

Putting Money in Motion: How Much Do Migrants Pay for Domestic Transfers?

CMF Researchers: *Dr. Ajay Tannirkulam, Justin Oliver and Shreyas Gopinath*

The Centre for Micro Finance (CMF) partnered with College of Agricultural Banking (CAB) to conduct a study to better understand how difficult it is for migrants to transfer money within their own country. The study surveyed 274 Indian migrants at their work towns and cities and 219 households at the migrants' villages and towns of origin, along four major migrant corridors: Bihar to Hoskote, Karnataka (a small town), Semi-urban Tamil Nadu to Mumbai, Rural Orissa to Surat and Semi-urban West Bengal to New Delhi.

The study used purposive sampling to ensure a good mix of economic status and occupation. The results should not be considered representative of the migrant population in India, or even the four corridors which were studied. They are rather meant to be indicative of a range of migrant experiences and are intended to provide clear insights into different remittance channels and associated money-transfer costs. The migrant respondents included construction workers, factory workers, skilled labourers, self-employed shop owners, drivers, and domestic laborers.

The study categorized five channels used to transfer money over distances in India: 1) banks; 2) post offices; 3) hawala couriers; 4) cash couriers and 5) friends and self transfers. Banks and post offices are considered formal mechanisms; all others are informal. Whether formal or informal, costs of transferring money are incurred both by senders and the receivers. These costs include: 1) formal fees and commissions; 2) travel costs; 3) opportunity costs of the time spent; 4) risk of loss, fraud, or theft and 5) demands for bribes and tips.

Summary of Findings:

In the sample, 57% of respondents used an informal mechanism to transfer money recently—most commonly hawala couriers. While half of migrants would like to make their transfers through banks, the “hidden” costs of obtaining the documents

needed to open an account, traveling to the nearest branch, and waiting in line to send or receive a payment mean that only 30% of our sample group uses banks to transfer money. Of households who do not use a bank account to transfer money, 19% expressed a desire to use a bank but are unable to do so.

Poor households incur significant costs when sending and receiving money: the median cost of a domestic remittance of Rs. 2000 was Rs. 80, or 4 % of the transfer amount. This suggests that among poor households there is considerable willingness to pay for a safe and convenient way to send and receive money. Indeed, when asked what migrants value in a payment system, by far the most common answer is security (mentioned by 72% of migrants) followed by the speed of delivery at 37%. The cost of transferring money is only the third criteria mentioned, at 17%.

We find that costs vary significantly across the method used to transfer funds. For the typical domestic remittance of Rs. 2000 (\$44), transferring money through a bank account costs Rs. 60 (or 3%) on average, including all direct and indirect costs. This is significantly cheaper than other commonly used methods, such as India Post (6%) - by far the most expensive transfer method in our survey - or informal hawala networks (4.6%).

Conclusions:

For many migrants, there is a clear trade-off between the cost of remitting money and the convenience of remitting, depending on how money is transferred. Banks have the security, speed of delivery, and cost-effectiveness that migrants most want, but are frequently far from migrants' homes, require onerous documentation many migrants do not have, and are generally inconvenient for most rural poor. More convenient informal mechanisms that do not require as much time, effort, literacy, or documentation continue to be pervasive, despite being more expensive and less desired.

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SWAP Project Updates

The Sector Wide and Policy (SWAP) unit conducts short term, high quality research on emerging issues in microfinance in order to facilitate informative dialogues among sector stakeholders. Currently, the team is nearing completion of a review of microfinance regulation in India.

The study focuses primarily on microfinance institutions classified as Section 25s (non-profits) and non-banking financial companies (NBFCs). Currently, there is not much regulation for either of these types of institutions relating to product transparency requirements, pricing, product requirements, or collection practices. The lack of regulation has led to several customer non-repayment crises, the latest being in Andhra Pradesh in late 2010. As a result, RBI asked the Malegam Committee to make regulatory recommendations for the sector.

The SWAP team will take an in-depth look at the Malegam Committee recommendations, assessing how these recommendations will affect the growth of the sector and the needs of clients. Finally, the SWAP team will make recommendations based on a review of microfinance regulation in Latin America, South America, Africa, and Southeast Asia, gauging how the best practices of these regions can be applied in the Indian microfinance context. The study will be published in a book sponsored by CUTS, which will include reviews and recommendations of regulations for a variety of industries in India.

