Financial inclusion:
A means to an end
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

**Inputs**
- Microcredit Product

**Outputs**
- Business Investment
  - Start new business
  - Improve current business

**Outcomes**
- Business Activity
  - Increased sales
  - Increased profit

**Impacts**
- Increased Household Income
- Increased Household Saving/Spending On
  - Health
  - Education
  - Other Assets

**Investment**

**Improved Standard of Living**

**Improved Well-being**

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SLAWEK JURCZYK, FÁBIO TESTA, RICHARD SCHUMANN, JUAN PABLO BRAVO, TARAS PASTUSHCHUK, TINA ABH HACHEM, SERGEY ZENZIN | NOUNPROJECT.COM
Evidence on traditional microcredit model

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Bosnia and Herzegovina</th>
<th>Ethiopia</th>
<th>India</th>
<th>Mexico</th>
<th>Mongolia</th>
<th>Morocco</th>
<th>Philippines</th>
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</thead>
<tbody>
<tr>
<td>Business ownership</td>
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<td>Business revenue</td>
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<tr>
<td>Business inventory/assets</td>
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<tr>
<td>Business investment/costs</td>
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<tr>
<td>Business profit</td>
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<tr>
<td>Household income</td>
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<tr>
<td>Household spending/consumption</td>
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<tr>
<td>Social well-being</td>
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</tbody>
</table>
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:

<table>
<thead>
<tr>
<th>LOAN AMOUNT</th>
<th>LOAN TERM</th>
<th>MONTHLY REPAYMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>R2000</td>
<td>6 MONTHS</td>
<td>R200.56</td>
</tr>
</tbody>
</table>

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. Neube
Mrs J. Neube
Branch Manager

Please note: If you have already taken a loan since the date this letter was issued, you do not qualify for this offer.
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!
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 $\rightarrow$ much higher investment

- Risk matters
Much of the material here comes from:


Two guiding principles

- Evidence trumps hope and “intuition”
- Design for humans
Thank you!

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dean.karlan@yale.edu