

How do MFI Clients Understand their Loan Contracts?

In recent years, microfinance policy and regulation discussions in India often centre on whether small borrowers understand their loans. Lack of financial awareness can lead to over-indebtedness and greater economic vulnerability for the very clients that microfinance seeks to help. Indeed, the voluntary code of conduct developed by Sa-Dhan¹ after the Andhra Pradesh crisis in 2005 recommends that MFIs be fully transparent in the communication of loan details and interest rates. Thus, financial literacy has become a key policy focus in microfinance.

However, to be fully transparent, MFIs must provide information that borrowers understand. The CMF's *Loan Contract Information Study* analyses how MFI clients understand their loan contracts and how this should influence the definition of an informed MFI client. Moreover, this study goes a step further by exploring how client understanding should affect regulation on MFI transparency.

Methodology

For this study, we randomly surveyed two hundred first-time borrowers to gauge their understanding of their loan contract. Those surveyed received loans from two Indian microfinance institutions, one located in the north (Sonata, Allahabad) and one located in the south (BSS, Bangalore).

Findings

a) What clients already know

A large majority of respondents know about the following three components of their loans:

- 1) Loan amount
- 2) Loan duration
- 3) Weekly repayment amount

When first analysing the respondent replies, the numbers initially indicate that only 43% of the respondents accurately stated their weekly repayment amounts. This number is misleading because one of the MFIs in our study collects Rs. 12 from its clients over and above the loan payment for member savings and insurance. When this amount is added to the weekly interest payment, the total number of respondents able to correctly state their weekly loan payment rises to 66%. Also, about 85% of respondents are very close (within 10%) to correctly stating how much they need to repay weekly.

The tables below demonstrate which loan contract components microfinance clients understand:

Question	% Correct	% Incorrect
What is the amount of your loan?	96.5%	3.5%
What is the duration of your loan?	89%	11%

(n=200)	As written in loan contract	Adjusting for collection of savings (Rs. 12) in the South	Within 10% of weekly amount
Right answer	42.5%	66%	84.5%
Wrong answer	52%	28.5%	10%
Tried, but does not know	0.0%	0.0%	0.0%
Did not try and does not know	1.5%	1.5%	1.5%
Blank	4%	4%	4%

¹Sa-Dhan is an association of microfinance institutions in India. The voluntary code of conduct is available here: <http://www.sa-dhan.net/corevalues.pdf>

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Minakshi and Michael are CMF Research Associates (RAs). Fellow RAs Akhand Tiwari and Anvesha Khandelwal managed project implementation. This article describes how MFI clients understand loan contracts, and how these perceptions should affect regulations. [Pg. 1](#)

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Daniel is a Research Associate who helped launch a new blog on development in India, www.indiadevelopmentblog.com. The blog entry found here discusses how India's relatively small manufacturing sector alters the role of microfinance within the country. [Pg. 2](#)

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By *Raghav Gaiha and Mani Arul Nandhi*

Mr. Gaiha is a Professor of Public Policy and Mr. Nandhi is a senior reader at the University of Delhi. This study was sponsored by the Asia and the Pacific Division of the International Fund for Agricultural Development. [Pg. 3](#)

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India's Economic Path and What it Could Mean for Microfinance:

From the India Development Blog

This article comes from the India Development Blog. The blog is maintained by the CMF research staff and staff from other research centres housed within the Institute for Financial Management and Research. To access this blog, please go to www.indiadevelopmentblog.com.

"But it is to the side of the expressways in the glaring billboards advertising mobile phones, iPods and holiday villas and in the shiny gas stations with their air-conditioned mini-supermarkets, that India's schizophrenic economy reveals itself. Behind them, around them and beyond them is the unending vista of rural India, of yoked bullocks ploughing the fields in the same manner they have for the last three thousand years and the primitive brick kilns that dot the endless patchwork of fields of rice, wheat, pulses and oilseed."

The above quote comes from Edward Luce's incisive and cogent book on contemporary India titled *In Spite of the Gods*. Luce was the Financial Times bureau chief for South India from 2001 to 2005, and has the wonderful ability to express about India what most foreigners feel and experience but do not have the words for (this very much includes myself).

