informal tax rate" faced by workers from their social network on any earnings increases.

Workers in the treatment group received all their wages under the cutoff they had chosen in cash, so that there was no risk that the accounts would squeeze them in low-wage months. Workers had the opportunity to choose their cutoffs to correspond to their budgeting needs (provided that the cutoff was at least as high as their average historical earnings levels).

In the first phase, all treatment group workers had the option to use the commitment savings account on a trial basis for two months to learn what their optimal threshold should be. During this first phase, workers had the option to revise their choice, including opting out or opting in (if they opted out before). During the second phase, account thresholds remained set for seven months.

In a third and final phase, the researchers designed an experimental test to isolate redistribution pressure from one's social network as the driver of treatment impacts– versus competing explanations such as workers wanting to constrain future temptation to spend their savings on themselves. This was done by further randomizing individuals in the treatment group to "private" or "public" subgroups. The private subgroup continued as usual; workers were offered accounts where deposited savings remained strictly confidential. In the public subgroup, workers were told before opting in that members of the workers' social network would be informed about their participation in the savings program.

After the evaluation is completed, all workers can fully access their commitment savings accounts.

Results and Policy Lessons

Preliminary results from 107 workers in the first phase:

Nine months after the direct-deposit accounts were introduced, workers who were offered the accounts increased their earnings by 10 percent on average relative to workers in the comparison group who were not offered the accounts. The effect on earnings was 18 percent higher among workers who actually opened an account.

Researchers did not find an impact on attendance or job quitting, suggesting that effect of the accounts in this sample is driven by workers' increased effort, not time spent on the job. In addition, results suggest that take-up of the commitment accounts is concentrated among those who report facing higher pressure to share resources, based on two indicators: those who had any uninvited guests show up to their house for a meal in the past 7 days (indicating the presence of kin and network members in close physical proximity) and those who report having to pay school fees for others—a common redistribution request. These individuals were 56 and 33 percentage points more likely to take up the direct deposit accounts, respectively.

These preliminary findings suggest that higher-return economic activities—from adopting cash crops in agriculture to gaining employment in modern sector jobs—can be undermined if individuals do not capture the returns from their efforts. This also indicates that tackling the likely underlying cause for redistributive norms—the lack of consumption smoothing mechanisms—could improve output and growth.

Further results are forthcoming.