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INCREASING FINANCIAL INCLUSION IN PAKISTAN

A BEHAVIOURAL ECONOMICS APPROACH TO IDENTIFY TARGET CUSTOMERS

GALLUP PAKISTAN COLLABORATES WITH WARWICK BUSINESS SCHOOL

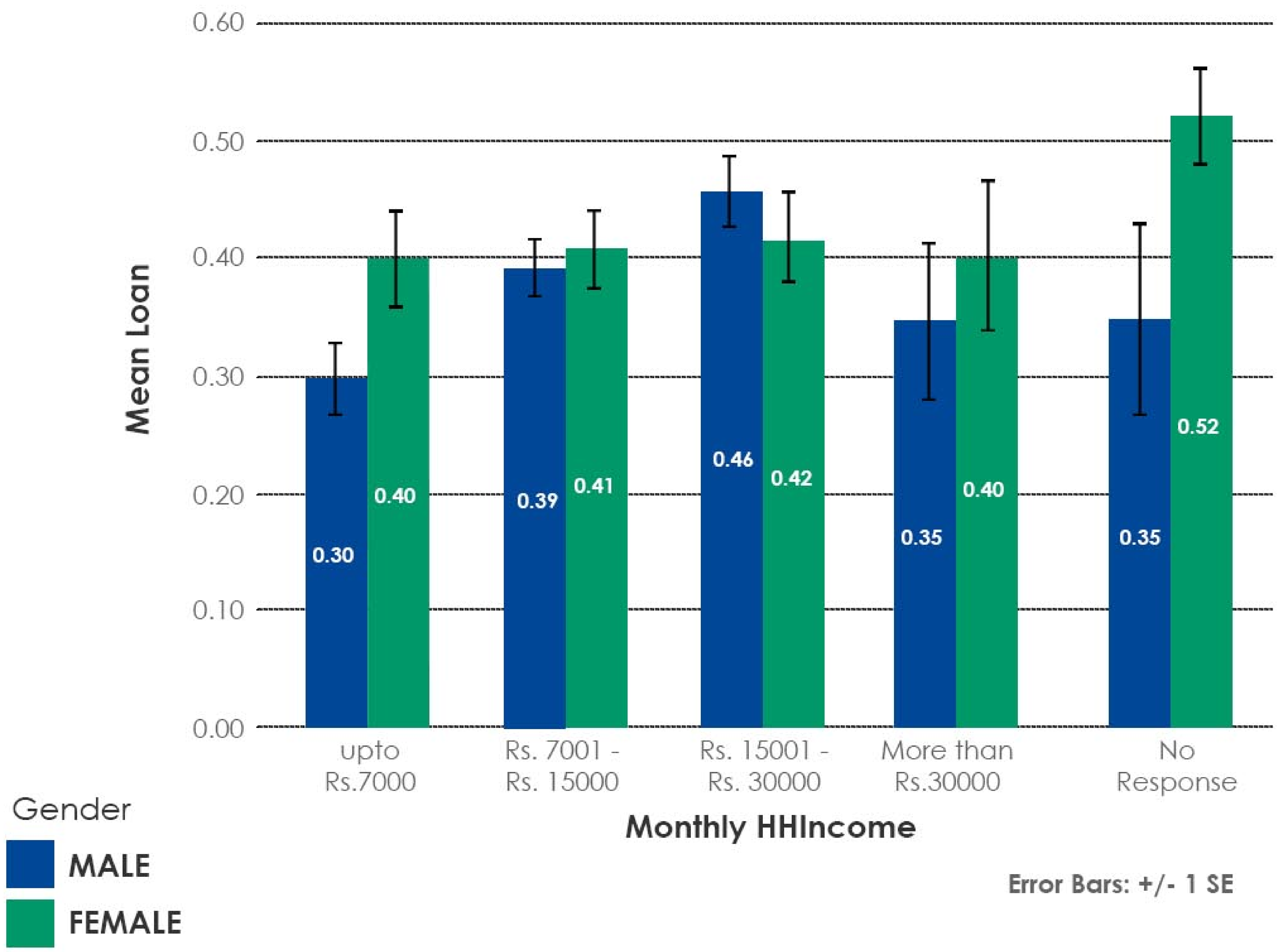
This project was undertaken with the aim to identify those population clusters that are most likely to take up microfinance loans, and thus greatly enhance the level of financial inclusion in Pakistan. This study has been led by Professor Daniel Read from the Behavioural Science Group at Warwick Business School, the leading behavioural science group in Europe.

