Innovations for Poverty Action

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Good morning from Wall St

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Yesterday’s opening session covered what we know about microfinance. Today’s looked at what we don’t know.

Chris Dunford from Freedom from Hunger opened, arguing that as well as continuing to churn out the impact studies, we also need to be thinking about how we measure and evaluate the quality of delivery. A good intervention might just be delivered badly, especially if it is an innovative intervention which is new to the implementer. We also need to think harder about using qualitative data.

Richard Rosenberg of CGAP made the case for focusing on the potential losers from microfinance. We know that there can be heterogeneous impacts. What if a positive impact on average masks some serious negative consequences for a few? Is this acceptable? We need to learn more about over-indebtedness.

Abhijit Banerjee (MIT) posed the puzzle:
Why is there low borrowing and low business growth when we find that the returns to capital are so high?Perhaps the most persuasive argument is for non-linearitiesin business growth. There may be high returns to capital at the margin, but they could drop dramatically as firm gets even a little bigger. Alternatively, already overworked individuals simply might not want to spend even more time building a business.

David Roodman emphasized the importance of qualitative research and how much we have learnt from Portfolios of the Poor. He also noted the limitations of only measuring one to two year impact. Imagine if we had done an RCTon home mortgages in the US in 2002/2003 and found great short-term impacts. That would not tell the whole story.

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In the second session, **Erica Field** took a look at small business loans in the US, and how they differ fromtraditional microcredit loans. Loans in the US are typically more flexible with grace periods, which increases business growth but also default. An experiment with microcredit clients found that offering grace periods made them behave more like small businesses in the US – there was more investment and business growth, but at the cost of more default.
Does financial education work?

Greg Fischer discussed his experiment offering financial education to microfinance clients. Two products were offered – formal accountancy training, and simple 'rules of thumb'. The simple rules of thumb, such as "write everything down" and "keep personal and business accounts separate" dramatically outperformed the formal accountancy training.
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