



Yale University



Financial inclusion: A means to an end

Presentation by Dean Karlan

Why care?

- Finance for finance sake?
 - No.

- Because Income and consumption do not match
 - Seasonal variation
 - Income shocks
 - Consumption shocks
 - Durable goods
 - Lifecycle

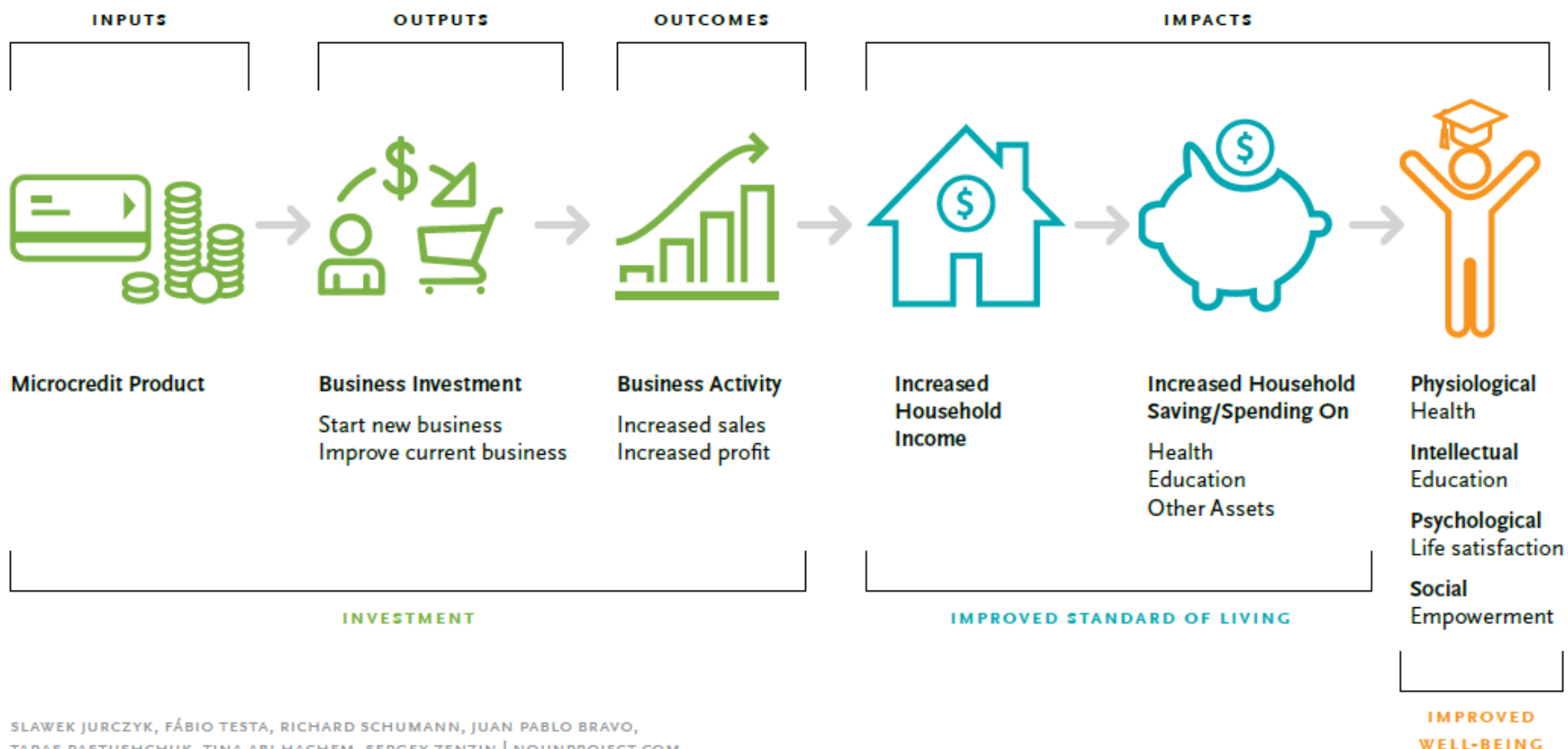
Why is it hard to know what to do?

- Knowing what to measure
 - ▣ Like pouring water on a table
 - ▣ Hard to know which way it will flow
- Showing causation, not correlation
 - ▣ Financial literacy perhaps the classic case

Financial Inclusion Components

- Microcredit
- Microsavings
- Microinsurance
- Financial education (?)

