Habitat for Humanity®

Terwilliger Center for Innovation in Shelter

Shelter Innovation Highlights

A series on building and expanding inclusive housing markets • June 2017

In brief

Habitat recently explored microsavings products for housing through a pilot program. Lessons that are applicable for future efforts include:

- Clients demonstrated reluctance to participate in home savings accounts when those accounts required investment of a significant portion of their income and were voluntary.
- Unlike some expenses, which arise at certain parts of the year, housing investments can be made as money is available, and simply accumulating materials does not require specific investments at fixed intervals. The products may have solved a non-existent problem.
- Even when invested in a savings account, clients tend to view money as a liquid asset and value the ability to use it for other purposes in an emergency.
- Financial incentives might not be ideal for motivating saving for home improvement. Although they may motivate some additional saving, they appear to be even more effective at encouraging arbitrage behavior among the clients.
- Combined savings and loan products for financing home improvements deserve additional research.

Microsavings for housing finance

Introduction

Housing is often proclaimed to be one of the “big three” priorities for low-income families around the world, along with food and primary education. A comprehensive report on the global housing crisis from McKinsey estimates that 330 million urban households around the world live in substandard housing and that more than 200 million households in the developing world live in slums.[1] The majority of this deficit exists in the developing world among low-income populations, where for many reasons new and formally financed units are unattainable for almost everyone.

During the past two decades, Habitat for Humanity has helped design financial products to support incremental home-building, primarily working through housing microfinance initiatives. Habitat recently explored micro-savings products for housing through a pilot program implemented by our Terwilliger Center for Innovation in Shelter, in partnership with the Citi Foundation. The pilot program, which was created because not everyone can or wants to borrow money, focused on low-income families living in disaster-prone areas in Southeast Asia, particularly in Thailand and the Philippines.

While the take-up rates of savings accounts in the pilot program fell below expectations, lessons were learned that supplement existing research on microsavings. Five takeaways from the project, combined with previous research on microsavings, help to build a fuller understanding of what may and may not work in housing microsavings.

*Housing microsavings can take a variety of forms, ranging from formal financial products to informal community-based savings groups, but this brief focuses on the design and implementation of microsavings products offered through formal financial institutions.

Lessons

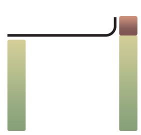
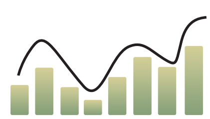
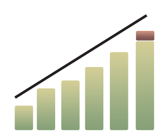
1) Committing to save

Home improvements are expensive and require a relatively large amount of savings over a lengthy period. This combination may be unsuitable for a commitment savings product.[2] For example, in Cantilan, Philippines, the monthly savings commitment was approximately 8.5 percent of average monthly income. However, since the region where the pilot was implemented was especially poor, the savings requirement made up a substantially higher percentage of income for these clients. Although they had previously spent similar amounts accumulating materials for home improvements and expressed a willingness to make payments on a loan of a similar size, the clients doubted they possessed the personal commitment to save such a large amount. Even for those with the capacity to save such amounts, the lack of a financial penalty for failing to meet the savings commitment could dissuade them from trying.

This lack of commitment also came up in a microsavings initiative implemented by Ideas42, in partnership with CARD Bank.[3] Clients also expressed doubt in their own self-control; however, in this case, the researchers implemented a number of behavioral levers to encourage saving behaviors. These included working with clients when they signed up for the product to develop a concrete plan regarding when, where and how the clients would save, along with promoting options such as collection services and SMS reminders. They found that 43 percent of those receiving the product with the design changes had made transactions during the course of the 4½-month study, compared with only 22 percent of those receiving the basic product.

Another study in the Philippines[4] found that clients who were offered deposit collection services saved 188 pesos more than those not offered the service.

A 2013 study by Innovations for Poverty Action[5], conducted in the Philippines, introduced a "Regular Savers Account," in which clients committed to making a fixed weekly savings deposit until they had reached a predetermined goal. Clients faced a self-determined early termination fee if they fell behind schedule on their deposits. The study compared clients participating in this program with those using a traditional commitment savings account in which withdrawals are restricted until a certain date and with a control group who had only a standard savings account. The study found that take-up rates of those offered the products were 27 percent for the Regular Savers Account and 42 percent for the withdrawal restriction account. Regular Savers clients saved an additional 1,928 pesos (approximately US$45.60), and the withdrawal-restricted clients saved an additional 324 pesos (approximately US$7.66) when compared with the control group. Regular Savers clients were more likely

	 Fixed-term savings	 Liquid savings	 Commitment savings
Description	Savings account in which clients deposit money and, after a fixed term, receive an additional return on the amount they have invested.	Savings account in which clients deposit and withdraw money as needed.	Savings account in which clients deposit a regular, fixed sum until they have reached a predetermined goal amount.
Pros	• Prevents funds from being redirected from the savings goal for day-to-day expenses.	• Offers flexibility to clients. • Ability to access savings in case of emergency.	• Integrates saving into clients' routine money decisions. • Prevents funds from being redirected from the savings goal for day-to-day expenses.
Cons	• Money may be inaccessible for emergencies. • May require a larger initial deposit to open the account.	• Clients lack faith in their own self-control to save. • Day-to-day expenses may seem more pressing and limit progress toward saving goals.	• Money may be inaccessible for emergencies. • Requires regular, fixed deposits, which may not line up with income streams.

to buy the item they were saving for without needing to take out a loan.

