



# Digital Finance and the Future of Financial Inclusion

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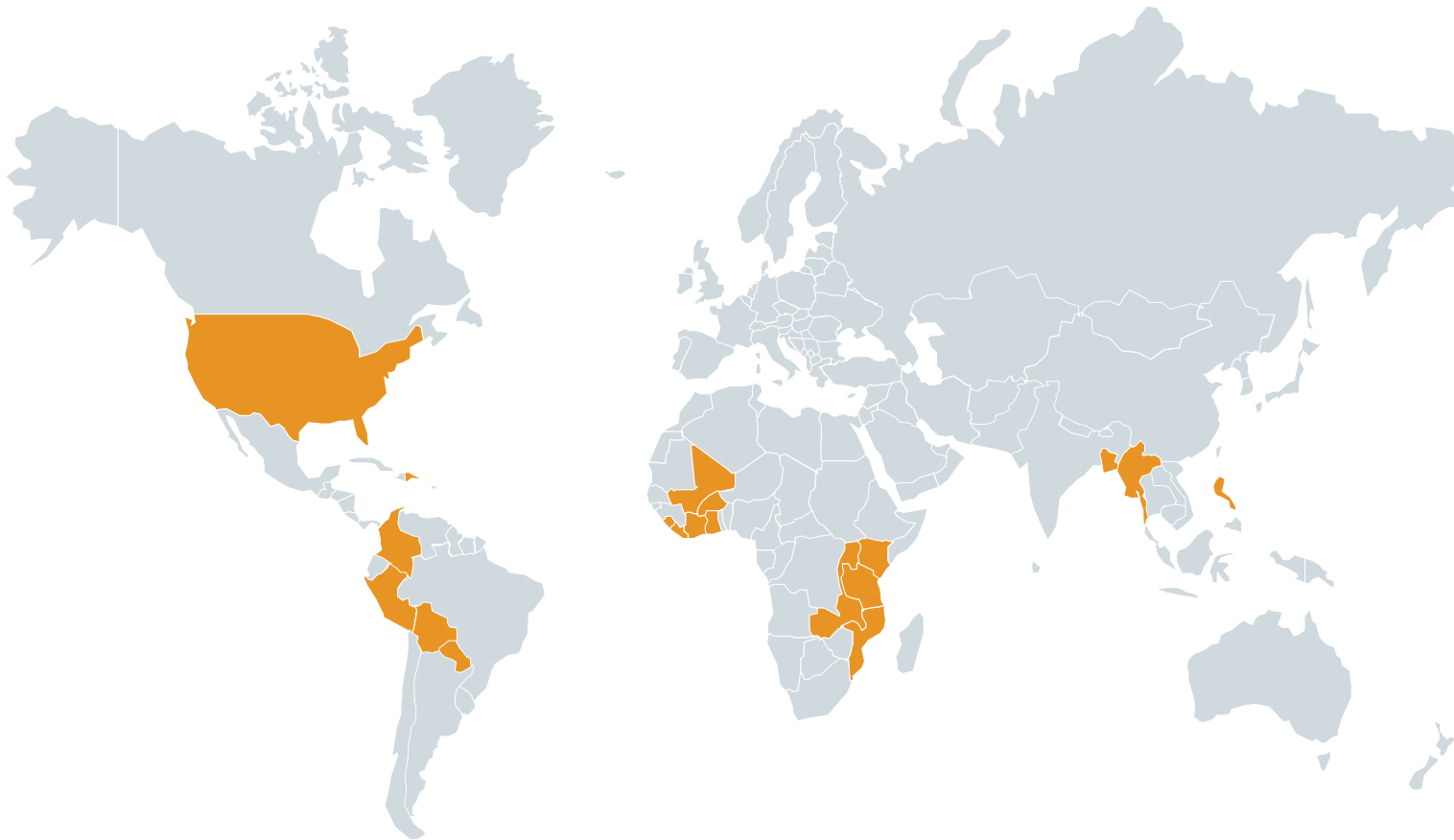
Ouagadougou, Burkina Faso

[www.poverty-action.org](http://www.poverty-action.org)



# Innovations for Poverty Action

Global nonprofit research organization



- 23 Country programs
- 575+ Academic Researchers
- Partner with financial institutions, governments, NGOs



