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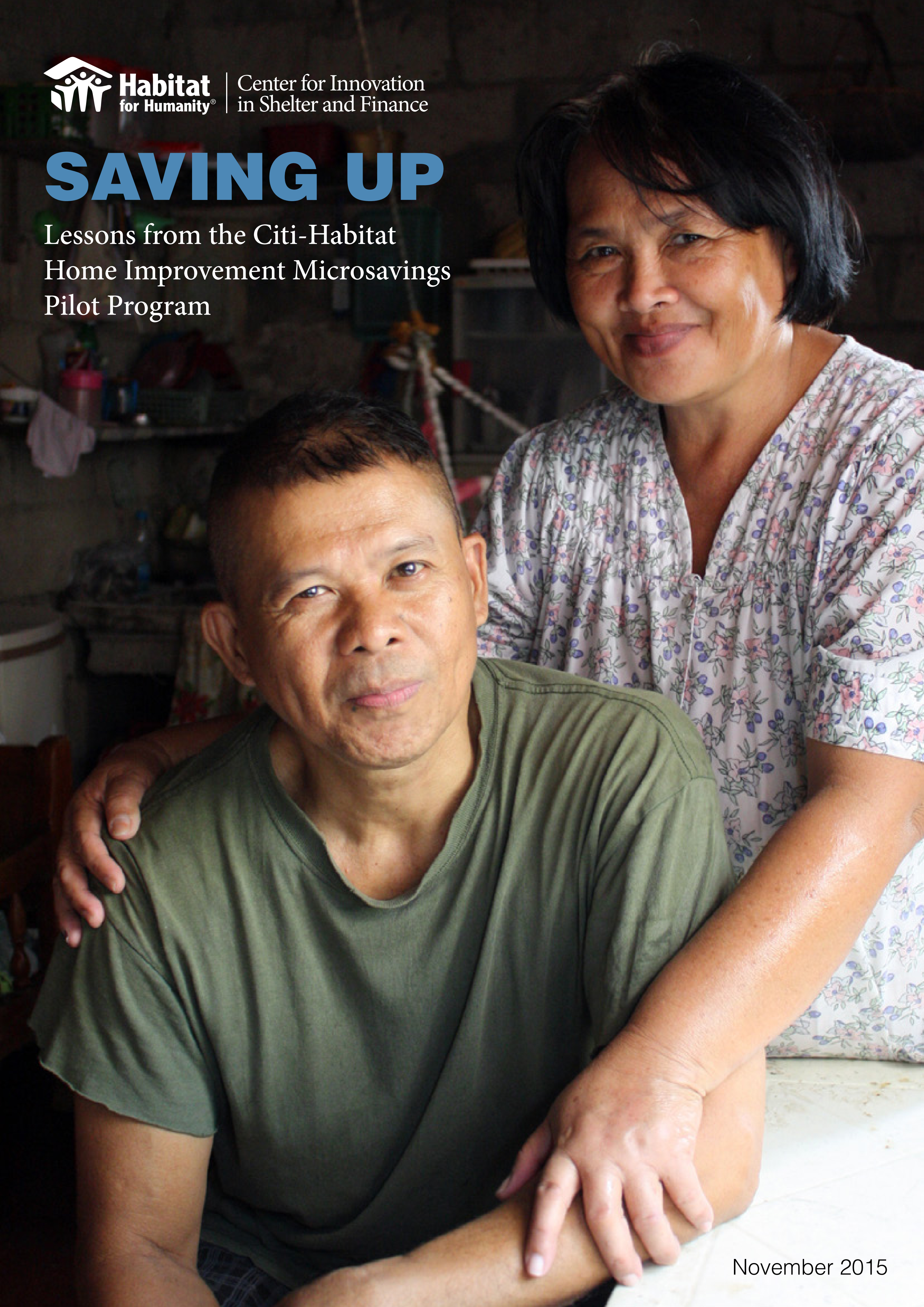
SAVING UP

Lessons from the Citi-Habitat Home Improvement Microsavings Pilot Program



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INTRODUCTION

Financial services for housing presents arguably the most challenging and least developed area of financial inclusion, yet it also holds tremendous potential for client impact and long-term growth. There are several reasons for this. First, housing represents one of the largest core living expenses for all families, poor and rich alike. Moreover, obtaining housing requires large upfront and periodic investment – in sums that are difficult for all but the wealthiest of families to raise quickly. And lastly, housing is arguably a family's key financial asset over the course of a lifetime, with investments made during a family's early working years allowing for child-rearing during the mid-life stage, continuing to provide shelter well into old age, and transferring wealth when the home is passed on to the next generation.

