

The importance of social networks in determining the uptake of microfinance

Project background and significance

A major concern of all MFIs is how best to introduce microfinance into new communities. Indeed, the chosen strategy may be critical for the rate at which loans are taken up, not to mention the type of borrower the institution attracts.

Is it important, for example, to focus on socially influential individuals, who have the connections to recommend microfinance, or to target less well-connected, marginalized people, who may have a stronger stake in championing the program? Would a strategy that concentrates on one key individual in a group mean better repayment, or would a more effective strategy be to treat all group members equally, perhaps because there is no central group member?

A large theoretical literature informs these questions, as microfinance may be thought of as an innovation, or something newly introduced, to the community. However, there are relatively few empirical studies of how a particular innovation diffuses through networks, and how characteristics of these networks are important for its diffusion.

The objective of this study is therefore to understand how social networks are important to the spread of the microfinance.

Research partner

Bharatha Swamukti Samsthe (BSS) is a microfinance institution located in Bangalore. It was started in 1997 by Dr. Ramesh Bellamkonda and is a group-based program of lending, although it will soon pilot an individual lending program. From its 21 branches in both urban and rural areas of Karnataka, it serves more than 60,000 clients, all women. Loans are primarily used for income-generating activities.

Research design and analysis

The study is a survey of 50 semi-urban villages located near Bangalore, for which there are plans for microfinance expansion but in which BSS has yet to set up centers. GPS technology will map out the geography of the village, while interviews with those women who meet BSS' basic loan criteria, as well as with their adult family members, will allow for a mapping of the various existing social networks of the village. After our survey of the villages is complete, and BSS has then entered, we will use BSS' data on loan uptake over time to identify rules by which individuals decide whether, and with whom, to join. We will also see how these decisions depend on their social network position and the behavior of those to whom they have links.

Contributions

This study will contribute to the understanding of how microfinance expands, and to what extent social networks influence this expansion. The findings could be very useful for practitioners, as they could help them to focus on dissemination and expansion strategies that will accelerate their growth.

The study will also substantially increase our understanding of social networks in semi-rural communities, understanding which could be useful for a number of development interventions in addition to microfinance.

Timeline

Project started in August 2006

The survey is completed.

Analysis is in its early stage.

Publications to be released late 2009/early 2010.