MARKETS FOR THE POOR
SPRING 2014

PROFESSOR NAME: Suresh Sundaresan
Professor Office Location: 401 Uris Hall
Office Phone: 212-854-4423
Fax: 212-316-9180
E-mail: ms122@columbia.edu
Office Hours: TBA
TEACHING ASSISTANTS: TBA

REQUIRED COURSE MATERIAL

- Copies of slides that will be distributed in class and posted in Canvas.

REQUIRED PREREQUISITES AND CONNECTION TO THE CORE

The learning in this course will utilize, build on and extend concepts covered in the following core courses:

<table>
<thead>
<tr>
<th>Core Course</th>
<th>Connection with Core</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Finance</td>
<td>1. Time value of money</td>
</tr>
<tr>
<td></td>
<td>2. Risk</td>
</tr>
</tbody>
</table>

Students will be expected to have mastered these concepts and be able to apply them in the course.
A. Course Description:

The purpose of this course is to give students an in-depth discussion of academic and policy/practitioner research to be able to address and evaluate the following questions.

a) What are the challenges in measuring poverty?

b) How pervasive is poverty and what are the underlying drivers of poverty?

c) Has economic growth in developing countries (such as Brazil, China and India) helped to alleviate poverty?

d) How pervasive is poverty in the United States?

e) What are informal credit markets? Who participates in them? What are the interest rates and default rates in these markets?

f) What are the challenges to the flow of credit to the poor borrowers? How can they be surmounted?

g) What is the role of microfinance in delivering financial services to the Poor? How successful has been this effort? What are the challenges?

h) What are some of the recent capital market innovations in the markets for the Poor? Can they help to scale up and bring down interest rates?

i) What are some of the innovations introduced by corporations and governments in this field?

With a view to addressing the questions above, the course will begin by examining how poverty is measured, and characterize (using different measures) how pervasive poverty is. In this context, we will pay special attention to simple (exogenous) measures of poverty rates, and multi-dimensional measures of poverty, which link poverty to some underlying deprivations (such as lack of access to education, healthcare, living standards, etc.). We will also examine how the poor organize their lives, budget their consumption expenditures, and survey their access to certain services. After this the course will present evidence on the extent to which poverty has been alleviated in different parts of the world, and how the results compare with the Millennium Development Goals (MDG) set by the United Nations in 2000. We will also explore the extent to which economic growth in countries has influenced poverty rates. In this context, we will examine the poverty alleviation process and major indicators of poverty in Brazil, China and India before and after these economies began to experience significant economic expansion: this discussion will shed some light on the relationship between economic growth and poverty rates.

After characterizing poverty, the course will turn to the role of markets (broadly defined to include private markets, corporate social initiatives, and government initiatives) that address the needs of the poor. The course will first introduce and examine “informal credit markets” such as Rotating Savings and Credit Associations (ROSCA), Payday loans, and more established markets in consumer credit. We will examine how
these mechanisms work, what the prevailing interest rates in these markets are, and the motivations for poor borrowers to select these markets for their consumption/savings needs. These markets, outside the banking sector, play an important role in the provision of credit to a sector underserved in formal credit markets.

The discussion of informal credit markets will be followed by microfinance, broadly defined to include a) loans, b) savings, and c) insurance. After describing the extent of the microfinance market, we will drill down to some basic issues in microfinance: a) are micro-loan interest rates high? b) What are some of the factors that contribute to high interest rates? c) What is the role of peer-monitoring in loan enforcement? d) Issues such as joint-liability, group-lending, absence of collateral will be addressed. Potentially undesirable consequences of excessive community pressure as a mechanism to ensure low defaults will be examined. Results of carefully conducted poverty impact studies using randomized sampling methods will be summarized.

The course will then turn to different providers of microfinance: Non-Governmental Organizations (NGO), credit unions, non-bank microfinance institutions (MFI), banks, etc. We will show these institutions differ in terms of the borrowers they attract, and the form of lending they provide. The course will provide some insights on how access to capital markets by way of debt issues, initial public offers, and collateralized debt obligations have changed the landscape of microfinance: in effect the credit markets for the poor have both very old institutions such as NGOs as well as institutions such as SKS, which have successfully tapped equity finance. Securitized debt issuances have also been made in microfinance, and we will review this market. The advent of mobile phone technology has allowed some telecom companies to use this technology to deliver very small loans: this has the potential to improve the scalability of microfinance.

In addition, we will examine some corporate and government initiatives that have altered markets for healthcare, marketing and distribution of goods produced by the poor. The 30-Baht medical care program in Thailand and the e-Choupal initiative by the corporate citizen ITC in India are illustrative of how sometimes corporations and Governments can alter significantly the landscape of the markets for the poor.

