

Researchers

Shawn Cole
Harvard University

Antoinette Schoar
Massachusetts Institute of Technology

Staff

Pooja Wagh
Program Manager, Financial Capability

Beniamino Savonitto
Beniamino Savonitto

Timeline

2014-2016

Sample Size

2,391 microentrepreneurs

Research Implemented by IPA

Yes

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

Abstract

Many microentrepreneurs in developing countries may lack the training or skills to make the most effective financial and business management decisions. In India, researchers tested a low-cost and easy-to-scale financial capability intervention that delivered easy-to-remember and easy-to-adopt rules of thumb via voice-based mobile phone messages. While the more engaged participants—who listened to a high share of the messages—reported improved business practices and sales, overall listenership was low. Preliminary results from the comparison of treatment to comparison groups indicated that the rule-of-thumb training did not significantly impact business sales or profitability on average.

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.

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

Researchers are still analyzing data for a complete analysis — all results reported below are preliminary.

Based on preliminary analysis, researchers were unable to find a significant impact of the training program on microentrepreneurs' business practices, business sales, or profitability overall. Part of the reason for this lack of impact may be that listenership was low; while 83 percent of participants in the treatment group picked up the calls, the average share of messages heard among those who picked up was only 48 percent. However, more engaged participants, who listened to more than half of the total message content, did increase monthly business sales and were less likely to withdraw cash from their businesses for personal use, relative to the average for the entire comparison group. These results suggest that voice messages could have an impact on business practices if the messages are heard.

Researchers are now working to modify the content and duration to engage a greater number of microentrepreneurs, and will test the new messages in another randomized evaluation in the Philippines and India in 2016-2017.

Sources

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. 2012. "Financial Literacy around the World. An Overview of the Evidence with Practical Suggestions for the Way Forward." World Bank Policy Research Working Paper 6107.
3. Drexler, A., G. Fischer, and A. Schoar. 2014. "Financial Literacy Training and Rules of Thumb: Evidence from a Field Experiment" *American Economic Journal*, 6(2): 1-31. November 10, 2016