Vice Presidency of Sectors and Knowledge
Research Department
IDB Invest

Financial Inclusion in Latin America and the Caribbean
RG-K1198

1. Background and Justification

In recent years, new digital financial products have been at the center of policy debates, as they hold the potential to transform the life of the most vulnerable populations. The adoption of digital payments, for example, may increase the customer base of small businesses through e-commerce. From a household perspective, new digital financial products such as mobile money, digital wallets or debit/credit cards may enable lower-income households to transfer money at low cost, thus strengthening risk-sharing networks. They may also reduce the costs of conducting basic transactions such as paying utilities bills or receiving cash transfers from the government.

More recently, despite its devastating effects, the coronavirus pandemic might have created the conditions for a big push towards financial inclusion and the adoption of new financial technologies in some countries in the region. For instance, many small businesses appear to have entered the digital economy and started leaving a digital footprint of their economic performance, which could pave the way for increased access to credit. Moreover, the COVID-19 pandemic created the challenge of delivering cash aid to beneficiaries at scale and record speed, while complying with physical distancing guidelines. Some governments in the region, such as those of Colombia, Panama and Paraguay, partnered with the private sector to electronically disburse benefits to otherwise unbanked beneficiaries, resulting in massive expansions in access to financial services for millions of vulnerable households. Guided by their example, other governments in the region are currently debating the use of this approach to improve the delivery of cash assistance during the pandemic. While the new cash aid programs are expected to be transitory, they may have long-lasting consequences for financial inclusion.

The success of increased financial inclusion through new digital financial products relies on two key premises: i) that digital financial products can indeed relax binding constraints affecting households' and entrepreneurs' behavior,[1] and ii) that those who would benefit the most from adopting new financial technologies are indeed able to access them.[2] This call for proposals seeks to collect evidence on those two premises.

2. Objectives

The main objective of this call for proposals is to generate causal evidence on the effects of policies and changes in the economic environment or market structure on the adoption of new financial technologies by lower-income people and entrepreneurs, and on the effects of increased adoption of digital financial products on household and firm behavior. The project intends to draw comparisons and policy recommendations from the collection of evidence across different countries, institutional backgrounds, or segments of financial systems with a particular emphasis on the role of new digital financial products (e.g., mobile money, digital wallets, online or cellphone-based bank accounts, digital payments, credit and debit cards, or participation in e-commerce).

We appreciate proposals that would provide evidence on either of the following (or related) areas:

a) The extent to which increased access to digital modes of payments or other novel financial technologies lead to changes in consumption patterns, savings among low-income families, and sales growth and investment among micro and small enterprises. Proposals on this topic should exploit recent policy changes or exogenous variation in the supply/rollout of digital financial products to document changes in the ways in which households and small and medium enterprises conduct transactions, and in subsequent welfare or income gains.
b) Causal evidence on the determinants of the adoption of digital financial products. Proposals on this topic should aim to provide evidence on the role of trust and other behavioral traits that determine adoption of new technologies, or experimental or quasi-experimental evidence on the link between infrastructure

[1] The recent evidence provides a nuanced view of the role of digital financial products. On the one hand, there is evidence from Mexico showing how the delivery of debit cards enables people with low incomes to gain experience with the financial system and increase savings (Bachas et al., 2021). There is also evidence from Kenya showing that mobile money, by strengthening risk-sharing networks, can increase resilience to shocks and reduce poverty (Suri and Jack, 2016). In the context of credit markets, however, access to digital loans shows only very modest impacts in Kenya (Bharadwaj et al., 2021).
[2] The evidence on the relevant constraints on adoption is also limited. At the system level, there is evidence from Mexico documenting the importance of network economies for the adoption of digital financial products (Higgins, 2020). At the individual level, there is evidence from Bangladesh showing that migrating payroll payments from cash to digital payments enabled individuals to gain familiarity with the new financial products and increase savings (Breza et al., 2020).

and connectivity and the adoption of digital products, and the presence of spillovers in the adoption of digital financial technologies (e.g., through kinship, friendship, or business networks)

c) Causal evidence on the role of digital modes of payment or financial instruments on the delivery of social programs or other government services, and on the productivity of public servants. Proposals on this area should aim at providing causal evidence on the role of digital financial products in improving targeting of social programs, reducing wait times at public offices, or enabling electronic transactions with the government, among other topics.

