

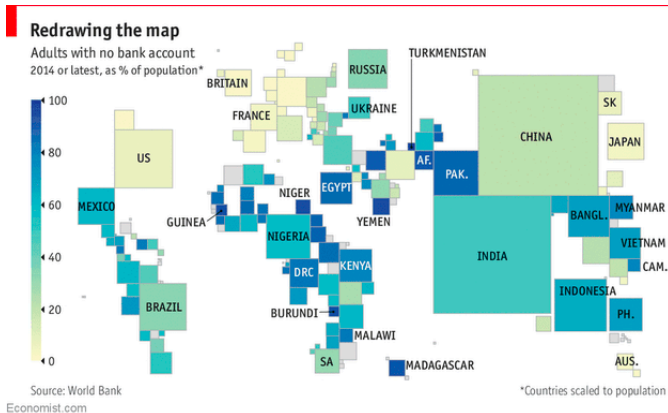
Disentangling the Effect of Financial Inclusion on Household Well-Being

Nandini Gupta, Ashish K. Sedai

Discussion by Emily Williams *(and Kunal Sachdeva)*

NFA September 2023

Underbanking Around the World



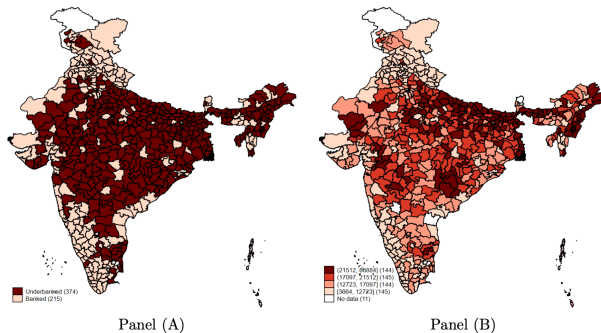
Existing Literature:

- Access to finance leads to more formal employment [Dehejia and Gupta [2022]]
- Bank branch expansion in Brazilian cities increased firm investments, output, employment and wages [Fonseca and Matray [2022]].
- Bank branch expansion in the U.S. increased household wealth by allowing households to borrow more [Célerier and Matray [2019]]
- ...

The paper asks related questions:

- How does financial inclusion lead to improvements in household well-being?
- What is the causal impact of bank access on households?
- Does this policy come through the household channel or the firm channel?
 - The household channel → bank access facilitates borrowing and saving.
 - The firm channel → bank access allows constrained firms to borrow more/increase employment.

Proposed Identification



RBI bank expansion policy

- The RBI provided incentives for banks to open branches in underbanked areas.
- Location is defined as when the district had a population-to-branch ratio higher than the national average.
- RDD: which essentially compares districts just below the threshold to those just above to obtain a LATE

Summary of Key Results

1. Treated Households

- (1) Consumption, (2) savings, and (3) investments, (4) but without increased borrowing.

2. Treated Firms

- (1) Increase borrowing, (2) employment, (3) profits, (4) wages.

3. Urban vs. Rural

- Bank access benefits richer, socially advantaged households living in urban areas

>> Households benefit indirectly from improved employment opportunities

- Overall, the authors have put together a thoughtfully designed and well-executed empirical strategy.
- Have some suggestions on how to further explore and establish the main findings of the paper.
- Also, some suggestions are on how to place the paper in the existing literature.

Comment 0 – This RDD that Ticks all the Boxes

Clear treatment effect compliance

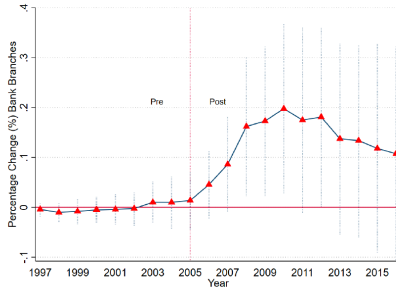


Figure 3A

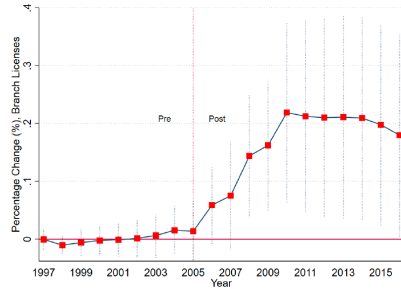
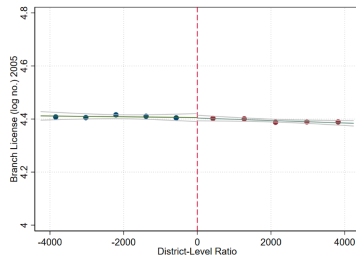
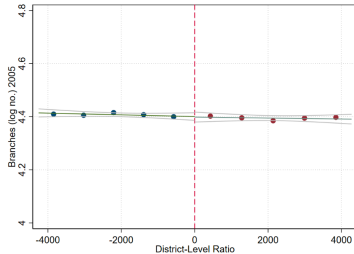