This quote about India's "schizophrenic" economy comes from the chapter "Global and Medieval" in which Luce, through an assortment of statistics and anecdotes, discusses the nature of India's peculiar economy. Luce sees China's rise as a typical story, "[i]n spite of much breast beating in the west, China is developing in the same sequence as most western economies have done: it began with agricultural reform, moved to low-cost manufacturing, is now climbing up the value-added chain and probably... will break into internationally tradable services on a larger scale." India represents a contrast in that "[i]ts service sector accounted for significantly more than half its economy in 2006. This resembles how an economy at the middle-income stage of its development, such as Greece or Portugal, should look. But Greece and Portugal do not have to worry about a vast army of 470 million labourers in their hinterlands." This last sentence represents



b) What clients do not know

As shown in the table below, clients are unable to accurately report interest on their loans, either as a percentage or as a Rupee amount.

Table 1.3: What is the total interest that you are required to pay on this loan? (n=200)	
Right answer	13.5%
Wrong answer	18.5%
Tried, but did not know	16%
Did not try and does not know	21%
Blank	1%

They are also unable to correctly recall the total interest paid on the loan. In other words, clients do not understand how much, in total, they pay for their loan. Interestingly, despite this lack of understanding, almost 47% of the respondents said that low interest rate was the reason why this source of credit was picked over others.

c) Client perspectives on collection practices

The table below shows reactions from respondents to four hypothetical situations in which MFI staff use coercive collection practices to enforce repayment. Interestingly, in all except the third scenario, the most popular answer choice out of the three options (Yes, No, Don't Know) was 'Yes, it's all right.'

Table 1.4 Scenarios	Action deemed appropriate by respondents (% , n =200)
Lakshmi is not able to pay her loan and the centre manager insists on holding the meeting outside her house. What do you think about the centre manager's action?	42%
If Lakshmi doesn't repay her loan in your group, do you think it is appropriate to extend the meeting for another 30 minutes to enforce repayment?	45%
If Lakshmi doesn't repay her loan in your group, do you think it is appropriate to extend the meeting for another 3 hours to enforce repayment?	33%
Lets say that Lakshmi does not repay her loan. Would it be okay for the MFI to take any of her assets, such as a cow she owns, her house, her land or machinery she uses?	54%

Policy Implications

This data provides insights that help answer the question of what it means for an MFI client to be informed. In this study, we find that the majority of small borrowers:

- Are able to identify loan size, duration and the weekly installment on their loan;
- Recognise that default can lead to adverse consequences; and
- Know very little about the interest rate and total interest expense on the loan.

However, this study, while useful for understanding how small borrowers perceive their loans, is limited in scope. As a next step, CMF plans to survey borrowers that receive loans from formal banks to see whether these borrowers understand loans in a similar or different manner than MFI clients. Such information could help regulators develop broader policies for financial institution transparency.

Low-income borrowers understand loan liability in terms of weekly repayments, rather than in terms of interest rates, whose disclosure is usually the focus of regulation. While the study's sample size is too small to make definitive conclusions regarding regulation, the results strongly suggest that regulators should start from the borrower's perspective and construct policies

that require financial institutions to provide information to clients which they can understand and use. This type of bottom-up financial regulation, in which policymakers leverage knowledge of how small borrowers understand and use loan contract information, will help any new policy achieve its goal of protecting clients.

Microfinance, Self-Help Groups and Empowerment in Maharashtra

Self-help groups (SHGs) are often evaluated only on financial benefits provided to participants, but there are several other ways that SHG participation can impact women. The following analysis shows that SHGs can provide not only financial benefits, but also significant empowerment benefits for participant women. For instance, more than 90% of participant women surveyed in this study reported gains in self-confidence, a more assertive role in the domestic sphere and greater respect within the family.

Using a specially designed survey, this study assesses the benefits of microfinance through self-help groups in selected Pune district villages. While the benefits in terms of higher income, consumption and savings matter for the poor, the survey used also assesses some key dimensions of empowerment – defined broadly as the expansion of freedom of choice and the ability to shape their own lives (Narayan, 2005). Therefore, this study focuses on the opportunity structure and agency of the poor. Within this context, key questions include:

- (i) Has access to microfinance – particularly microcredit – given women greater autonomy in household decisions relating to allocation of resources, savings and investment?
- (ii) Does microfinance help broaden women's participation in village Panchayats, campaigns for village hygiene and sanitation, and bonding among members of diverse social and economic backgrounds?
- (iii) Is density of social networks an important factor in the success of SHGs?
- (iv) How sustainable is the SHG form of financial access?