Even as home mortgages represent the vast majority of consumer debt in developed countries, housing finance – of any sort – makes up but a small portion of microfinance practice, nearly all of it in the form of loans. Instead, one of the ubiquitous strategies by which poor families around the world build their homes is through incremental building. Starting with land acquisition, then laying the foundation, constructing walls, roof, windows, and so on, a family may easily spend 10-15 years or more to construct a home. Between each stage, the house may be left untouched for months or years, while the family saves up enough resources for the next stage. The same is true for existing homes, which can be expanded or improved based on need and available resources. Up to 90% of residential housing in the developing world is built this way. [1]

Incremental building is a financial strategy. It allows a family to break down the large expense of a home into more affordable components, while turning the home into a more flexible asset that can be modified as the family structure changes. It is also often the only realistic housing solution for a poor family dealing with volatile incomes and unplanned expenses. However, even these smaller building phases can pose a challenge for poor families. The building increments can be subdivided only so far — building an incomplete roof is impractical. Accumulating the lump sums needed for each increment typically requires some type of financial instrument.

For most families, this financial instrument is informal. Farmers may use income from a harvest to fund home improvements. Others may purchase small amounts of building supplies over time until they've accumulated enough to complete an increment. Still others may rely on informal savings groups. The options are many, and in most cases they are more likely to be in the form of some type of savings.

Could financial institutions provide savings products to help poor households build better and more efficiently?

Among formal financing options, microfinance services have become an important tool to fill in the gap between the needs of poor families and their access to affordable financial services that allow them to save, borrow and invest in their future. Since the 1970s there has been explosive growth in microlending. Habitat for Humanity has built expertise over the past two decades in the design of financial products globally mainly thru housing microfinance (loans with larger amounts and longer terms than traditional microfinance) that are often combined with some form of technical assistance to encourage more efficient and safer building practices. Through 2015, Habitat has worked with over 90 partners who have helped thousands of families build or improve their homes with housing microfinance loans.

Still, not all families want or can borrow. Whether it's the lack of sufficiently predictable income, the absence of credit history or simply the desire to eschew the risk associated with debt, credit cannot meet everyone's housing needs. Taking into consideration that financial services should meet the diverse needs, preferences, and capacities of low income families, Habitat wanted to explore to the broadening of microsavings products for housing. An extensive review of available academic or other literature revealed no recent case of a home improvement microsavings products being attempted or studied. To explore this apparent gap, in 2011, Habitat for Humanity and the Citi Foundation launched the Home Improvement Microsavings Program. The question to drive the project was: Could financial institutions provide savings products to help poor households build better and more efficiently?

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[1] Habitat for Humanity, Shelter Report 2014

OBJECTIVES

The pilot program focused on low-income families living in disaster-prone areas in Southeast Asia, particularly in Thailand and the Philippines. Because of exposure to repeat natural disasters, such families present a higher risk for housing loans, but would make good candidates for home improvement microsavings. Moreover, families in these environments have great need for resilient construction, which Habitat for Humanity can support through housing support services such as design and materials advice.

The microsavings pilot featured four main components:

- financial education to explain the value of saving for home improvement
- a commitment savings product incorporating fixed, regular payments
- a specific goal (e.g. replacing a roof)
- once the goal is achieved, construction technical assistance to raise the quality and durability of the home improvement project being undertaken.

The pilot in Thailand also included different financial incentives randomly assigned as part of a randomized controlled trial (RCT) to test the effect that savings incentives have on client savings behavior.

A Filipino family improved their home after it was destroyed by Typhoon Ketsana. Credit: Mikel Flamm

OVERVIEW

Over the course of the project, Habitat for Humanity fully implemented the pilot at three financial institutions, each serving very different communities:

- Marikina Valley Savings Bank (MVSM), a mostly urban bank serving an area of metro Manila frequently affected by flooding
- Cantilan Bank, a regional rural bank in northeast Mindanao, Philippines, serving rural and small town communities that are among the poorest in the country
- Bank for Agriculture and Agricultural Cooperatives (BAAC), a large state bank in Thailand. The pilots were conducted in the Mahasarakam area, a poor rural region in northeast Thailand.

