

Financial Literacy

Summary for FAI/IPA October Conference

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There are two projects involving financial literacy and training that we have undertaken in India over last one year. One is for ultra poor households who are not microfinance clients and the second involves urban microfinance clients.

- 1. Financial training for ultra poor household who are not microfinance clients:** this study is with SKS Microfinance and involves the ultra poor households in Medak district of Andhra Pradesh. These households are too poor to be microfinance clients and the baseline survey of 1350 households reveals that most of their financial transactions are with local shopkeepers, relatives and moneylenders. Here the primary aim is to capture **habit formation**. We would like to see if a simple exercise like budgeting has any effect on spending pattern and saving. Each week the household plans an ideal budget and at the end of the week they match this to the actual expenses. We collect weekly data on household spending and ideal budget. The main aim is to see if people change habits and match goals. And eventually what impact this has on expenditure pattern and savings. The exercise is being done as a randomized control trial on 600 ultra poor households. The intervention is scattered over time – and the households that received the treatment later are a control for those who received the early treatment.

- 2. Financial training for Microfinance clients:** this project is with Swadhaar – an urban microfinance institution based in Mumbai. The aim of this project is to study the effect of a literacy module on borrowing and saving pattern of microfinance clients.
 - a) On the borrowing side, we are interested in seeing how well people understand loan contract terms – and whether this matters? As an experiment, we would like to study whether information related to interest rates, alternative sources of credit etc. is going to have any effect on amount borrowed, duration of loan and source of credit. The driving motivation for this aspect of the study is to find out what information should be declared to clients and how. From a regulatory point of view – this has crucial implications for customer protection and transparency in the microcredit market. From the institution's point of view – it is important to know whether financial training should go hand in hand with rapidly growing and changing financial instruments.

- b) The second impact that we are interested in studying is on savings. We would like to see if people change their saving behavior because of the training – where information on compound interest earning etc is provided. The outcomes of interest are amount saved, forms of saving and the source of saving. We would like to capture the source of change – whether it is reduced consumption expenditure (on what items) or raised earnings.

Methodology: we are using an encouragement design so the randomization is at the marketing level itself. The module will be marketed to 1200 households. Swadhaar has done an internal needs assessment and estimated a compliance rate of 80%.