June 2023

TAKING CONTROL: HOW FINANCIAL INCLUSION IMPACTS LABOR SUPPLY

Authors: Eliana Carranza, Aletheia Donald, Florian Grosset, Supreet Kaur[1]

KEY MESSAGES

- **Social and familial financial transfers are common in low-income communities** and have positive social effects. However, pressure to share income with others could discourage workers from engaging in the labor market. In our study setting of Côte d'Ivoire, 77% of female factory workers believe that if they started earning more because they worked harder, they would be subject to more transfer requests. This phenomenon—which we call 'the social tax'—has the potential to negatively impact overall welfare.
- **To address this challenge, we designed and implemented a financial innovation to lower redistributive pressure among female cashew-processing workers:** a blocked savings account into which gains in workers' earnings get transferred. To pinpoint the role of redistributive pressure, we offered workers either a private savings account or one visible to their social network.
- **Take-up of the private account was substantially higher** at 60%, compared to 14% for the non-private account.
- **Being offered a private account increased workers' attendance by 9.7% and earnings by 11.4%.** These gains occurred without decreases in redistribution to others. Treatment effects were highest among workers who faced more redistributive pressure at baseline and were primarily driven by pressure to share earnings with other households (as opposed to within the household).
- Our estimates imply that workers face a 9-23% social tax rate, and that the welfare benefits of informal redistribution may come at the cost of depressing labor supply and productivity.

GENDER INNOVATION LAB

The Gender Innovation Lab (GIL) conducts impact evaluations of development interventions in Sub-Saharan Africa, seeking to generate evidence on how to close gender gaps in earnings, productivity, assets, and agency. The GIL team is currently working on over 80 impact evaluations in more than 30 countries with the aim of building an evidence base with lessons for the region.

The impact objective of GIL is increasing take-up of effective policies by governments, development organizations, and the private sector to address the underlying causes of gender inequality in Africa, particularly in terms of women's economic and social empowerment. The Lab aims to do this by producing and delivering a new body of evidence and developing a compelling narrative, geared towards policymakers, on what works and what does not work in promoting gender equality.

1 *Nelsy Affoum contributed to the preparation of this policy brief.*

CONTEXT

In low-income communities, people frequently transfer money within social and family networks. The full-time female cashew-processing workers participating in our study reported transferring 25-35% of their income to others outside their household on average, and 77% made at least one transfer in the past 3 months.

Such financial transfers within social networks can improve welfare by substituting for missing insurance markets. However, they can also disincentivize work—dampening labor supply and consequently earnings among the poor—if these transfers act as an informal 'tax' on income. In fact, international data shows that work hours tend to be negatively correlated with the prevalence of transfers within social groups across a diverse range of settings (Figure 1).

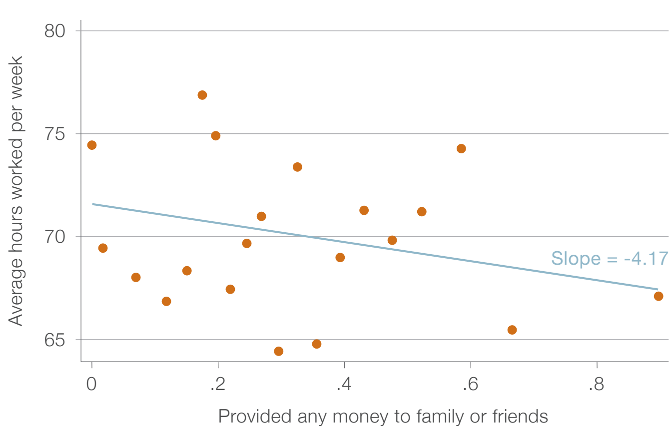
This can have consequences for structural transformation. 74% of respondents in our study agreed with the statement that "if someone in the community decides to start working in a factory or another formal job, people would start asking that person more often for financial help." Predicting this, workers may be less motivated to shift to formal jobs. Women's inferior social and political status may put them at greater risk of such taxation: the micro-entrepreneurship literature has found that women's incentive to invest and expand their economic activity is lower if they anticipate that a share of their income will be captured by others (Campos and Gassier 2017; Friedson-Ridenour and Pierotti 2020).