When possible, we welcome proposals that compute causal parameters that can be embedded into welfare calculations or into calculations of the marginal value of public funds associated with a particular policy change, as in Finkelstein and Hendren (2020) or Finkelstein and Notowidigdo (2019). Alternatively, we also welcome studies that can provide insights or implications for financial systems, either by combining the causal analysis with a model or by using the causal estimates for back-of-the-envelope calculations.[3] Proposals with an emphasis on gender disparities are also encouraged.

In addition to the causal analysis and econometric work, each study should describe the relevant trends in their context, including ownership and usage of digital financial products by different subgroups such as gender, race, and income categories.

We welcome multi-country and single country papers that use quasi-experimental or experimental approaches to answer the proposed questions. In single-country studies we particularly appreciate efforts to discuss findings obtained from a combination of data sources, including household surveys, social security records, matched employer-employee data, and data from credit bureaus.

3. Content of the Proposal

Research institutions must submit a proposal (maximum of 5 pages) detailing the following:

- The proposal should specify the country/countries that will be analyzed and the main research question. It should provide a review of the literature related to that research question and highlight how the proposed study contributes to and fits into that literature.

[3] See Breza and Kinnan (2021) for a notable example.

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- A detailed description of the data that will be employed, including whether the datasets are publicly available or restricted. For the latter, the team should show that access to the data is possible and provide a detailed plan for acquiring the data.
- A detailed description of the methodology to be used. For instance, in the case of studies that try to assess the effect of market/policy changes, the proposal should provide a detailed description of the identification strategy, including a discussion of the main obstacles to identifying causal effects and how they will be addressed. We would appreciate proposals that provide a detailed discussion of the validity of the identification assumptions and proposed empirical tests of such assumptions.
- The proposed studies should identify carefully which hypotheses could be tested and which not, considering data availability.
- The proposals should explicitly mention how they think the results from the studies will contribute to answering important policy questions or moving the policy debate towards new directions.

In addition, proposals must include:

- The name of the research leader and a list of other researchers involved. The center should present a research team whose makeup is justified by its capacity to meet the objectives of the project, including relevance of prior experience. Curricula vitae of all researchers involved in the whole project may appear in a separate annex. Subsequent substitutions for researchers originally specified in the proposal may be made with prior approval from project coordinators, but the research leader (of each subject) should lead the entire project until its full completion.

- A budget (in a separate annex) indicating the time and resources that will be used within the context of the research work plan. The budget proposed by the research center should disaggregate items financed by the IDB contribution and those financed by the research center. The budget should distinguish among amounts assigned to professional honoraria, "overhead" and other major categories of research expenditures. **The proposal and corresponding budget *must* be sent in separate files.**

- Institutions must provide the name and contact information of their legal representative, with authority to sign contracts with the IDB, if selected to conduct the study. **Please note that the contract must be signed before the end of 2021.**

Note: Proposals must be submitted in English.

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4. Selection Criteria

Research institutions only (including think tanks) may present proposals. The IDB seeks to produce up to five (5) studies and will contribute up to US$30,000 for each study. The research proposals will be selected based on the following criteria:

a) Importance of the topic and scope of policy implications.
b) Quality and feasibility of the proposed case.
c) Clarity in the description of the research question(s) and its (their) relevance.
d) Internal validity of the research design.
e) Experience of the Research Team.

Final papers will be considered for dissemination as IDB working papers or technical notes depending on quality. Other forms of dissemination or publication should be explicitly approved by the coordinators until the end of the contract.

In all cases, the final dataset employed in the analysis will be delivered to the IDB along with the research paper and replication codes (an exception may be made in the case of proprietary data, in which case the team should provide the appropriate documentation. In those cases, however, providing the replication codes and data at some level of aggregation may nonetheless be required).

5. Proposal Registration

Proposing research institutions should be registered as Research Network members (contact Elton Mancilla at eltonma@iadb.org) and should be based in the Latin American and Caribbean region. Institutions from other parts of the worlds do not qualify as members of the Research Network. However, researchers not based in Latin American and Caribbean institutions can participate with research teams from proposing institutions.