In each case, the savings products were co-developed with the partner financial institution, which also took on the branding and marketing of the saving products. Habitat for Humanity took on the task of financial education and the construction technical assistance.

On the cover: *A Filipino family saves toward home improvement in Barangay Malanday. Credit: Jenny Sabianan*

The offered products differed significantly, but all shared a minimum 12 month commitment with monthly deposits. In most cases, meeting the savings goal qualified the client to receive on-site technical assistance from an engineer for the planned home improvement. The amount of the savings commitment varied by institution and client, but was never less than 8.5% of the country's GNI per capita. Given that the target clients tended to be poor families, the savings goals represented substantial sums.

	MVSM		Cantilan		BAAC	
Minimum term (months)	12		12-18		12	
Monthly deposit (local currency | % GNI per capita)	₱100	8.5%	₱100	8.5%	฿1593	11.5%
Commitment	n/a		Meet goal to receive incentive		Meet goal to receive incentive	
Incentive	construction technical assistance (TA)		construction TA, free life insurance, negotiated supplier discount		cash bonus of 25% or 50%, construction TA	
Place of deposit	Wage deduction or branch		Branch only		Branch only	
Accounts opened	322		13		106	
Goal met (% of accts)	92 (28.6%)		n/a		68 (64.2%)	

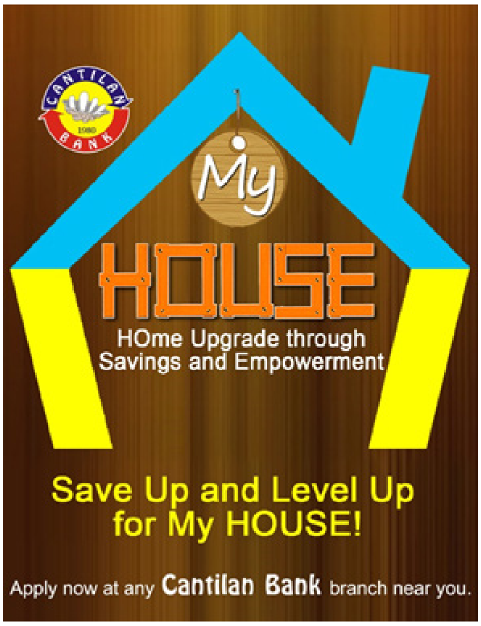
*₱ - peso; ฿ - baht

The take-up and usage rates for these products differed greatly at each pilot, but generally fell below expectations. Part of this reflects differences in how the pilots were rolled out.

At MVSM, not enough is known about the full set of clients who opened the account; however, at the time the pilot was discontinued, nearly all active accounts consisted of staff at the Barangay Malanday, a local government office.[2] The Barangay head, Captain Briones, made the savings scheme mandatory for all his employees by his own initiative, with a fixed 500 peso (US 10.6) amount deducted from each employee's biweekly salary. Moreover, any withdrawals had to be approved by Captain Briones, with only two such cases over a 3-year period – one withdrawal by a departing employee, and another by one who lost his mother and needed the funds for the funeral. Given this structure, the program cannot be viewed as a commitment savings account. However, for financial institutions seeking to expand outreach for savings products this experience highlights the potential value of partnering with employers to provide savings through wage deduction, though providing clients with the opportunity to opt-out or withdraw at their discretion is advised. [2]

[2] The MVSM pilot lasted two years, and it appears the Barangay staff were the dominant portion of clients through much of that time.

At Cantilan, the lack of take-up was particularly surprising. Both the preliminary market survey and the marketing phase showed high interest among potential clients. Marketing leaflets for the savings product (My HOUSE) were distributed in the areas served by the pilot branches. The leaflets emphasized the savings incentives and seemed to be effective initially, with 125 clients showing up for the financial education sessions. And yet, none of those clients opened an account. Indeed, of the 13 opened accounts, 12 were from Cantilan's own staff, and the last was a Cantilan client who learned about the account from her loan officer.



