

Rethinking microcredit: borrowing as a disciplined way to save?

Microcredit is not just about increasing access to credit for millions of small entrepreneurs in poor countries. Paradoxically, people also use microcredit as a costly way to save.

The Nobel Peace Prize celebrated the potential of microcredit to unleash the productive potential of small-scale entrepreneurs in need of small loans. Research from rural India suggests that women who are less able to discipline themselves in their financial behavior may voluntarily use microcredit as a savings tool. A loan can be used as a means of saving for lumpy expenses, such as education for their children or house repair. If so, there is cause for rethinking microfinance and focusing on micro-savings that would enable the poor to manage their money at less expense.

research: India – microcredit / savings

RESEARCHERS

Michal Bauer / Charles University in Prague, CERGE-EI
Julie Chytilová / Charles University in Prague
Jonathan Morduch / New York University

INFORMATION ABOUT THE RESEARCH

where: Karnataka, India
sample size: 573 subjects
when: June 2007



CONTEXT

How does microcredit work?

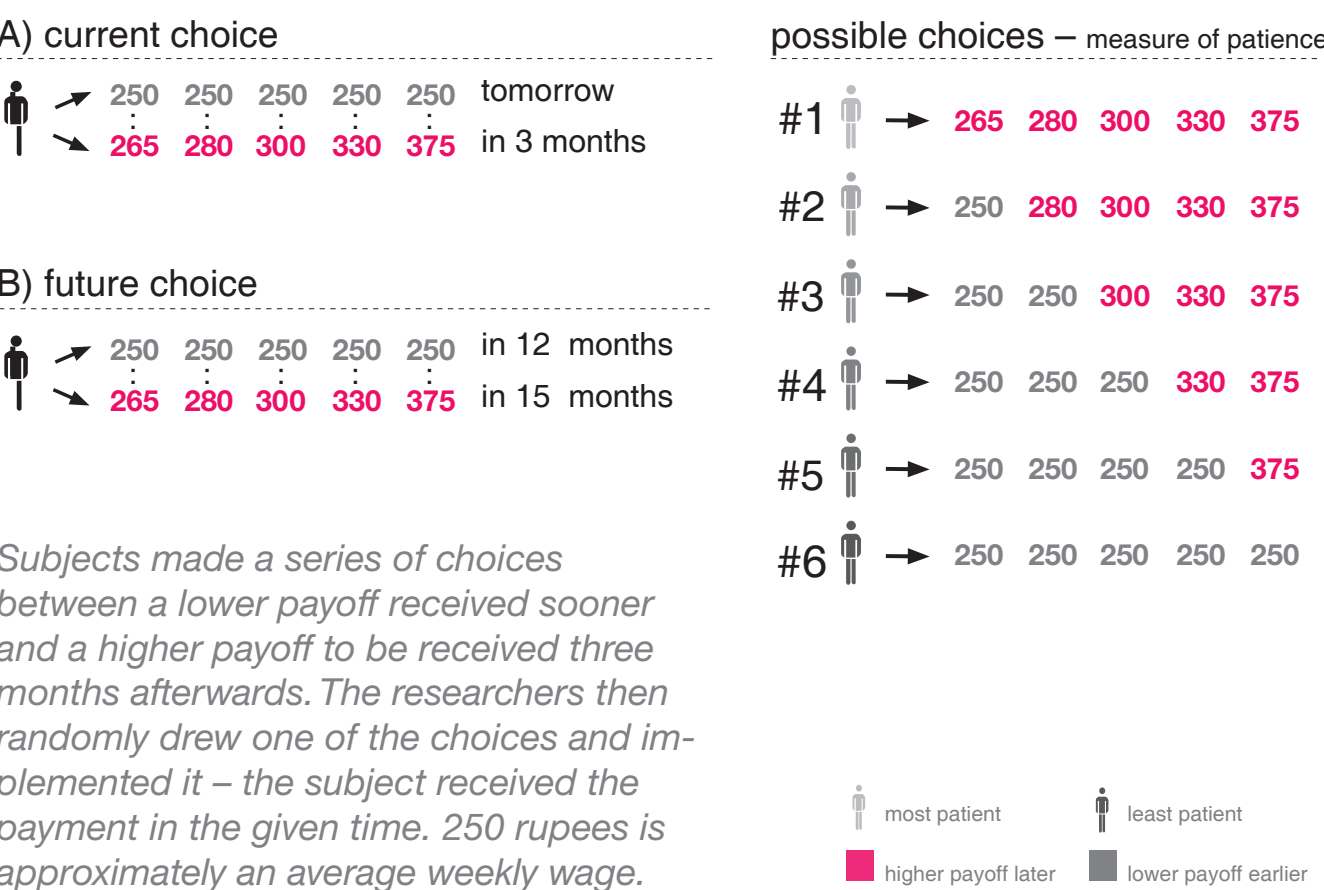
Microcredit provides several innovations, which have proven to ensure high repayment rates by the poor. The loans are typically given to a group, which is liable as a whole. Individual members of the group thus have an incentive to monitor others' repayment discipline. Loans are repaid in frequent, low, and regular installments. The group can obtain another loan only if the outstanding one is fully repaid.

