Microsavings- A neglected pillar of Microfinance: Does literacy influence the saving preferences of poor women?

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ABSTRACT

The study through carefully collected primary data, attempts to understand how literacy affects the savings preferences of poor women in South India. This study has an important bearing on the designing of right financial products for each customer group which in turn has a direct influence on the economy and the Microfinance industry. A null hypothesis of saving preferences of the poor not changing with their literacy levels is tested. The data was collected from a representative convenient sample of 700 respondents from different parts of Tamil Nadu. The study observed that the preferences are significantly different for each of the customer groups with differing literacy levels. Specifically, the study finds that 21 out of 27 saving preferences are influenced by literacy levels.

Introduction

Amidst growing awareness and realization that the world's poor are excluded from the formal financial systems, Microfinance, amongst many other initiatives has come in to bridge this wide gap. Although Microfinance refers to the entire range of financial services such as savings, money transfers, insurance and production and investment credit, in most of these cases the focus has been on Microcredit, i.e., the extension of very small, frequent loans to a large number of poor clients[1].Over the past decade the number of Microfinance Institutions (MFIs) have grown rapidly and these are constituted by both Non-Governmental Organizations (NGOs) and Non-Banking Financial Corporations (NBFCs). All of these institutions focused on providing credit and neglected the other main pillar of financial inclusion, that is, savings. This study attempts to understand this neglected side of Microsavings. While there have been contentions that the poor are too poor to save, there have been stronger contentions that they are too poor not to save. Their financial vulnerability necessitates that even small occasional surpluses if stacked away can grow to meaningful and useful lump sums that could be drawn upon during emergencies. While the government has taken efforts to bring in financial inclusion through a wide spread effort to open bank accounts for every individual, several of these accounts are dormant (Tyler,

1 The definition of poor is normally on the basis of Purchasing Power Parity benchmark set by the Millennium Development Goals (MDG) of the United Nations. People living with an income less than $2 per day are considered to be poor.

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Ravi, Bhat, Ramji, & Ballem, 2012). Access to a savings account and offering the right savings product along with facilitation and hand holding are not the same. A one size fits all approach doesn't hold in a situation of complex personal financial heterogeneity of trying to make ends meet. A standard saving bank account may not get people to save. There are various options that go with every saving instrument like liquidity, rate of interest, convenience, safety etc. Just like the world of investment banking offering personalized financial services to high net worth individuals, it is highly imperative that the poor and the financial services also be looked at that way. The rationale towards this approach not just being a humane motive, but also an economic one, since millions of rupees is being spent on extending financial services which may not be what people what.

Studies have been done in several other parts of the world to understand the saving preferences of the poor. While (Adams D. W., 2009) argues that the poor can and will certainly save when the right saving services are offered to them, (Rutherford, 2000) brings out evidences from Bangladesh of better saving behavior among people who have had a formal schooling. Studies have been done in Indonesia, Philippines and Africa to understand how literacy levels of people affect their saving preferences (Vogel & Burkett, 1986) ; (Bouman & Hospes, 1994) ; (Robinson, 1994).

However in the Indian context, with specific reference to Tamil Nadu there are no studies to understand the influence of literacy on saving preferences of the poor. This study assumes significance in the light of ensuring the right saving product to specific target groups. For instance, with education people may appreciate the importance of a fixed deposit, as against a liquid saving option. The objective of the study is to test how literacy levels of people influences various attributes of saving products and the poor's preferences over them. Such understanding can facilitate the offering of a wider range of savings products to the poor, tailored to meet the needs of specific target groups of literate and illiterate people. This can potentially lead to better saving rate which is symbiotically beneficial to the poor and the economy.

Review of Literature and conceptual background

Savings: The neglected side of Microfinance

Aspects of financial inclusion like savings, insurance etc are largely unattended due to several reasons, among them majorly, is the regulatory restriction which prevents MFIs from taking deposits from people. Microfinance is the only industry still to adopt a 'product centric' approach of trying to sell to customers whatever is produced (Wright, 2008). He emphasizes the need for the industry to shift to a 'market-driven' approach where the industry can innovate and provide products that their customers need. What the customers need is not only credit but equally a means to be able to save[2]. The possibility to save money in a secure place while also earning a meager interest can help low-income households to gain control over their income streams which can in turn smoothen their consumption patterns. While savings have not only been neglected there is also a wrong notion that the poor are too poor to save.