Finally, although the BAAC pilot appears to have strong figures for take-ups goal completion, the results should be taken in the context of very large financial incentives offered. As part of the RCT accompanying the pilot, the target clients were divided into five groups, each drawing lots for the incentives they would receive. Of these, three groups were offered cash bonuses of 25 percent or 50 percent for clients who met their savings targets. Not surprisingly, over 90 percent of the takeups and 94 percent of completed goals were from groups that were eligible for the cash bonuses. What was surprising was that even at the highest incentive level, 77 percent of clients still did not bother to open an account. [3]

Of the three pilots, the effectiveness of MVSM product is difficult to evaluate. However, both the Cantilan Bank and BAAC pilots have yielded substantial insights, highlighting the challenges of developing a commitment savings product to support incremental building. Many of these learnings come out from extensive interviews conducted with clients and partner institutions at the end of the pilot projects.

Before delving into lessons learned, it helps to review areas that can pose challenges for savings programs in general, but that were clearly not at play here. First, both Cantilan Bank and BAAC were fully involved partners. Neither was a case of a halfhearted effort yielding predictably underwhelming results. Second, the common problem of low institutional trust was not significant at either BAAC or Cantilan Bank. BAAC is a respected institution in the area covered by the pilot, and many of the pilot participants were already existing customers of the bank, including those with existing savings accounts. Similarly, Cantilan Bank is the dominant bank in its region.

Finally, both institutions had substantial experience with savings products. Cantilan Bank has for some time managed a particularly active product targeted towards parents and relatives of local youth, and was thus well positioned in handling small deposit amounts. BAAC had a popular lottery savings account, where many of the target clients kept deposits similar to the levels targeted by the Home improvement microsavings initiative.

While institutional factors cannot be ruled out, the surprisingly low take-up rates should be seen mainly as a market reaction to the product being offered rather than issues specific to the institution.

[3] W. T. Kilenthong, Final Report Citi-Habitat Home Improvement Microsavings Pilot Program Matching Incentive Study Research, RIPED May 2015.

LESSONS FROM THE PILOTS

When this project was launched, studies of other general-purpose commitment savings schemes (generally an account in which individuals restrict their right to withdraw funds until they have reached a self-specified goal) showed promise for helping poor families increase their savings. These studies were a major impetus for the design of the home improvement microsavings initiative. The experience of the Home Improvement Microsavings Pilot suggests that applying the lessons of these other commitment schemes is a more challenging exercise when it comes to home improvements.

These lessons suggest that a home improvement microsavings product must strike the right balance between two key dimensions, required funding amount and degree of commitment, while recognizing the role of alternative funding sources, including informal savings vehicles.

HIGH AMOUNT, LOW COMMITMENT

Home improvements are expensive, requiring a large amount of savings over a lengthy period. The resulting combination may simply prove unsuitable for a commitment savings product.

This effect was most evident in Cantilan, Philippines. Among the women who had attended the financial training sessions, a common home improvement cost was between 15-20,000 pesos (US$340-450). With reasonable savings terms, that meant monthly savings of approximately 1,000 pesos (US$23) over 18 months – 8.5% of monthly per capita GNI in the Philippines, but given that this was a particularly poor, rural area of the country, it was a substantially higher percentage of income for these women.

Indeed, the size of the monthly commitment was a major source of concern. During the focus group discussions, a common refrain was "Don't have money now, maybe in the future". This is despite the fact that some of them had successfully saved similar amounts on their own. One woman described purchasing roofing material several units at a time, when she had extra money. Though she did not realize it, over the course of a year, she had spent approximately 15,000 pesos (US$318.7) – nearly the same amount she identified as her savings objective during her financial education session the year before. Despite this, she feared making a commitment to save 1,000 pesos (US$21)/month – a fear echoed by others in the focus group.

Conducting a randomization event in Mahasarakam, Thailand
Credit: Jennifer Oomen

As it happens, another commitment savings project conducted on the island of Mindanao (with 1st Valley Bank) at a similar time provides a useful comparison. In that case, clients who chose to save through a commitment account saved more than a non-commitment control group. [4] However, both monthly savings amount (600 pesos; US$12.7) and commitment period (4 months) were much lower, and this in an area with notably lower poverty rates than Cantilan. [5] The size of the commitment being asked of the Cantilan clients was clearly higher.

