

A Business Case for Financial Education and Microsavings Promotion

Experimental Evidence from a For-Profit Program in Rural Peru

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Outline

- 1 Background
- 2 Evaluation Methodology
- 3 Findings
 - Direct Impact
 - Indirect Impact
- 4 Conclusion

Research Questions

- Is financial education an effective tool to promote (micro) savings among poor rural populations?
- Is commercially viable to provide it on a for-profit basis?
- Is there a case for public sector support?

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Context

- 42.1% of rural population in Peru is poor; 10.0% is extremely poor
- Apurimac was the poorest region in 2012 with 0.4% of GDP
- The MIF's ProSavings Program supports for-profit business models tailored to low-income populations in LAC
- Financiera Confianza is a Peruvian microfinance subsidiary of BBVA Microfinance Foundation

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Intervention

- For-profit microsavings promotion program
- Targets rural female population over 18 years old in districts receiving CCT (Juntos)
- Two components:
 - Four modules of financial education
 - Savings account (optional)
- Each module taught in a 1hr session each month
- “Edutainment” approach
- Savings account with minimum openign deposit of 20 soles, but no fees/commitment

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- Pre-selection of 89 eligible intervention communities in 22 districts
- Selected among 3,000 random assignments that maximized balance at the community level
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- Endline survey of 1801 households
- Six information categories: (i) financial literacy, (ii) savings, (iii) credit, (iv) income and assets, (v) consumption, and (vi) female empowerment
- Administrative information from Financiera Confianza (implementation, savings accounts, credits)
- 57.7% estimated take-up, 5.1% estimated contamination
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Model Specifications

Intention-to-Treat (ITT)

$$\delta_{ITT} = E(Y_i | Z_i = 1) - E(Y_i | Z_i = 0)$$

Simple difference in means (OLS):

$$y_i = \alpha_0 + \delta_{ITT} Z_i + e_i \quad (1)$$

Additional controls:

$$y_i = \alpha'_0 + \delta'_{ITT} Z_i + \sum_{h=1}^7 \alpha'_h x_{hi} + e'_i \quad (2)$$

Additional controls and district fixed effects:

$$y_i = \alpha''_0 + \delta''_{ITT} Z_i + \sum_{h=1}^7 \alpha''_h x_{hi} + d_j + e''_i \quad (3)$$

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Treatment-on-the-Treated (TOT)

$$\delta_{TOT} = \frac{E(Y_i | Z_i = 1) - E(Y_i | Z_i = 0)}{E(T_i | Z_i = 1) - E(T_i | Z_i = 0)}$$

Simple difference in means (2SLS):

$$y_i = \beta_0 + \delta_{TOT} \hat{T}_i + u_i \quad (4)$$

$$T_i = \gamma_0 + \gamma_1 Z_i + v_i \quad (5)$$

Analogous specifications to ITT for additional controls and district fixed effects.

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Financial Literacy

- Significant positive impact (~ 7.5 pp ITT, ~ 15.1 pp TOT) on trust (“would save”) in formal financial institutions
- Larger positive impact for Financiera Confianza:
 - Increased trust in Financiera Confianza (~ 21.1 pp ITT, ~ 42.2 pp TOT) over control average of 5.4%
- Knows deposits at formal financial institutions are guaranteed in case of bankruptcy (~ 7.1 pp ITT, ~ 14.2 pp TOT)
- Requested information on financial products (~ 6.2 pp ITT, ~ 12.5 pp TOT)
- Declares making a budget (~ 4.8 pp ITT, ~ 9.7 pp TOT), but not correctly

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Savings

- Significant positive impact on probability of saving with Financiera Confianza:
 - Self-reported increase (~ 2.3 pp ITT, ~ 4.5 pp TOT) over control average of 0.6%
 - Actual increase of (~ 4.3 pp ITT, ~ 8.6 pp TOT) over control average of 0.1%
 - Underreporting potentially due to recall bias, CCT?
- Significant positive impact on the average amount saved in Financiera Confianza (~ 19.2 pp ITT, ~ 42.0 pp TOT) (admin. data)
- No significant impact on probability of saving or amounts saved in other financial institutions, fidelity? timing?

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Credit

- No significant impacts on having a loan with Financiera Confianza (admin. data)
- Seems to be a positive impact for people with borrowing experience
 - At other formal institutions and cooperatives
- No proactive promotion of credit products during intervention
- Stricter requisites and complexity of credit products

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Income, Assets and Consumption

- No significant impacts of the program on agricultural activities
 - Incipient departure from livestock activities
- No changes in the number of income-generating activities or food consumption patterns
- Household assets and as agriculture-related assets were not consistently and significantly affected by the program
 - Negative point estimates. Savings increased due to a decrease in assets?
- No significant impact on poverty index

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Female Empowerment

- Positive impact of the program on female community participation (community group affiliation)
- Weak evidence on woman decision to freely spend her income
- No impact on indices (gender roles inside/outside the household, community participation)

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- *Ahorro para Todos* successfully increased the familiarity and trust in formal financial institutions in poor rural areas of the Andes, and particularly in Financiera Confianza
- It also significantly increased savings with Financiera Confianza compared to competitors in a crowded market
 - Effective marketing tool, no “free-riding”
 - But no crowding-out cooperatives, need for better financial products for the rural poor
- Commercial viability requires expansion of focus beyond savings (group credit?)

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 - “Edutainment” approach could be complemented with other methodologies (e.g. “rules of thumb”)
- Non-negative impact on assets, income or food consumption
 - Where are savings increases coming from?
- Self-reported savings underreported. Due to recall bias, CCT?
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