Sample

The study is based on a small but detailed survey of randomly selected members of SHGs in six villages in Pune district, Maharashtra,

as well as representatives of implementing agencies (e.g., banks, NGOs, official agencies, Panchayats).

Methodology

The survey incorporates several different methods to assess the formation and impact of SHGs on the well-being of members and others. Attention was given to whether, in addition to individual/household characteristics (e.g. age, education, wealth, occupation, caste), community characteristics play an important role in the formation of SHGs (e.g. density of formal/informal networks). To assess the impact of credit channeled through SHGs, the study analyses several key variables including, whether credit through SHGs a) raises incomes and savings, b) reduces dependence on local moneylenders, and c) enables women to have greater autonomy in household decision-making.

Main Findings

Targeting

Targeting accuracy was judged using both monetary and non-monetary indicators. While the targeting of microfinance through SHGs was unsatisfactory in terms of income criterion, it was better in terms of other deprivation indicators such as caste, landlessness and illiteracy. The largest proportion of SHG members belonged to labour households, SC/ST/OBC and landless or nearly landless (around 70%).

Loan Use and Repayment

Interestingly, loans were used largely for health, education of children, and production-related expenses – especially by the disadvantaged. While the poor use a higher share of loans for consumption than the non-poor (39% versus 33%), the former also spend higher shares on health and education, and production/investment.¹

Asset Retention

Analysis of whether borrowers used loans to finance assets revealed that about one-fifth of SHG borrowers bought physical assets (e.g., buffalo, goats, poultry). In addition, while the proportion of those who retained their assets varied in the sample villages, in the aggregate sample, 49 percent of those who bought assets retained them.

Empowerment

More significantly, using different methods and data sources, we find that SHG microfinance positively impacted several dimensions of empowerment. Results of SHG participant inter-

views follow below:

Index	Yes (% of Respondents, n=73)
Greater self-confidence	98.6
More assertive role in domestic sphere	97.3
Greater respect within family	95.9
More assertive role in children's health and education	86.3
Reduction in domestic violence	86.8
Greater participatoin in community affairs	82
More active participation in Panchayats	72.6
Increased awareness, self-confidence to improve family and community lives	86.3
Gained new skills	42.5
Better buying and selling skills	42.5
Better prices for products	35.6
Independent marketing	39.7
Better agricultural practices	13.7

Source: Gaiha and Nandhi (2005)

As the table above shows, nearly all SHG participants reported gaining self-confidence, greater respect within the family, a more assertive role in the family decision making, and a reduction in domestic violence.

At the same time, there were also reported costs of empowerment. Higher incomes and broadening the sphere of activities entails greater responsibilities and extra hours of work for women, thus partly offsetting extra income gains. For example, 52% of respondents reported over 2 hours of extra work per week and over a quarter reported over 5 hours of extra work per week in addition to domestic chores.

Cross Validation of Empowerment

The study uses two sets of data to assess the underlying factors behind empowerment, specifically a) The responses of Panchayat members, District and Block officials, and representatives of financial institutions, and b) The econometric analysis of responses by SHG members and the control group.

The first set of evidence demonstrates improvement in the standard of living of SHG participants along several lines, including:

- Greater goodwill among village communities;
- Increased trust among SHG members;
- Active involvement in local campaigns for hygiene & sanitation; and

¹While the poor spent 25 percent and 32 percent respectively on health/education and on production/investment, the corresponding shares for the non-poor were 19 percent and 27 percent.

why Luce and others, including Manmohan Singh, see India's unusual development path as a serious problem. This "vast army of labourers" is living in a country where the growth is not labour intensive, which means a severe lack of job opportunities for the low and semi-skilled. In the end, the poor are not reaping the benefits of growth in the same way that they are in other rapidly growing economies like China and Vietnam.

Luce then delves into the historical circumstances that may have led to the capital intensive, services sector driven growth of India. The author sees the current state of the Indian economy, in many ways, as a result of the economic vision of Jawaharlal Nehru. "By the time of independence," Luce writes, "Nehru had already helped to forge a consensus in which the country would aim for complete economic self-sufficiency and the state would lead the effort by building up heavy industry...." When India needed "rural land reform" and "local irrigation projects" it got "heavily loss making" aluminum smelters and steel plants.