B. Course Topics:

The course will strive to convey the main insights that have emerged from academic and policy literature in the following areas:

- **Poverty measurement and the framing of poverty alleviation debate.**
  - World Bank measures of poverty line, OPHI measure – multidimensional index of poverty, Lives of the Poor (Diaries of their income and expenses), How global growth has influenced poverty in Brazil, China and India?

- **Informal and formal credit markets for the Poor (Access to credit)**
  - Rotating Savings and Credit Associations (ROSCA), Credit Unions and Co-operatives, Payday loans, etc.
• Microfinance
  o Microloan interest rates: are they high? Peer monitoring, Joint-liability and Group lending, Gender bias, Micro-savings and micro-insurance, Impact measurement.

• Recent Capital Markets and Technology Developments in Microfinance
  o Accessing capital markets for micro-credit, Securitization of micro-credit. Initial public offers and private & public equity capital, Other alternatives to bank-based financing, Role of mobile phones in microfinance.

• Government and Corporate Initiatives
  o Eliminating middlemen: e-Choupals initiative by ITC. (India), Correspondent banking (Brazil). Use of Telecom companies as front-end to banking to enhance outreach (FINO – India).

C. Course Material & Requirements:

The following books and cases will form the basis for discussions in classroom.

• Portfolios of the Poor, by Daryl Collins, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven (2009), (Text) – Recommended text
• Slides and papers will be posted in Canvas for the course participants.

D. Course Requirements and Evaluation:

• Attendance is mandatory for each class session. The TA will record student attendance at the commencement of class; students who arrive 5 minutes after the scheduled commencement time will not be recorded as having attended the session. In addition, informed class participation is expected. Together, they carry 15% of the course grade. Students who have a medical or other emergency reason for not attending class should contact the professor in advance of the session.

• Students must bring their name cards and occupy the same seat in each class.

• There will be three quizzes, which will be assigned as follows:
  o At the end of fourth session.
  o At the end of eighth session.
  o At the end of the last session.
Each quiz will last for 30 minutes, and carry questions testing your understanding of the material covered in the previous sessions. Quizzes are closed book and closed notes. You can bring one page of notes. Each quiz will carry 15% weight.

- There will be case assignments, which will require both a written report and class presentation. Students will be assigned a total of four cases. Each case group will have no more than three students. Each group will submit a written analysis of the four cases. Groups will be called upon to make presentations in class. Each case will carry a weight of 10%.

In addition, a number of papers (outlined below) will be summarized in class.

1. **Poverty, its measurement, Causes and Manifestations (2 lectures)**

Read chapters 1 and 2 of the text.

a. Lecture notes to be distributed in class. (*)
b. Poverty in the United States: material will be assigned.
c. Grameen Bank (Bangladesh) Business Model.
d. Grameen America Case Analysis.

2. **Securitization of Micro loans**

a. Lecture notes to be distributed in class. (*)
b. Introduction to Securitization of Micro loans.
c. IFMR Case Analysis.

3. **Role of Technology in the Markets for the Poor**

a. Lecture notes to be distributed in class. (*)
b. Analysis of different technology driven business models:
   i. M-PESA.
   ii. FINO.
   iii. Wizzit
c. Equity Bank Case Analysis.

4. **Informal credit markets: (Payday loans, pawn broking, ROSCA, etc.)**

Read chapters 5 and 6 of the required text.

Read chapters 3 and 4 of the text.

a. Lecture notes to be distributed in class. (*)
b. Why married women prefer ROSCAs?

5. Some Recent Developments in Microfinance

a. Increasing role of capital markets in microfinance.
b. Credit Bureaus and credit rating of MFIs: information sharing.
c. Alternate models: NGOs, CUs, NBFIs, Banks, IPOs, etc.
d. SKS Case Analysis.

CLASSROOM NORMS AND EXPECTATIONS

• Attendance is mandatory for each class session. The TA will record student attendance at the commencement of class; students who arrive 5 minutes after the scheduled commencement time will not be recorded as having attended the session. In addition, informed class participation is expected. Together, as mentioned earlier, they carry 15% of the course grade. Students who have a medical or other emergency reason for not attending class should contact the professor in advance of the session. Once in the classroom, students are expected not to leave the room until the session is completed.

• There will be a seating chart. Students must bring their name cards and occupy the same seat in each class.

• I would expect you NOT to use mobile phones or laptops or digital aids during class hours. This is a part of my expectations about responsible classroom conduct.