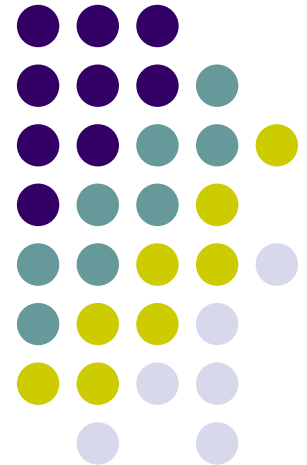


# Innovative Methods of Evaluating Access-to-Finance Programs

Mudit Kapoor  
Indian School of Business (ISB)  
Hyderabad, India





## Two projects

- Savings
- Chit Funds: A financial service provider to the MSMEs

# Savings



## Project Scope

- Understand savings behavior of low income households of a large Local Area Bank (LAB)
- Develop new savings product for the bank to increase the level of deposits
- Study the impact of these products on households savings and loan behavior



# Savings

## Approach

- In the first stage we conducted a detailed survey of 200 households to document
  - Socio-economic and demographic characteristics
  - Existing saving mechanisms
  - Reasons to save
  - Difficulties in saving
- Use the survey to develop new financial products
  - Need for a commitment product
  - Labeling of savings products

# Savings



## Approach (contd.)

- Conduct a baseline survey of individuals who are the potential participants in the pilot testing of the product
- Field experiments using randomization to study the impacts of the products

# Savings



## Issues

- Convincing the partner (Bank) and donors for doing an impact assessment using field experiments
- Bank data
  - Incomplete or non-verifiable addresses
  - Seasonal migration of clients to cities, so timing of the survey and intervention is important for compliance
  - Sample size – important for accurate measurement but increasing size increases the cost of data collection exponentially (time and money)
  - Monitoring of the data collectors (collecting in the field and then inputting) – surveys are conducted in local language and so some important information could be lost in translation. This is costly!

# Savings



## Issues (contd.)

- Length of the impact assessment, should it be 6 months or 1 year or more
  - Difference of opinion between researchers, donors and partners
- Funding
  - Who should finance the impact assessment – their interests?
  - Flexibility depending on how the project progresses

# Chit Funds: A financial service provider to MSMEs



## Project scope

- Determine the size of the industry (regulated and unregulated) and document the recent trends
- Estimate the effective interest rates and default rates
- Understand the nature and extent of “side-lending” business and other services provided to MSMEs
- Understand financial needs of low income households and MSMEs and to what extent can chit funds deliver other financial products (for example, micro-insurance, participation in stock markets) to such households
- Design and test two products which are related to financial education and mental accounting

# Chit Funds: A financial service provider to MSMEs



## Approach

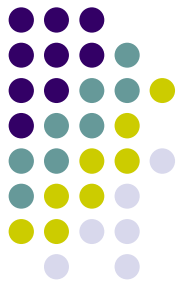
- Every chit fund scheme (called a by-law) is registered with a state authority, it documents chit value, duration, companies name, start date
- We collect this data from state authority (we have already collected data from 10 districts in Andhra Pradesh)
- Conduct a survey of chit fund companies to collect data on each scheme they administer which includes bidding data, customer and group characteristics, etc. The All India Chit Fund Association (AICFA) has extended full support
- Conduct survey of their clients, more importantly to understand their risk behavior, level of financial literacy

# Chit Funds: A financial service provider to MSMEs



## Issues

- Interestingly, chit fund companies are more keen on pilot testing the product before it should be scaled. They are more concerned that if a product is not effective it will bring bad publicity (it already has a dubious reputation among the policy makers) and therefore more stringent and stifling regulation
- Large scale survey spread across five states



Thank You