Figure 3B

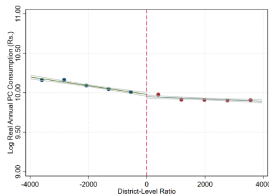
Comment 0 – This RDD that Ticks all the Boxes

Confidence in treatment effect homogeneity at the threshold

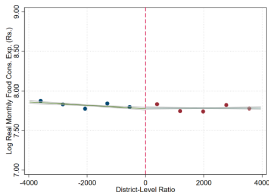


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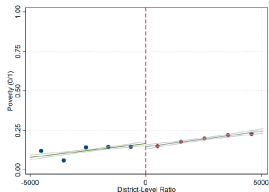
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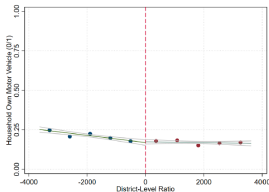
(A)



(B)



(C)



(D)

Comment 0 – This RDD that Ticks all the Boxes

Decrease in number of loans and bad loans in urban areas

Table 7: Bank Credit and Deposit Expansion in Urban versus Rural Areas

	(1)	(2)	(3)	(4)
	Monthly Interest Loan (%)	Number of Loans (No.)	Unproductive Loan (0/1)	Outstanding HH Debt (Rs.)
<i>(A) Urban</i>				
Treatment	-0.975** (0.426)	-1.039** (0.528)	-0.149** (0.0633)	-29,563* (16,002)
Control mean	2.30	1.35	0.19	44,768
Two stage q values	0.021	0.048	0.020	0.092
First stage	0.84	0.79	0.80	0.76
Bandwidth	3,743	4,866	5,647	4,178
Efficient observations	1,587	6,932	7,686	5,792
Observations	3,099	11,791	11,813	10,692
<i>(B) Rural</i>				
Treatment	-0.342 (0.323)	-0.115 (0.834)	-0.047 (0.0594)	13,221 (15,241)
Control Mean	2.12	1.61	0.22	44,500
Two stage q values	0.187	0.911	0.337	0.301
First Stage	0.70	0.79	0.78	0.75
Bandwidth	3,890	4,984	4,753	4,143
Efficient observations	4,949	16,008	15,907	13,013
Observations	9,782	28,151	28,205	25,986

Comment 0 – This RDD that Ticks all the Boxes

- Bank branch expansion leads to: increased household consumption, food consumption and likelihood of owning a motor vehicle as well as reduced likelihood of being poor.
- Also - a differences in differences set of tests confirms these results.
- The authors then dig into the channel – households borrow less, but households earn more. Evidence also consistent with firms employing more, and borrowing more (but mostly in urban areas).

>> The paper is very careful, I beleive all the results...

Comment 1 – Studying Further the Household Demand Channel

- Improved financial well-being is **not** from increased household access to borrowing.
- Bank branch access leads to improved household well-being through firm access to capital and ultimately increased employment.
- However, we do see an increase in savings, suggesting some demand by households.
 - Are there possible alternative stories going on here?
- What's floating in the background is why the RBI engaged in this policy
 - From reading around, these areas seemed to be unprofitable.
 - I think the banks propose which branches to open and close.

>> The paper likely needs to be sharper on the household demand channel

Comment 1 – Studying Further the Household Demand Channel

Can the paper do more on the timing dimension?

Timing 1: What came first? Firm expansion or household effects?

- For example, bank branch access leads to a better ability to save large amounts, leads to households being more able to open a business and greater employment?

Timing 2: Did they happen simultaneously?

- If so, will be even trickier to tease out the channel.
- For example, how about seeing how variation in new employment is related to variation in savings through a kind of two-stage regression (kind of like an IV).

Resources: Were some of the branches/officers moved during the shock?

- If unprofitable, the bank may not staff loan officers.
- Expanding the analysis of table 7

Wrap up

- This is clearly an important topic → Does bank access improve financial inclusion and through what channels? While there is a lot of literature in this space, we are not 100% sure of what really makes an impact on financial inclusion.
- This paper has a really nice empirical setting → nice quasi-exogenous variation, that the authors have very carefully documented/made use of.
- Teasing out the channel could do with more work, this will also help the authors differentiate themselves from the existing literature.
- It seems like there are ways to push this forward to make it a more complete story.
GOOD LUCK!