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Who you train matters: Identifying combined effects of financial education on migrant households[☆]

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ABSTRACT

There has long been a concern among policymakers that too much of remittances are consumed and too little saved, limiting the development impact of migration. Financial literacy programs have become an increasingly popular way to try and address this issue, but to date there is no evidence that they are effective in inducing savings among remittance-receiving households, nor is it clear whether such programs are best targeted at the migrant, the remittance receiver, or both. We conducted a randomized experiment in Indonesia which allocated female migrants and their families to a control group, a migrant-only training group, a family member-only training group, and a training group in which both the migrant and a family member were trained. Three rounds of follow-up surveys are then used to measure impacts on the financial knowledge, behaviors, and remittance and savings outcomes of the remaining household. We find that training both the migrant and family member together has large and significant impacts on knowledge, behaviors, and savings. Training the family member alone has some positive, but smaller effects, while training only the migrant leads to no impacts on the remaining family members. The results show that financial education can have large effects when provided at a teachable moment, but that this impact varies greatly with who receives training.

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1. Introduction

Officially recorded remittance flows to developing countries are estimated to have reached $351 billion in 2011 (Mohapatra et al., 2011), more than three times the total official development assistance going to developing countries.[1] However, policymakers and much of the migration literature have long worried that the majority of remittances are used for consumption purposes, not savings or investment, reducing their long-term development potential (e.g. Chandavarkar, 1980; Connell, 1980; Durand and Massey, 1992; and IADB, 2004). While there are studies which show positive impacts of remittances on education and investment (e,g, Cox-Edwards and Ureta, 2003; Woodruff and Zenteno, 2007; and Yang, 2008), recent work by Ashraf et al. (forthcoming) has shown that remittance receivers are likely to save less than their remittance senders desire, while insights from behavioral economics suggest that many people in general may save less than rational financial planning would predict (Benton et al., 2007). Moreover, since temporary migrants from developing countries are earning high

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[1] Total Official Development Assistance to developing nations is estimated at $90 billion for 2010 http://stats.oecd.org/Index.aspx?DatasetCode=ODA_RECIP [accessed 20 April, 2012].

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earnings for a short period, permanent income theory would suggest that a large fraction of remittances received should be saved.

One of the main policy responses to try and increase savings from remittances and improve financial management among remittance receivers has been the introduction of financial literacy programs for migrants and/or their families. For example, the Government of the Philippines launched a financial literacy campaign based on the concern that migrant families enjoy substantial consumption gains while their family members are abroad, but then have nothing left when the migrants return.[2] New Zealand's aid agency is funding financial education for seasonal workers from the Pacific Islands in New Zealand,[3] and the Inter-American Development Bank has conducted financial education programs for remittance receivers in Guatemala and Nicaragua.[4] The global financial education program of Microfinance Opportunities/ Freedom from Hunger/Citi Foundation now has a specialized curriculum directed at remittance receivers, aimed at helping them better use the money they receive.[5]

However, while there is a strong association between financial literacy and levels of savings in both developed (Lusardi, 2008) and developing countries (Cole et al., 2011), the limited evidence on the causal impacts of general financial literacy programs in developing countries has shown relatively limited effects.[6] For example, Cole et al. (2011) find that a financial literacy program for households in Indonesia has little impact on their propensity to open savings accounts. However, one important recommendation from financial literacy experts is that financial education should be delivered at "teachable moments", when the information is most applicable to a person's life (GAO, 2004). One of the few research studies to examine such a case is Bertrand and Morse (2011), who found that offering information and making interest rate costs more understandable right at the moment U.S. borrowers are deciding on payday loans can have large effects. Offering financial literacy training to migrants and/or their family members right before the migrant member leaves potentially offers another such moment, since this is precisely the time when migrants and family members have to decide the method of remitting, amounts and frequency of remittances, and how to manage the new and relatively large inflows of income.

This paper provides the first experimental evidence on whether financial literacy programs work to improve financial knowledge and financial management, and thereby increase savings, in migrant-sending households. Our context is a pilot program on financial literacy for female overseas migrant workers and their families developed as a partnership between the Government of Indonesia and the World Bank and implemented in Greater Malang area and Blitar District of East Java Province. The training program emphasized financial planning and management, savings, debt management, sending and receiving remittances, and understanding migrant insurance. One key policy question is whether such information is best delivered to the migrant worker herself, to someone in their remaining household, or to both. Our experiment directly tests this by means of three treatment groups: a group in which only the migrant worker receives training, a group in which the main remittance receiver or decision-maker in the remaining household receives training, and a group in which both receive training.

