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Sample Size
4,000 young women

Research Implemented by IPA
Yes

Fast Cash: The Impact of Up-Front Incentives on Young Women's Savings in Tanzania

Abstract

Commitment savings accounts—which reward users for reaching savings goals and penalize them for withdrawing early—have the potential to help people reach their savings goals, but concern over having enough cash on hand to cover emergencies may discourage some from using them. Changing the design of commitment savings accounts to pay incentive bonuses up front rather than at the end of a defined period may encourage more people to take advantage of them. Researchers in Tanzania studied the effect of an up-front commitment savings account on savings levels, personal well-being, empowerment and agency among young women.

Policy Issue

Many individuals, particularly those in low-income countries, save less money than they say they would prefer to[1], and this disconnect may be driven by a tendency to over-value cash now over savings later[2]. To alleviate this tendency, some microfinance organizations have tested “commitment-based” savings accounts that penalize savers for withdrawing their funds early, but these penalties may deter potential participants who fear unforeseen circumstances and want cash on hand. Offering commitment incentives as a reward up front rather than at the end of a savings period could address this concern, and may also appeal to another cognitive bias: The tendency of individuals to over-weight potential losses relative to potential gains[3]. To study how these insights can improve savings instrument design, researchers in Tanzania examined the effect of an up-front lump-sum mobile savings incentive on savings levels, personal well-being, empowerment and agency among young women.

Context of the Evaluation

This study will be conducted in the Shinyanga district of Tanzania in conjunction with the Jhpiego DREAMS Initiative and Sauti Program, a large-scale evaluation of the impact of access to digital financial services on health outcomes. This study will take advantage of the DREAMS Initiative’s distribution of mobile phones and quarterly unconditional cash grants to 12,300 adolescent girls and young women. Participants in the study will be randomly selected from among recipients of the DREAMS program. The researchers will also work with the MNO, Tigo, to send messages and mobile money to participants and to gather mobile money activity data from their SIM accounts.

Details of the Intervention

Researchers will partner with the NGO Jhpiego and Tigo Tanzania to conduct a randomized evaluation of the effects of an up-front savings incentive on savings levels, personal well-being, empowerment and agency among young women. 4,000 adolescent girls and young women ages 15-23 who are participants in Jhpiego’s DREAMS program will be randomly selected for the study. Under DREAMS, these young women already receive quarterly unconditional cash transfers from Jphiego via mobile money platforms. Study participants will be randomly assigned to one of five groups:

- **Group 1: Instant-bonus savings** (600 individuals): Participants will receive a lump sum of cash equivalent to 12 months’ interest (at 10 percent) on their quarterly cash transfers. The bonus will remain in their account as long as they save 10 percent of each quarterly cash transfer they receive from Jhpiego over a year. This bonus will be forfeited if the customer fails to save the minimum amount each quarter or withdraws any of the savings deposit prior to the end of the year.
- **Group 2: Traditional savings account** (600 individuals): A more traditionally structured commitment savings account – participants will receive a bonus (same amount as Group 1) at the end of the one-year period if they save 10 percent of each quarterly cash transfer they receive from Jhpiego over a year.

- **Group 3: “Super” instant-bonus savings** (600 individuals): The same design as Group 1, but with a bonus equivalent to 12 months’ interest at 30 percent instead of 10 percent.
- **Group 4: “Super” traditional savings account** (600 individuals): The same design as Group 2, but with a bonus equivalent to 12 months’ interest at 30 percent instead of 10 percent.
- **Group 5: Comparison group** (1,600 individuals): No savings incentives.

Additionally, half of the participants who receive a savings incentive will also receive SMS messages asking if they are interested in saving 10 percent of their quarterly cash transfers as well as reminders and encouragements to stick to their commitment.

Each study group will contain the same proportion of respondents with regard to village of origin, socio-economic background, and experience with banking. To test the impact of potential spillover effects as more and more people in a village save, researchers will randomly vary the proportion of residents that receive incentives in each village – either 20 percent of villagers or 80 percent.

To measure the effects of the incentives, researchers will collect data on savings levels, use of mobile financial services, income and employment, and self-reported agency and empowerment. Additionally, researchers will measure participants’ preference for money now over money in the future and aversion to loss to determine if these factors influence individuals’ adoption of instant-bonus savings accounts.

Results and Policy Lessons

Study in progress; results forthcoming

Sources

[1] Banerjee, A. V., & Duflo, E. (2007). The economic lives of the poor. *The journal of economic perspectives: a journal of the American Economic Association*, *21*(1), 141.

[2] Strotz, Robert H. 1956. Myopia and inconsistency in dynamic utility maximization, *Review of Economic Studies*, 23: 165-180.

[3] Kahneman, Daniel, Jack L. Knetsch, and Richard Thaler. 1990. Experimental tests of the endowment effect and the Coase Theorem. *Journal of Political Economy*, 98(6): 1325-1348.

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