However, 55 percent of Regular Savers clients defaulted, and 79 percent of withdrawal-restricted clients made no deposits after opening the account.

Clearly, harnessing clients' commitment to save is a complicated task, and, based on the available research, there does not appear to be a one-size-fits-all approach to increasing clients' level of commitment.

2) Understanding the alternatives

Savings accounts can encourage savings of seasonal income for expenses for expenses, such as fertilizer or school fees, that occur during months with low income. However, since home improvements can be carried out at any time, including when incomes are highest, a commitment savings account for housing purchases may solve a problem that doesn't exist. Furthermore, although the common saving method of accumulating materials over time involves a high level of commitment because the materials cannot easily be sold, it does not require saving a specific amount on a set schedule.

This is echoed in a Bangladesh study[6] that found that microfinance institutions handled only a small portion of the credit and savings accounts of the poor, mainly because "the fixed weekly or monthly payments over a year-long period would be either impossible or very difficult to meet." But other studies, such as the Ideas42 study with CARD Bank, suggest that incorporating savings activities into clients' routine behaviors is an important component in successful saving.

3) Other potential savings solutions

Because the practice of accumulating construction materials over time is risky – materials can be stolen or damaged before being used – researchers conducting the Habitat-Citi pilot program proposed a hypothetical alternative to clients during focus group discussions. The product would allow them to "buy" building materials in the form of stickers depicting items such as roofing sheets or concrete blocks. In this way, they could "build" their homes by affixing the stickers to a picture of an unfinished house provided when they open the account. Upon completion of their goal, they could trade in the stickers to receive the

actual supplies. Although clients seemed intrigued by the product, they were reluctant to make a "hard" commitment even though their savings would have been equally inaccessible if they had used them to purchase actual materials. It appeared that money, in any account, is still viewed as a liquid asset to be tapped when necessary. This suggests an area for future investigation using a similar concept – incorporating the sticker reminders but allowing the account to be tapped in case of emergencies.

The Ideas42 study found that clients often opened accounts but did not use them. The study hypothesized that clients focused on the immediate goal of opening a savings account rather than on the long-term goal of saving for a specific purpose. They also noted that while the uses of savings are rather abstract at the time of saving, expenses are ever-present for the clients, increasing the temptation to withdraw or spend money rather than saving it.

Potential expenses in the short term are a real concern for families living in poverty, and products may well need to address this issue. However, as the Ideas42 study points out, there is also a need to make long-term savings goals increasingly salient for clients. Future research in this area would enhance our understanding of how to balance commitment and flexibility.

4) Role of incentives

The pilot found that financial incentives to save – particularly large incentives (e.g., 25 or 50 percent of the total) – are not ideal for motivating savings for home improvement. While they may motivate some additional saving, they appear to be even more effective at encouraging arbitrage behavior that has no added social or financial value.[7] Moreover, to be sustainable in the long term, savings vehicles need to meet the financing needs of clients while minimizing the need for subsidies.

Additionally, in one of the pilot locations, the majority of clients held active savings lottery accounts, and many of those with limited funds chose to keep them in the lottery account, even when the home savings account offered a guaranteed 50 percent bonus. Thus, the lottery appears to be a more effective incentive in this context. Additionally, Cantilan Bank offered supplier discounts as part of its program but did not emphasize them. It would be useful for further research to investigate the effectiveness of noncash incentives, such as free or discounted building supplies, in encouraging saving.

This finding contrasts with the results of a 2013 study[8] in Kenya that examined the effects of offering various rates of return on savings. The study found that at each increase in rate of return, there was a corresponding increase in probability of usage of the account. Most significantly, the account with the highest subsidy appeared to have long-term effects for clients even after the subsidy was removed. More than two years after the end of the intervention, the participants who had received the highest subsidy reported income levels that were not only 22 percent higher than the comparison group, but also far higher than the amount of the subsidy they had received during the study. The author inferred that the high rate of return on the account had increased the salience of saving, thereby improving other accounting and entrepreneurship behaviors, which resulted in the income gains.

Additional research would help tease out the reasons for these different outcomes in response to savings incentives.

