Academia and Action

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• specific ways in which you as an academic, and also as a principal in a development or global justice center, have pursued positive impact on poverty alleviation policy and practice, very broadly construed.

• share insights from efforts undertaken, and also insights about challenges that have arisen.

• speak about the substance of your own research.
Notes

• Translating academic ideas to practice
• Taking ideas into academia
• Going against the grain
• Maintaining rigor, integrity
Grameen Bank, Bangladesh
Microfinance: The original vision

Finance to support poor entrepreneurs

– Hasten exit from poverty
– Profitable for financial providers
– Small costs, big impacts
Millions of microfinance customers

Microcredit Summit Campaign, 1997-2009

- Total
- Poorest
My quandary

Use my platform to celebrate the story?

Become a constructive critic to open up conversations?

Both?
2,500,000,000 adults

Half the world is unbanked

My academic agenda

1. **Surveys:** How do people actually use microfinance?
2. **Statistics:** Hard look at microfinance impact
3. **Accounting:** Grameen was much more subsidized than they claimed – so let’s have a serious conversation about subsidy
4. **Household studies:** Fine-grained stories of the ups and downs in the lives of poor households
5. **Theory:** All social investment is not the same. Let’s take corporate finance seriously as way to think about nonprofit finance and charity.
Opportunities

• Mancur Olson:
  – Organized small group has more power than a diffuse, large group
  – Ability to articulate connections, be interesting, unpredictable
Microcredit orthodoxy

Customers seek loans for business

Poor population seeks to be self employed
Are most loans for business investment?
Evidence from Indonesia

Grameen Bank Innovation: Loan top-ups

› Grameen Financial diaries (Stuart Rutherford, 2002–5)
› Roughly **half** of loans are used in "productive" ways

**Ramna’s use of top-ups**

<table>
<thead>
<tr>
<th>Loan #</th>
<th>Date</th>
<th>Amount</th>
<th>Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2002</td>
<td>$83</td>
<td>Food and stocks</td>
</tr>
<tr>
<td>1&lt;sup&gt;st&lt;/sup&gt; Top up</td>
<td>April 2003</td>
<td>N/A</td>
<td>Grain for coming monsoon season</td>
</tr>
<tr>
<td>2&lt;sup&gt;nd&lt;/sup&gt; Top up</td>
<td>October 2003</td>
<td>$67</td>
<td>Funeral expenses</td>
</tr>
<tr>
<td>3&lt;sup&gt;rd&lt;/sup&gt; Top up</td>
<td>May 2004</td>
<td>N/A</td>
<td>Pay down private loan</td>
</tr>
<tr>
<td>4&lt;sup&gt;th&lt;/sup&gt; Top up</td>
<td>December 2004</td>
<td>$75</td>
<td>Stocks of grain, medical treatment</td>
</tr>
<tr>
<td>5&lt;sup&gt;th&lt;/sup&gt; Top up</td>
<td>June 2005</td>
<td>$65</td>
<td>School fees, restock food</td>
</tr>
</tbody>
</table>

Taking consumer finance seriously...

• Allows micro-lenders to serve people with **jobs**
  – hospital orderlies, nannies, cooks, factory workers, drivers, agricultural laborers, construction workers, clerks, craft workers, and others.

• Allows micro-lenders to (openly) meet the wider needs of entrepreneurs.
<table>
<thead>
<tr>
<th>Old Key Words</th>
<th>New Key Words</th>
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</thead>
<tbody>
<tr>
<td>Entrepreneurs</td>
<td>Household money managers</td>
</tr>
<tr>
<td>Self-employed</td>
<td>Employed</td>
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</tbody>
</table>
Q: But how are loans repaid if they don’t fund businesses?

A: From household income of various sorts. Ultimately, lenders lend against household cash flows
Installment lending

“consumer loan”

“producer loan”

Banco Azteca

Grameen Bank
In *practice*, loan officers manage, solve problems, monitor...
Q: Why does it matter that loan officers are busy?

A: Explains why costs of delivering credit remain high
Innovation to reduce cost per customer

But small transaction sizes mean high cost per unit transacted

Graph 1

Microcredit orthodoxy

• Subsidy creates inefficiency and limits scale.

• Goal of microfinance is subsidy-free, fully commercial operation.
MFIs are more subsidized than it appears

*MicroBanking Bulletin* Core Data, 2002-4, 346 institutions in 67 countries

The MIX adjustments value the amount of subsidized funding at the country's deposit rate.

"Prime rate" refers to additional adjustments that value the amount of total equity and concessional borrowing at the country’s prime rate.
Q: Why does subsidy matter?

A: Subsidized institutions tend to focus on poorest segments. A key to “inclusion”
Fortune at the bottom of the pyramid?

Unadjusted capital cost

Capital cost = deposit rate

Capital cost = prime rate
Insights

• Recognition for being a “truth-teller”

• Being a truth-teller doesn’t always advance the cause

• Shift of focus to “sophisticated” audience of insiders
Challenges

• Academia rewards very careful, small studies more than synthesis
• Lots of noise
• Silos
• Playing into someone else’s agenda
• Academic integrity vs advocacy
• Personally, my nature and that of the people at the center
Thank you