# Objective: Discover and promote effective solutions to global poverty

**Innovate**

**Evaluate**

**Replicate**

**Communicate**

**Scale**

Work with partners to generate new ideas

Identify what works and what doesn't using randomized controlled trials (RCTs)

Repeat experiments to take results from promising to proven

Communicate policy results to help practitioners and policymakers pick the most effective products and programs

Help scale up effective programs

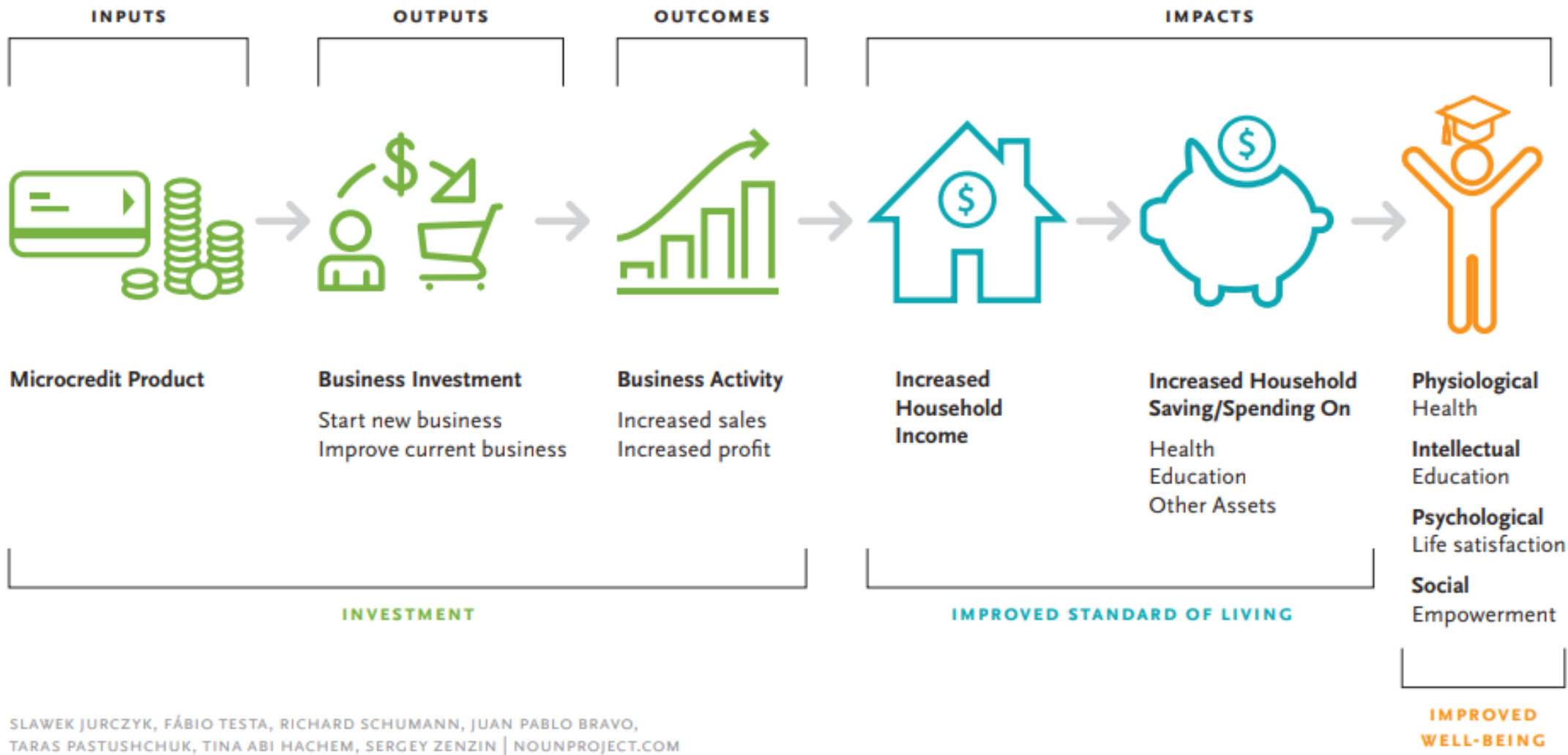


# Why do we care about financial inclusion?

- Finance for finance's sake? No!
- People need access to financial products because income and expenditures do not match up
  - Seasonal variation
  - Income shocks
  - Consumption shocks
  - Acquiring durable goods
  - Lifecycle