A representative sample of the Pakistani population was asked if they wished to receive a loan of 10,000 Rupees today, to be repaid in one month with an additional 1,000 Rupees interest. This question was meant to correspond to a standard short term microfinance loan. These small loans can be used to make small capital investments, or to manage short term liquidity crises.

Approximately 40% of respondents were willing to take the loan. On average, willingness to take the loan was the same in both rural and urban areas.

Women were significantly more likely than men to accept the loan (43% versus 38.4%). One possibility is that women are more likely to work in enterprises that could take advantage of a small loan, or to have short term family needs.

Family income also influenced the likelihood of accepting the loan, with **those who had the lowest income least likely to take it.** The relationship with income is complex, however, in that it interacted with gender. The figure below shows the relationship between income, gender, and loan acceptance.

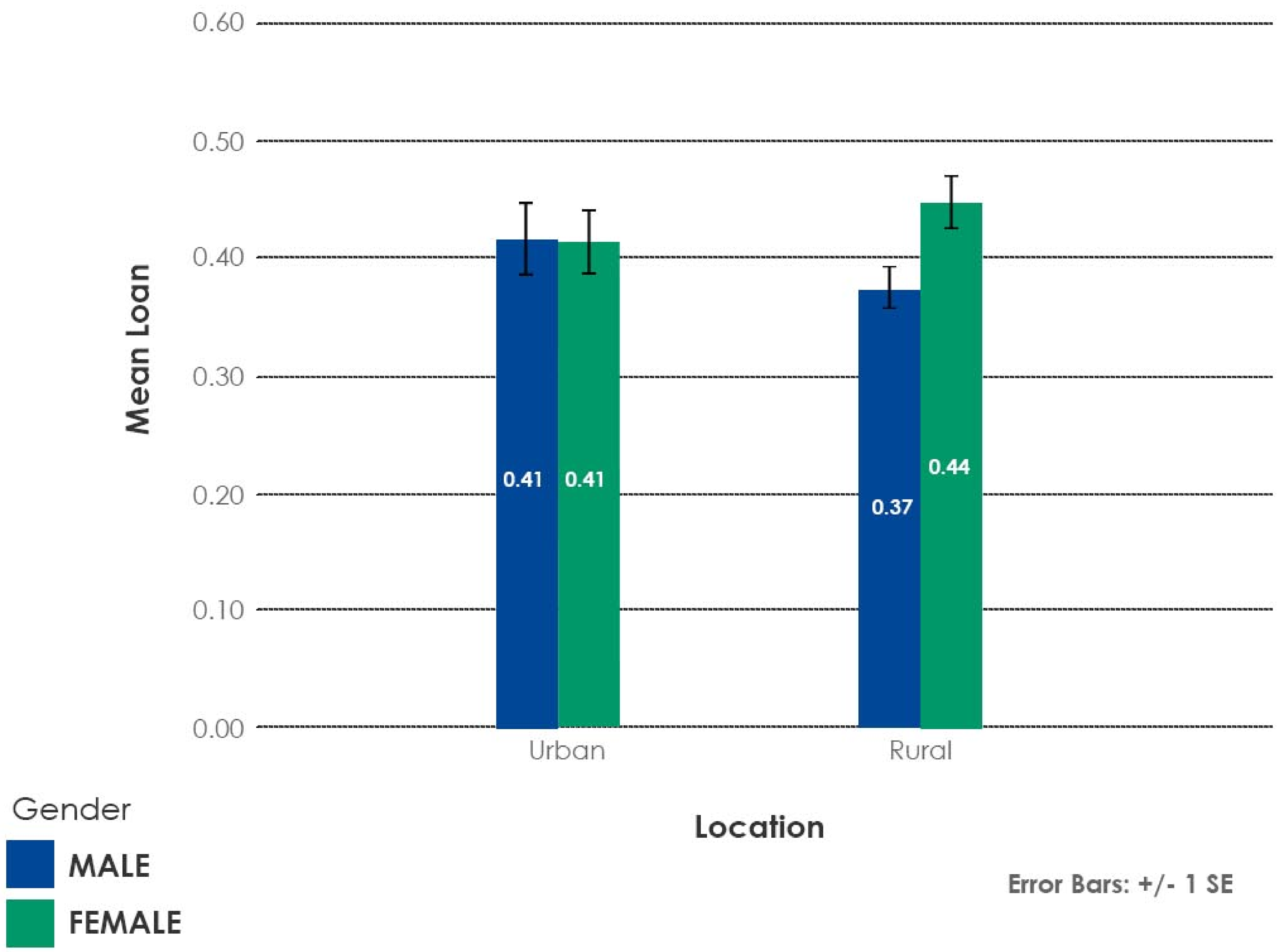


For those who reported their income, women were just as likely to accept the loan regardless of that reported income, averaging around 40%. **Men, however, varied greatly depending on income**, with 30% accepting the loan if their income was under 7,000 and 46% if it was between 15,000 and 30,000 Rupees. Indeed, at the 15 to 30 thousand Rupee income level, men were more likely to accept a loan than were women.

We can speculate about this pattern. For men, it may be that those with a very low income feel they cannot afford or have no use for a loan. Those with a high income similarly have no use for a loan – they are able to draw on their savings. **Women may not show this pattern because they are less likely to have control over the family finances**. Even someone part of a high income family may not be able to dispose of that income as she wishes, and therefore could make use of a loan.

Women who did not report their income (and there were more women than men in this category) were most likely to accept the loan (52%). It would be interesting to learn if the "no report" group has some special identifiable categories.