[2] Rutherford (1997) defines savings as "an act of putting aside a small part of current income in order to accumulate the same into a large sum useful for consumption or for investment purpose at a different time"

The myth that the poor cannot save

There is an unstated assumption that the poor already being financially vulnerable, will not be able to save. This assumption has played a huge role of a deterrent in the minds of both policy makers and financial institutions from focusing their attention and efforts to the mobilization of micro savings from the poor. More than three decades ago, Adams (1978) argued that it is incorrect to assume that the poor cannot save. With evidences from rural saving behavior of many economies Adams showed quite high levels of saving propensities among the rural households. He also argues that this inclination to save is negatively affected by rural financial markets that tend to emphasize on micro-credit and thereby nipping the saving tendencies of the poor. One cannot but agree more on this view of Adams. Especially in the past decade, the growth of Microfinance in India has had a sole focus on Microcredit, and the potential of the poor to save has remained largely untapped. It is important now to leverage the active role played by women in the emerging context of Microcredit, towards savings.

Focus on Women as financial controllers

Although, traditionally in the Indian context, women have had significant roles only indoors, as home makers, the scenario is fast changing now. Women in the Indian society across several socio economic groups are standing up to men on several counts, from education to job to earning a livelihood and more so in managing the financial portfolios of their homes. This last facet of women's role in managing money at home assumes more importance in the case of the poor, where several men in poorer households have shown tendencies of being irresponsible with money. Karlan and Morduch(2009) state that while the poor are unable to provide for healthy high calorie food for the family, they seem to be able to spend for alcohol and tobacco. In the Indian context this is very relevant where men of poor households tend to fritter away money in such irresponsible acts. In the light of this, the role of women in managing money and savings at home becomes highly relevant.

Importance of the saving component for women

Dupas and Robinson (2009) find through their field studies in Kenya that women are ready to save even in accounts that provide them negative returns on savings. That is, they do not mind using the saving services that did not pay them any interest, but also charged substantial withdrawal fees. They argue that if these women did not have trouble saving on their own, they should not have paid the bank for the right to save. The fact that they save despite these charges suggest that they face much higher negative private returns on their money when they save informally. They also find that in the Kenyan context 87% of people took up the savings account that they oûered, and 41% made at least two transactions within the ûrst six months of getting the oûer. They also state that while they found evidences that savings access helps the businesses of these women, evidence of the impact of credit on their businesses have not been clearly established.

Contextual background to savings-Models of savings

The understanding of the influence of literacy on saving preferences requires a contextual background of motivators of savings. These motivations determine saving preferences (Karlan and Morduch, 2009) which is then tested for being influenced by people's literacy levels.

Browning and Lusardi (1996) have reviewed nine models, eight of which were originally put forth by Keynes (1936), in an attempt to explain why people save. The factors that proved influential in saving decisions were precautionary, life-cycle (to provide for anticipated needs), intertemporal substitution (to enjoy interest), improvement (to enjoy increasing expenditure), independence, enterprise, bequest, avarice, and down payment.

The allocation of disposable income is a portfolio decision for the poor. One of the forms it could take is of voluntary savings in the form of cash either at home or with an institution. 'Microsaving' is the term given to the offering of such deposit services which will enable the poor to save and withdraw small amounts of money on a regular basis (Beverly and Sherraden, 1999). Sherraden (1991) posits that accumulation of assets improves household stability, creates an orientation toward the future, stimulates development of other assets, increases civic participation, and enhances the well-being of offspring.

Even long after non-profit organizations began offering credit services, the poor have had to use informal avenues and their own social networks to save money. A study by Collins et al. documented that poor households in Bangladesh, India and South Africa, struggle to find a savings vehicle that can accommodate small periodic contributions and hence turn to friends, family and informal service providers (Collins et al., 2009).

Robinson (1992) states that suitable financial instruments will enhance savings among the poor as it will enable them to manage their irregular cash flows by depositing excess and drawing down on it at times of need. Also, the low level of savings among the poor is attributed to inappropriate deposit facilities and institutional structures (Von Pischke, 1984; Robinson, 1994). There are also studies which have enumerated the informal avenues available for the poor to save (Dercon, 1998; Bouman, 1994). Deaton (1991) points out the difficulties associated with the informal sector. There have been other studies in South Africa by the FinMark Trust that has brought out the ability and willingness of the poor to save. In the Indian context, savings options are available in the form of self-help groups (Sukhbir, 2008), ROSCAs (Beatriz, A and J.Morduch, 2005) and Regional Rural Banks.

