Rules of Thumb: Providing Timely Financial Management Advice at Scale in India

Researchers:

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Sector(s): Finance, Labor Markets

Sample: 2,391 microentrepreneurs

Target group: Entrepreneurs Urban population Self-employed and microentrepreneurs

Outcome of interest: Earnings and income Firm survival and sustainability Productivity Profits/revenues

Intervention type: Business skills training Digital and mobile Financial literacy Nudges and reminders Training

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Data: Harvard Dataverse

Partner organization(s): Ideas42, Janalakshmi Financial Services, Awaaz.de

Microentrepreneurs in developing countries face complex financial management decisions. But many entrepreneurs do not have the necessary financial knowledge and skills to effectively make financial and business management decisions. Traditional classroom-based financial literacy trainings are the standard solution to this problem. Despite their popularity, there is little evidence on whether such trainings improve microentrepreneurs' decision-making or the actual performance of their businesses. Researchers aim to test a new financial capability intervention that differs from the traditional method in two ways: first, it simplifies the training into easy-to-remember and easy-to-adopt rules of thumb; and second, it leverages mobile technology to deliver the material cheaply and at particularly useful times for microentrepreneurs.

Policy issue

Worldwide, there are approximately 400 million micro-, small-, and medium-sized enterprises and the sector constitutes an important source of economic mobility for the poor.[1], However, in developing countries, many microentrepreneurs lack the training or skills they need to manage the complex finances of a small enterprise to successfully grow their businesses.Traditional financial education programs may not be the answer to fill this skills gap. Recent randomized evaluations and meta-analyses have found limited impact of these programs on microentrepreneurs' financial behaviors and on actual business outcomes such as sales and profits.[2], Furthermore, even when financial capability training leads to better outcomes for its target population, it may not be cost-effective, as conducting classroom-based training is expensive and not easily scalable.Previous research suggests that rule-of-thumb-based training, which focuses on delivering simple financial heuristics instead of in-depth information about financial concepts, may be more effective at improving financial behaviors and business outcomes.[3] This study in India builds on that research by exploring whether and how rule-of-thumb training can be delivered in a cost-effective way through a mobile phone platform to improve financial management decisions and outcomes.

Context of the evaluation

This evaluation was carried out in two cities in India: Bangalore in the state of Karnataka, and Indore in the state of Madhya Pradesh. The intervention targeted microentrepreneurs in urban and peri-urban areas of these two cities who had outstanding individual business loans with the microfinance institution Janalakshmi. The microentrepreneurs in this study had taken a loan ranging from INR 50,000-200,000 (US$800-3,200). Their businesses included provisions and textile shops, fruit and vegetable stalls, tailoring services, micro-manufacturing, and trading.



A micro-entrepreneur in India. Photo: paul prescott | Shutterstock.com

Details of the intervention

Researchers conducted a year-long randomized evaluation to understand whether a low-cost, mobile phone-based program that delivers simplified financial lessons via Interactive Voice Response technology could improve financial management behaviors and business outcomes for microentrepreneurs in India. Among 2,391 microentrepreneurs with business loans at Janalakshmi who expressed interest in participating in the program, researchers randomly assigned half to the treatment group and the other half to the comparison group.

For 41 weeks, microentrepreneurs in the treatment group received weekly phone calls on their mobile phones with easy-to-remember and easy-to-adopt rules-of-thumb about financial management. These messages were sent at the beginning of the week, followed by a reminder message at the end of the week, prompting participants to complete the financial management action. The comparison group did not receive the phone calls.

Researchers surveyed participants halfway through and again two to three months after the end of the program to assess their financial conditions and business practices.

Results and policy lessons

Study ongoing; results forthcoming.

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1. World Bank/IFC. 2010. “Micro, Small, and Medium Enterprises Around the World: How Many Are There, and What Affects the Count?”

2. Xu, L. and B. Zia. “Financial Literacy around the World. An Overview of the Evidence with Practical Suggestions for the Way Forward.” World Bank Policy Research Working Paper 6107, 2012.

3. McKenzie, D. and C. Woodruff. “What Are We Learning from Business Training and Entrepreneurship Evaluations around the Developing World?” World Bank Policy Research Working Paper 6202, 2012.