One theory of change for microcredit



Evidence on traditional microcredit model

Outcome	Bosnia and Herzegovina	Ethiopia	India	Mexico	Mongolia	Morocco	Philippines
Business ownership	↑	—	—	—	↑	—	—
Business revenue	—	—	—	↑	—	↑	—
Business inventory/assets	↑	<i>no data</i>	↑	<i>no data</i>	↑	↑	—
Business investment/costs	—	—	↑	↑	<i>no data</i>	↑	↓
Business profit	—	—	—	—	—	↑	—
Household income	—	—	—	—	—	—	—
Household spending/consumption	—	↓	—	↓	↑	—	—
Social well-being	—	—	—	↑	—	—	↓

Microcredit

- From 7 RCTs in 7 countries
 - Demand modest (but rarely reaching the poorest)
 - Some increased investment, but not much
 - No substantial increases in income
 - Rare impact on women's empowerment or children's education
 - More freedom in choosing how/when to spend, durables
 - No widespread harmful effects

Traditional microcredit

- Bottom line:
 - Investors celebrate
 - Poverty alleviators should keep searching
 - To alternative lending models?
 - To complementary programs?
 - To alternative programs?

Two guiding principles

- Evidence trumps hope and “intuition”
- Design for humans

Suppose you held a focus group to learn what loan features matter most?

A special rate for you.

Congratulations! As a valued client, you are eligible for a special interest rate loan. This is a limited time offer so please come in by 31 October 2003 to apply.

Enjoy low monthly repayments with this offer!
For example:

LOAN AMOUNT	LOAN TERM	MONTHLY REPAYMENT
R2000	6 MONTHS	R200.56

LOANS AVAILABLE IN OTHER AMOUNTS SUBJECT TO TERMS & CONDITIONS

There are no hidden costs. What you see is what you pay.

How to apply:

Bring your ID book and latest payslip to your usual branch at 27 Church Street Pietermaritzburg, by **31 October 2003**.

J. Ncube
Mrs J. Ncube
Branch Manager

PS: Unfortunately, if you have already taken a loan since the date this letter was issued, you do not qualify for this offer.

27 Church Street
Pietermaritzburg
3201
Tel: 033 845 4630

BUSINESS HOURS
MON - FRI 08:00 - 18:00
SAT 08:00 - 12:00

WE SPEAK ZULU

**the trusted way
to borrow cash**

25 September 2003

Shop 9B, Pinetown Arcade
Hill Street
Pinetown 3600
Tel: 031 717 8950

BUSINESS HOURS
MON - FRI 08:30 - 18:30
SAT 08:00 - 12:00

A special rate for you.

Congratulations! As a valued client, you are now eligible for a special interest rate on your next cash loan from This is a limited time offer, so please come in by 31 October 2003

You can use this cash to buy an appliance, or for anything else you want.

Enjoy low monthly repayments with this offer! For example:

	4 Months	6 Months	12 Months
R500	R149.95	R108.28	R66.62
R1000	R299.90	R216.57	R133.23
R2000	R599.80	R433.13	R266.47
R4000	R1199.60	R866.27	R532.93

LOAN AVAILABILITY SUBJECT TO TERMS & CONDITIONS

Loans available in other amounts. There are no hidden costs. What you see is what you pay.

If you borrow elsewhere you will pay R280.14 more in total on a R350.00, 4 month loan.

How to apply:

Bring your ID book and latest payslip to your usual branch, by **31 October 2003** and ask for **Mrs. Gloria Dlamini**.

Mrs. Gloria Dlamini
Customer Consultant

P.S. Unfortunately, if you have already taken a loan since the date this letter was issued, you do not qualify for this offer. Comparison based on a competitor's interest rate of 25%.



Microcredit: alternative lending models

- Two interventions tested in India (Field et al 2011; 2013)
 - ▣ Delayed start of first repayment by 2 months
 - ▣ New business starts much higher; investment up 6%
 - ▣ After 3 years, income 20% higher, capital 80% higher
 - ▣ Reduced frequency
 - ▣ Monthly → less stress for clients and cheaper for lender
- One being tested in Colombia currently:
 - ▣ Two free “passes” to skip payments

Complementary programs?

- Business training / financial literacy?
 - Evidence weak
 - Drexler, Fischer and Schoar (2014) from Dom. Republic:
 - “Rules of thumb” > standard “financial literacy”
 - Karlan and Valdivia (2011) and Valdivia (2015) from Peru:
 - Training → more diversification, fewer bad business months
 - Two years later, higher growth
 - Technical assistance initially performed better

Microcredit alternatives

- Go back to thinking through the theory of change
- For some, timing isn't so much the issue
 - ▣ Then think about savings
 - ▣ Much cheaper, fewer market problems
 - ▣ Behavioral challenges?
- For some, the issue is risk
 - ▣ Insurance!