There are very few studies to understand what influences the saving preferences of the poor. Among several independent variables like age, family size, family income etc (Phipps & Woolley, 2008), the literacy levels of women has been considered as an independent variable in this study and its influence on the saving preferences have been examined. In the Indian context, the heterogeneity of people's poverty levels, the gender bias, nature of employment and availability of financial services, creates a platform for region specific exploratory studies.

Research objective

The study aims to understand the influence of literacy on the saving preferences of poor women. In an attempt to address the research problem of determining how saving preferences of people vary, this specific research, focuses on establishing the influence that literacy has upon saving preferences of the poor by testing the following hypotheses

H_0: There are no significant differences in the saving preferences of people of different literacy levels

H_1: There are significant differences in the saving preferences of people of different literacy levels.

These hypotheses are tested for each of the saving attribute that has been identified and chosen for the study.

Data and Research Methods

The core of this study adopts a positivist epistemological stance. Since the primary objective is to understand whether literacy levels have an influence on the savings preferences (measured in a likert scale with appropriately constructed statements) ANOVA test is used to ascertain whether the mean values of each of these observed preferences are significantly different for each of the groups of differing literacy levels. Analysis of Variance (ANOVA) is a procedure that is used for comparing sample means to see if there is sufficient statistical evidence to infer that the corresponding population distributions also differ. An ANOVA test, unlike a t-test (which is also used to compare means), can test for equality of means across more than two groups.

Since the requirement of the study is to test whether the mean of likert scale scores given by the respondents for each saving attribute varies with their education levels (three levels have been chosen), the Analysis of Variance is the most appropriate statistical test. It tests the null hypothesis of no significant differences between sample means across the groups of the independent variable at a 95% confidence interval.

Statistical analysis was carried out using the SPSS software. The interpretation of the results have however been substantiated with personal observation and notes gathered during extensive and involved field visits.

Data sources for the study

The data used for the study has been collected through personal field visits to 12 regions in Tamil Nadu and through personal interviews with around 700 women participants. The sample size was chosen in adherence to the requirements of the statistical test that was performed[3]. The regions were chosen as a convenient sample while bearing in mind the need for a representative sample. I was able to identify the people to interview with the help of information provided by local microfinance institutions who knew about the income and background of people. Individuals from houses with less than Rs.120 per capita income per day were chosen[4].

The format for data collection was a mixed method approach, involving both survey techniques and qualitative semi-structured interviews. The data thus collected yielded 612 valid cases for analysis, after being cleaned and subjected to tests of reliability. This paper will focus on the quantitative insights that have emerged and will be briefly substantiated with qualitative observations. The choice of sites is a mix of rural and semi-urban locations. The sites visited are as follows:

1. Pothanur (Near Coimbatore)
2. Ramanathapuram
3. Marudhamalai
4. Ondipudhur
5. Karuvalur (Near Avinashi)
6. Pollachi
7. Perambur
8. T.Nagar
9. Dharmapuri
10. Namakkal
11. Red hills
12. Mohanur

[3] The GPower 3.1 software application was used to determine the required sample size.

[4] In congruence with United Nations Millennium Development Goals (MDG) of defining Poor as those with incomes less than $2 per day.

Savings preferences considered in the study

A list of saving preferences were identified as dependent variables based on previous studies (Phipps & Woolley, 2008); (Agarwal, 1997); (Sen, 1990) and on consultation with experts in the Microfinance industry. By saving preferences, I mean and consider those factors that can act as enablers in the subscription to a regular saving behavior among the poor. I had the support several Microfinance institutions in South India and this was done with the help of analysts and the field staff who interact with the poor on a regular basis during their regular bi-weekly meetings. The following factors were identified:

a. Distance of institution from home

b. Need for support in filling forms/Help in transaction

c. Dependence on husband for commuting to institution

d. Minimum balance requirements on accounts

e. Timings of the institution

f. Public transport connectivity to the institution

g. Trust on collection representatives

h. Plans suiting expenditure motive

i. Withdrawal whenever required

j. Safety of money deposited

k. Limits to withdrawal during each transaction

l. Safe commuting to the institution

m. Approachable and helpful staff

n. Limits to number of transactions per month

o. Interest on savings

p. Absence of transaction charges

q. Plan designed to instill discipline in saving behavior

r. Accessible ATMs

s. Pre-closure options on FDs

t. Reputation and reliability of the institution

u. Simple processes

v. Representatives to perform transactions

w. Rate of interest on savings

x. Door step services

y. Compromise on interest on savings

z. Absence of minimum transaction amounts

aa. Decision of tenure of savings based on interest paid

The independent variable measures the level of education of the women whose preferences were studied. Three levels of education were considered since most of the women in the regions considered for the study belonged to one of these categories:

a. Illiterate

b. High School/PU

c. Graduate

Table 1: Education levels of people

Levels of education					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Illiterate	155	25.3	25.3	25.3
	High School	289	47.2	47.2	72.5
	Graduate	168	27.5	27.5	100.0
	Total	612	100.0	100.0	