The SWAP team's next project will be a review of an MIS solution for Indian MFIs, where CMF will conduct a survey of 30 MFIs and their vendors to understand the types of MIS solutions available, and to assess whether these solutions meet the needs of their clients. Another upcoming project will be a study on the Costing of MFIs & Credit Pricing, where the SWAP team will combine MFI interviews with secondary research to evaluate the growth, profitability, funding routes, cost of funds and interest rates, expansion strategy and costs, operating mechanisms and costs, and nature of costs of MFIs.

Even a small improvement in costs of remitting money can have big implications. Priya Deshingkar and Shaheen Akter estimate that domestic migrants contribute 10% of India's GDP.¹ In our study, 23% of migrants' annual incomes were remitted to their families. This implies a total market of 1.3 lakh crore (\$28B USD) of domestic remittances sent annually in India. If all that is currently lost to informal couriers were to cost only what bank transfers do, migrants would save nearly 1000 crore (\$200MM USD) over what they currently spend. If costs could be lowered even further, they would benefit even more.

Policy Recommendations:

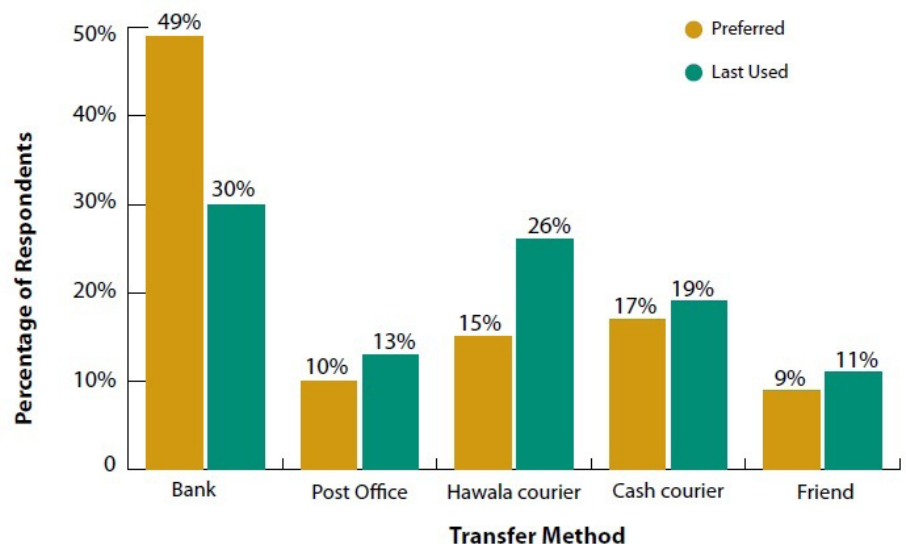
- The relatively cheap payment and transfer services that banks provide need to be made more accessible and convenient to the migrants. Targeting bank services in geographical areas that produce a lot of migrants may be a good policy for making migrant remittances more efficient.
- The decision to distribute government benefits through banks appears to have had the fortunate consequence that people use those same accounts to transfer money reliably amongst themselves. This could be capitalized upon further, by ensuring that households receiving payments from the centre and state governments have bank accounts to receive these payments and are encouraged to use them.
- Possibilities for adding formal transfer capacity in hard-to-reach areas include: a) building more branches; b) making it easier for banks and non-banks to

propagate business correspondent networks to expand physical proximity to payment outlets (perhaps enabled by mobile verification of transfers); c) widely distributing ATMs and debit cards and d) expanding the range of institutions that are enabled to process payments safely and efficiently.

- Postal money order system could be made cheap and desirable for transferring money. India Post is relatively slow and expensive at making transfers, and its vast network could be much better utilized. It is a good sign that the Post is in the process of adding and expanding Electronic Clearance Services and online Instant Money Orders. If these transfers can be done as cheaply and as quickly as electronic transfers through banks, this could again become a desirable money transfer option. This may also be further improved upon if the electronic clearance services could be linked to the many savings services India Post offers, enabling payments and deposit facilities through the same account.

