Increasing Financial Aspirations to Improve Financial Decision-Making and Outcomes in the Philippines

Researchers:

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Sector(s): Finance

Fieldwork: Innovations for Poverty Action (IPA)

Sample: 2,593 clients belonging to 190 microcredit borrowing groups

Target group: Entrepreneurs Farmers Informal workers

Outcome of interest: Household finance Asset ownership Savings/deposits

Intervention type: Financial literacy Information Savings Training

AEA RCT registration number: AEARCTR-0000148

Research Papers: Aspirations and financial decisions: Experimental evidence from the Philippines

Partner organization(s): People's Alternative Livelihood Foundation of Sorsogon, Inc (PALFSI), World Bank

A growing body of evidence has looked at the role financial aspirations play in individuals' financial decision-making and outcomes relating to poverty. In the Philippines, researchers conducted a randomized evaluation to test whether encouraging entrepreneurs to raise their aspirations helped them improve their financial decisions and outcomes. The aspirations training led individuals to set higher savings goals, but most participants failed to achieve their goals. Two years after the intervention, individuals had no higher savings, were borrowing less, and reduced their business investment.

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A growing body of evidence suggests that living in poverty may result in low aspirations, which in turn lowers investments made by low-income individuals, making it more difficult for them to move out of poverty.[1] One potential solution to this vicious cycle is to intervene through externally inducing higher financial aspirations. There is strong evidence that higher aspirations can positively affect educational investments, but little is known about whether encouraging individuals to set higher aspirations can influence their financial decision-making. Such a strategy could, in particular, backfire if it results in frustration for individuals who fail to achieve their goals and reduce their economic investments as a consequence. Does providing training to increase poor entrepreneurs' aspirations enhance or undermine their financial decision-making and outcomes?

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Despite unemployment rates as low as 3 percent, nearly 17 percent of the population of the Philippines lived below the national poverty line in 2018.[2], Many such workers are part of the informal sector, which represents 56 percent of those employed—many of whom are at greater financial risk during crises or shocks and have lower access to social protection.[3], ,[4] Increasing

savings and improving financial decision-making among vulnerable informal workers represents an opportunity to improve their resilience to shocks and reduce poverty rates.

Since 2005, the Philippine government has prioritized microcredit as a means to increase access to credit and financial literacy among low-income individuals.[5] In Sorsogon province, the People's Alternative Livelihood Foundation of Sorsogon, Inc. (PALFSI) offers savings accounts and group-based microfinance loans to a group comprised of mostly female subsistence entrepreneurs engaging in livestock, small retail business, hairdressing, and scrap metal collection. Most loans are for one year with a 2 percent fixed interest rate and requiring a 4 percent contribution to a savings account only accessible upon graduating from PALFSI's program. In addition, PALFSI provides access to a free voluntary savings account offering a 5 percent annual return; however only slightly over half of their clients made use of this product.



Three women going through paperwork together in the Philippines.

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Researchers partnered with PALFSI to conduct a randomized evaluation to test two interventions focused on inspiring long-term personal and business finance planning and teaching financial skills to make savings and loan decisions. Each intervention consisted of eight one-hour sessions delivered monthly alongside scheduled meetings of the borrowing groups. Researchers also assessed the effect of both interventions combined.

Researchers randomly assigned 190 microcredit borrowing groups comprising 2,593 clients to one of four study groups:

1. *Aspirations only* (48 groups of 625 participants): Through games and exercises, sessions focused on building participants' self-confidence, helping them articulate their long-term goals, and defining intermediate steps towards achieving them, with a special focus on encouraging participants to set ambitious goals.
2. *Knowledge only* (48 groups of 648 participants): Participants received training on assets, liabilities, budgeting, and life-cycle planning.
3. *Aspirations + knowledge* (48 groups of 665 participants): Participants were provided both interventions one after the other.
4. *Comparison* (46 groups of 655 participants): Participants in this group did not receive any intervention.

The intervention took place between November 2012 and December 2013. Across surveys at the start of the evaluation and two years after its end, participants were asked to report their savings at PALFSI and other institutions, loan balances, business activity, and household expenditures and assets, in addition to detailed data on their savings goals, financial knowledge, and feeling of control over their experiences and outcomes. Additional administrative data from PALFSI's financial records were used to verify self-reported data.

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Overall, researchers found that none of the interventions increased savings, and that the aspirations intervention, while leading individuals to set more ambitious goals, reduced their loan balance and business investments. They also found that the interventions reduced the extent to which individuals felt that they could control their financial lives through their actions.

Retention of training concepts and savings goals: Both interventions led to better financial knowledge. The aspirations intervention increased the average share of correct responses to questions on the concepts covered in the intervention by 1.99 percentage points over a comparison group share of 22.2 percent (a 9 percent improvement). The knowledge intervention increased the correct-response rate by 3.1 percentage points over a base of 39.7 percent (an 8 percent improvement). The aspirations intervention also led individuals to set more ambitious savings goals for investments in education, raising aspirations by 48.2 percent.

Financial outcomes: The interventions did not increase savings among any of the groups relative to the comparison. Overall, there was also no change to savings goal attainment, and only about 5 percent of participants in all groups achieved their predetermined savings goal. In addition, the aspirations intervention led to a reduction in the total loan balance by PHP 1,734 (US$36.98 at the time of the evaluation), a 15 percent reduction relative to the comparison group. It also led to a large reduction of PHP 630 (US$13.44) in business investment over a six-month period, representing a 37 percent reduction relative to the comparison group.

Expenditures: The researchers found indicative evidence that households spend all their income on household expenditures, despite the trainings emphasizing the importance of reducing expenditures to increase savings. The researchers point to individuals' inability to cut back on spending on temptation goods, as well as durable goods and celebrations, as one reason why they reduced their business investments.

Sense of control: Results show that individuals who received either the aspirations intervention or the knowledge intervention felt less in control of their financial outcomes, including their ability to affect their finances through their actions. The researchers point to the fact that individuals increased their aspirations but were unable to increase their savings and better meet their goals, which may have resulted in demotivation and frustration.

Taken together, these results show that externally influencing individuals' financial aspirations, in a context where they are unable to cut back on their spending or otherwise increase their savings, could cause individuals to decrease business investment and feel a weaker sense of control over their financial outcomes. Training to improve financial literacy and raise aspirations increased individuals' knowledge of financial concepts and raised savings goals, respectively, but neither improved participants' goal

attainment or financial outcomes. Researchers call for future research to assess whether more moderate and attainable goals might bring about more positive impacts while maintaining or improving participants' feeling of control over their outcomes.

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1. Dalton, Patricio S., Sayantan Ghosal, and Anandi Mani. "Poverty and aspirations failure." *The Economic Journal* 126, no. 590 (2016): 165-188.

2. Asian Development Bank. 2021. "Poverty Data: Philippines." https://www.adb.org/countries/philippines/poverty

3. International Labour Organization. 2018. "Enterprise Formalization: Size of the Informal Economy in the Philippines" https://www.ilo.org/manila/eventsandmeetings/WCMS_634914/lang--en/index.htm

4. International Labour Organization. 2021. "Informal Economy in the Philippines."

5. Centre for Public Impact. 2016. "Microcredit in the Philippines." https://www.centreforpublicimpact.org/case-study/microcredit-in-the-philippines