HERE'S WHAT WE DID

We developed a causal test to examine the impact of redistributive pressure on labor supply. To do so, we worked with Banque Populaire, one of the largest banks in Côte d'Ivoire, to develop a new direct-deposit savings account into which *increases* in workers' earnings (above a personalized threshold set by the worker) would be transferred for 3-9 months. This design left workers with at least the same amount of disposable cash for their daily expenses and redistribution to others but increased the likelihood of them retaining productivity gains for their future use.

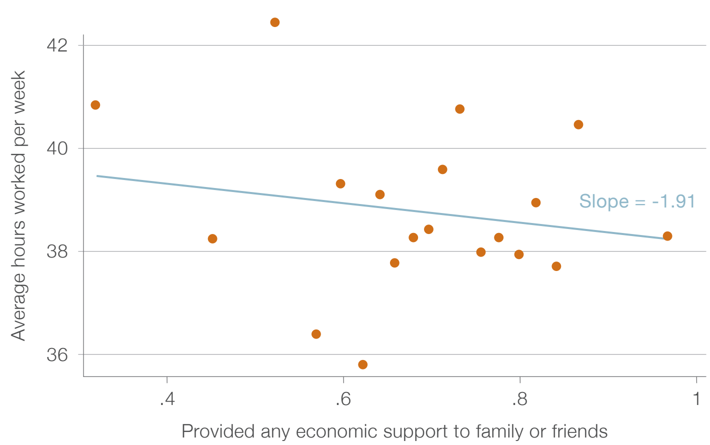
In a first phase, we offered this account to randomly selected women working at cashew-processing plants run by the large transnational firm Olam, who were paid piece-rate (that is, based on how many cashews they peeled that day). In a second phase, we varied whether we offered this same private account or a non-private account (whose existence and unblock date would be revealed to the worker's social network). If redistributive pressure acts as a social tax, then workers in the private account group would increase their labor supply—and therefore their total earnings—relative to those in the non-private or control arms. A total of 474 full-time factory workers, of which 464 were women, participated in this study.

FIGURE 1: WEST AFRICA (LEFT) & INDONESIA (RIGHT)



Country-region-ethnicity-level regression. N= 1010

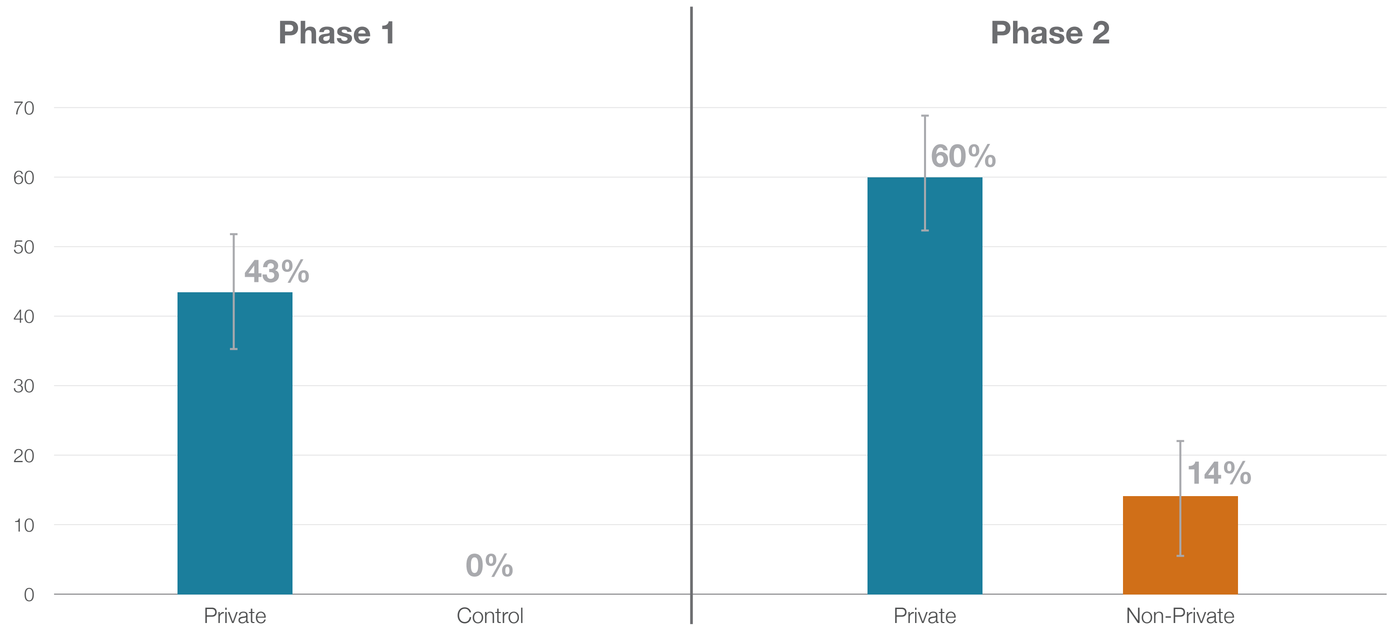
Source: LSMS surveys; y-axis is total hours worked among adults aged 18-65 in a household