- While a final option could be considering policies that lower the costs of informal couriers or encourages informal couriers to become more formalized (possibly through registration or partnerships with banks), we see few incentives that might encourage informal couriers to do so, other than making the formal sector compete more effectively. Making formal payments and transfer services cheaper and more convenient for families of migrants would significantly increase the positive effects of financial inclusion in India.

Figure 1: Preferences Vs. Usage of payment systems by migrants



1. Deshingkar, Priya and Shaheen Akter. "Migration and Human Development in India." (UNDP Human Development Reports, 2009).

Access to Finance in Rural Andhra Pradesh

CMF Researchers: Doug Johnson and Sushmita Meka

Access to finance allows the poor to make investments, better smooth consumption and protect against shocks.¹ India has had a long history of financial inclusion efforts and recently, the government formed two high-level committees (the Committee for Financial Inclusion and the Committee for Financial Sector Reforms) with mandates to investigate what can be done to increase financial inclusion.² The government's interest in financial inclusion is reflected in the policies of the country's central bank - the Reserve Bank of India (RBI) has pushed banks to make basic "no frills" accounts available to low-income households³ and encouraged banks to reach out to customers through business correspondents.⁴ Other institutions besides the government have also taken an interest in financial inclusion - a large number of non-bank organizations now seek to increase the poor's access to financial services. Yet despite this focus on financial inclusion, many questions about the state of financial inclusion in the country remain unanswered.

A study conducted by the Centre for Micro Finance (CMF), which is the first ever household survey on access to finance in India that includes information on microfinance, is representative of an entire state's (Andhra Pradesh) rural population, and for which the data is publicly available. This article summarizes the research findings on savings and borrowing.

Findings:

Savings: Results from the survey show that the cumulative effect of government policies has been a large increase in the share of households with a formal savings account. Overall, a staggering 79% of rural households now have access to a formal savings account. The results of our survey differ quite significantly from earlier estimates of savings access of the rural population and access of less well-off individuals. An earlier study by the World Bank and NCAER in 2003 found that only 41% of rural households in both Andhra Pradesh and Uttar Pradesh had access to a savings account (Basu and Srivastava, 2005). This same study found that access to savings accounts was concentrated in the hands of the relatively well-off: only 30% of marginal farmers and landless labourers in rural Andhra Pradesh and Uttar Pradesh had a formal savings account. In contrast, our survey finds that at the time of the survey over 70% of landless labourers and marginal

farmers in rural Andhra Pradesh had access to a savings account.

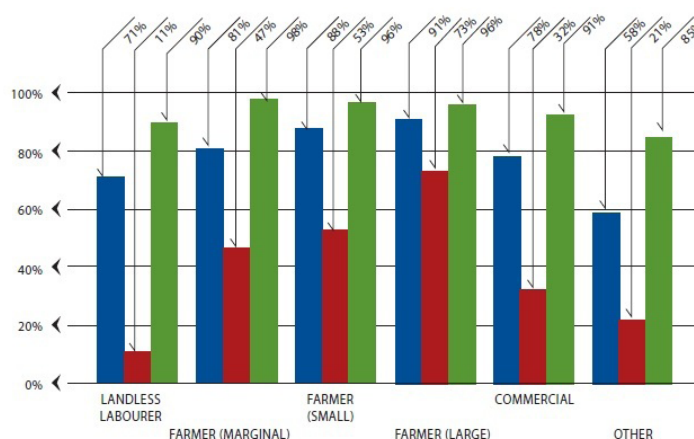
A large percentage of savings accounts are not used for savings but rather to receive government benefits or to access a loan. Only a small proportion of savings accounts (14%) were opened for the purpose of savings. Perhaps because they were not opened for the purpose of savings, a large share of savings accounts (approximately 41%) appear to be completely dormant or are used only to receive government benefits. The high rate of account dormancy suggests that a) the reason why households originally opened accounts may influence the way households use them and b) more could be done to encourage rural households to save regularly. The last finding concerning savings is related to a high

had bank loans. Roughly three quarters (72%) of rural households had a member who belonged to an SHG.