Savings experience in Mindanao

in Pesos	Cantilan Bank pilot (based on client-identified goals)	1st Valley Bank (median)
Total amount saved	18,000	2,400
Monthly savings	1,000	600
Number of months	18	4

As it happens, this level of commitment is not unfamiliar to many Cantilan clients, many of whom have microfinance loans with a monthly repayment of 1,000 pesos (US$21) and lasting for one year or more. Indeed, one focus group participant specifically mentioned using her microfinance loan for home improvement.

To gain a better understand of how these two commitments – savings and loans – were perceived, the focus group participants were presented with a hypothetical option to save 12,000 pesos (US$254.9) by setting aside 1,000 pesos (US$21) each month or getting a loan of the same amount and making monthly payments of 1,300 pesos (US$27) for the next 12 months (to simulate the added interest payments). Though they readily recognized that saving was cheaper, most felt that they were unlikely to save such an amount on their own. One client put it this way: "With a loan, I know I will pay!" – leading to nods of agreement from others. These women were clear that with savings – which are voluntary – they might miss or put off a monthly deposit. After all, the savings featured only "soft" commitments – they would lose nothing if they did not make a deposit, even if they might forgo an incentive (even a large one, as in BAAC, Thailand).

What the women in Cantilan were essentially saying is that this commitment device was too weak for the amount and duration involved – no amount of reminders, commitments, or incentives can approach the degree of compulsion that comes with loan repayments, where delinquency brings social pressure from group members, a damaged credit history, or even the threat of legal proceedings. That is the ironic truth embedded in those simple but highly revealing words: "With a loan, I know I will pay!"

The results of the pilot in Mahasarakam, Thailand, highlights another challenge for home improvement microsavings. The large size of the incentives seems to have distorted client behavior. Many of those who signed up appeared motivated more by the incentives than the savings goal itself. In some cases participants met the savings required to receive the incentive by simply transferring funds from an existing savings account. [6]

> **"With a loan, I know I will pay!"**
>
> **- Client of Cantilan Philippines**

[4] Anett John, When Commitment Fails - Evidence from a Regular Saver Product in the Philippines, August 2014
[5] According to NSCB statistics, the 2012 poverty rate in Surigao del Sur (the region where the two CBI pilot branches, Cantilan and Madrid, are located) is 31.8%, compared to 25.0% for Misamis Oriental, where the 1st Valley Bank study was conducted.
[6] Kilenthong 2015. Of those who saved via the microsavings account, 40% cited using funds from other accounts to make their deposits.

But the cash bonus had also another effect. To ensure the project stayed within budget, the largest bonuses were capped at 8,500 baht (US$258). This greatly affected the goal of the savings – instead of focusing on the construction need, the savers seem to have been mainly motivated by the bonus. Of the 52 participating clients eligible for the largest (50%) bonus, only 4 selected a savings target above the level required to receive the maximum amount. Most chose the exact amount needed to receive the full bonus – no more, no less. This despite the fact that even for the highest bonus group, the combined amount for savings and bonus – 25,500 baht (US$773) – still represented barely a third of the expected cost of housing improvements, which given costly flood-protection demands, averaged 72,375 baht (US$2,015). It's plausible that had the emphasis been placed on the actual construction need and savings goals had been similarly higher, the product take-up rate might have been lower still.

Thus, the two pilots' experience exemplifies the core problem – the amount needed for home improvements is much greater than the amounts typically saved through commitment savings. Clients doubt they possess the personal commitment to save such a large amount within a limited timeframe on a voluntary basis. Even for those who have the capacity to save such amounts, the lack of a financial penalty for failing to meet the savings commitment may actually dissuade them from even trying.

UNDERSTANDING THE ALTERNATIVES

Despite the low takeup of the home improvement microsavings products, both the women in Cantilan and the farmers in Mahasarakam can and do save.

In Mahasarakam, nearly all home improvements are done within a few months after harvest – when households have the cash from the sale of their crops to pay for the construction. For such seasonal incomes, savings can help pay for expenses occurring during months when there's little income, for example, fertilizer or school fees. Home construction, on the other hand, can be done at a time of one's choosing, including after harvest. In this context, offering a commitment savings account with regular deposits is attempting to solve a problem that does not really exist.

