



PILOT STUDY SUMMARY

Financial Inclusion and Credit Contracts in Repeated Borrowing Relationships

This pilot study was funded in Fall 2016 through CEGA's Financial Inclusion Lab (FIL), in an effort to seed promising new research on digital financial inclusion.

Policy Issue

Many households in developing countries experience some degree of financial exclusion, or lack of access to formal financial services due to imperfect credit markets or deficiencies in economic infrastructure. A growing literature shows a linkage between economic outcomes and the degree to which households are included in (or excluded from) the formal financial market. For example, it has been established that checking accounts, microcredit, savings accounts, and mobile money accounts can increase savings, entrepreneurship success, and minority empowerment, and reduce crime risk for those that use them. However, the optimal design of these products—and the mechanisms by which they promote financial inclusion—remain poorly understood.

Project Summary

BRAC Sierra Leone provides microfinance, agriculture, livestock and poultry, adolescent empowerment, health and legal aid services to 1.5 million Sierra Leoneans. BRAC's microloan program offers credit in the form of graduated microloans to poor women entrepreneurs who are first-time borrowers. Under this program, women are given small loans at first, then given the opportunity to borrow larger amounts once they successfully repay. While researchers suspect that repeated borrowing relationships—in other words, engaging with the same clients over time—can positively influence financial inclusion and entrepreneurship success for first-time borrowers, there is little evidence to support this hypothesis.

With support from Visa, researchers have set up a randomized experiment in partnership with BRAC Sierra Leone's microloan program. The loans, which are collateral-free and may be used to invest in potential income generating activities, will eventually be extended to a population of women entrepreneurs who would not be served by BRAC otherwise. During the six-month pilot period, researchers conducted a census of all relevant BRAC branches and developed a procedure for randomly assigning borrowers to different treatment arms. At the same time, the research team developed a credit scoring mechanism and customized online tool that will allow BRAC credit officers to determine the appropriate level of credit to be offered to each borrower. The tool, which has already been tested with a small number of clients in the field, should help minimize the potentially higher risk to BRAC generated by expanding the pool of served individuals.



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COUNTRY

Sierra Leone

PARTNERS

BRAC Sierra Leone

PROGRAM AREA

Digital Financial Inclusion

TOPICS

Credit contracts, microloans

TIMELINE

January – June 2017

FUNDING AMOUNT

In addition to setting up the study sample and designing the credit scoring mechanism for the forthcoming experiment, researchers developed and tested a comprehensive survey instrument that will be used to collect detailed baseline data from borrowers. A similar survey will be used to collect endline data after loans have been administered. Ultimately, researchers will measure the economic performance of women who receive loans thanks to the expansion of credit, and compare them with two control groups: women in the sample who do not receive loans, and women who would have received loans anyway, regardless of the experiment.

Policy Relevance

Given the scale at which BRAC operates (in Sierra Leone and other countries), any positive changes to the BRAC microloan program will have far-reaching benefits for low-income women and their communities. Already, this pilot study has influenced the way BRAC determines loan amounts for its customers. Through early testing, BRAC realized that the minimum loan amount that is sustainable for the organization is greater than what was previously assessed. Further, the on-line tool designed by the research team will help BRAC track all customers in its system (including the rejected ones) over time.



A BRAC staff member gives a passbook to a microloan client.

Next Steps

BRAC is expected to roll out the new online credit tool in all of its branches in September 2017. Baseline data will be collected and microloans offered to eligible women beginning in November 2017. While preliminary results should be available at this stage, the research team expects to publish several research papers regarding the linkages between repeated borrowing relationship and financial inclusion once the full-scale study is completed.