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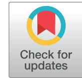
Household economic strengthening through financial and psychosocial programming: Evidence from a field experiment in South Africa



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ABSTRACT

Using data from a randomized field experiment with 552 households, nested within 40 villages and townships in South Africa, we examine the impact of a brief financial literacy training that was integrated into a broader psychosocial parenting intervention. Based on self-reported measures, we document significant improvements in financial behaviors, including higher saving and lower borrowing rates. We also see wider implications for household economic welfare, demonstrated by reduced self-reported financial distress, better resilience to economic shocks, and a greater capacity to securing basic needs. We argue that program impact may run through three effect channels, namely improved self-efficacy, higher family and community social support, and greater optimism. Overall, our findings suggest that "hybrid" program curricula that offer combinations of financial and psychosocial components can add value to stand-alone financial literacy training.

1. Introduction

Living in poverty is characterized by not only a shortfall of money but also day-to-day struggle for food and basic needs, strains on future-oriented investments in education or business, and mental distress. In this context, saving and careful financial planning become important means for smoothing consumption, increasing resilience to income shocks, and increasing long-term household economic welfare (Hulme et al., 2015; Dupas and Robinson, 2013; Rutherford and Arora, 2009; Collins et al., 2009).

Consequently, saving promotion and financial literacy programs have become increasingly popular in international development and a growing body of literature has been dedicated to evaluating their effectiveness. A range of randomized controlled trials (RCTs) have documented promising findings, particularly on realized saving rates but also on broader economic welfare (Steinert et al., 2018). This success, however, has mainly been observed for product-based interventions that give participants access to formal bank accounts or provide sophisticated commitment devices (e.g. Dupas et al., 2016; Brune et al., 2015; Dupas and Robinson, 2013; Prina, 2015; Pande et al., 2012; Ashraf et al., 2006). In contrast, pure financial literacy programs have generally proven far less beneficial, with small or null effects across several meta-analyses and particularly in low-income populations (Steinert et al., 2018; Kaiser and Menkhoff, 2017; Fernandes et al., 2014; O'Prey and Shephard, 2014). Yet, these programs might be the most feasible to implement in resource-limited environments with poor financial infrastructure.

We therefore set out to examine how innovations in program design may increase the effectiveness of financial literacy programs. Research to date has largely focused on external barriers to program effectiveness, including alienation from formal banking through prohibitive fees and regulations, lack of safe storage, and unreliability of (semi-) formal financial institutions. By contrast, we shift the focus to an integrative psychosocial perspective, echoing more recent research. We con-

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tend that changes in financial behavior and decision-making may be partly driven by psychological factors such as future aspirations, self-esteem, and self-efficacy as well as social factors such as family support and inter-personal trust (see Heller et al., 2017; Blattman et al., 2017; Bernard et al., 2014; Kautz et al., 2014; Doi et al., 2014; Alan et al., 2016; Mani et al., 2013). Based on these considerations, we hypothesized that programs may benefit from embedding financial literacy training in broader intervention curricula that feature psychological and family-based components.

To test the above hypothesis, we conduct a field experiment of a financial literacy program that was incorporated into a wider parenting program. The cluster randomized control trial enrolled 40 villages with 552 households in rural South Africa. Twenty villages were randomly selected to participate in a 14-week-long financial literacy and parenting program. Families in the remaining twenty villages received a one-day hygiene intervention and served as the control group. Our analysis utilizes data from post-test surveys with 539 adults and 526 adolescents, conducted 5–9 months after completion of the intervention.

There are three main findings. First, we observe substantial changes in financial behaviors among participants in the treatment group, including significant increases in self-reported past-month saving and reductions in self-reported borrowing. We also find substantially higher levels of financial self-efficacy, but pro-savings attitudes, which were already high at the study's outset, are not notably altered post-intervention.

Second, we find evidence that the positive changes in financial planning and management have important implications for wider aspects of household economic welfare. In particular, we observe significant decreases in levels of financial and emotional distress among program recipients. We additionally record significant improvements in self-reported resilience to emergencies and income shocks, adoption of less detrimental coping strategies, and substantial increases in access to a range of designated basic necessities, including education, medical care, and clothing.

Lastly, we find some support for our hypothesis that the program's impact on financial outcomes may be driven by psychological and social channels: First, we contend that behavior change is partly driven by improvements in financial self-efficacy, helping participants to bridge an "intention-action gap" (Fishbein and Yzer, 2003). Second, changes in financial behavior seem to be facilitated and reinforced by higher levels of social and emotional support, within both households and the wider community. Lastly, decreases in depression levels could prompt a more optimistic and positive outlook on the future and thus help alleviate temporal biases and reduce impulsive spending and overborrowing.