Along the same lines, Luce perceives that another faulty aspect of Nehru's development strategy was the large amounts of money that were poured into the excellent English-medium schools like the IITs and public hospitals in the cities, when it would have been more equitable to spend that money on improving basic primary education and the resources of rural health centres. "India's scientific and technical capacity is ranked third in the world... However, India's literacy rate is only 65 percent whereas China's is almost 90 percent."

Lastly, Luce blames the rigid labour laws that do not allow employers to easily lay off workers when fired as another major reason the poor have few opportunities in the current Indian marketplace. This means that even in the good times, employers are reticent to make new hires because they can not easily go back on the decision when things go sour.

So the equation is: focus on rapid industrialization + large spending on higher education and urban health + labour laws that are anything but dynamic = a technological elite country with underserved masses. Thus Luce writes, "India finds itself higher on the [value-added] ladder than one would perhaps expect it to be. It is just that most of its population are still standing at the bottom."

- More active SHG member participation in local institutions (e.g. Panchayats).

The econometric analysis assesses the factors that contribute to higher income and greater responsibilities, both which play important roles in growing empowerment for SHG members. Key benefits of SHG participation determined in this analysis include:

- Empowerment increases when the borrower is a group leader, participates extensively in an SHG or when members stay in the SHG for a longer amount of time.
- Empowerment's effect on domestic violence reduction varied with village environment and group leadership, and was lower among SC/ST/OBC households (relative to a default caste group). Negative effects were more than offset by SHG participation in an SHG, and positive effects were higher among those with more education.
- However, these forms of empowerment entailed longer hours of work. This effect positively links to both SC/ST/OBC and upper caste affiliations (relative to a residual caste group).

Conclusions

In conclusion, to confine microfinance impact assessments to conventional economic criteria of rates of return and financial sustainability of MFIs would not just be narrow, but misleading as well. Microfinance, and in particular self-help groups, can yield significant benefits through women's empowerment, thereby demonstrating that microfinance brings more than just financial benefits to participating women.

CMF Hosts Financial Literacy and Business Training Conference

On July 5th, 2008, CMF and the Indian School of Microfinance for Women (ISMW) jointly hosted the conference, *Financial Literacy and Business Training for Microfinance Clients*. The event took place in Ahmadabad, Gujarat and the discussion centered around whether microfinance clients benefit from training in basic business management and financial literacy skills. In other words, do financial literacy and business training enable microfinance clients to run better businesses and make appropriate financial decisions?

To address this fundamental question, conference panelists discussed the following issues:

- Justifications for financial education
- Key concepts financial training sessions should cover
- Whether training completion improves client businesses and helps with financial planning

Ms. Jayshree Vyas, Managing Director, Mahila Sewa Sahakari (SEWA) Bank spoke about lessons learned and applied through her institution's work in financial education. SEWA teaches the concept of financial planning to women through a life-cycle needs approach, which emphasizes that women need different financial services at different points of their life. SEWA also encourages clients to financially plan for the future, and correspondingly helps them develop a decision-making process that will make it easier to plan according to their lifecycle needs.

Dr. Joy Deshmukh-Ranadive, Director, Indian School of Microfinance for Women (ISMW), argued that poverty alleviation at the household level occurs through building women's empowerment, leadership and assets. She discussed how these three key types of capital could be taught to clients through an integrated approach. This approach would ensure understanding of financial concepts and equip clients with necessary financial skills. Additionally, Dr. Deshmukh-Ranadive stressed that MFIs, when developing trainings or lessons, should recognize that women balance a market economy (their business) and a care economy (household management). These economies are interrelated, and MFIs that distinguish between the two in their financial education efforts are more likely to fail. While concluding, Dr. Deshmukh-Ranadive stressed that other household members must be included in financial education, since other family members often partake in wasteful expenditure.

As a backdrop to this discussion, Ms. Chetna Gala-Sinha, Founder, Mann Deshi Mahila Bank pointed out that this is precisely why Mann Deshi Mahila focuses on an integrated approach with three main areas: education, practical business training and confidence-building. The Bank uses mobile schools for business training, and equips these schools with computers and internet access. The mobile schools travel from village to village, reaching many women who cannot leave their homes or villages to for training, either because of responsibilities or mobility constraints. Bringing the mobile school to the client villages can help overcome educational access challenges, and Ms. Gala-Sinha highlighted positive results from this initiative.