Loans taken from different financial institutions are used for different purposes. Banks loans are primarily used to finance the purchase of agricultural inputs while SHG and MFI loans are more likely to be used for consumption purposes. Also, MFI loans are used to repay old debt more often than other types of loans. A large percentage of rural households quoted financing health expenditure as a major use for loans that they have taken from informal sources.

Multiple borrowing is extremely common, with an estimated 84% of households having two or more loans from any

Figure 2: Financial Inclusion by Occupational Category



SHARE WITH SAVING ACCOUNT

SHARE WITH LOAN FROM FORMAL SOURCE

SHARE WITH LOAN FROM ANY SOURCE

percentage of rural households who own mobile phones. Many (36%) unbanked households also own a mobile phone and most households who own a mobile use it regularly. This finding suggests that there is considerable potential for mobile banking in rural Andhra Pradesh.

Borrowing: The overall rate of indebtedness in rural Andhra Pradesh is extremely high. A high percentage (93%) of rural households in Andhra Pradesh had a loan from some source, though most of this debt was from informal sources. Rates of borrowing from all sources were much higher than previously estimated. Despite concerns of over borrowing from microfinance institutions (MFIs), at least in rural areas only a small share of rural households (11%) had a loan outstanding from an MFI, compared to 54% of households that had a loan outstanding from an SHG, 17% that had loans outstanding from a moneylender and 37% that

source. Surveyed households reported a median of four loans outstanding from all sources. When we look at the instances of multiple borrowing from the same source we find that the incidence of multiple borrowing from the same source is most prominent among those who borrowed from informal sources.

1. For a general discussion on the importance of access to finance see Armendáriz and Morduch (2005) and Beck and Demirgüç-Kunt (2008). For more detailed discussion of the specific financial needs of the poor see Collins et al (2009)

2. Committee on Financial Sector Reforms. (2008) A Hundred Small Steps: Report of the Committee on Financial Sector Reforms. Available at http://planningcommission.gov.in/reports/genrep/report_fr.htm

Committee on Financial Inclusion. (2007) Report of the Committee on Financial Inclusion. Available at http://www.nabard.org/report_comnancial.asp

3. For more information on the RBI's push to make "no frills" accounts available to low income households see Ramji (2009) and Thyagarajan and Venkatesan (2008)

4. For more information on the RBI's business correspondent model see Kobishyn et al (2009).

An Excerpt from India Development Blog

Delights for the Grassroots Economist

February 23, 2011

By Markus Gstoettner, CMF

One of the great things of working as a fieldwork RA on a development economics study is that you get in touch with a world you otherwise only read about. That is enriching on a personal as well as on an academic level. If your educational background happens to be in economics too, you may even have occasions to see theory and practice meet right in front of you – and so it happened to me recently.

A highly relevant question in development is whether social inequality is a cause of underdevelopment, or rather one of its consequences. Studying this topic at university, we read an interesting paper by William Easterly: “Inequality does cause underdevelopment: insights from a new instrument”. In this study Prof Easterly uses an Instrumental Variable (IV) approach to investigate the direction of causation in the interconnected relation between social inequality and economic underdevelopment. As IV he uses the abundance of a given country’s land suitable for growing wheat, relative to the abundance of land suitable for growing sugarcane.

The underlying argument is that wheat is likely to be cultivated by smallholders, while sugarcane plots, due to economies of scale, are prone to be owned by big farms which employ agricultural labourers. A high proportion of agricultural land suitable for sugarcane, relative to land suitable for wheat, is hence indicative of a more unequal society – particularly in the context of less developed countries, where the agricultural sector is a main employer. Using this hypothesis (IV relevance), together with the assumption that variation in the sugarcane/wheat ratio is otherwise exogenous to the inequality-underdevelopment equation (IV exogeneity), Prof Easterly could plausibly establish that higher levels of social inequality have significantly negative effects on numerous development outcomes.

I have always remembered this identification strategy as a highly innovative

Cont’d on page 6

A large percentage of rural households made a non-routine expenditure in the 6 months prior to the survey. More than third of households that made non-routine expenditures cited health as the reason for their non-routine expenditure, a finding that suggests that households face regular health shocks. Many of these households financed non-routine

expenditures by borrowing from informal sources, with 43% borrowing from friends or relatives, 13% borrowing from moneylenders and 11% borrowing from their landlord. Households may use informal sources because formal lenders are reluctant to lend for non-productive purposes or because informal lenders are easier to access, speedier and more flexible.

