IMF/UNCDP Workshop: Data on Access of Poor and Low Income People to Financial Services

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3 Main Points

- Access at what price?
- Knowing access not enough
  - We need to know **why**
- Knowing **why** not enough
  - We need to know what to do

Access Data

- Price is critical component
  - Everyone (more or less) has access to some form of credit.
  - The question is, at what price?
  - Lets not forget savings
- Two critical spreads:
  - Formal sector banking rates versus less-formal sector (MFI, e.g.) rates
  - Lending minus savings rates

Price: Interest Rate Spreads

- Interest rate spread between consumer banks, MFIs, and informal lenders
  - If you find huge spread, what to do?
- Why are spreads so high (when they are)?
  - Could be about information asymmetries fundamental to the credit markets.
    - e.g., Karlan and Zinman “Observing Unobservables” (2004)
  - Credit bureaus could help… but consumers must be informed about them for them to change behavior
  - Could be about risk… perhaps the spread is efficient

Policy Prescriptions

- How do you go from cross-country analysis to policy prescription, given endogeneity issues?
- Cross-country data are important, but data & correlations do not tell us what to do.
- **Why** are countries different?
- Micro studies can answer the **"why"** question
  - (But then still need to know what to do)
- E.g.: suppose we learn that adverse selection is a huge issue for lenders?
  - Use social capital within communities to help screen better?
  - Should know something more concrete about benefits/costs of group versus individual liability

Experimental Impact Studies

- Selection bias (intuitively) particularly poignant for microcredit.
  - Brazil & South Africa: difficult ex-ante to predict who would borrow. This calls matching exercises into question.
  - Peru: Evidence that “timing of life” large determinant of demand, so again understanding not just individual demand, but individual demand at that point in time, critical for matching.
- 3 types of questions need answers
- Experiments can answer all three without selection biases.

1. Why do we find ourselves where we are? (discussed above)
2. What are the impacts of relaxing credit constraints?
   - We have hopes, but we do not know.
   - Experimental studies in progress, but we need more.
3. What program designs work better than others, and in what settings?

Criticisms of Experiments

- 2 frequently heard criticisms
  - External validity: Two solutions to this concern:
    - Do zero experimental studies, and instead rely on observational studies.
    - Repeat repeat repeat. Do 20 instead of 1. Once done in different settings we then begin to understand what works where and why.
    - I vote with option #2
  - Practical issues of lender cooperation
    - Donors must support them.
      - Where there is money, there is a way.
    - For program design issues, experimental designs are in fact less risky in many cases for the lender. These are the easiest sells to MFIs.
      - Group versus individual liability
      - Credit with education
      - Savings product design (commitment products versus fully liquid products)

Proposed Process

- Prong #1: Cross-country data on price & quality of credit & savings options.
  - Important, but does not tell us what to do.
- Prong #2: Micro-level experimental studies to answer **whether** firms/individuals are credit/savings constrained, **why** they are so, and **what to** do.
- By combining results from the two prongs, we can begin to make out-of-sample policy prescriptions.