Also during the day, Professor Rohini Pande of Harvard University presented preliminary results of a randomized evaluation conducted by

CMF in collaboration with SEWA Bank. This evaluation tries to answer the question of the day: Does financial literacy and business training improve microfinance outcomes? Professor Pande began by describing the specifics of SEWA Bank's trainings and the evaluation logistics, in which through a random lottery system SEWA invited 425 clients to training. Half of the selected sample was then offered training alone while the other half was encouraged to invite a friend of their choosing. This approach enabled the team to identify the effects of peer training, whereby concepts are reinforced by a friend or relative who also takes part in the treatment. Professor Pande then discussed results from the randomized trials, which include the following:

- Clients invited with a friend are more likely to participate in trainings.
- Clients who attend with a friend experience increases in borrowings and savings relative to other clients, which helped offset training costs.
- Decreases in default rates were statistically significant for tailors, a common profession for MFI clients.

Professor Pande noted that these results raise additional questions about financial literacy. For instance, why is the savings effect stronger among clients that came with a friend, and how does one's profession influence financial decision-making?

The seminar served as a very effective platform for dialogue between microfinance practitioners, academics and policymakers on the issue of providing business training and financial literacy to microfinance clients. The conference also enabled sector experts to share their financial education experiences and learn from three different institutions involved in business training and financial literacy programmes. Moreover, the conference helped identify areas for further research and experimentation relevant to both practitioners and academics, especially in regard to peer training and the influence of profession on training impact.

The State of Microfinance in the East – Conference Report

The conference on Microfinance in East India was held jointly by CMF and the Confederation of Indian Industry (CII) on July 24th in Kolkata. The event brought together various perspectives, from policymakers to practitioners, to discuss the development of microfinance in East India,



and how it will affect the lives of the poor and unbanked in the region. All speakers were quick to recognise the tremendous steps that microfinance has taken in East India in reaching unbanked women, particularly in Orissa and West Bengal. At the same time, the conference was also a call for introspection within the sector.

The importance of microfinance and self-employment was quickly underlined by Rekha Goswami, the Guest of Honour and West Bengal Minister of Self-Employment. Stressing West Bengal's achievement of establishing 734,000 Self-Help Groups (SHGs) in the state, with a goal of establishing 1,000,000 within the next year, the minister demonstrated the government's commitment to microfinance. This commitment does not end with the local government, as representatives from both the National Bank for Agriculture and Rural Development (NABARD) and the Small Industries Development Bank of India (SIDBI) underscored the importance of microfinance in their operations. Citing the establishment of 20,000 SHGs operating in Bihar, Sandip Ghosh, General Manager of NABARD in Bihar, outlined the importance of microfinance in East India beyond West Bengal.

Representing the non-governmental sector, Chandra Shekhar Ghosh, CEO of Bandhan, exemplified the rapid growth of the sector by discussing his own organisation, which has had over 100 percent growth every year since 1996. Although microfinance continues to grow at a rapid pace across the region, participants struck a note of caution, emphasising three areas that could negatively affect microfinance in East India in the future:

1. The political and developmental environment in East India;

2. Financial constraints; and
3. Fissures within the sector.

Dipali Thakur, an independent microfinance consultant, spoke about how microfinance activities in the East have largely been restricted to a few pockets in and around urban areas. The absence of law and order has hindered growth in rural areas, compounded by East India's poor infrastructure development. Giving the example of Orissa, where most microfinance clients are farmers, Khirod Mallick, CEO of BISWA, spoke of how most of his clients preferred to make payments in single lump sums after their harvest. This schedule is largely incompatible with the broader ethos of microfinance. In addition, East India's relatively underdeveloped banking sector has hindered the growth of microfinance organisations.

Even though the region has seen an explosion of microfinance activity in recent years, the main players have been small and medium organisations, rather than large-scale providers of credit. Ajit Kumar Maity of Village Welfare Society, a Kolkata-based MFI, shared his organisation's difficulties in becoming a Non-Banking Financial Company (NBFC), exemplifying how difficult it is for MFIs to grow from their small base. Additionally, Subhankar Sengupta, CEO of Arohan Microfinance, explained that while the current credit squeeze has increased average interest rates from 9.5% to around 14% for MFIs when they borrow capital, institutions have chosen to absorb these costs and not pass the increased rates onto their clients. At the same time, banks still view the sector as "very risky" despite the track record of micro-credit in India and around the World. According to Mr. Sengupta, beyond 6 or 7 committed banks,

Working for CMF, I can't help but look at Luce's description of this country's economy through the lens of what this means for Indian microfinance. Perhaps microfinance has an unusually important role to play in India that it would not in a country that has large industries demanding low-skilled labor. Critics of microfinance have, I think rightfully, suggested that micro-lending is not a powerful tool in increasing the speed of economic development. Yet it may be that taking a loan out to invest in improving your agricultural productivity, starting a small shop or investing in your children's education, so that they might take part in the knowledge economy, is the best of a bad set of options for the Indian poor.

