

RESEARCH STATEMENT

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My research focuses on some of the microeconomic issues facing firms and entrepreneurs in less developed countries. Market frictions, credit constraints, and other departures from neoclassical models present these firms and individuals with issues substantively different from those facing their counterparts in developed countries. As such, these problems are of intrinsic economic interest. Moreover, business growth, investment, and employment are key channels through which poor individuals in these countries can improve their livelihoods. By improving our understanding of the constraints on firm growth, we can better structure policy to help alleviate these constraints. Methodologically, I seek to draw on a broad set of tools to most effectively address these research questions. My job market paper combines theory and experimental evidence in order to allow for precise and controlled variation of financial contracts that would not be possible in the field. My work with the Abdul Latif Jameel Poverty Action Lab, the European Bank for Reconstruction (EBRD), large Indian banks, and microfinance institutions builds largely from field experiments using randomized evaluations. Regardless of methodology, I seek to conduct research that produces both generalizable economic insight and actionable policy recommendations.

Much of my current work seeks to explain one salient fact about microfinance-funded businesses in less developed countries: few grow beyond subsistence entrepreneurship. My job market paper explores the possibility that the structure of existing microfinance contracts may discourage business growth. Issues such as the endogenous selection of individuals into credit contracts and measurement obstacles associated with micro-business performance make this a difficult question to address in the field. Thus, I conducted a series of lab-like experiments with actual microfinance clients in India. The experiments were based on my observations of actual microfinance interactions and also mirrored theory that I developed to describe investment choice in an environment with informal insurance and formal financial contracts. The experimental setting allowed precise manipulation of contracts, information, and investment returns to a degree that would have been impractical in the field. I find that joint liability lending contracts, the most common financial instrument used by microfinance institutions, tend to encourage free-riding: individuals take excessively risky investments and burden their partners with the need to insure against default. Allowing peer monitoring, in this case, explicit approval rights over project choice, overcompensates and sharply reduces risk-taking and profitability. An equity-like contract, in which partners share both the benefits and risks of more profitable projects, both encourages high-return investments and reduces default.

Joint work with Antoinette Schoar and Alejandro Drexler considers another possible explanation for limited growth among micro-entrepreneurs: lack of human capital. A number microfinance institutions, NGOs, and governmental organizations provide business skills training to micro-entrepreneurs, but we lack rigorous empirical evidence as to how or even if such programs improve business outcomes. Working with ADOPEM, a large microfinance institution in the Dominican Republic, we are conducting a randomized evaluation of two distinct training programs that allow us to independently identify the effects of cash management and basic accounting skills. In addition, by varying the treatment intensity of these programs and monitoring both knowledge and business practices after the training, we can draw the causal link from receiving training to business outcomes and understand where this link may break down. This project will not only provide implementable advice for our partners and others seeking to encourage business growth but also provide generalizable insights relevant to behavioral finance and questions of human capital formation.

We are also working with ADOPEM to study remittances, an important source of funds for poor families in developing countries. Surveys identify funding business investment as a primary motivation for remittances, but problems of agency and commitment may divert funds from investment to consumption. Together with our partners, we are developing remittance-linked savings and investment products that we

will evaluate with a two-sided randomized encouragement design in order to explore the role of paternalism and commitment on remittance volumes, recipient expenditures, and investment behavior. While focused on investment behavior, business growth, and profitability, this design will also provide causal evidence on the effect of remittances on consumption behavior and welfare.

Looking forward, my research agenda over the next three to five years will continue to focus on questions of development finance and entrepreneurship. I will work with the EBRD to study the impact on banks and commercial borrowers of a legal reform in Moldova that strengthened collateral and streamlined the insolvency system. We will also study the extension of business advisory services for small- and medium-sized enterprises in several of their focus countries, a project that extends to larger enterprises the theme of human capital limitations to business growth that I am exploring with microfinance clients in the Dominican Republic.

I will also extend my research into innovative financial instruments for small businesses in less developed countries. While the experimental results presented in my job market paper are encouraging, they are only the first step towards understanding how micro-equity would work in practice. A number of questions remain. One project will concentrate on the use of local information to mitigate costly state verification issues. Another will study the effects of equity on effort in settings where relaxing credit constraints may offset the dampening influence of reducing entrepreneurs' residual claims. In parallel, I am also in early discussions with microfinance institutions in India and Nicaragua to conduct field experiments of equity products. While there are a number of implementation issues to overcome, these projects have immediate practical policy relevance. They will also likely uncover a number of additional economic questions that will shape my long-term research agenda.