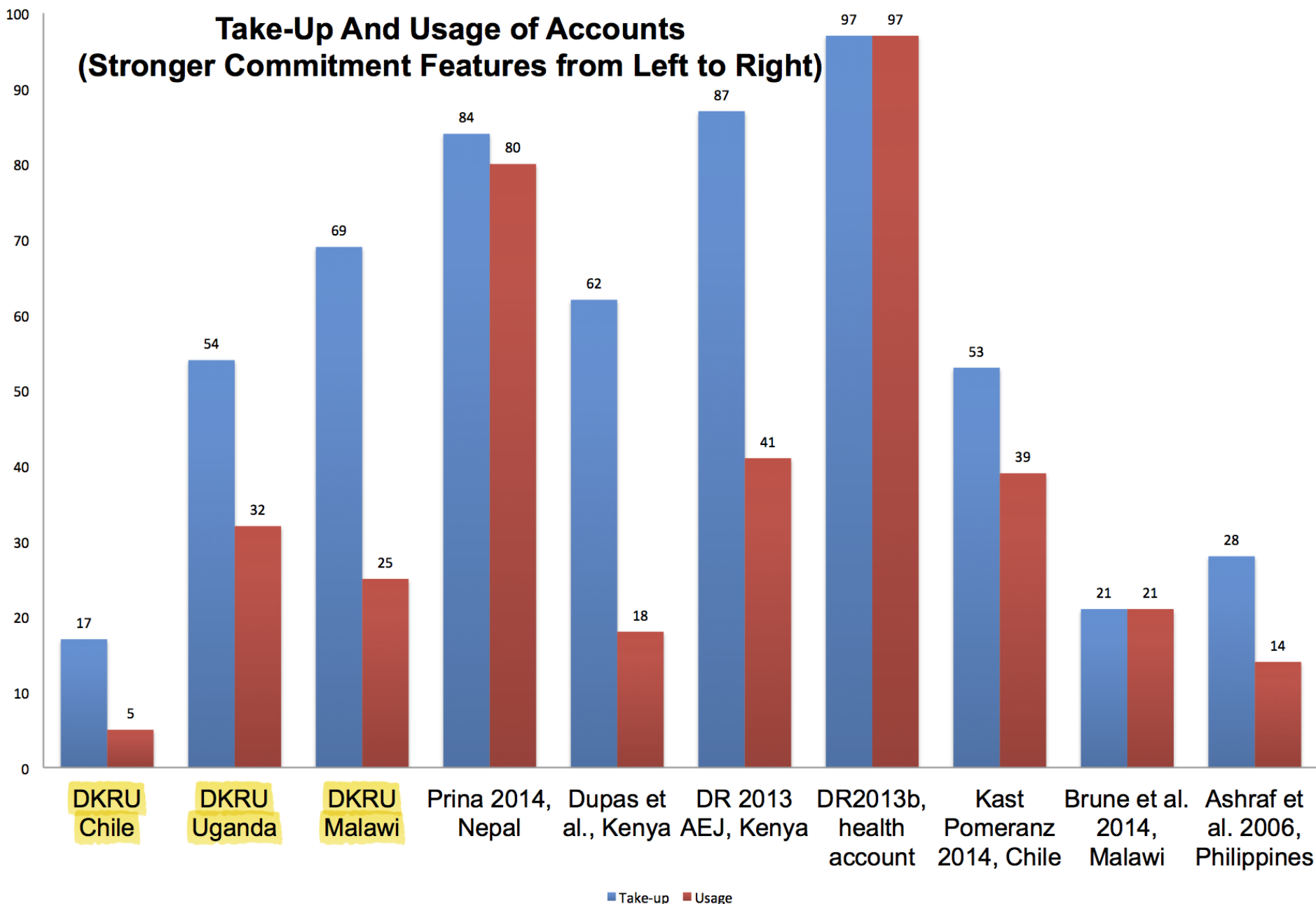
Savings

- Transaction costs
 - Distance to bank
 - Mobile money
- Behavioral
 - Temptation spending
 - Inattention

Uganda Supersavers program

- Problem: students and family report not enough money to pay for school supplies, tests, etc.
- Grades 5, 6 & 7
- Weekly deposits into savings “box” in class
- Deposits then put into a bank account
- Beginning of term, a fair held to sell school supplies
- KEY TEST: At fair, students receive CASH or VOUCHER from account
- One worked. One did not. Let’s vote!

Take-Up And Usage of Accounts (Stronger Commitment Features from Left to Right)



Text Messages to Save

- 3 countries
- Bolivia, Peru & Philippines
- Now embarking on replication & extension initiative
- 6% increase
- 3 percentage points more likely to reach goal
- Small input, small impact: but profitable!

Microinsurance

- Horse race: Cash or Risk?
- northern Ghana, farmers
 - Cash
 - Rainfall insurance
 - Cash + rainfall insurance
 - Control
- Rainfall insurance → much higher investment
- Risk matters

Three review papers

■ Much of the material here comes from:

1. Banerjee, Abhijit, Dean Karlan, and Jonathan Zinman. 2015. “Six Randomized Evaluations of Microcredit: Introduction and Further Steps.” *American Economic Journal: Applied Economics* 7(1): 183-203.
2. B a n e r j e e , A b h i j i t . 2 0 1 3 . “Microcredit Under the Microscope: What have we learned in the past two decades, and what do we need to know?” *Annual Review of Economics* 5: 487-519.
3. Karlan, Dean, Aishwarya Ratan, and Jonathan Zinman. 2014. “Savings by and for the Poor: A research review and agenda.” *Review of Income and Wealth* 60(1): 36-78.

Two guiding principles

- Evidence trumps hope and “intuition”
- Design for humans



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Thank you!

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