Our study contributes to a growing body of behavioral literature that explores linkages between psychological factors and poverty alleviation strategies (Ghosal et al., 2013; Glewwe et al., 2014; Bertrand et al., 2010; Bénabou and Tirole, 2003). The design of our intervention has parallels to some previous programs with integrative curricula. Among these are (1) the *New Generation project* in Burundi, which augments a parenting program with the establishment of village-based savings groups (see Annan et al., 2013), (2) the *Suubi-Maka* ("Family Hope") program in Uganda, which combines therapeutic counselling with asset-based economic empowerment (Ssewamala et al., 2009); (3) the *Sustainable Transformation of Youth in Liberia (STYL)* program, which offers a combination of cognitive behavioral therapy (CBT) and unconditional cash grants (Blattman et al., 2017); and programs in high-income countries such as (4) the *Becoming a Man (BAM)* program for economically disadvantaged youth in Chicago that features standard CBT elements, skills building for anger control and cognitive thought replacement, and financial literacy training (Heller et al., 2017). Similar to our intervention, these programs have adopted a holistic approach by delivering 'packages' of psychosocial and economic training components. Echoing evidence presented in our paper, they also document significant improvements across a range of economically relevant outcomes, including increases in income (Blattman et al., 2017), household savings and school attendance rates (Ssewamala et al., 2009), and high school graduation rates (Heller et al., 2017).

The remainder of this paper proceeds as follows: Section 2 describes the sample, experimental design, and data. The main results are presented and discussed in Section 3. Section 4 elucidates possible mechanisms of change by drawing on insights from additional quantitative as well as qualitative data, before the conclusions set out in Section 5.

2. Experimental design and data collection

2.1. Study setting

The study took place in rural and peri-urban settlements within a 2-h driving radius of King William's Town in the Eastern Cape of South Africa, the province with the lowest GDP of the country. According to the latest census (2011), the average annual household income in the province is $313[1] – the lowest in the country – and unemployment rates are second highest at 37% (Statistics South Africa, 2012). The prevalence rate of HIV/AIDS is close to 30%, and the cost of medical care for sick household members can further impoverish HIV-affected families (Statistics South Africa, 2016; Masanjala, 2007; Russell, 2004). Deprivation in the province still reflects the spatial policies of the Apartheid era: deficient infrastructural and economic development as well as poor service delivery persist in the former "homeland" areas of the Transkei and Ciskei (Noble and Wright, 2013; Klasen, 1997). Given this persisting social inequality, the South African government issued the Social Assistance Act in 2004, mandating the South African Social Security Agency (SASSA) to administer seven different welfare grants[2] for families most in need. The coverage of social assistance has increased considerably over the past decade and now reaches almost a third of South Africa's population (SASSA, 2016). Previous studies have highlighted beneficial impacts of South Africa's cash transfers, including reductions in HIV risk (Cluver et al., 2013), increases in school enrolment (Case et al., 2005), and improved nutritional intake (Duflo, 2000). However, poverty remains high, with almost 50% of South Africans falling below the national inflation-adjusted poverty line and 13% reporting acute risk of hunger (Statistics South Africa, 2017).

Despite the country's sophisticated and privatized banking system, the low-income population of the country is still largely dependent on informal financial instruments such as savings groups (Porteous and Hazelhurst, 2004; Ardington et al., 2003). Although mobile banking technology has the potential to overcome cost and access barriers, as demonstrated in Kenya (Suri and Jack, 2016), uptake has been very low in South Africa, mainly due to high levels of mistrust (Brown et al., 2003). Further, access to formal credit markets is largely constrained for poor segments of the population who, instead, commonly resort to informal moneylenders ("loansharks"). These moneylenders normally operate under high levels of secrecy and rarely keep official record of their transactions (Siyongwana, 2004). There are further accounts of illegal practices for collecting loan defaults such as confiscation of household goods, proof of identity, and grant or bank cards (Kirsten, 2006; Mashigo, 2006). Consequently, borrowers are often forced to take another loan to settle outstanding debts, thus creating a debt spiral (James, 2014).

[1] Equal to 4300.00 ZAR.

[2] These include the child support grant (3500.00 ZAR/month), the foster care grant (890.00 ZAR/month), the care dependency grant (1500.00 ZAR/month), the disability grant (1510.00 ZAR/month), the old age pension (1510.00 ZAR/month).

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