CMF-CAB Annual Conference, “Microfinance: Translating Research into Practice”

The Centre for Micro Finance (CMF) and the College of Agricultural Banking (CAB) hosted their fourth annual conference, “Microfinance: Translating Research into Practice” on January 12th and 13th 2011 at the College of Agricultural Banking Campus, Pune. The objective of the conference was to actively engage practitioners and researchers in discussions relevant to current and future microfinance practice. The two-day long conference featured discussions on topics as varied as micro-pensions, optimal regulation for the sector, and the recent crisis in Andhra Pradesh.

“Andhra Pradesh and the Identity Crisis in Indian Microfinance” session featured results from CMF’s recent study of household financial access in Andhra Pradesh.

“Sending Money Home: Making Finance Work for Mobile Populations” session included presentation from the CMF’s study on migrant remittance behavior. The panelists discussed the possibility of better integrating business correspondents into the Reserve Bank of India’s regulatory framework, a new product pioneered by the State Bank of India called Tatkal money, and other possible ways of improving remittance channels within the country.

Dr. Abhijit Banerjee, Professor of Economics at MIT, gave a special address detailing what he had learned in his 25 years of researching microfinance. Banerjee focused on three main findings concerning microfinance: consumption transformation, norms of behavior, and elasticity of credit demand.

“Targeting the Ultra Poor” session featured a discussion on programs that could help exceptionally poor households. The

session included a presentation on research findings from CMF’s impact evaluation of “Targeting the Hardcore Poor Program” in West Bengal.

“Safety Nets for the Poor: Micro-insurance and Pensions” session saw the presentations from CMF’s two research findings: investigation of a rainfall insurance product in rural Gujarat and research on



the importance of commitment devices for increasing savings. Panelists discussed the complexity of insurance products and strategies to structure insurance and pensions products are effective and more easily comprehensible.

“Regulating Financial Institutions that Serve the Poor” session saw discussions centered on issues in current microfinance practice and appropriate regulation for the sector. Panelists discussed on the need for greater client protection measures in microfinance practice and how the presence of a single, well-respected regulating institution is preferable to state governments regulating microfinance activity.

The last session, “The Future of Financial Services for the Poor,” saw the panelists advocating for the introduction of a diversity of products for the poor. All panelists agreed that if MFIs continue as mono-product entities and do not embrace innovation, they would fail in their financial inclusion efforts.

Targeting the Hardcore Poor: An Impact Assessment

Principal Investigators: Prof. Abhijit Banerjee (MIT), Prof. Esther Duflo (MIT), Prof. Raghavendra Chattopadhyay (IIM-C) & Mr. Jeremy Shapiro (Yale)

CMF Researchers: Abhay Agarwal

Can targeted ultra poor programs effectively reach the poorest of the poor? Does a regular source of income resulting from asset transfers lead to improved socioeconomic conditions for such households? A study conducted by the CMF in West Bengal evaluates the impact of an asset transfer program to generate income for ultra poor households in order to ultimately 'graduate' them to microfinance. This article presents results from an experimental impact evaluation of one of these anti-poverty programmes- Bandhan's Targeting the Hardcore Poor Programme.

Intervention: Working with Bandhan, a microfinance institution based in West Bengal, India, we conducted baseline and post-program surveys with nearly 1,000 households, half of which were randomly invited to participate in Bandhan's "Targeting the Hard-core Poor" (THP) program. On average, end line surveys were conducted 18 months after initial transfer of an asset. After successful completion of the initial phase of the program, beneficiaries attend graduation training in order to receive a microfinance loan. During these 18 months, recipients of assets are visited regularly by Bandhan THP staff, who train and teach them how to manage their income-generating assets and household enterprises. Depending on the asset chosen, selected beneficiaries receive a weekly allowance for a fixed number of weeks. Asset recipients are not allowed to sell their assets, and Bandhan closely monitors progress during this period. All program beneficiaries are women.