Another possible ramification of India's development path is that micro-savings may be less important than lending here compared with elsewhere. In a country where people have dependable monthly incomes from working in manufacturing, the ability to save that money in a safe, accessible interest bearing account may be more important than in India where the poor have a lesser ability to build wealth through savings. At the same time, having accessible savings could help India's rural poor, who have less consistent incomes, react to health or economic shocks.

Luce's account also made me reconsider whether I am wrong in thinking that Indian microfinance's rural focus is misplaced. It may be that with poor opportunities for wage labour in the cities, there will not be the rapid mass migration to the cities that has happened in other countries. Luce mentions that "India's rate of urbanization has actually slowed while its economic growth has accelerated."

The above three ideas are only passing thoughts of the impressionable reader and certainly not conclusions. But they are examples of how the arguments in "In Spite of the Gods" serve as a healthy reminder that in terms of development, not all countries are alike and the role of microfinance must cater to these differences. "In Spite of the Gods," though not a piece of hard economics, has happily made me rethink, and want to further research, some of my more closely held beliefs about the role of microfinance in contemporary India.

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6 The above view is the author's and should not be taken as representative of CMF.

few banks have invested in the sector. This opinion was echoed by both Amiya Sharma, Executive Director of Rashtriya Gramin Vikas Nidhi (RGVN) an MFI based out of Guwahati, and Dev Kumar Dubey, Executive Director of the Bihar Development Trust.

Institutional challenges to MFIs have been compounded by challenges from within the sector. Mr. Sengupta spoke of how fast-growing competition between MFIs is leading to increased client poaching. Client poaching takes place with full knowledge of MFIs, and while competition in the sector should be encouraged, the hazard of overburdening clients with too much debt could lead to a repeat of the Andhra Pradesh crisis. He also expressed concern about the increasing number of incompetent and poorly managed institutions that have recently entered the sector. While these institutions do not seem to have the ability to scale their operations, their practices have led to a general criticism of the sector and its integrity as a whole. Reports of strong-arm collection measures used in the field grow everyday. In his view, responsibility lies with banks, which, in their enthusiasm to scale-up microfinance activities, have flooded the sector with cheap credit. While there has been no backlash to this, there is an urgent need to institute good practices to ensure the reputation and survival of microfinance.

Representing the banking sector, Ashish Roy, the Deputy General Manager of the Rural Banking Division of the State Bank of India (SBI), explained that banks have an interest in promoting and supporting the sector, but voiced several caveats. He mentioned mainstream banks' concerns with the quality of the groups formed by MFIs, as well as the small size of the loans which he felt were not conducive to goals of MFIs, such as business creation. MFIs also fall short of providing key products to microfinance clients, such as insurance, although some of the bigger players in the sector have recently launched such services.

Annie Duflo, former Executive Director of the Centre for Micro Finance, discussed the positive role research can play in microfinance. She echoed a view shared by many of the practitioners who had spoken, stating that much of the lukewarm political support for microfinance stemmed from a lack of adequate information on the sector. Using the Andhra Pradesh microfinance crisis as an example, Ms. Duflo explained how better knowledge of microfinance clients by both practitioners and policymakers could have helped them understand the situation and potentially provide

less heavy-handed solutions. The importance of research was further underscored by Professor Esther Duflo of the Massachusetts Institute of Technology (MIT), who talked about how in collaboration with Bandhan, researchers at the CMF and MIT had evaluated Bandhan's poverty targeting methods and found them to be more successful at identifying the poor than methods employed by the government. Examples such as these show how with careful evaluation and research, microfinance can be a powerful tool in reaching the poor and unbanked.

