Evidence on Financial Inclusion Products and Programs

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Agenda

• Introduction to IPA and J-PAL
• Evidence on Financial Inclusion Products & Programs
  – Innovate and Evaluate: Mobile-izing Savings in Afghanistan
  – Replicate and Communicate: Reminders to Save in Several Countries
  – Go to Scale: Simplifying Financial Literacy Training with Rules of Thumb in the Dominican Republic and India
• Introduction to Randomized Evaluations
• Opportunities for Collaboration with IPA and J-PAL
• Question & Answer
Innovations for Poverty Action (IPA)

IPA was created in 2002 to discover and promote effective solutions to global poverty problems.

- **Innovate**: Work with partners to generate new ideas
- **Evaluate**: Identify what works and what doesn’t using randomized controlled trials (RCTs)
- **Replicate**: Repeat experiments to take results from promising to proven
- **Communicate**: Communicate policy results to help practitioners and policymakers pick the most effective products and programs
- **Scale**: Help scale up effective programs

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Financial Inclusion Program (FIP)

- Design & test behaviorally-informed programs and products that encourage healthy financial decisions among the poor
- Financial capability work supported by the Citi Foundation
IPA’s extensive country office network has supported over 500 completed and ongoing evaluations.
J-PAL’s mission is to ensure that policy is informed by evidence and research is translated into action.

**EVALUATIONS**
J-PAL researchers conduct randomized evaluations to test and improve the effectiveness of programs and policies aimed at reducing poverty.

**CAPACITY BUILDING**
Through training courses, evidence workshops, and research projects, J-PAL equips policymakers and practitioners with the expertise to carry out their own rigorous evaluations.

**POLICY OUTREACH**
J-PAL affiliates and staff analyze and disseminate research results and build partnerships with policymakers to ensure policy is driven by evidence and effective programs are scaled up.
J-PAL has more than 700 ongoing and completed projects across 8 sectors in 64 countries.
Evidence on Financial Inclusion Products & Programs

Innovate and Evaluate: Mobile-izing Savings in Afghanistan
Why are formal savings rates so low?

• Low rates of formal savings in low-income countries
  • 4% in Afghanistan, 13% in South Asia, 16% in SSA
  • 42% of developing country workers in/above middle-class

• Many barriers to saving
  • Credit and liquidity
  • Transaction costs, lack of infrastructure
  • Intra-household, intra-family dynamics
  • Behavioral explanations: Inattention, forgetfulness, salience, complexity, self-control

• In high-income countries, automatic payroll deduction is one of most effective means to encourage savings
  • 85% of Danes are “passive savers”
  • In U.S., automatic deduction increases participation by 50%-90%
“M-Pasandaz”: Mobile money-based savings account

Afghanistan | Roshan
Firm employees

- Secondary mobile money account with basic functionality (check balance, transfer out)
- Automatic payroll deduction option
  - Up to 10% of monthly salary
  - Auto-deposited to M-Pasandaz on payday
  - Matching incentives provided by employer

This study is funded by the Citi IPA Financial Capability Research Fund supported by the Citi Foundation.
What is the impact of default status and matching incentive level on savings balances?

1. Default enrollment status
   A. Default Out: 0% of salary auto-deposits to M-Pasandaz
   B. Default In: 5% of salary auto-deposits to M-Pasandaz
      — Note: Employees can change rate at any time by calling HR

2. Matching incentive level
   i. No matching incentives provided
   ii. 25% match on all contributions
   iii. 50% match on all contributions
      — Note: Employees cannot change plan type

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Default enrollment increased contributions and total savings

Afghanistan | Roshan
Firm employees

Default enrollment increased contributions.

• “Default in” group is 40 percentage points more likely to contribute
• “Default in” save extra 2500 Afs. (US$40) in 6 months
• Roughly equivalent to a 50% employer match

M-Pasandaz generated new savings.

• No evidence that employees reduced other savings
• Evidence of longer-term behavioral change

The effect of default assignment was substantial.

• 47% of employees with no incentives still contribute 5%
• 45% with strong incentives still contribute 0%

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Evidence on Financial Inclusion Products & Programs

Replicate and Communicate: Reminders to Save
Reminders to save can help clients pay attention to their financial goals.
Reminders to Save
Philippines, Peru, Bolivia | First Valley Bank, Bank of ICA, Ecofuturo
Existing bank clients

What is the impact of simple reminders to save on clients’ savings account balances?

- Clients made a plan for monthly deposits or set a goal savings amount
- Clients received monthly reminders to save
- Researchers varied message content to determine which message content was most effective: +/- framing, mention goal and/or incentive
- A comparison group received no reminders
Reminder messages can increase savings balances if they bring the benefits of saving to top of mind.