We conduct three rounds of follow-up surveys and find that training the family member, and training both the family member and migrant result in increases in financial knowledge, with evidence that this impact is greater when both the migrant and her family member are trained. Training results in no increase in the amount or frequency of remittances, but when offered to both the migrant and family, leads to more financial planning and budgeting, and to more saving. The effect sizes are reasonably large: we find that households in which both the migrant and her family member were trained are 19 percentage points more likely to be aware of financial terms, 10 percentage points more likely to have saved in the last six months, and have almost twice the savings out of remittances as the control group. There are smaller and less significant impacts on savings when only the family member is trained, and small and insignificant impacts on the knowledge, behaviors, and outcomes of family members when only their migrant worker is trained. Furthermore, we find some evidence of significant complementarities in treatment as the savings propensity is higher when both family members and migrant workers are trained together than the sum of the effects of treating them separately. Comparing our results to theoretical predictions suggests that the main channel is through improving the ability of remaining household members to optimize their savings and consumption decisions.

This paper relates to three main literatures. First, there is a nascent literature that has examined the impacts of financial education in developing countries. Examples include Cole et al. (2011) who look at savings account take-up in Indonesia, Hastings and Tejeda-Ashton (2008) who examine selection of retirement funds in a hypothetical scenario, and Gine et al. (2011) and Cai (2012) who both examine the decision of farmers to purchase weather insurance, and the interaction of financial education with social networks. Two parallel and complementary studies also look at financial literacy and remittances. Gibson et al. (2014) study the impact of teaching migrants in New Zealand and Australia about the different methods available for remitting and the costs of each, finding an increase in financial knowledge and information seeking behavior, reduced risk of switching to costlier remittance products, but no change in either the frequency or level of remittances. They do not teach or examine savings behavior, and measure only outcomes on the migrants, not on the sending families. Seshan and Yang (2014) provide a savings-oriented financial literacy workshop to Indian male migrant workers in Qatar. Their program is considerably shorter in duration, delivered only to migrants and not to the family members, and focuses more on inspiring migrants to save than on teaching detailed financial planning and saving knowledge. They find some changes in financial practices in their full sample, but no significant impacts on savings levels or remittances. However, when they split their sample by baseline savings levels, training raises the migrant's savings levels in the low baseline savings group. Our work complements and builds on these studies, by focusing on outcomes for household members left behind in the developing country, implementing multiple surveys for more statistical power, and by examining how the impacts of the course vary with who is trained.

Secondly, our paper contributes to a new experimental literature on policies to enhance the development impact of migration, which are summarized in McKenzie (2012b). Recently Ashraf et al. (forthcoming) and Chin et al. (2010) have both found increases in savings among migrants in response to direct efforts to provide greater access to savings accounts, which complements our finding that families are saving less than may be optimum for them. Our paper shows that offering financial education to migrants and their families offers another way to get more savings out of the same levels of remittances.

Finally, our paper contributes to existing work on testing impacts of multiple development interventions, and finds some suggestive evidence of complementarities. Specifically, we find that our combined treatment of training both migrant workers and their families is more effective at inducing households to save than the sum of the effects of treating them separately. Our point estimates suggest that the combined effect is also greater than the sum of the individual treatment effects for a number of other outcomes, although large standard errors mean we cannot reject a lack of complementarity for most of these

[2] http://jedayang.com/2011/08/24/financial-literacy-campaign-and-the-philippine-government/ [accessed 20 April, 2012].

[3] http://www.aid.govt.nz/media-and-publications/development-stories/february-2012/vakameasina-training-extended-rse-employees [accessed 20 April, 2012].

[4] http://www.thedialogue.org/projects#Transnational_Families [accessed 20 April, 2012].

[5] http://www.globalfinancialeducation.org/future.html#remittance [accessed 20 April, 2012]. Our modules, though closely related to the MFO content, is not entirely a derivative since the MFO module on remittances was not yet available at the time of our study.

[6] A recent meta-analysis suggests little impact of many programs in either developed or developing countries (Fernandes forthcoming).

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