Source : Primary Data

Results and Discussion

The results of the ANOVA test to ascertain the whether the mean scores of the savings preferences are statistically significant are presented below in Table 2. The significance values have been used to infer statistically significant influence of literacy on saving preferences[5]. The results from table 2 been categorized and grouped into two categories of savings product features which are affected and those which are not by literacy levels of the people, in Table 3. Useful interpretations can flow forth from these grouping which can provide inputs towards the designing of products with the right features to the respective groups of poor women.

Table 2: ANOVA: Test of statistically different savings preferences across different literacy levels

Saving Preferences	Sum of Squares	Mean Squares	F	Significance (p)
Institution near to home	1.881	0.94	1.209	0.299
Help in transaction	236.815	118.407	117.097	0.000
Husband to take to the institution	112.269	56.135	31.981	0.000
Minimum balance	0.066	0.033	0.02	0.980
Timings are convenient	1.98	0.99	0.528	0.590
Frequent and easy transportation	32.145	16.073	8.503	0.000
Trust collection representatives	602.338	301.169	411.603	0.000

[5] Significance value i.e, $p<0.05$ indicates that there is statistically significant difference (at 95% confidence interval) between the means of the measured variable(saving preference) across the groups of the independent variable (literacy levels). Hence the null hypothesis is to be rejected when $p<0.05$

Saving Preferences	Sum of Squares	Mean Squares	F	Significance (p)
Plans suiting maturity	446.291	223.146	890.37	0.000
Withdrawal whenever required	29.82	14.91	11.012	0.000
Depositing money is safer than keeping at home	0.098	0.049	0.042	0.959
Limits to withdrawal	34.825	17.413	13.364	0.000
Safe lone commuting	28.221	14.111	13.905	0.000
Approachable and helpful staff	141.378	70.689	284.148	0.000
Limits to number of transactions	17.489	8.745	5.9	0.003
Interest on savings	6.14	3.07	8.526	0.000
Absence of transaction charges	5.487	2.744	2.87	0.057
Plan instilling discipline	85.395	42.698	39.799	0.000
ATM	24.744	12.372	9.599	0.000
Pre-closure on FD	55.938	27.969	44.007	0.000
Reputation and reliability	30.813	15.406	48.84	0.000
Simple process	732.65	366.325	664.786	0.000
Transaction to be done on my behalf	438.971	219.486	135.019	0.000
Rate of Interest paid	2.394	1.197	2.192	0.113
Service should be provided near home	344.063	172.032	307.794	0.000
Compromise on rate of interest	15.199	7.6	3.678	0.026
Limits to minimum saving amount	1.231	0.615	1.064	0.346
Decision on tenure based on interest	46.546	23.273	28.822	0.000

Table 3: Grouping of saving preferences based on influence of literacy

Saving preferences which vary with literacy levels vary with literacy levels	Saving preferences which do not
Need for support in filling forms/Help in transaction	Institution near to home
Dependence on husband for commuting to institution	Minimum balance
Public transport connectivity to the institution	Timings are convenient
Trust on collection representatives keeping at home	Depositing money is safer than
Plans suiting expenditure motive amount	Limits to minimum saving
Withdrawal whenever required	Rate of Interest paid
Limits to withdrawal during each transaction	
Safe commuting to the institution	
Approachable and helpful staff	
Limits to number of transactions per month	
Interest on savings	
Plan designed to instill discipline in saving behavior	
Accessible ATMs	
Pre-closure options on FDs	
Reputation and reliability of the institution	
Simple processes	
Representatives to perform transactions	
Door step services	
Compromise on interest on savings	
Decision of tenure of savings based on interest paid	

Results of the ANOVA test interpreted with field notes and interview observations

