INSTRUCTOR: Suresh Sundaresan
Office Location: 401 Uris Hall
Office Phone: 212-854-4423
Fax: 212-316-9180
E-mail: ms122@columbia.edu
Office Hours: Mondays 2.00 to 3.00
TA: TBA

REQUIRED COURSE MATERIAL:

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

RECOMMENDED OR REFERENCE TEXTS:


- “$2.00 a Day: Living on Almost Nothing in America”, (2015), 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. It is related to courses on FinTech, Social Enterprise, Debt Markets, and Impact Investing
COURSE OBJECTIVES

The purpose of this course is to provide a good 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.

COURSE DESCRIPTION

The course will address the following questions/topics.

a) Measuring poverty and its pervasiveness.

b) What are the major drivers of poverty alleviation?

c) Alternate business models: Grameen Bank of Bangladesh and SKS of India.

d) Digital disruptions at BOP: M-PESA and FINO-Tech

e) Impact of digital innovations at BOP.

f) Informal credit markets: ROSCAs and VSLAs. Their impact at BOP.

g) Evaluating Microfinance: a way to build social capital and insure consumption disasters.

h) What are some of the innovations [legislations, regulations, etc.] introduced by governments in this field?

With a view to addressing the topics above, the course will begin by examining how poverty is measured and characterized (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.).

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, (SDG) 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 main drivers of poverty alleviation.

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. The adaption of the Grameen model to the United States will be examined through a case study of Grameen America. We then contrast the “not-for-profit” business model of Grameen Bank with the “for profit” business model of SKS, which went public with an IPO in 2010, with significant private equity investment in its early stages.
The course will examine how MFIs access capital markets by way of debt issues, initial public offers, and collateralized debt obligations. 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 and FinTech companies to use this technology to deliver very small and medium loans: this has the potential to improve the scalability of microfinance. This development has also changed the way in which banks operate as the telecom companies compete with the banks in providing banking services. Since the mobile phone penetration is far deeper than ATMs offered by banks, we have seen different business models, which combine these two industries. We will review the business models of Vodafone’s Safaricom and, MPESA in Kenya, FINO-Tech in India, Equity Bank (Kenya), and JP Morgan’s partnership with OnDeck in USA. Have the digital advances resulted in a reduction of poverty and gender empowerment? We examine this question, using a recent article published in Science.

We examine “informal credit markets” such as Rotating Savings and Credit Associations (ROSCA), and VLSAs. 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. We will summarize a paper that documents an interesting stylized fact in Kibera: married women participate extensively in ROSCAs predominantly, even though the order of getting the pot is pre-determined. An improvement of ROSCA, known as Village Savings and Loan Association (VSLA) and its impact in three countries will be summarized.

We then characterize micro-loan interest rates. They appear to be in the range of 20% to 50% or more! Are micro-loan interest rates high? We will review a paper that measures the marginal productivity capital for households, which take micro-loans to compare their marginal return with the interest rates that they pay.

Course Outline:

1. Overview of the Course, Poverty, its measurement, Causes and Manifestations (about 1 lecture)
   
   - Lecture notes to be distributed in class. (*)
   - Measuring poverty and its pervasiveness.
   - Evidence on reduction in poverty over the past three decades.
   - Major drivers of poverty alleviation.
   - Public-private partnerships.

2. Alternate Models – “Non-Profit” versus “For-profit” Models: Grameen Bank and SKS (about 1.5 lectures)
   
   - Credit markets with imperfect information (adverse selection, ex-ante moral hazard, and expost
moral hazard). How to write loan contracts and enforce them, when borrowers have no collateral?

- Grameen Bank (Bangladesh) Business Model.
- SKS Business Model.
- Social capital and its role in the above business model.
- Grameen America Case Analysis. (The case is in canvas, available through a link to Caseworks).

3. Securitization of Micro-loans (about 1.5 lectures)

- Lecture notes to be distributed in class. (*)
- Introduction to Securitization of Micro loans.
- BRAC securitization experience.
- Alignment of incentives, and “skin in the game”.
- Partnership Models – Hybrid securitization.
- IFMR Case Analysis. (The case is in canvas, available through a link to Caseworks).

4. Role of Digitization Technology in the Markets for the Poor (about 1.5 lectures)

- Lecture notes to be distributed in class. (*)
- Analysis of different technology driven business models:
  § M-PESA.
  § FINO-Tech.
  § Equity Bank/M-Shwari
- Leap-frogging technologies in developing world.
- Universal ID schemes and integrating KYC requirements. No-frill bank accounts.

5. Informal Credit Markets (ROSCAs, VSLAs, etc.) (about 0.5 to 1 lecture)

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

6. Interest Rates on Microloans. Are they too high? (About 0.5 to 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.

LECTURES BY PRACTITIONERS [TBA]

- Stan Kachnowski, Director, HITLAB.
  - Digitization and healthcare.
- Brad Swanson, Developing World Markets.
  - Investing into Microfinance/Private Equity.

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 two quizzes, which will be (roughly) assigned as follows:
  - At the end of fifth session.
  - At the end of the last session.

  Each quiz will last for 45 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 20% weight. NO EXTRA TIME WILL BE PERMITTED.

- There will be two case assignments, which will require both a written report and class presentation. Each case group will have no more than three students. Each group will submit a written analysis of the two cases. There will be one presentation of each case in the class. The presentation by a group is assigned randomly. Each case will carry a weight of 15%.

- The student groups will submit a written analysis of ONE of the two sets of papers assigned. The choice is left the student groups.

  - First Set of papers:
    a) “Banking in the M-PESA Age: Lessons from Kenya,” by William Cook and Claudia
b) FINO Paytech: A Payments Technology Company for the Unbanked and Underbanked in India.

o Second set of papers:


METHOD OF EVALUATION

Attendance & Class participation 15%
Quiz 1 20%
Quiz 2 20%
Case Analysis – written reports 30%
Review of Research/Policy Papers – written report of one set of papers. 15%

CLASSROOM NORMS AND EXPECTATIONS

o 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.

o 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.

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

o Please switch off your mobile phones during class.