Innovative Products and Approaches that Motivate Microfinance Consumers to Make Good Choices

Overview and Summary Findings

Till recently, some MFIs and many donors have invested in increasing knowledge and building skills (e.g., classroom programs, educational films, large events). But after spending a great deal on training and financial literacy, many still point to the gap between knowledge/awareness and changed behavior. At the same time, are we too quickly writing-off micro-borrowers as financially illiterate? People without formal education can manage money very well, and we can all think of someone with advanced education who has made terrible financial decisions. We should think beyond textbooks and classroom trainings. Something else distorts or short-circuits our decision-making process. Experts are beginning to explore the psychology that motivates financial decision-making.

With this in mind, IFC is working with banks and MFIs in Kyrgyzstan to consider tailored interventions that may help clients to visualize and set goals, plan, nudge, remind, incentivize and reward good financial decisions. The project draws on a number of experimental innovations from Juntos’ work with BBV-Bancomer in Mexico, to KGFS in India, to Ideas42’s work with Green Bank in Philippines, to Good Return’s work with mobile operators in Solomon Islands, for inspiration. IFC carried out a focus group analysis of 10 groups of men and women of various ages from Naryn, Jalalabad and Osh regions (urban surrounds and rural), and incorporating wage-earners and informal trade, shepherds and agricultural earners; most of the groups had over-due outstanding credits. The project set out to learn how Kyrgyz microfinance consumers think about their money, if/how they record expenses and income, what might motivate them to save and make repayments regularly.

Consistent with similar findings in Tajikistan, the study reveals a greater tendency among older people and traders in particular, almost always women, to annotate expenses and keep paper lists of expenses over time. Respondents over age 50 could easily make a list of bi-weekly expenses, and even suggested that the exercise should be elaborated with more columns, totals, and price comparisons. Annotation is entirely the woman’s business; women make lists and keep slips of paper in hiding-spots and in their purses indicating large expenses made and sometimes anticipating larger expenses. Women say that they notionally separate money into categories, and sometimes in envelopes at home. But it’s not clear that all this annotation makes a difference to their ability to balance income and expenses, and many admit that it hasn’t helped, or they have tried and given up. By comparison, younger respondents and those earning money from agriculture and shepherding don’t see the value in this effort from the start; they say annotating expenses takes too much time, and furthermore, it won’t change their spending behavior anyway.

The Kyrgyz focus groups express a strong sense that their financial situation is out of their control—a wide range of perils and unavoidable expenses get in the way of savings. These include risks related to agriculture and to culture and mentality. The participants are exposed to commodity price risks (and suffered from a recent fall in potato prices), loss of livestock, too much/little rainfall; like the Tajik

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2Margaret SherrardSherraden, “Financial Capability: What is it, and How can it be Created?” Center for Social Development, 2010
respondents they are virtually unprotected against costs and family income/life disruption from illness (a social medical system hardly meets the needs, even though it absorbs large part of formal incomes); and there are habits specific to Kyrgyzstan—the expectation of huge family parties and gift-giving, to, which participants regard as unavoidable. There is a constant leaking of money, and it seems to result in a sense of no control. The problem becomes self-sustaining: participants—especially young and agriculturally-oriented—say financial planning and annotation is only useful for those who are in control, and they are not in control, so why plan?

The study reaffirms findings in Tajikistan and other research that people prefer to think about money in larger chunks, and may consciously sweep small expenses off the radar. Young people, e.g., ages 18-30, and men, who prefer mental accounting to annotation, especially tend toward this way of thinking. They would not want to record small expenses for tea or cigarettes, or irregular expenses for parties and gifts, but rather to focus on the big and plannable expenditures—credit repayments, communal services, food. When they think about bonuses and rewards (e.g., for savings), nor do they want to bother with small amounts; little money makes no difference (e.g., to motivate behavior), they say. On the other hand, respondents believe that they could realize savings by reducing the small daily expenditures and expenses for parties and gifts. This is an interesting paradox, because people say they could discipline a behavior that they also say they don’t keep track of, it is insignificant, it is beyond their control. It seems that most participants are over-estimating their ability to discipline small expenditures and party-spending, and what they sacrifice as a result is peace of mind, and food.

