

Empowerment by design

The paper and its implications

- What will it take to go from the transaction model to the transformation model of microfinance?
 - ✓ Need to address poverty alleviation goal holistically => Range of financial services, livelihood framework, microfinance “plus” approach
 - ✓ Need to understand and factor in gender issues
- Financial sustainability of the financial institution, poverty alleviation, households risk mitigation and gender factors, are closely inter-connected => the “economic” and the “social” can not be considered separately



- Business models of microfinance need to factor in and internalize the social dimensions, in particular gender aspects
 - ✓ Can affect positively women, households as well as financial sustainability
- We need to experiment with products and services that apply these ideas, and evaluate what works and what does not among those



Outline

- Micro-credit has potential
- Gender sensitive product design
 - Commitment savings products
 - Delivery financing product
- Gender and microfinance “plus”
 - Business training example
- Conclusion




Impact of micro-credit in Hyderabad

- “Are microfinance programs designed to move households out of poverty?”
- To answer this question, it is important to understand what the impact of existing programs is
- We overall lack evidence on the impact of traditional, Grameen type micro-credit programs
- One of the first randomized evaluations of micro-credit done in Hyderabad by J-PAL and CMF at IFMR
- Randomized evaluations allow to correctly attribute the direction of causality (observed changes were due to the program only)
- Preliminary results
- 120 slums in Hyderabad city, randomly divided in two groups of 60 slums – Spandana introduced micro-credit in one group, the “treatment group”, and not in the other group, the “control group”.
- Despite the presence of other MFIs, in average households had taken up more credit in the treatment slums - we look at the impact on *all* households



Impact of micro-credit in Hyderabad

- No much effect on total per capita expenditure
- However, spending on snacks, intoxicants, and gambling ("temptation goods") and spending on festivals decrease in treatment slums
 - Consistent with microfinance institution acting as savings instruments
- Durables spending increases, both for durables used for a business and durables not used for a business.
- Treatment households are more likely to have started a business in the last year
- Among those with a new business, profits are higher in treatment slums
- A new business is more likely to be female-run in a treatment area
- Food spending and spending on education, health and clothing don't change
- No effect on empowerment measures or happiness
 - Both could be a time issue, since the timeline was one to two years impact



Some positive effects, in particular on “wasteful expenditures” and chances of starting new businesses for women

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Intra-household dynamics matter

- “Product design need to take into account the needs of women, and the differing needs among women” => This implies understanding and taking into consideration intra-household dynamics
- Paper’s example: “range of savings facilities ... with more restricted access to enable them to build assets protected from demands of other family members”
- IPA has several studies on the effect and take-up of savings commitment devices
- Can be more attractive to women than to men because it is difficult for women to keep money from husband or family members
- In theory could have effects on women empowerment
- Indeed it is not clear in theory that transfers of income *alone* to women can improve their status in the household.
 - Marginal increases in income given to women may be bargained over in the same way as existing income, and are therefore not guaranteed to lead to gains in bargaining power.
- What may be more important than providing access to additional sources of income, or simply expanding access to finance, is giving control and property rights over allocated money (Ashraf, Karlan and Yin 2008)



Savings commitment devices

- Ashraf, Karlan and Yin (2006 and 2008): Study in the Philippines to evaluate a product (SEED) designed to help clients save by locking away their money until they reached a self-specified savings goal (date or amount)
- Randomized Control Trial: 1,800 individuals were randomly assigned to either receive an offer to open the SEED account (treatment) or not (control)
- Of those offered the account, 28% opened the account
- Strong effect on savings (after a year: 80% increase, 337 % for those who opened the account) -- after 2.5 years, differences between the treatment and control groups smaller but still there
- Women who are “time inconsistent” (impatient now, but patient for future trade-offs) are 15.8 percentage points more likely to take up. Result not true for men, which suggests intra-household control issues going on
- Men and women could be equally time inconsistent, but women, because of their financial responsibilities (women control the finances in the Philippines), may be more motivated to find solutions for the benefit of the household.



