Innovations for Poverty Action

Authors
Rohit Naimpally

Consider the Debit Card

In order to improve the relevance and accessibility of its research for policy-makers and practitioners, IPA conducts some of its research in a series of focused portfolios of thematically linked research initiatives. One such initiative is the Global Financial Inclusion Initiative, which broadly seeks to identify ways to help individuals manage their finances.

One simple thing we can all use is greater flexibility. I often use an example from my own life to illustrate this point: consider the debit card. Overdraft facilities notwithstanding, my debit card does not allow me to consume more than I have stored in my bank account. However, the debit card affords me a number of other conveniences. It often saves me the trouble of having to make a trip to an ATM machine. Using the same plastic strip, I can also spread my spending over multiple locations, and at different times. All of this is achievable without being dependent on having money in my pocket at any particular moment.

This ability to spread my consumption purchases over time, without necessarily expanding my spendable funds, is known as *consumption smoothing*. The opportunity to smooth consumption is one that many microfinance products have been known to provide people with. Here is Kiva Vice President Isabelle Barres:

> Despite the limited evidence around whether microfinance lifts people out of poverty, evidence shows that microfinance is critical to help poor people cope with poverty, by smoothing consumption and allowing to better deal with emergencies. One major book substantiates these findings "Portfolios of the Poor: How the Poor Live on $2 a Day" (Morduch, Rutherford and Ruthven, 2009). As Rosenberg (2010) notes, microfinance clients vote with their feet, and find the services so valuable that they are willing to

> pay high interest rates, and show very high repayment rates. He also points out that microfinance has the notable advantage of requiring fewer subsidies than other poverty alleviation strategies (i.e., education). Therefore, even if microfinance were proven NOT TO move people out of poverty, it should still be considered a very powerful tool to help alleviate its consequences.

See David Roodman for further comments on Barres' 2010 post. The key takeaway here is that the goal of financial inclusion is to help people manage their financial portfolios in the ways best suited to them. Oftentimes, this can be facilitated by affording them greater flexibility in their financial lives, even if it doesn't mean that they spend more money in total.

In other words, ask yourself: Would my life be worse without my debit card?

Rohit Naimpally is a Senior Project Associate for IPA's Global Financial Inclusion Initiative.

August 23, 2012