Matthew Titus, Executive Director of Sa-Dhan, and Professor Abhijit Banerjee concluded the conference by stressing the importance of not allowing the success of microfinance to date overshadow the fact that much work needs to be done. Although the sector has been more successful in reaching the poor and has established a remarkable network throughout rural East India, now is an important time to step back and evaluate. Both speakers stressed the need for experimentation and evaluation in appraising practice, as well as the rejection of microfinance as a panacea for lifting people out of poverty. They both emphasized that the sector has seen remarkable successes, better even than the government, in banking the unbanked, but that much work is needed to sustain the growth and effectiveness of microfinance in East India.

New CMF-BIRD Partnership

CMF has formed a new partnership with the Bankers' Institute for Rural Development (BIRD) in Lucknow to help BIRD develop their new Centre for Microfinance Research (CMR). CMF is one of four research centres to participate in the new initiative, which also includes IIBM-Guwahati, IDS-Jaipur, and CIM-Patna. Under the collaboration, CMR-BIRD will provide funding for two researchers to be housed at CMF for a period of two years, and sponsor relevant projects which are jointly decided by CMF and the CMR Research Committee, of which CMF is a part.

The first project to be undertaken by CMF under this new partnership will be an examination of access to financial services. Over the past few years, microfinance has witnessed an explosion in popularity, with the total number of people served by MFIs or SHGs growing faster than 50% every year. However, because the last comprehensive survey on access to finance in India occurred almost five years ago, little is known about the effect of microfinance's

rapid expansion on key issues, including the following:

- Has microfinance's growth translated into financial access on the ground?
- How do the clients of the two models (MFI and SHG) differ?
- What percentage of the poor are still not reached by microfinance even in high competition areas?
- What are the characteristics of the unreached poor?

In summary, the overall objective of this Ac-

cess survey will be to provide policymakers, researchers, and practitioners throughout India with up-to-date, high-quality information on access to finance by India's poor, with a special focus on microfinance.

The second project will examine the role of equity investment in Indian microfinance. Equity investment is playing an increasingly important financing role for microfinance institutions (MFIs) around the world. In India, debt and donations have traditionally supplied

the bulk of financing for MFIs, but over the past few years, equity investment in the microfinance sector has risen dramatically (from \$70 million in 2004 to \$477 million in 2007). Due to recent regulatory changes and the strong growth of the overall microfinance sector in India, the demand for equity financing will likely rise even further in future years. In this report, CMF will survey the state of equity investment in the microfinance sector in India and highlight challenges to the future growth of equity investments.

Call for Applications ***Microfinance Researchers Alliance Program***

CMF is commencing the Researchers' Alliance Programme, an intensive research capacity development programme targeting Indian researchers currently working on or interested in working on microfinance research. This programme, the first of its kind in the country, aims to provide various research support services to selected researchers that will equip them to conduct leading research in the microfinance field.

For this program, CMF will select approximately 20 motivated, committed researchers in their early- to mid-career. The programme extends the following support to participating researchers over the course of 3 years.

- 1) Two workshops every year
- 2) One exposure visit every year to CMF project sites
- 3) Two research seminars every year
- 4) Opportunities to work on an existing CMF project with leading development researchers from MIT, Harvard, Yale, IIM, and other leading institutions
- 5) Funding opportunities to support initiating a research project

Selected researchers will be required to write a research proposal by the end of the programme's first year and set up and manage a field research on project issues related to microfinance. They will present study results in the third year of the programme at the India Microfinance Summit.

Eligibility Criteria

Given the extent of financial and non-financial support the participating researchers would receive, the selection process will be highly rigorous and competitive. The following is a list of prerequisites for individuals that apply for the program:

- i) PhD holder in academic disciplines including economics, political science, sociology, anthropology, women's studies, statistics, finance, and other similar disciplines.
- ii) Associated with a university, teaching college or an autonomous research institution.
- iii) Motivated, enthusiastic young mid-career researchers who would be able to commit time and effort for 3 years of research.
- iv) Experience in leading a research team for field research.

The application process will be open from September 8, 2008. Interested researchers can visit www.ifmr.ac.in/cmfrap.html and download the necessary documents and instructions for application. All documents, including letters of recommendations, should be sent in one package and arrive at CMF no later than October 31.

Application packages will be evaluated upon receipt, and shortlisted candidates will be invited to the first meeting held on November 14-15, 2008 in Delhi (We have limited provision for partial travel support for the meeting. If you wish to be eligible for the travel support, please send your application no later than 5PM on October 17th, 2008). During the meeting, each candidate will be interviewed. Within a month after the meeting, final participants in the programme will be announced.

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 **IFMR Foundation**





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