Savings commitment devices

- *Single* women more likely to take up. Most unmarried women live in extended households - suggests familial control issues for single women needing to find a mechanism to maintain savings outside the control of the household head
- After 2.5 years, look at the impact of this commitment savings product on both self-reported decision making processes within the household and the subsequent household allocation of resources
- Significant increase in women's decision-making power within the household, particularly for women who have below median decision-making power in the baseline
- Increase of the purchase of household-oriented durable goods: this specialized account helped women to gain control over household assets



Savings commitment devices

- Consistent with Dupas and Robinson (2008): women in Kenya were more likely to take up a savings product with no interest and expensive withdrawal
- Impact of the product on investment and ability to face shocks was high for women (no impact on men), suggesting that they faced large, negative private returns on the money they save informally
- Could be because women may have present-biased preferences, or because they may face constant demands on their income at home - suggestive evidence which suggests that both factors may be at work
- In another study in the Philippines, joint-account offer had negative impact on take-up for poor women, confirming that intra-household decision making factors play an important role in affecting demand, and that women demand products that give them control

=>

Commitment savings products in women's name, by giving women control and restricting access, have an effect on savings and women empowerment



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Financing institutional delivery

- Lack of financial access has clear implications on health. Medical expenses drive many to expensive debt, while many others are unable to finance any care at all.
- Can financial access increase institutional delivery rates?
 - With a missing insurance market, households face a significant financial constraint in meeting their health needs.
 - NFHS-3: 51% of mothers had the recommended number of prenatal care visits and only 41% of births occurred in an institution in India (31% in rural India)
- IFMR Centre for Innovative Financial Design with Hand in Hand created and tested a product to finance institutional delivery of children
- Can savings behavior predict repayment behavior?
 - By tracking savings behavior prior to disbursing the loan and repayment behavior after delivery this product allows us to determine the effectiveness of savings as a screening mechanism.



Financing institutional delivery

- The product: you save monthly individually. What you've saved is then multiplied at delivery by a loan to value ratio to determine your loan.
- The multiple is a function of the regularity of saving behavior. The loan-to-value multiple means that those who can save more get more. The multiple getting higher with regularity means that those on whom you're willing to take a bigger risk (because of the regularity of savings) get a bigger loan.
- The other nice features of the product are that:
 - By labeling a savings account, it encourages savings for delivery. But, unlike insurance, people know that the money is theirs. So if they decide they need it on something else that's more important they'd rather use it for that
 - To the customer savings and repaying look very similar: both pre- and post- delivery they're just making a monthly payment.
- The pilot worked well and CIFD is looking to scale up this product with other organizations.



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Business training

- Karlan and Valdivia (2008): Can one teach basic entrepreneurship skills, or are they fixed personal characteristics?
- RCT with FINCA in Peru: impact of adding business training (FFH module) to a group lending program for female microentrepreneurs.
- Treatment groups received 30 to 60 minute entrepreneurship training sessions during their normal weekly or monthly banking meeting over one to two years
- The treatment led to improved business knowledge, practices and revenues.
- The program also improved repayment and client retention rates for the microfinance institution (gains outweighed the costs) – so microfinance plus might make business sense
- Larger effects found for those that expressed less interest in training => demand-driven “market” solutions may not be as simple as charging for the marginal cost of the services. It is possible that after a free trial, clients with low-prior demand would appreciate the value and demand the services.
- More studies needed, also of what are the best ways to implement such trainings, and with non clients as well.



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Conclusion

- Institutions need to take psychological and social constraints into account when designing products – this will serve both institutions and clients
- In particular, intra-household decision-making factors affect product demand
- Carefully designed products, on their own, can achieve a lot in terms of women empowerment
 - E.g Products that help households, in particular women, to commit to their savings goals, are effective at reaching out to more clients, and at helping clients save more. These products can also have positive impact on women decision making
- Microfinance “plus” can have some positive impacts but we need to be careful about how this is implemented and what needs to be taught
- Some interventions may be beyond the capacity of individual institutions – it might be that women are engaged in less profitable activities and industries because of social norms (de Mel, McKenzie and Woodruff) – can we think of interventions that move them from one industry to another?
- More impact evaluations to compare different innovative product design, and microfinance plus interventions, are needed – for example VWS training idea



References

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 - <http://research.yale.edu/karlan/downloads/TeachingEntrepreneurship.revision.final.pdf>