How do informal saving products work?

Deposit collector - comes to clients house-by-house and collects low, yet frequent deposits. Deposit collectors charge non-negligible fee for their service.
Rotating savings and credit associations – a group of people who save together. At regular meetings everybody deposits pre-agreed amount of money to a common pot. The collected money is taken home by one of the members. The meetings continue until each saver has taken the pot once, then the whole cycle repeats. As one member puts it: "You can't save alone."



METHODS



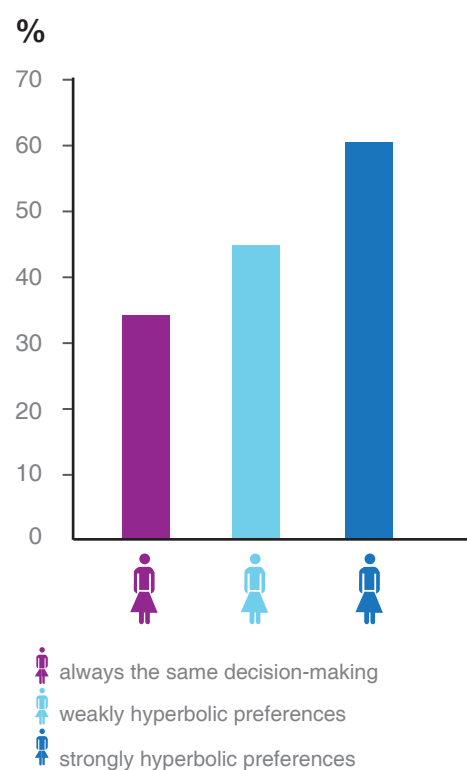
RESULTS

► Microcredit remarkably resembles informal saving products. Both provide support for people with self-discipline problems.

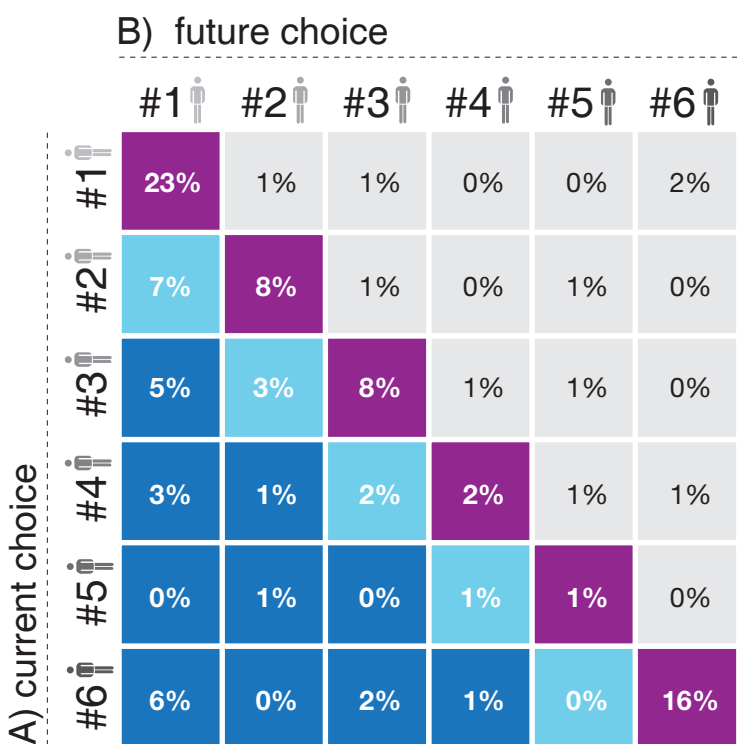
► Women with low self-control save less and borrow more using microcredit. They may use microcredit as a way to save.

► Reliable microsavings product may help poor individuals with self-control difficulties to better manage their money at less expense.

Measure of patience and decision of women for microcredit



How many subjects have chosen respective choices



INTERESTED IN THE RESEARCH? DETAILS CAN BE FOUND HERE

>>> Bauer, M., Chytilová, J. & Morduch, J. (2011): Behavioral Foundations of Microcredit: Experimental and Survey Evidence from Rural India. Forthcoming in: American Economic Review.

RELATED LITERATURE

> Gugerty, M. K. (2007): You Can't Save Alone: Commitment in Rotating Savings and Credit Associations in Kenya. Economic Development and Cultural Change.
> Ashraf, N., Karlan D., & Yin, W. (2006): Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines. Quarterly Journal of Economics.
> Collins, D. et al. (2009): Portfolios of the Poor: How the World's Poor Live on \$2 a Day. Princeton Uni Press.

Authors thank

