Research & Knowledge

What Type of Microfinance Institutions Supply Savings Products?

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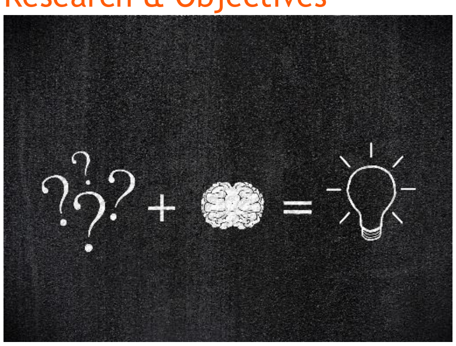
Research & Objectives



Microfinance institutions (MFIs) provide various financial services (credit, savings deposits, insurance contracts, remittances) to low-income and unbanked clients, chiefly in developing countries. The recent academic literature questions microfinance institutions for several reasons including the mixed results on poverty alleviation and on women's empowerment. The microfinance sector is developing at a rapid pace, but it still relies on subsidies and donations to finance their operations. Therefore, donors have a significant influence on the balance between financial and social objectives. Donors frequently help microfinance institutions to achieve their social performance. Nevertheless, microfinance subsidies can also crowd out private actors efforts by pouring money into institutions that can afford commercial rates.

The recent article published in Economics Letters (March 2016) by Anastasia Cazarenco, Marek Hudon, and Ariane Szafarz focusses on micro-savings specifically. In fact, contrary to common belief, recent evidence in the microfinance literature shows that poor households do actively save. Moreover, most empirical evidence suggests that access to savings accounts has notable positive impacts. In particular, it promotes female empowerment and helps people to cope with health emergencies. Some authors claim that access to savings products could even be more important than access to credit. Meanwhile, the supply side of these products is still under-studied. The article aims to fill that gap.

Methodology

Micro-savings deposits come in two different forms: compulsory and voluntary. Compulsory savings constitute the typical "hidden collateral" of microcredit while voluntary savings products are demand-driven. To identify the characteristics of MFIs taking voluntary savings, the authors use a dataset made up of 722 MFIs worldwide.

Results

The results reveal that the MFIs collecting voluntary savings are more mature than the others. This is unsurprising since the supply of micro-savings is associated with compliance with regulatory constraints, which is barely accessible to young MFIs. Likewise, savings collection is more likely in MFIs with a for-profit status, in credit unions, and in cooperatives. Interestingly, taking voluntary savings is not related to financial performance. MFIs serving larger numbers of borrowers are more likely to collect voluntary savings. Savings deposits are also more likely to be taken by MFIs granting relatively larger loans. The article highlights the negative impact of donated equity on taking voluntary savings.

Managerial Implications

These findings suggest that subsidies crowd out micro-savings. If so, subsidies would hamper not only product diversification in microfinance, but also the positive impact of micro-savings that is advocated by several studies. A possible mechanism behind the detected effect may stem from the softening of the budget constraint. MFIs receiving subsidies have only weak incentives to finance their loans from savings deposits. The potential policy implications are far from negligible since subsidization is meant to improve social performance, not hamper it. Donors sensitive to this argument could tilt their donations in favor of MFIs collecting savings.

Learn More about CERMi

*The three authors are members of the **Centre for European Research in Microfinance (CERMi)**, a leading research center in Europe.* CERMi *was created in 2007 at the initiative of the Centre Emile Bernheim (SBS-EM – ULB) and the Warocqué Research Centre (Warocqué School of Business and Economics – UMONS) in order to federate research projects in microfinance.*

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Ariane is a professor of finance at the SBS-EM, Université Libre de Bruxelles (ULB). She holds a PhD in Mathematics and an MD in Philosophy. Her research topics include microfinance, gender discrimination, and financial markets. She is Co-Director of the Centre for European Research in Microfinance (CERMi), Co-Director of the European Microfinance Programme (EMP), Co-Director of the SBS-EM Doctoral Programme in Management Sciences, and President of the Marie-Christine Adam Fund. She has published several books and scientific articles in, e.g., Econometric Theory, Economics Letters, European Economic Review, Journal of Banking and Finance, Journal of Business Ethics, Journal of Development Studies, Journal of International Money and Finance, Nonprofit and Voluntary Sector Quarterly, Oxford Economic Papers, Oxford Development Studies, Review of Finance, and World Development. Ariane Szafarz (and co-authors) received the 2016 Warren Samuels Prize awarded by the Association for Social Economics. Her work can be found at: ***http://www.arianeszafarz.eu/***

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Marek holds a Ph.D. in Economics and Management Sciences and a Master in Philosophy. He is the founder and academic coordinator of the European Microfinance Programme (EMP) and Co-Director of the Centre for European Research in Microfinance (CERMi) and the Director of the Centre d'Etudes Economiques et Sociales de l'Environnement (CEESE). He has conducted research in India, Kenya, Mali, Morocco, Vietnam and the Democratic Republic of Congo. His research mainly focuses on social and nonprofit enterprises, business ethics and sustainable development. He has published or forthcoming articles in journals such as: Business Ethics Quarterly, Economics Letters, International Journal of Social Economics, Journal of Business Ethics, Journal of International Development, Nonprofit and Voluntary Sector Quarterly, Oxford Development Studies, Quarterly Review of Economics and Finance, and World Development. Marek Hudon (and co-authors) received in 2013 the Best paper Prize in Nonprofit and Voluntary Sector Quarterly, awarded by ARNOVA. His work can be found at: ***www.marekhudon.eu***

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