Indeed, as is frequently noted by financial providers serving farmers, it is critical that their product timeline fit the household cashflows. In the case of the BAAC pilot, for reasons beyond Habitat's control, the product was launched during the planting season, when farmers' cash flows are particularly low – a factor cited subsequently as a major impediment by both farmers and BAAC's local staff.

For families with less seasonal (though still irregular) incomes, saving for home improvement is a bit different. Several of the focus group participants in the Philippines made their improvements by purchasing building materials over a period of time. This is likewise a form of saving, with a very strong commitment – once purchased, these materials become completely illiquid assets. Indeed, when asked if they could sell such materials in the event of an emergency, the focus group participants shook their heads – none had ever heard of such a thing. However, this type of "saving" activity – common throughout the developing world – has no regular commitment to save a specific amount or on a specific schedule. People simply buy materials whenever they have money available.

OTHER SAVINGS SOLUTIONS

This practice of accumulating construction materials in small batches is effective but risky – materials require storage and may break or degrade over the course of prolonged exposure. One option is to try to replicate the process, but without the physical material. During the focus groups in Cantilan, clients were presented with a hypothetical product that would let them "buy" building materials in the form of stickers showing roofing sheets or cement blocks, for example. In this way, they could "build" their homes by affixing the stickers to a picture of an unfinished house handed at the time they open the account. Upon completion of their goal, they could trade in the stickers to receive the actual supplies.

Several clients appeared genuinely intrigued by this product. However, they were resistant to making this a "hard" commitment account, i.e. making the savings inaccessible other than for the stated purpose. This might seem odd, given the actual practice of saving via purchase of building materials that are completely illiquid. It seems that money – in whatever form or account it's held – is still seen as a liquid asset to be tapped if necessary, whereas physical goods represent money already spent. Recognizing this mental differentiation, one could design partly liquid accounts, which would be designated for housing and thus retain the advantage of a goal orientation (i.e., with sticker reminders), but could be tapped in the event of emergencies. However, to raise the bar for early withdrawals, one could, for example, require clients to surrender the semi-completed sticker sheet, thus emphasizing the act of giving up on the savings goal, even if temporarily. This would draw on the experience with other commitment saving programs that suggest that "soft" commitments, where the clients retain more control over the disposition of the savings, are ultimately more effective at encouraging saving. [7]

ROLE OF INCENTIVES

One interesting outcome of this project is the role of savings incentives. The most effective pilot in terms of uptake, with MVSM, drew nearly all of its success from the support of a local Barangay official who mandated saving for his staff. While such mandatory savings may be excessive by abrogating the ability of individuals to manage their own money, the default opt-in approach can be a very powerful savings technique. Financial institutions may find it useful to develop such products to offer to employers, community organizations, and others.

At the same time, financial incentives to save – particularly large incentives (e.g. 25 percent or 50 percent of total) – are not ideal for motivating saving for home improvement. While they may motivate some additional saving, they appear to be even more effective at encouraging arbitrage behavior among the clients, which has no added social or financial value. Moreover, to be sustainable in the long-term, savings vehicles need to meet the financing needs of clients, while minimizing the need for long-term external grants.

In Mahasarakam, the strongly preferred form of incentives was a savings lottery. A large majority of clients maintained an active savings lottery account with BAAC, and during the interviews, many were disappointed that the housing savings account was ineligible for the lottery. Indeed, those with limited funds chose to keep their savings in the lottery account over the home savings account, forgoing the certainty of even a 50% bonus. In this context, a lottery savings scheme is both a more effective motivator and less costly than a cash bonus scheme. [8]

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[7] D. Karlan, L. Linden. "Loose Knots: Strong versus Weak Commitments to Save for Education in Uganda", IPA, Jul 2014

[8] M. Robinson. "The Microfinance Revolution: Lessons from Indonesia", World Bank, 2002, p. 158

Additionally, Cantilan Bank included supplier discounts as part of its program as a non-financial incentive, but did not emphasize the point (mentioned in the product brochure, without stating the amount). It would be useful to look further into non-cash incentives such as free or discounted building supplies, which the client would receive upon completing the savings target and purchasing other materials. One potential benefit to using physical incentives over a cash incentive, would be that the savings goal could be emphasized without limiting other use of the savings – a client seeking to repurpose her savings would forgo the incentives, but would still have full access to her funds. Further research would be required to examine what level of incentive would be an effective motivator.