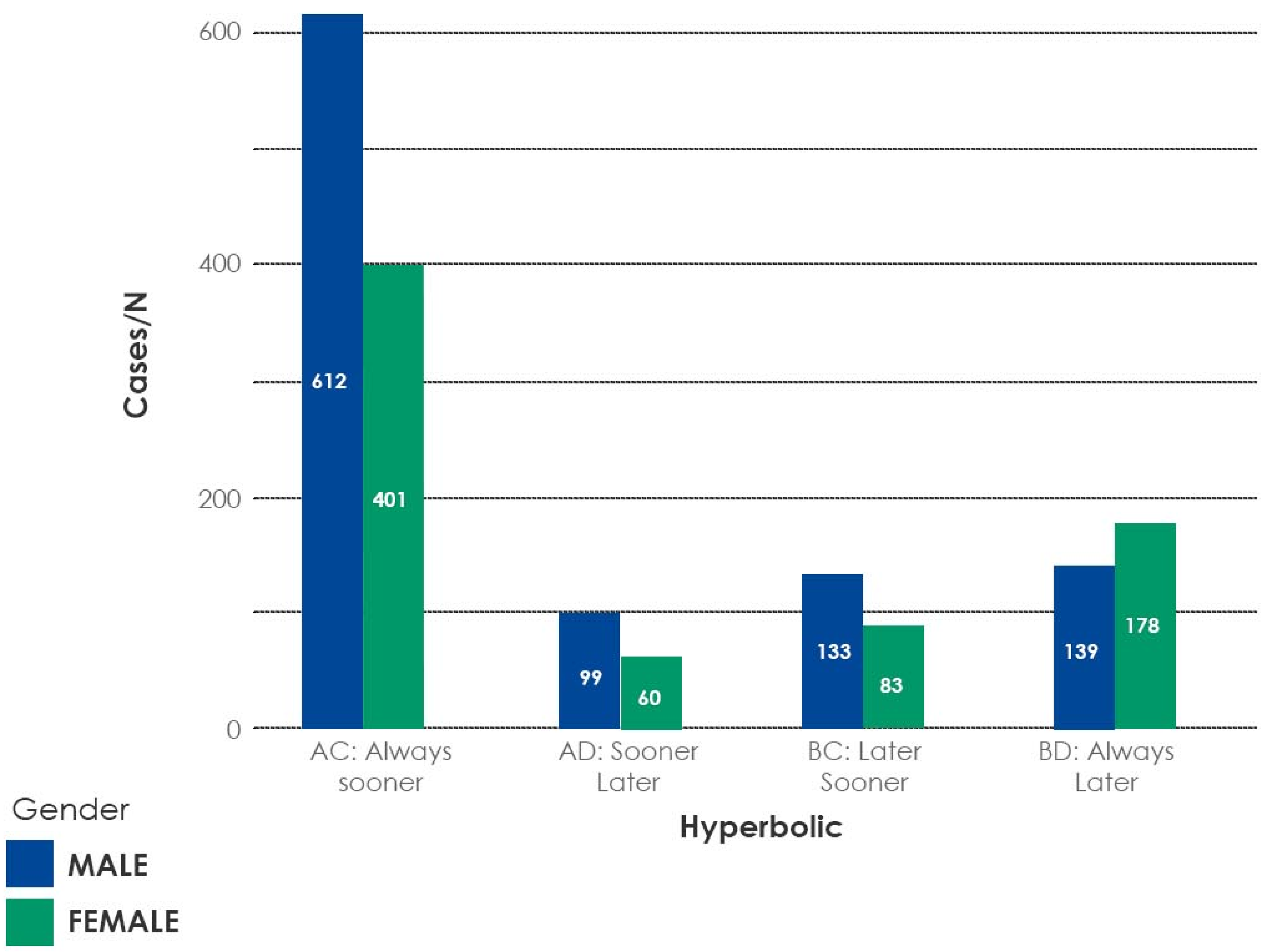
More on the willingness to accept a loan can be seen by comparing the proportion who accepted a loan in both rural and urban areas, broken down by male and female. As can be seen, **the greater propensity for women to accept loans is entirely driven by the rural sample**, where the average woman is 7% more likely to accept a loan than the average man.



We also had two questions in which respondents choose between an early 500 Rupees and a more delayed 750 Rupees:

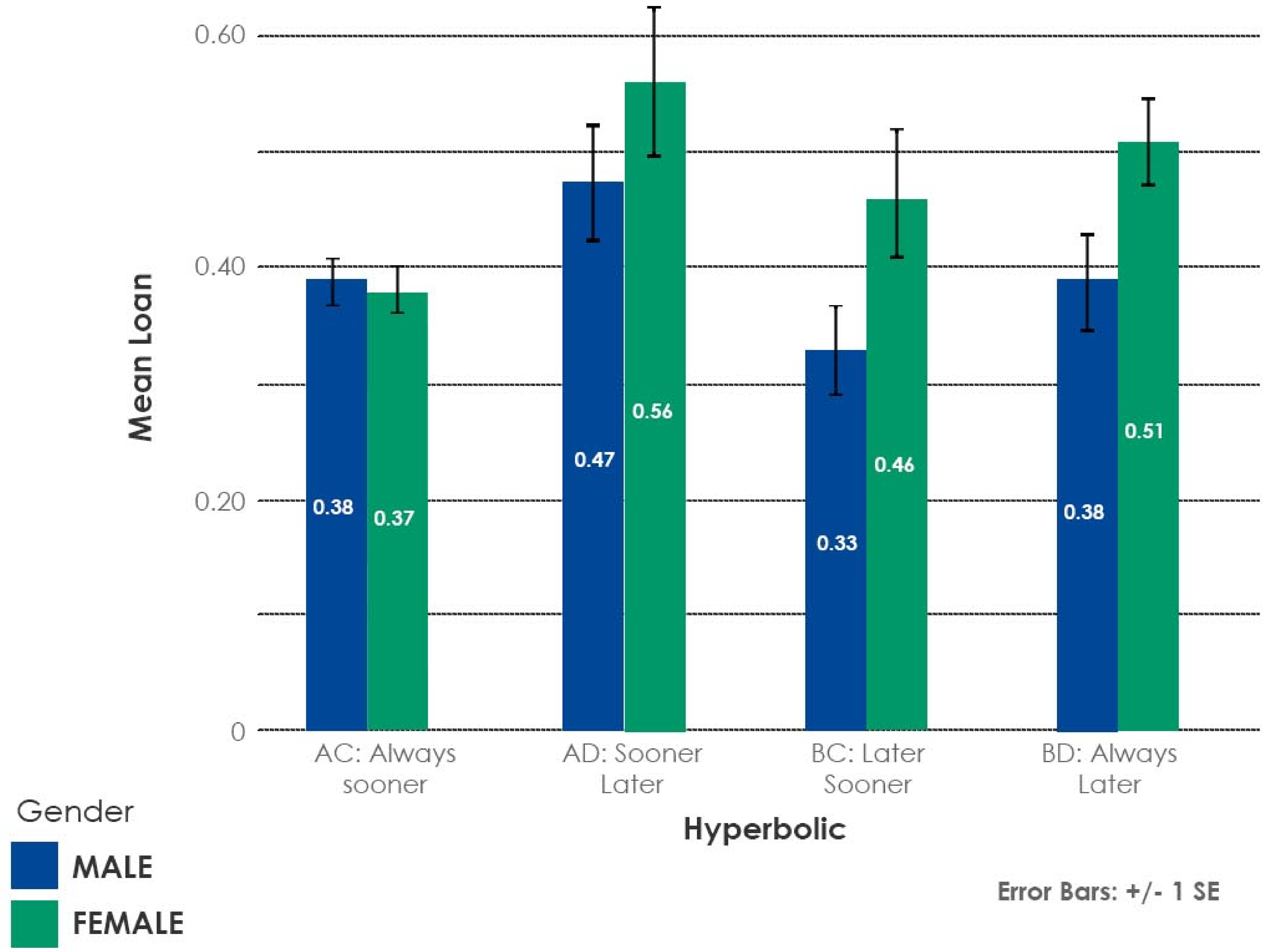
Question 1: Would you prefer **(A)** 500 Rupees now, or **(B)** 750 Rupees in one month?
Question 2: Would you prefer **(C)** 500 Rupees in six months, or **(D)** 750 Rupees in six months?

Questions like these are used in research to distinguish between patient people (who are likely to choose the delayed outcomes B and D, or Always Later), the impatient (A and C, Always Sooner), and two varieties of inconsistent responders. Much research focus has been placed on people who display the AD pattern (Sooner Later) who are impatient over options available immediately, but not over options available in one year. These are often called "hyperbolic discounters."



As can be seen in the above Figure, which shows the number of respondents in each group (broken down by gender) the Sooner Later group is the smallest in this sample.

The Sooner Later pattern might be particularly interesting from a financial perspective. **They want consumption now, but also anticipate that in the future they will be more patient and willing to wait**. This suggests they might be more likely to find a loan attractive, since it offers immediate gratification at the expense of future privation. This is exactly what we find. In the following figure we see the proportion of each group who is willing to accept a loan. As can be seen, **the Sooner Later (AD) group is considerably more likely than others to take a loan.**



To sum it up, these questions can be a very effective way of identifying clusters in populations who are most likely to take up microfinance loans and can contribute significantly towards increasing financial inclusion in Pakistan.

For more survey data on social and other issues see website www.gallup.com.pk

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