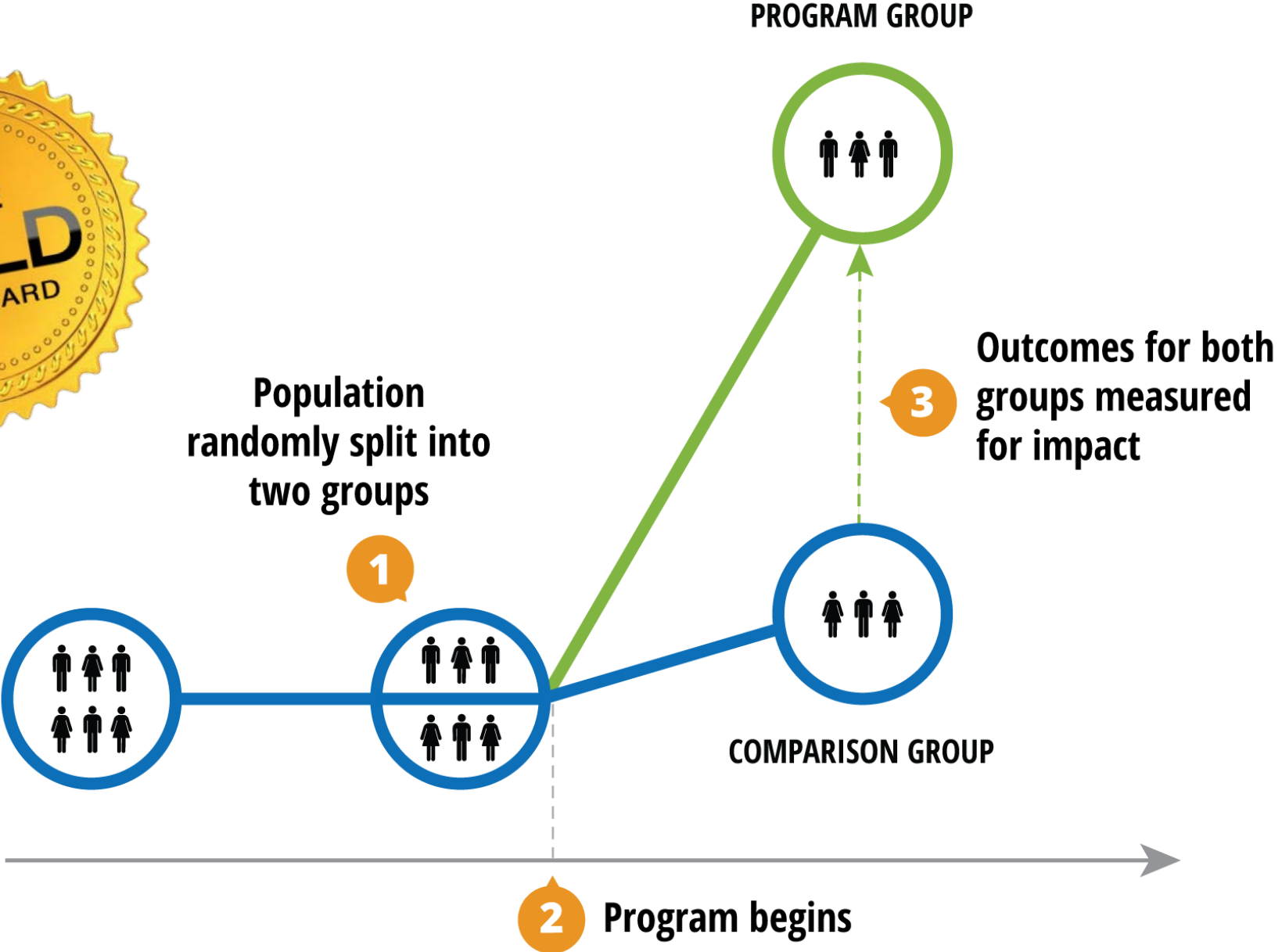
# A Theory of Change: If the Barrier to Empowerment is Capital Constraints