Findings: Using experimentally generated

variation in program participation, we find that the program results in substantive improvements in household welfare. Notably, our estimates suggest that the offer to participate in the THP program leads to a 15% increase in per capita monthly consumption. This estimate reflects the expected impact of the offer to participate and, therefore, takes into account that not all households will take up the program when offered. Households which actually chose to participate in the THP program experienced an average increase in per capita monthly consumption of greater than 25%.

Given that the program includes direct asset transfers (mostly livestock), it is not surprising that we also find that treatment households (those offered a chance to participate in the THP program) have a larger asset base than comparable control households. We find that households derive some income from these animals, primarily through the sale of livestock. Further results, however, cause us to speculate that the increase in consumption is due to treatment households leveraging the program to increase income from small-scale household enterprises (such as bamboo weaving or bidi making).

We find that a number of additional benefits accrue to members of treatment households. In particular, they suffer less from food insecurity, they report being happier and are more likely to report that their physical health has improved. In spite of these latter results, we do not detect program effects in terms of more objective measures of physical health, but such effects may take time to become ap-

parent. The data analyzed in this study were collected before THP households "graduated" to microfinance and, within this time frame, we do not find that participation in the THP program has substantive impacts on households' financial behaviors, except through the savings component of the THP program.

Treatment households do, however, indicate a greater willingness and interest in obtaining credit. In additional results, we evaluate whether the program had heterogeneous effects on THP participants. This analysis reveals that the program appears most successful for households that had prior experience operating a household enterprise - potentially because these households had ready channels for investment. In the full sample, it also appears that among this especially impoverished population, richer households (measured by per capita consumption) benefit more from participation.

Conclusions and Future Plans: The results from this experimental impact evaluation suggest that this type of intervention represents a viable strategy to reach the poorest of the poor and enables them to move up the economic ladder. A second level of end line surveys have been completed recently as well and the results of this survey are currently being analyzed. This project will look to examine the long-term impacts of the ultra poor program, as well as how graduated ultra poor clients perform as microfinance clients. Bandhan has rapidly expanded this program to other districts of West Bengal, and is considering expanding to other states in India as well.

Experimenting with Take-up Rates

By Thomaz Alvares and Veena Jayaram

In the summer of 2010, the Centre for Micro Finance (CMF) began baseline operations for the first-ever randomized controlled trial study of Self-Help Groups (SHGs). SHGs serve as micro-banks that mobilize funds from a variety of sources, such as internal savings from their members, loans from microfinance institutions (MFIs), and loans from commercial banks. Our impact evaluation will follow 6,000 SHG members in Tamil Nadu over three years.

Identifying treatment panchayats with a

high proportion of respondents who will join our partner SHPI's SHGs proved to be a challenge. This article outlines a select number of strategies that were used to achieve a high take-up rate, and the outcome of their implementation.

Household Listing: In order to identify the profiles of SHG members, we interviewed households in hamlets where our partner had started operations less than one year ago. We conducted two rounds of household listings in 22 hamlets of 12 Panchayats across three districts, total-

ing 2,415 interviews. In the first round, we used a shorter instrument that focused on potential client demographics, while in the second round we used a more comprehensive instrument that also covered household head occupation, past SHG membership, and business ownership. We based our analysis on the second round of the household listing, which covered 1,186 respondents, out of which 102 had recently joined a SHG.

We found that many individuals who chose to join SHGs did not own any

one, as it combines economic history (as developed by Engerman and Sokoloff (1997, 2000)) with modern day econometrics.

Now I work as an RA on the PKGFS impact evaluation, where we assess the effects of rural financial access on living conditions of the poor in rural Tamil Nadu. We have recently started looking into the relation between financial inclusion and technology decisions of smallholder farmers in our treatment areas. And guess what I found during my first few interviews with rice, coconut and sugarcane farmers here? Over the past years, sugarcane has seen a big trend towards centralization. Today, almost all sugarcane plots in our study districts are effectively owned by a few sugar factories, which employ harvest labourers.