SAVINGS & LOANS

Aside from designing the right savings product, home improvement microsavings pose a challenge that goes beyond savings itself. Given the large sums needed for home improvements, saving the required amount may simply take too long. One possible approach would be to limit the timeframe of the savings period by allowing clients to borrow the remainder after reaching a milestone, for example 30% of the total project cost. This is of course a well-developed microfinance technique.

Indeed, as discussed above, Cantilan clients preferred loans over savings for funding home improvements. A combined savings-and-loan program may thus be better suited for the purpose than savings alone. It also has significant advantages to the financial institution – it lowers the credit risk of a loan and can be a source of low-cost funds for on-lending.

In rolling out savings-and-loan programs, one could experiment with increasing the incentives for clients to save more before they borrow – for example, by providing loan interest rebates to clients who save more (reflecting the lower risk to the lender). Using this approach to encourage more saving for home improvement can thus also help MFIs increase their outreach to clients who may be less willing to borrow outright.

Given the importance of loans as a source of housing finance (even when not specifically targeted as such), it is also important to assess their role in the market when designing housing savings. In Mahasakaram, subsidized government loans accessible to many, if not most, of the target clients, may have significantly influenced the perceived value of the cash incentive scheme. Offered by the same institution as the savings accounts, these loans were structured in a way that greatly diminished the apparent benefits of the cash incentive of the housing scheme, thus leading to lower adoption rates than might have been the case without the presence of these subsidized loans.

Conducting market research in Hiep Duc, Vietnam. Credit: Jennifer Oomen

CONCLUSION

From the start of the project, one underlying assumption was that the best way to save for housing was through a commitment savings product, rather than through savings more generally. Commitment savings have shown significant success among the target population, especially in the Philippines.

The Home Improvement Microsavings Pilots were a first attempt to explore this area. The results may have been less than expected, but the experience yielded valuable learnings. Despite their effectiveness in other contexts, commitment savings do not seem to be the right answer to meet the home improvement needs of most poor families. However, additional studies are needed to answer the more fundamental question: Can financial institutions create savings products to help poor families save for home improvements?

There is much more to be tried. Different versions of savings products, including variations on goal-specific savings, lotteries, semi-flexible accounts, or combined savings and loan products may provide better solutions. Even aspects of commitment savings may yet prove useful in certain contexts. The core question underlying the exercise remains unanswered – home improvements require particularly large sums. To get there, many families rely on the firmest of commitments – purchase of building supplies that cannot be traded away or crops in the ground that can be cashed out only at harvest.

Can financial institutions design products that replicate these experiences, while still avoiding the risks of long-term materials storage? Is there a way to replicate the firm commitment of a loan repayment, but within the context of a savings scheme? And perhaps most importantly, where can financial institutions add most value? What about special savings schemes for migrant workers, that allow them to set aside portions of their remittances to be accessed by them directly upon return? Might there be useful opportunities to leverage savings groups to facilitate home improvement?

There is much experimentation and testing to do, both from the perspective of product design, and also from the perspective of understanding client needs. The demand for effective financial solutions – including savings – to meet poor families' housing needs is great and will continue to grow.

Above all, the results of these experiments – successful or not – should be shared. Arguably, the greatest benefit of the Citi-Habitat Home Improvement Microsavings Pilots was not the result of the program itself, but its contribution to the state of knowledge. We hope to continue to build on that.

This document was written by independent consultant Daniel Rozas based on an external evaluation conducted in January-March 2015. This innovation brief is produced by Habitat for Humanity's Center for Innovation in Shelter and Finance. The Center is an initiative to facilitate collaboration among public-, private-, and third-sector actors in the market to develop sustainable and innovative housing solutions for the 1.6 billion people worldwide who lack adequate housing. This initiative is the result of strategic planning that pointed Habitat toward working more catalytically to have great impact and scale through the inclusion of market based approaches to increase access to accordable shelter solutions among lower-income populations. The Center offers advisory services, engages in research and knowledge development and promotes peer learning opportunities. For more information please see our website www.habitat.org/cisf or email us at ap-cisf@habitat.org.

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