MARKETS FOR THE POOR
B8354
Schedule: T/R - B Term, 9:00 AM to 10:30 AM
SPRING 2018
Uris Hall room 326 (TUESDAYS AND THURSDAYS)

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TA: TBD

REQUIRED COURSE MATERIAL

  o Copies of slides/articles that will be distributed in class and posted in Canvas.

RECOMMENDED TEXTS:

  o $2.00 a Day: Living on Almost Nothing in America Paperback by Kathryn Edin and Luke Shaefer.

REQUIRED PREREQUISITES AND CONNECTION TO THE CORE

No pre-requisites. Just an open mind about exploring the importance of delivering financial and other core services to communities that are under-served, and a willingness to study and analyze the business models, literature and cases pertaining to the markets for the Poor.

COURSE DESCRIPTION

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?

j) Special topics addressed by Guest Speakers:
   a. Private equity investments at the Bottom of the Pyramid (BOP).
   b. Agricultural Finance.
   c. Delivering Solar Energy – off the grid.
   d. Low-income housing.
   e. NGO-Donor-Funded Models in Africa, and elsewhere.

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. Newly established Sustainable Development Goals, signed by many countries for the period extending into 2030 will be briefly presented. 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 through the economic growth 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, we examine the group-lending concept, pioneered by the Grameen Bank of Bangladesh. The popularity of this model, and its impact in Bangladesh and beyond will be discussed. The benefits and costs of overcoming the absence of physical collateral with social collateral will be explored. We will examine a case study on micro-loan interest rates, and loan enforcement in Andhra Pradesh, in India where State-sponsored loan programs collided with private sector micro-finance institutions. The adaption of the Grameen model to the United States will be examined through a case study.

The course will turn to the role of markets (broadly defined to include private markets, corporate 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. We will examine a paper in detail that documents an interesting stylized fact in Kibera: married women participate in ROSCAs predominantly, even though the order of getting the pot is pre-determined.

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. We will review a paper that measures the marginal productivity capital for households, which take micro-loans to compare their return with the interest rates that they pay. 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, using a case study on securitization of micro-loans. 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 in a big way: peer-to-peer (P2P) lending has grown dramatically; “no-frill” bank accounts couples with Universal ID (UID) has introduced sea change in the financial access for the Poor in India. Mobile phone delivery of banking has altered the landscape in Kenya, (and other countries) – we will study the Equity Bank case in this context.
Course Outline:

1. **Overview of the Course, Poverty, its measurement, Causes and Manifestations (about 1.5 lectures)**
   - Lecture notes to be distributed in class. (*)
   - Credit markets with imperfect information (adverse selection, ex-ante moral hazard, and ex-post moral hazard).
   - How to write loan contracts and enforce them, when borrowers have no collateral?
   - Grameen Bank (Bangladesh) Business Model.
   - **Grameen America Case Analysis.** (The case is in the course packet).

2. **Interest Rates on Microloans. Are they too high? (About 1 lecture)**
   - Lecture notes to be distributed in class. (*)
   - Breaking down interest rates (operating expense, defaults, cost of funding, and profit margins)
   - Benchmark – marginal product of capital.
   - **Case Analysis - AP crisis and suicides of borrowers:** Who killed Bhavani Manjula?, 2010, A story of Microfinance in Andhra Pradesh. (The case is in the course packet).

3. **Informal Credit Markets (Payday loans, pawn broking, ROSCAs, etc.) (about 1 lecture)**
   - Lecture notes to be distributed in class. (*)
   - Why married women prefer ROSCAs?

4. **Securitization of Micro-loans (about 1 lecture)**
   - Lecture notes to be distributed in class. (*)
   - Introduction to Securitization of Micro loans.
   - BRAC securitization experience.
   - Alignment of incentives, and “skin in the game”.
   - **IFMR Case Analysis.** (The case is in the course packet).
5. **Role of Technology in the Markets for the Poor (about 1 lecture)**

- Lecture notes to be distributed in class. (*)
- Analysis of different technology driven business models:
  i. M-PESA.
  ii. FINO.
  iii. Equity Bank/M-Shwari
- **Equity Bank Case Analysis.** (The case is in the course packet).
- **Leap**-frogging technologies in developing world.

6. **Alternative Models for Delivering Financial Services (about 1 lecture)**

- Universal ID schemes and integrating KYC requirements.
- No-frill bank accounts.
- Increasing role of capital markets in microfinance.
- Credit Bureaus and credit rating of MFIs: information sharing.
- Alternate models: NGOs, CUs, NBFIs, Banks, IPOs, etc.
- **SKS Case Analysis.** (The case is in the course packet).

7. **Notable Private Sector Developments (about 1 lecture)**

- Peer-to-peer lending (to households).
  - Lending club model.
- Models of financial services to encourage inclusive growth.
  - On Deck.
  - P2P Models

**LECTURES BY PRACTITIONERS [tentative list]**

- Simona Haiduc, Opportunity International
  - The Business Model of Opportunity International and their work in Malawi.
- Brad Swanson, Developing World Markets.
  - Investing into Microfinance/Private Equity.
- Jake Goldberg, One-Acre Fund.
  - Agricultural Financing.
- Jon Saunders, Sun Culture.
  - Sustainable Innovations.
- Julia Shin, Enterprise Community Partners.
  - Impact Investing/Low-Income Housing.

**COURSE OBJECTIVES**
In addition to providing students with an in-depth discussion of academic and policy/practitioner research, the purpose of this course is also to provide a sound and comprehensive working knowledge of the markets for the poor with an emphasis on how the institutions serving them have evolved over time, adapting to technological innovations. In addition to providing the students with a clear knowledge of institutions, pricing relationship, applications and analytics, the course will help the students to think through major issues facing investors, market makers, issuers, and regulators.

ASSIGNMENTS

- 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 (roughly) assigned as follows:
  
  o At the end of fourth session.
  o At the end of eighth session.
  o At the beginning 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 number of cases, as specified in the course outline. 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%.

METHOD OF EVALUATION

| Attendance & Class participation | 15% |
| Quiz 1                           | 15% |
| Quiz 2                           | 15% |
| Quiz 3                           | 15% |
| Case analysis                    | 40% |
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.