In how far this now affects inequality in the area I can only infer from anecdotal evidence, of course, but it seems plausible that working as a labourer rather than cultivating your own sugarcane plot leaves you no better off, while the centralized ownership reaps higher gains. In any case, a key part of Prof Easterly's identification strategy, namely that sugarcane usually goes in hand with large-scale cultivation, has been confirmed by the recent developments in rural Tamil Nadu. And that – geeky as it is – was interesting to find out... I mean, how often do you see IV assumptions jumping around in the real world?

<http://www.indiadevelopmentblog.com/2011/02/delights-for-grass-roots-economist.html#more>

business, demonstrating that individuals interested in joining an SHG are not necessarily micro-entrepreneurs who are typically attracted to micro-credit. This is evident in other studies, which have found that women often join an SHG to save and only eventually to borrow (Wilson, 2002).

The data also suggested that the occupation of the head of the household and a woman's marital status might influence her decision to join an SHG. In 58% of the households of new SHG members, the head of the household was a daily wage laborer. This seems to suggest that women from poor households may be more likely to join a SHG than women from better-off families.

Using data from the two rounds of household listing, we found that if we randomly selected respondents that fit the minimum requirements demanded by SHPI, approximately one in every four respondents would join a SHG, a take-up rate that could jeopardize the chances of detecting a treatment effect. This was consistent with another CMF evaluation, an impact assessment of Spandana's microcredit program, where the take-up rate was below 30% (Banerjee et al., 2009). These findings provided us with a set of additional criteria that could be used to obtain a somewhat higher take-up rate: the individual should be married, should belong to a household whose head is a daily wage laborer, and should never have belonged to a SHG or MFI. However, the cost of conducting household listings in all 300 panchayats that compose this study was prohibitive.

Pre-screening by Partner: CMF and the SHPI settled on an alternative solution for identifying potential clients. The SHPI's credit officers would talk to locals, and then provide CMF with a list of eligible households that showed interest in joining a SHG. For this approach to work, the credit officers needed to be unaware of whether the households belonged to a panchayat in the treat-

ment or comparison group. Thus, CMF only assigned the panchayats to treatment or control after the baseline was conducted in the panchayat. The piloting of this approach in non-study panchayats yielded a 68% take-up rate.

Subsequently we helped the SHPI to develop a monitoring system for verifying the lists provided after the pre-screening. CMF investigators now re-visit all panchayats pre-screened by the SHPI and apply a short survey for those individuals listed by the credit officer. In addition to several fillers, relevant questions about whether the person already belongs to a SHG and whether there is interest in joining a SHG are also asked.

To verify whether the households were visited by the credit officer, CMF and the SHPI developed a card displaying the new rupee symbol and a short introduction with keywords about the motivations for this new symbol. This card and the introduction are given to all households visited by the credit officer during the pre-screening and during the verification process. Individuals listed by the credit officer are asked about whether they are aware of the new rupee symbol, and what they think about it. The answers often use the keywords from the short introduction, and some even show the card to the CMF investigators. By December 2010, with 40% of the baseline already completed, the take-up rate was found to be 66% and 10 panchayats had been dropped from the study.

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Interview with Justin Oliver, Executive Director, Centre for Micro Finance

Justin Oliver, Executive Director of the Center for Micro Finance (CMF) since July 2008 is leaving CMF next month. While with CMF, Justin oversaw 30 researchers working on more than 40 projects across India. Thank you for the last three years of great leadership, Justin!

Why did you join the Centre for Micro Finance?

In 2006, I attended a research methods training hosted by CMF and was very impressed with the work going on here. With nearly one-third of all microfinance related activity in the world happening in India, clearly this was the place to be – both to be at the heart of the industry, and to be leading an exciting, dynamic organization that was beginning to make its mark here. When the opportunity

came up, I jumped at it.

What was your overall experience with CMF?

It's been wonderful. CMF is rare as far as research organizations go, I think, because it's such a young and dynamic team, and the culture is entrepreneurial and goal-oriented; we're much more like a start-up than a stodgy research group. And we have great partnerships with a wide range of institutions. It's a lot of fun working with some of the smartest academics in the world to make sure our research methods, and the questions we're working to answer, are top-caliber and useful to the industry, and with some of the best financial institutions in India – not just MFI's but banks, SHG's, insurance companies, livelihoods promoters, technology providers, and comprehensive development organizations – to develop the knowledge base on which good policy decisions can be made.