The saving preferences which are influenced by literacy levels of the women whose saving behavior was studied also corroborates with several observations made on the field. For instance, illiterate people often needed help in filling of forms and other procedural aspects that are related to savings. The lack of education and the ability to write and read was found to dissuade several women from approaching the formal savings channel for their saving needs. They rather preferred informal channels that did not require any knowledge of the written script and worked more on oral trust and assurance given by people who managed them, who were, typically in a small village setting, known to them. There are also other factors which can be considered as a sub-set of 'needing external assistance' to carry out a transaction, which seem to be influenced by the literacy levels of people. They include the factors, 'Approachable and helpful staff', Representatives to perform transactions and 'Simple processes' which iterate the need for easy to understand solutions and/or help from the staff of institution in performing the savings transactions in cases where forms need to be read and filled for every transaction. These factors, although seemingly common sense based, have been serious concerns for the illiterate women which act as deterrents from taking up formal savings channels. This is also one of the observed reasons for several dormant post office and bank accounts. These accounts were opened by agents of banks/post office agents, often to meet targets of financial inclusion set by the governmental mandates. However, the financial inclusion target is based on the number of accounts opened and not on the number and frequency of transactions that are done on them. Factors such as 'Dependence on husband for commuting to institution', 'Public transport connectivity to the institution', 'Door step services', 'Accessible ATMs' and 'Safe commuting to the institution' are influenced by literacy levels of women. This can be understood by appreciating the Indian context, wherein women do not have independence in their social life, much less in their financial lives and the choices that they make. This woe is compounded all the more for the uneducated. Education is one singular factor which has given a fair degree of independence to the common Indian women. While for the illiterate, these factors seem to be of primary concern in their saving behavior.

'Plans suiting expenditure motive', 'Compromise on interest on savings', 'Decision of tenure of savings based on interest paid', and 'Pre-closure options on FDs', are as well influenced by literacy levels. The reason for this is that it is only the educated who have the ability to discern these issues in a savings product and therefore assert their choice over them in the process of choosing a savings vehicle. The same argument can also be extended to other factors which relate to transaction costs, minimum balance restrictions, number of transactions etc.

For instance, while in many cases, the educated could possibly appreciate the presence of transaction charges, limits to withdrawal and minimum balance restrictions, both from institutional perspective of the need to cover huge costs of delivering tailor made services in remote locations, and also from their individual perspective of these restrictions being able to act as positive deterrents to easy withdrawals and avoidable expenditure. This calls of education, more so maturity, which ought to come with education.

For instance, poor people, during the field studies were observed to exhibit tendencies of spending on televisions and social ceremonies, while even at times denying several basic needs like good nutrition. This behavior is accentuated by illiteracy and lack of maturity. For example, for these people who are struggling to make ends meet, the need to be accepted by the society and looked upon at par with others, in terms of having a television at home, seems to be a highly gratifying need that they cannot do away with. Hence, surplus, if any, is spent on such vain avenues. Such behavior was observed in much lesser measure among those who were educated till graduate levels. Although, in some cases, mere education without maturity was observed to give rise to other forms of subtler gratification needs (like the need to dress up adequately to be looked upon highly commensurate to their education level, by a fraternity that is predominantly illiterate). However, those were very few observations that can be considered as outliers. Thus, the study reveals that most of the saving preferences of people seem to be significantly influenced by the literacy levels of people.

The purport of this is three-fold. Firstly, for policy makers and institutions who seek to bring financial services to people, one of the important factors that they should consider in the design of the savings products is the literacy levels of people to whom it is offered.

Second, in situations where majority of the people have been educated till high school/PU levels, there is an important necessity of imparting financial literacy to them. This could make a potential difference in the way they look at savings.

Thirdly, if the target population is composed of a majority of illiterate women, processes should be made friendly, understandable and simple. Use of color codes and symbols in forms and pictorial illustration to help people understand the implications of small annuities which are saved away to grow into a huge lump-sum. The power of compounding can be illustrated with animated videos etc. Although these efforts would involve the investment of time, money and energy and efforts, the pay-offs will be rich in the long run.

Conclusion and Implications

The study found that 21 out of 27 saving preferences considered in the study are influenced by the literacy levels of the poor who use the savings services. The right understanding of the saving preferences of the poor would facilitate the design of target specific saving products for the poor. A right design would ensure that the funds, both governmental[1] and private are rightly utilized. When the regulatory environment is conducive for savings mobilization by the Microfinance institutions the right savings product to the right group would ensure a self reliant cheap source of funds for the Microfinance institutions, which in the long run could lead to a market driven stabilization and reduction in the lending rates, like in the case of the commercial banking sector.

The study however, has a limitation of being restricted to a specific geography. However, since the poor in India have heterogeneous personal financial situations to face there is a need for such explorative region specific study in various regions. The study can also be extended to cover other influencing variables which could potentially influence regular saving by the poor.

6 The Government's efforts towards financial inclusion through Pradhan Mantri Jan Dhan Yojana scheme

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- The Government's efforts towards financial inclusion through Pradhan Mantri Jan Dhan Yojana scheme