Municipality-ethnicity-level regressions.

Source: IFLS Wave 5, adults aged 25-55

FIGURE 2: TAKE-UP OF BLOCKED ACCOUNTS



Notes: Means and 95% CIs. SEs clustered at the worker-by-phase level.
Phase 1: N = 354 workers. Phase 2 = 317 workers.

WHAT WE FOUND

Worker demand for private accounts was high—increasing over the course of the experiment—and workers were over 4x as likely to take up a private account compared to a public account (Figure 2). 96% of workers who didn't take up the non-private account said it was because network members' knowledge of the account would lead to an increase in net transfer requests.

Relative to the control or non-private group, being offered a private account increased workers' total output, and consequently earnings, by 11.4%. Most of this impact came from reducing absenteeism, not improvements in productivity while on the job. Because almost all workers had no earnings outside the factory, these treatment effects constitute increases in workers' total income. In addition, workers offered private accounts did not decrease transfers to their networks, so the private accounts led to aggregate earnings gains.

Consistent with redistributive pressure as a main driver of these effects, treatment impacts were concentrated among workers who faced more redistributive pressure at baseline. We also ran additional checks to understand the relevance of other mechanisms (e.g., whether workers' behavior after being offered the non-private effects could be explained by privacy concerns unrelated to social pressure) and were able to rule them out. In addition, we found that impacts were present even among workers who didn't have a partner or spouse—highlighting that more attention needs to be paid to redistributive pressure outside of the household, beyond the well-researched mechanism of intra-household bargaining power, for explaining women's labor supply. Our estimates reveal that the social tax rate faced by the average worker in our sample is 9-14%, and 19-23% for the subset of workers who actually took up the private accounts.

Our findings show the importance of social taxation in explaining labor supply across low-income communities, and of how reducing this taxation can lead to overall earnings increases. They can also help us understand why take-up and labor productivity within formal jobs is low in places like sub-Saharan Africa. Beyond helping us understand constraints to structural transformation, our results also suggest that redistributive pressure could help explain low levels of investment in human capital or in adopting new technologies.

This study highlights the importance of financial inclusion in providing private and secure ways to save, and of developing scalable tools to lower social taxation without undermining risk-sharing arrangements. It also highlights how improved safety nets can improve economic growth: by shifting the responsibility for redistribution from the individual to the state, safety nets can unlock the productivity of workers who face redistributive pressure. Since women's labor force participation and earnings are generally lower compared to men's, improving access to formal safety nets and financial products that shield women from redistributive pressure may be important avenues for economic development.

For more information, access the full paper HERE

FOR MORE INFORMATION, PLEASE CONTACT

Africa Gender Innovation Lab
afrgenderlab@worldbank.org

Aletheia Donald
adonald@worldbank.org

Eliana Carranza
ecarranza@worldbank.org

1818 H St NW
Washington, DC 20433 USA
www.worldbank.org/africa/gil

Photo credit: George-Alleyne / World Bank, Sarah Farhat/ The World Bank, George-Alleyne / World Bank, Arne Hoel

This work has been supported through generous contributions from the World Bank's Umbrella Facility for Gender Equality (UFGE), the World Bank's Jobs Umbrella Multidonor Trust Fund, and the National Science Foundation (Kaur's CAREER award SES 1848452). We thank Innovations for Policy Action (IPA), especially Nicolò Tomaselli, Henriette Hanicotte, Samuel Kembou Nzalé, Mireille Nuguhe Gbagbo and Augustin Kouadio for assistance with implementation. This project is a product of the World Bank's Africa Gender Innovation Lab and Jobs Group.