



COMMITMENT SAVINGS

Designing Products to Help Clients Build their Savings Balances

IPA seeks to address the challenge of helping low- to moderate-income households build assets, provide for future consumption, and accumulate buffers to weather shocks and manage risks.

Innovative financial products such as **commitment savings accounts** have proven to be effective in helping households accumulate significant sums and meet their savings goals across a variety of domains, from health to enterprise. Commitment savings products **help users overcome behavioral and social barriers** that prevent many individuals from reaching their savings targets and making desired investments in the future.

The Global Financial Inclusion Initiative at Innovations for Poverty Action (IPA) is looking for partners to bring the proven impact of commitment savings to more beneficiaries worldwide through a structured replication and scale-up program.



Source: Dario Rodriguez

The Product

In Kenya, Francis might want to buy fertilizer to prepare for the next planting season, but when he receives the money from his harvest, there are other expenses to attend to in the months before the next sowing season, and he forgets or is unable to plan ahead for the upcoming investment in fertilizer. In the Philippines, Maria may be able to save up some money at home, but her extended family often asks for financial assistance and it is difficult for her to say no. **Commitment savings products work because they allow households to set aside money for a predefined goal that they are keen to achieve in the future.**



Source: Niall Keleher

Commitment savings products are a simple and effective way to encourage savings accumulation towards life goals and large lump sum expenditures. Evidence shows that low-income households can and do save, though not as much or as frequently as they want to, often due to immediate temptations as well as pressure from social networks to share any surplus.

Commitment products can vary in the level of obligation they require from the client. A **soft commitment** may simply entail labeling a savings account with a particular goal; examples may be "*children's education*" or "*business equipment*" or "*house down-payment*", with no explicit enforcement or penalty. The individual's motivation to save therefore is driven by

psychological commitment or ‘mental accounting’ mechanisms. A **hard commitment**, on the other hand, might entail entering into a contract to accumulate funds and pay for a desired product, such as fertilizer, or could feature withdrawal restrictions or financial penalties for missed deposits. Remarkably, even products with soft commitments have been shown to increase savings balances and goal attainment significantly.

The Evidence



*Individuals in the **Philippines**, who were randomly offered goal-based commitment savings accounts with voluntarily-set restrictions on access to deposits, increased their savings balances by 82% relative to the comparison group over a one year period.ⁱ*



*Tobacco farmers in **Malawi** cultivated 7.7 percent more land, and increased the value of their agricultural input use by 17.1 percent, agricultural output by 20.1 percent, and household spending by 13.5 percent when they were offered a commitment savings account in addition to an ordinary savings account.ⁱⁱ*



*Members of Rotating Savings & Credit Associations (ROSCA) in **Kenya** spent 66-75% more on preventive health products when they were given a soft commitment savings device labeled for health expenditures; they spent 128-138% more on health when the account included a social commitment element in the form of group savings at the ROSCA.ⁱⁱⁱ*

Innovations for Poverty Action is partnering with financial institutions in the **United States, Ghana, India, Peru** and the **Philippines** to design and test variations of commitment savings products. Our approach involves replicating and scaling promising commitment savings products that lead to the greatest cost-effectiveness and welfare impact.

We hope that this demonstration effect of thousands of clients using beneficial commitment savings products will provide an impetus for pro-poor financial products worldwide. IPA is looking for support and partners for this scale up, in particular:

- Financial institutions with whom we can partner in the design and roll out of appropriate commitment savings products for existing and new clients;
- Donors keen on supporting technical assistance packages to enable commitment savings product offerings and continued research in this field.

ⁱ Ashraf, N., D. Karlan and W. Yin. 2006. “Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines.” *Quarterly Journal of Economics*, 121: 673-97. Available at: <http://people.hbs.edu/nashraf/qjec%202006%20121%202.pdf>

ⁱⁱ Brune, L., J. Goldberg, X. Giné and D. Yang. 2013. “Commitments to Save: A Field Experiment in Rural Malawi.” Working paper. Available at: http://www-personal.umich.edu/~deanyang/papers/bggm_mwisavings.pdf

ⁱⁱⁱ Dupas, P. and J. Robinson. 2013. “Why Don’t the Poor Save More? Evidence from Health Savings Experiments.” *American Economic Review*, 103(4): 1138-1171. Available at: http://www.stanford.edu/~pdupas/DupasRobinson_HealthSavings.pdf

The Global Financial Inclusion Initiative at IPA seeks to identify and evaluate products and programs that enhance poor households' use of improved financial services. For additional information on the Initiative, visit www.poverty-action.org/financialinclusion.

To learn more about GFI's efforts to scale up commitment savings, please contact Faith McCollister at fmccollister@poverty-action.org or send an email with your inquiry to gfi@poverty-action.org.