Proposals should be submitted using the Web Submission Form that is provided in the Call for Proposals announcement. Proposals are due **November 28, 2021.** Please note that there are two options within the submission form: one for institutions and another for individual researchers. Please make sure to choose the institutions option.

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6. Coordination

The project will be coordinated by Diego Vera Cossio (IDB/RES), Patricia Yañez-Pagans (IDB Invest/DSP/DVF), Irani Arraiz (IDB Invest/DSP/DVF) and a qualified external advisor.

The tentative schedule of activities is as follows:

- **November 28, 2021:** Due date for **receiving proposals.** Institutions should ensure that the complete documentation is submitted to the evaluation committee. Complete documentation includes the registration form with all the information requested, the research proposal, budget, and curriculum vitae (CVs up to three pages long).
- **December 3, 2021:** Announcement of **selected research proposals**.
- **December 15, 2021: Submission of signed agreements** between IDB and the awarded institution. The agreement must be signed by the legal representative of each research institution. Selected proposals that fail to comply with the deadline will be ineligible to receive research funds from this call.
- **February 15, 2022: First Discussion Seminar** to be held virtually with the Technical Directors of the project for the purposes of presenting the proposal and the methodology to be used in the study, as well as brief preliminary discussions.
- **June 10, 2022:** Due date for receiving a **first draft** of research papers (drafts should include outlines for missing sections, detailing data and methodology that will be used).
- **August 15, 2022:** Due date for receiving a **second draft** of the research papers, incorporating the changes associated with the feedback received from the evaluation committee.
- **September 15, 2022: Second Discussion Seminar** in Washington, D.C. (subject to public health guidelines) with the Technical Directors of the project to discuss the second draft of the research papers.
- **December 20, 2022:** Deadline for a **final version** of the research papers**,** including a summary that discusses policy implications. Data and replication files should be submitted by this date. Research papers must follow the **IDB Manual of Style** for working papers. Studies that are of good quality at this stage will be considered for publication in the **IDB Working Papers series**.

7. Financial Contribution and Payment Schedule

The IDB will contribute up to **US$30,000** or its equivalent in local currency as a contribution to the total budget of each study. The payment schedule is as follows:

- **30 percent** within 30 calendar days of signing the formal agreement between the IDB and the respective institution.

- **20 percent** within 30 calendar days of presentation and approval by the IDB of the first draft of the research paper.

- **30 percent** within 30 calendar days of presentation and approval by the IDB of the second draft of the research paper.

- **20 percent** within 30 calendar days of presentation and approval by the IDB of the final research paper, delivery of the datasets utilized by the study, and completion of the conditions of the terms of reference.

8. References

Breza, E., Kanz, M. and Klapper, L. (2020), "Learning to Navigate a New Financial Technology: Evidence from Payroll Accounts." *NBER working paper series.* National Bureau of Economic Research. https://doi.org/10.3386/w28249

Breza, E., and Kinnan, Cynthia. "*Measuring the Equilibrium Impacts of Credit: Evidence from the Indian Microfinance Crisis*", *The Quarterly Journal of Economics*, Volume 136, Issue 3, August 2021, Pages 1447–1497, https://doi.org/10.1093/qje/qjab016

Bachas, P., Gertler, P., Higgins, S. and Seira, E. (2021), *"How Debit Cards Enable the Poor to Save More."* The Journal of Finance, 76: 1913-1957. https://doi.org/10.1111/jofi.13021

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Finkelstein, A., and Nathaniel, H. (2020), "*Welfare Analysis Meets Causal Inference.*" Journal of Economic Perspectives, 34 (4): 146-67. https://doi.org/10.1257/jep.34.4.146

Finkelstein, A., and Notowidigdo, M. (2019) "*Take-Up and Targeting: Experimental Evidence from SNAP*", The Quarterly Journal of Economics, 134 (3): 1505–1556. https://doi.org/10.1093/qje/qjz013

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Suri, Tavneet & Bharadwaj, Prashant. (2021). "*Fintech and household resilience to shocks: Evidence from digital loans in Kenya*". Journal of Development Economics. 153 (102697). https://doi.org/10.1016/j.jdeveco.2021.102697.

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