5) Savings and loans

Given the large amount needed to fund home improvement projects and clients' preference for loans over savings, it would be useful to conduct future research into the potential efficacy of a combined savings and loan product, in which clients can borrow the remainder after reaching a savings milestone. This 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. Savings and loan products might also experiment with incentives that encourage clients to save more before borrowing. For example, rebates on loan interest could reflect the decreased risk for the lender. A combined savings and loan product was designed for Habitat for Humanity's Save & Build program in Nepal.[9] The program was operated through Village Banks and required borrowers to first save an amount equivalent to the amount they wanted to borrow. The product attracted a number of villagers who had not previously participated in savings programs through the village banks, and it allowed these participants to use a combination of savings and loans to finance a variety of home improvements.

Given the importance of loans as a source of housing finance (even when not specifically targeted as such), it's also important to assess their role in the market when designing housing savings. For the Habitat-Citi pilot in Thailand, subsidized government loans accessible to many 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.

The New Microfinance Handbook[10] discusses the use of compulsory savings incorporated in loan products. It posits that these savings can serve multiple purposes: They provide a form of collateral to the lending institutions and can also help clients develop regular saving patterns and accumulate assets. However, these savings also involve an opportunity cost for the clients if the return is lower than what they would receive if they put their money into other investments — a concern that must be considered by the institution in developing a product. The handbook also mentions another model of connecting savings and loans, in which an additional amount is paid with each loan repayment and, after repaying the loan in full, the borrower receives the lump sum. The author asserts that this model also serves as a concrete incentive to repay the loan on time.

Conclusions

Although Habitat's housing microsavings program did not result in significant savings for home improvement projects, it did add to the existing knowledge about savings behaviors and point to areas for further investigation. Based on the available research, there does not appear to be a clear one-size-fits-all approach to encouraging clients' commitment to save. In general, clients appear to prefer savings options that offer flexibility over those that require fixed weekly or monthly deposits. Areas for additional research include ways of making long-term savings goals more salient for clients, the role of incentives in encouraging saving, and the potential effectiveness of a combined savings and loan product.

Acknowledgments

Habitat for Humanity's Terwilliger Center for Innovation in Shelter would like to thank the Citi Foundation for its support in implementing this project. Citi and the Citi Foundation have supported Habitat for Humanity since 1999, providing more than US$32 million to advance Habitat's work of helping low-income families secure affordable homes. Financial capability and asset building are key focus areas for the Citi Foundation.

About Habitat's Terwilliger Center for Innovation in Shelter

The Terwilliger Center works to enhance the supply and demand sides of housing market systems through a two-pronged approach: Mobilize the flow of capital to the housing sector and serve as facilitator and adviser to market actors. In addition, the center advances the knowledge around housing markets by conducting research studies, creating publications, developing tool kits and scheduling public appearances that foster impact in the sector.

For more information, please visit **habitat.org/TCIS**.

Endnotes:

[1] McKinsey *Report on Adequate Housing*, 2014.

[2] Commitment savings accounts are accounts that restrict access to funds until a preset date.

[3] Fiorillo, Alexandra; Louis Potok; and Josh Wright. "Applying Behavioral Economics to Improve Microsavings Outcomes." Rep. Ideas42, February 2014. Web. 23 Nov., 2015. ideas42.org/wp-content/uploads/2015/05/Applying-BE-to-Improve-Microsavings-Outcomes-1.pdf.

[4] Devaney, Patricia Lee. "Microsavings Programs: Assessing Demand and Impact, A Critical Review of the Literature." Financial Services Assessment. The IRIS Center, June 2006. Web. 25 Nov., 2015. citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.171.435&rep=rep1&type=pdf.

[5] John, Anett. "Redesigning Microsavings – Evidence from a Regular Saver Product in the Philippines." Innovations for Poverty Action, n.d. Web. 25 Nov., 2015. poverty-action.org/study/redesigning-microsavings-%E2%80%93-evidence-regular-saver-product-philippines.

[6] CGAP. "Poor Peoples' Savings: Q&As with Experts – A Compilation of 15 Expert Views on Savings Demand, Products, Delivery Models, and Policy Issues." Rep. Microfinance Gateway, n.d. Web. 30 Nov., 2015. microfinancegateway.org/sites/default/files/mfg-en-paper-poor-peoples-savings-qas-with-experts-2006.pdf.

[7] In this case, rather than increasing their savings to take advantage of the incentives being offered, clients were taking money out of one savings account and putting it into the savings account that offered a financial incentive.

[8] Karlan, Dean S.; Aishwarya Lakshmi Ratan; and Jonathan Zinman. "Savings by and for the Poor: A Research Review and Agenda." *The Review of Income and Wealth* 60.1 (2014): 36-78. Web. 30 Nov., 2015. onlinelibrary.wiley.com/doi/10.1111/roiw.12101/full.

[9] Maes, Jan. "Evaluation: Save & Build Community Housing Program." Rep. N.p.: Habitat for Humanity International. Nepal, 2009. Print.

[10] Ledgerwood, Joanna, Julie Earne, and Candace Nelson. *The New Microfinance Handbook: A Financial Market System Perspective.* Washington, D.C.: World Bank, 2013.

This document was produced by Habitat for Humanity's Terwilliger Center for Innovation in Shelter.

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