**Guiding Principle for this Presentation:  
Evidence beats hope and intuition**



# Randomized Control Trial Evaluations



# Classic microcredit: No transformative impact

Outcome	Bosnia & Herzegovina	Ethiopia	India	Mexico	Mongolia	Morocco	Philippines
Business ownership	↑	-	-	-	↑	-	-
Business revenue	-	-	-	↑	-	↑	-
Business inventory/assets	↑	No data	↑	No data	↓	↑	-
Business investment/costs	-	-	↑	↑	No data	↑	↓
<b>Business profit</b>	-	-	-	-	-	↑	-
Household income	-	-	-	-	-	-	-
Household spending/ consumption	-	↓	-	↓	↑	-	-
Social well-being	-	-	-	↑	-	-	↓





**Bottom Line:  
Must Look Elsewhere for Poverty Alleviation Impact**



# Emerging Evidence on Digital Payments

## **Efficiency and Transparency**

Can lead to cost savings for both senders and receivers.

## **Resilience**

Help households smooth unexpected income shocks by providing quick access to money or support from a broader social network.

## **Women's Empowerment**

Greater privacy and control over resources, which in turn can promote women's economic participation and empowerment.

## **Building Trust**

Digital products, which allow users to monitor funds, may encourage confidence and trust in financial institutions and increase account use.



# Efficiency of Government Payments

Digital transfers reduce sender and recipient costs, improve effectiveness

- **Efficiency.** In Niger, households that received cash transfers via mobile phone had lower travel and wait times and higher food security.
- **Women's Empowerment.** In Niger, delivering cash transfers electronically increased the likelihood (from 8 to 47 percent) that the recipient, who was a woman, was solely responsible for obtaining the transfer
- **Resilience.** Households in which women received cash transfers electronically had higher diet diversity and children consumed more meals per day

(Aker et al., 2016)



# Poverty Alleviation

## Lower the transaction costs of informal risk-sharing

- **Resilience.** Users of mobile money platform in Kenya received funds from a wider network of further away; able to absorb large negative income shocks while nonusers had to reduce
- **Risk Management.** Women with access to mobile money exercised more choice over their of agriculture and into business
- **Income.** 22% drop in female-headed households living in extreme poverty (\$1/day); 13% drop households living on \$2/day

(Jack and Suri, 2014; Jack and Suri 2016)



# Labor Force Participation

## Private payments to women impact their decision to work

- **Gender norms.** Depositing work payments into female-owned bank accounts led to significant increases in both work and economic engagement especially among women particularly limited by prevailing gender norms.
- **Labor force participation.** Women who received the treatment were 7 percentage points more likely to have worked for pay in the past year and had 30% higher earnings

(Field et al., 2016).



# Trust in Financial Institutions

## May encourage confidence and trust in financial institutions

- **Transparency.** In Mexico, beneficiaries of a cash transfer program with digital payments used debit cards to check their balances frequently and as a result are 10 percentage points more likely to report trust in a bank.
- **Account utilization.** As reported trust in the bank increased, savings balances increased by 5% of income relative to control.

(Bachas et al., 2016)



# Preliminary RCT Evidence from Bangladesh: The Real Effects of Electronic Wage Payments



(Breza, Kanz, & Klapper 2018)



# Electronic Wage Payment Experiment

- 3,136 garment factor workers in Dhaka area from 2 factories that previously paid only cash
- Tested cash vs. mobile money wallet vs. bank deposit: a real horse race!
- Followed outcomes for 2 years





# Preliminary Results: EWP Stimulate Digital Finance Use

- **Savings.** EWPs to bank accounts led to increase in formal savings. EWPs to mobile money did not lead to increases in savings
- **Resilience.** Mobile money users reported better ability to cope with income shocks, less likely to cut meals or medical expenses. No significant effect among bank account users.
- **Trust.** EWP recipients significantly more likely to report trust in mobile money, recommend to others



# Key Takeaways

- We can't rely on hopes and instinct to know what works – we need to test!
- Innovative partnerships between researchers and private sector/government/NGOs is essential to answering these questions in real life
- Many questions remain!
  - How to optimize products, increase take-up and usage, human-centered design
  - Gender appropriate design
  - Impact on other development goals: climate resilience, food, education, more?
  - Consumer protection issues – critical to address these early
- One size does not fit all



# Thank you



ipa  
INNOVATIONS FOR  
POVERTY ACTION