The study suggests that Kyrgyz consumers are overwhelmingly present-biased, to the point that many indicate feelings of hopelessness in viewing the future. Although older people and traders annotate expenses, and women make lists and even allocate envelopes of cash in hiding spots at home, there is an overwhelming feeling among many (especially engaged in shepherding and agriculture) that planning is futile. The attitudes about credit follow: credit is unavoidable, they need credit to survive, it doesn’t matter the terms and costs. Many conceal borrowing from their children; women often conceal borrowing from their husbands. Many live with very thin margin of error and multiple debts (even as formal lending data shows decrease in parallel lending, informal lending seems to remain pervasive), and delays in receiving income or social payment of even one day can upset the delicate balance of expenses and repayments. The result seems to be households characterized by secrecy and shame, periods of deliberate ignorance and no spending discipline, followed by periods of extreme anxiety and sacrifice.

The way the Kyrgyz participants say that they are behaving, and the way that they expect to behave, is a puzzle. The non-recognition of small expenditures seems to be deliberate, while many expect that they could make savings there. The participants struggle to regulate the daily leaking of money (they say they can’t carry cash, or they’ll spend it all; they can’t walk through a market without spending; they can’t say no to children’s or relatives’ requests), even as some of them say they would like to make elaborate notes about expenses. Participants say that they need constant access to liquidity, and prefer cash, but they say that they would like to save for really large goals—real estate, home, education expenses—and they’d like to receive really large rewards for savings. Participants say that in between credit repayments they have a few days to relax, enjoy life and forget their troubles (suggesting a period of deliberate ignorance, maybe as an escape from hopelessness), but they say that a regular SMS reminder about an upcoming credit repayment would be helpful. How? How could a time reminder help a person who is not struggling with timeliness, so much as a resistance or inability to anticipate the future?
What can we do with these insights? It seems like interventions are needed that address some critical cognitive and social biases: the overwhelming bias toward the present, secrecy, shame, and the feeling of lost control. Together, these add up to a vicious cycle of non-planning, over-indebtedness, anxiety and deprivation. It is time for financial institutions to consider what they could do differently. Here are some ideas...

- **Make the future more real.** If the urge to spend is driven by very concrete, urgent demands in the present, could it be mitigated by making the future more concrete? Would a discussion about the future, including specific goals (e.g., a washing machine that costs X, a school fee that costs Y and is due on Z date), visualization of those goals, and a graphic depiction of where one stands relative to his goals help? It would certainly be better than no view of the future. And a hard copy might make a difference for those who are more comfortable with paper.

- **Rally a family around a financial goal. Make it comfortable and positive to think about progress toward achieving it.** Instead of hidden slips of paper noting past expenses, consider a calendar or goal-chart with pictures of the family and the item/goal they are aiming toward, graphic depiction of the progress, daily/weekly milestones, and make progress-tracking fun. Maybe with stickers, that children place. No one wants to share his dirty laundry by sharing information about past debts and expenses, but can families rally together around a forward-looking, positive goal?

- **Treat customers with respect.** Many are receiving threatening phone calls on/after a credit due-date; they say credit officers are shouting at them, and they live with a monthly cycle of anxiety and fear. This seems to contribute to the sense of hopelessness and lost control, and it seems to kill the motivation to try harder. There is no point to plan for the future, they say; it is hopeless. On the other hand, respondents say they have never been thanked or congratulated by their financial institution for paying on-time or making a deposit. Try being positive. It might be a small step to rebuild the client’s sense of dignity and control.

- **Show the client visually his positive progress.** When you have lost your way in the woods, there is nothing more defeating than the sense that you’re going in circles, making no progress. Even when the path ahead is very long, seeing that you are making forward progress is a huge motivation. Consider showing clients their progress (e.g., on savings accumulation, on credit repayment) with a graphic and a percentage of goal accomplished. Android phones make this visualization easier.

- **Many feel out of control, because they face too many uncovered risks. Kyrgyzstan needs micro-insurance products.** Drought, flood, livestock loss, health, death, automobile and many other risks are constantly defeating households’ efforts to save. And too often credit is filling a void that should be filled by insurance. As is seen in a number of low-income countries where mobile operators and MFIs can sell life, credit-life, and hospitalization micro-insurance schemes, there are accessible, simple products for the poor that can be easily linked to mobile top-ups and microfinance products. Covering risks would be a huge step toward recovering a sense of control among poor households.