Innovations for Poverty Action

Authors
Timothy Ogden
Financial Access Initiative

Researchers
Jonathan Morduch
New York University

Gregory Fischer
London School of Economics and Political Science

Abhijit Banerjee
Massachusetts Institute of Technology

Dean Yang
University of Michigan

Erica Field
Duke University

Reflections on the Microfinance Conference from Jonathan Morduch and Dean Karlan

We featured the perspectives of some of the conference organizers on Day 1’ s highlights. Here are some additional perspectives on Day 2:

Jonathan Morduch, Financial Access Initiative

1. As Rich Rosenberg pointed out there is good reason to be concerned that over-indebtedness is a real problem. At this point, though, we don’ t have a good definition of how much debt is too much for different clients, much less data. As a result, we're flying blind. I think Rich’ s presentation could be a Nouriel Roubini moment for microfinance.
2. There are a lot of puzzling things about the behavior of borrowers and how their businesses do or don’ t grow. For instance we don’ t understand why so many of the businesses started by women borrowers have such low (or zero) growth after an initial spurt, despite high measured returns to capital. Abhijit Banerjee’ s hypothesis that despite the talk of women's empowerment, some women may be pushed into self-employment by their husbands, could explain some of this puzzle. In this scenario, women borrowers not only have to take care of children and the household and put food on the table, they now also have to manage a small business. They can’ t grow their businesses, perhaps they don’ t even want to grow their businesses, because they don’ t have the time. It’ s a possibility that definitely bears investigating.
3. It was really exciting to see the scope of the studies presented: they were not only looking at lots of different products and innovations but they were being conducted in a wide variety of places. Just today we heard that text message reminders aid

savings in Peru, Ghana and the Philippines, grace periods for loan repayments aid investment in India, a bit of business training goes a long way in the Dominican Republic, and contractual savings plans get people to save in Malawi. These trials in a wide variety of contexts deliver clear messages and are pointing to simple but powerful innovations. But we still need replications to help us understand the underlying dynamics.

4. While we’ re getting a lot of exciting information about innovative products that deliver real benefits, there’ s a large remaining question about costs. Limited experiments only start to tell us what the cost of delivering some of these innovations at scale will be. Those costs aren’ t just typical management costs like staff time and technology infrastructure. Many of these products also impact the bottom line of MFIs and not always in positive ways. We need to gain a better understanding of how costs of various innovations match up with the emerging data on benefits.

Dean Karlan, Innovations for Poverty Action

1. Greg Fischer’ s work on different models of business financial education is exciting because it shows that “ rules of thumb” , which is typically easier and cheaper to deliver, can be more effective than more formal training programs. It’ s an important finding because it points to a program that MFIs can deliver cheaply and that improves returns for clients and the MFIs.
2. Dean Yang’ s presentation on commitment savings in Malawi highlights the important role of social networks in limiting the saving ability of individual households. The greatest benefit from commitment savings were for households that had the highest rate of transferring money to other people in their social network.
3. Erica Field’ s work on flexibility in repayment is important because it not only shows that the repayment terms have a big effect on what borrowers choose to invest in but that flexibility widens the divergence of outcomes. Those who do well with loans do much better, but those who don’ t do much worse. The big question is can we design a product that allows that upside but protects borrowers from the downside either by better targeting the products or by product design innovations.

More reflections from Nathanael Goldberg, Annie Duflo, Rich Rosenberg, Chris Dunford and others coming soon.

October 27, 2010