- Sending any type of reminder increased the likelihood of reaching savings goal by 5%
- Messages that mentioned the savings goal and the reward for saving worked best
  - In Peru, increased savings balances by 13%
  - In Bolivia, increased savings balances by 11%
Reminders to Save

Citi IPA Financial Capability Research Fund | Global

Messaging Replications

Why and how does sending people text messages improve saving and payment behaviors? What is the best way to implement effective messaging programs?

This study is funded by the Citi IPA Financial Capability Research Fund supported by the Citi Foundation
Evidence on Financial Inclusion
Products & Programs

Going to Scale: Behaviorally-Informed
Financial Literacy Training
Behaviorally-informed financial literacy training

Dominican Republic | ADOPEM
Microentrepreneurs

Financial literacy training and counseling do not seem to change behavior.

- Meta-analysis of over 200 studies found close to zero effect on financial management behavior

Potential Solution: Behaviorally-informed training that focuses on simplicity:

- Keep two “drawers” – business and household
- Assign yourself a weekly salary
- If you “borrow” from the business, pay it back
- Only give credit to customers if prior credit is paid off
Behaviorally-Informed financial literacy training

Dominican Republic | ADOPEM
Microentrepreneurs

Can a simpler training have a larger impact on business outcomes?

<table>
<thead>
<tr>
<th>Standard Accounting Program</th>
<th>Rule-of-Thumb Training</th>
<th>Comparison</th>
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</thead>
<tbody>
<tr>
<td>• Standard approach to small business training</td>
<td>• Simple rules / routines rather than comprehensive knowledge</td>
<td>• No training</td>
</tr>
<tr>
<td>• Content focused on double-entry accounting, working capital management, and investment decisions</td>
<td>• Content focused on separation of business and personal accounts</td>
<td></td>
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</tbody>
</table>
Behaviorally-informed financial literacy training improved behaviors

Dominican Republic | ADOPEM
Microentrepreneurs

Drexler, Fischer and Schoar, 2014.
And increased business revenue index 0.11 standard deviations

Dominican Republic | ADOPEM
Microentrepreneurs

Drexler, Fischer and Schoar, 2014.
Behaviorally-Informed financial literacy training

Dominican Republic | ADOPEM
Microentrepreneurs

Simplifying content can improve knowledge and behavior, especially among those with limited initial skills.

- No impact detected from standard accounting training on business practices or revenue
- Relative to comparison, rule-of-thumb training improved:
  - Financial management / recordkeeping
  - Revenue (especially sales during “bad” weeks, which increased by 19%)
- Compared to standard accounting, rule-of-thumb more effective among low-skilled individuals
What is the impact of a mobile phone-based rules-of-thumb training on the financial behavior of microentrepreneurs?

This study is funded by the Citi IPA Financial Capability Research Fund supported by the Citi Foundation.
Introduction to randomized evaluations: Monitoring is different from evaluation

- **PROBLEM:** Youth have poor savings behavior
- **INPUT / ACTIVITY:** Provide youth with financial education
- **OUTPUT:** Youth are trained in financial concepts
- **OUTCOME:** Youth are equipped to deal with own financial decisions
- **IMPACT:** Youth improve their savings behavior

Is the intervention working as planned?
Youth have poor savings behavior

- Provide youth with financial education
- Youth are trained in financial concepts
- Youth are equipped to deal with own financial decisions
- Youth improve their savings behavior

Is the intervention having the desired impact?

PROBLEM

INPUT / ACTIVITY

OUTPUT

OUTCOME

IMPACT
Randomized evaluations are a powerful tool to measure impact as they use the comparison group as counterfactual.

Before the program starts, eligible individuals are randomly assigned (via LOTTERY) to two groups.

GROUPS ARE STATISTICALLY IDENTICAL BEFORE PROGRAM

- Two groups continue to be identical, except for treatment.
- Later, compare outcomes (savings, health, test scores) between the two groups.
- Any differences between the groups can be attributed to the program.
We use randomized evaluations to construct a counterfactual.
Impact: What is it?

Introduction to Randomized Evaluations

Opportunities for Collaboration

J-PAL | TEU SOE RANDOMIZED EVALUATIONS IN DEVELOPMENT
Opportunities for collaboration with IPA and J-PAL

If your organization is interested to collaborate on a financial inclusion project:
• Product Design
• Financial Skills, Awareness, Knowledge
• Consumer Protection

Or if you would like to learn more about evidence on financial inclusion, please contact me: afahhey@povertyactionlab.org
Questions?
Thank you!

To collaborate with us, email afahey@povertyactionlab.org