I'm consistently humbled by the intelligence and work ethic of CMF'ers. Our team in the field across India is the heart and soul of the organization, and any recognition that comes to CMF or to our academic partners is really just a reflection of lots of hard work put in by our research teams.

What goals and expectations did you have when you joined and what did you accomplish?

I had three main goals when I joined CMF: diversifying our funding base, bringing in new partners and projects, and broadening our influence on policy. Several of our earliest projects had been funded through one large grant CMF received at inception in 2005. Since 2008, we've more than tripled our external funding receipts, and moved from a reliance on one main funder to working with more than 20 funders. We're also working with more institutions and

academic partners than before, and have developed a solid reputation such that when researchers in India and around the world want to conduct serious empirical research on financial services in India, they come to us first.

I think we've also been successful at outreach to policymakers. Our ongoing partnerships with our friends at Access, Sa-Dhan, NABARD, and the RBI's College of Agricultural Banking are key to this. Several of our studies have really shaped the knowledge base for discussion about big issues in the sector. The first to do this was our study of the "100% financial inclusion" efforts by the RBI by propagating no-frills savings accounts. I think our finding in 2008 that vast numbers of these accounts went unused helped shift the discussion from a focus on numbers to a focus on usage.

Secondly was our impact evaluation of urban micro credit, in partnership with Spandana and Professors Abhijit Banerjee, Esther Duflo, Rachel Glennerster, and Cynthia Kinnan at MIT. This study has had huge reverberations in discussions of microfinance across the globe, by providing evidence that offering micro credit alone is unlikely to be a silver bullet to ending poverty, but still does some very positive things, resulting in new small enterprises, and encouraging entrepreneurs to use money differently, in what seem to be good ways. The results seem to have both moderated some of the unrealistic expectations of the sector and silenced some of its critics.

Most recently, our study of the state of access to financial services in rural Andhra Pradesh has helped inform discussions about microfinance globally, as triggered by events in Andhra Pradesh in October. This was one of the only research studies referenced by the Malegam Committee's recommendations in January, which is likely to have a lasting influence on financial inclusion policy in India.

Whether the influence will be in a positive direction for the poor is not yet clear though.

What role do you envision for CMF to play in the future, both in the microfinance sector and development research overall?

I'd like to see CMF continue to inform debates and decision making about providing financial services to the poor, both at a foundational level – looking at broad impacts on people's lives and understanding better the decisions poor people make – and at an immediate level, providing clear, factual information that can inform institutions' and governments' policies. There's significant scope to expand this work – there's just a lot we don't know yet! Specifically, I think CMF could play a big role in understanding the need for better payments and money transfer facilities for the poor. Some of the work we've done on NREGA payments and on domestic remittances made me realize how important this is as a financial service, how cumbersome current systems are, and how much it's ignored in discussions of financial services for the poor in India. Within three to five years I'd expect there to be a lot of movement toward e-money for the poor here, as is happening in other countries that are ahead of India as far as this goes. It would be great if CMF can help shape discussions and study how to improve options available and make sure they're really useful to the poor.

In development research overall, CMF is really at the forefront globally of providing hard empirical evidence on what works and what does not in microfinance practice. Our partnerships with J-PAL and IPA are really crucial for this. I think we're contributing to a global focus on using hard evidence for making development policy decisions, eschewing the guesswork that's been so common in the past.

CMF in the News

- The Malegam Committee Report cited CMF's "Access to Finance in Andhra Pradesh" study, January 2011
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- "Help microfinance: don't kill it," Several CMF primary investigators write in an Op-Ed in the Indian Express, November 26, 2010 - Indian Express
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- The Economist quotes extensively from CMF's Access to Finance study in article on Andhra Pradesh, November 20, 2010, The Economist
- "Beyond Micro Lending," Spandana study referenced, November 12, 2010, Forbes India



Centre for Micro Finance (CMF)- IFMR Research
IITM Research Park | A1, 10th Floor | Kanagam Road (Behind TIDEL Park)
Taramani | Chennai- 600113 | Tamilnadu
Phone: +91 (44) 6668 7000 | Fax: +91 (44) 6668 7010
Web: www.ifmr.ac.in/cmfi

