Microfinance and development finance in India: research implications

J. Copestake

This paper appraises options for research relating to microfinance in India, doing so in the broad context of rival macro pressures to accelerate economic growth, maintain political order, reduce poverty and adapt to climate change. This paper first set out a general well-being regime framework that can be used for this analysis and sketch the role microfinance plays within it. Section 2 uses it to inform a brief historical discussion of the evolution of microfinance in India. Section 3 develops the analysis further by considering possible effects of three external drivers of change: rising political aspirations; climate change and food insecurity; and new information and communication technology (ICT). Section 4 uses these examples to discuss methodological options for policy-relevant empirical research. It also suggests that microfinance is an important arena for exploring empirically the tension inherent in the idea of development management.

The term microfinance is widely used to refer to institutions governing savings, credit, insurance and monetary payments by relatively poor people, including those regulated by both official laws and informal norms. Analysis of microfinance is widely framed as a purely micro issue, centered on the motivation and behavior of specific users and providers. However, such analysis is almost invariably located - whether explicitly or implicitly - in a wider view of how the state, markets and society institute poverty. In India as elsewhere, for example, private microfinance organizations is viewed positively as a force for promoting financial inclusion by “making markets work for the poor”; and at the same time viewed negatively as a smokescreen behind which the state can retreat from a ‘social banking’ strategy of mobilizing much larger resources to challenge pervasive and chronic indebtedness. Following Brett (2009) this paper regards such seemingly polarized views as jointly contributing also to an intermediate “pluralist liberal orthodoxy” struggling to identify the least worst combination of state, market and civic mechanisms for addressing poverty and oppression in countries where their potential to do so is deeply compromised by capacity constraints and vested interests. Microfinance – along with all potential instruments of development – needs to be appraised against country-specific historical realities. Evaluating it instead in relation to a universal view of its role in some idealized market or state-led view of development can be viewed either as a naive and idle distraction, or as irresponsible and self-serving.
Microfinance and development finance in India: research implications.
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1. Introduction

Summary
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The term microfinance is widely used to refer to institutions governing savings, credit, insurance and monetary payments by relatively poor people, including those regulated by both official laws and informal norms.² Analysis of microfinance is widely framed as a purely micro issue, centered on the motivation and behavior of specific users and providers. However, such analysis is almost invariably located - whether explicitly or implicitly - in a wider view of how the state, markets and society institute poverty. In India as elsewhere, for example, private microfinance organizations is viewed positively as a force for promoting financial inclusion by “making markets work for the poor”; and at the same time viewed negatively as a smokescreen behind which the state can retreat from a ‘social banking’ strategy of mobilizing much larger resources to challenge pervasive and chronic indebtedness. Following Brett (2009) this paper regards such seemingly polarized views as jointly contributing also to an intermediate “pluralist liberal orthodoxy” struggling to identify the least worst combination of state, market and civic mechanisms for addressing poverty and oppression in countries where their potential to do so is deeply compromised by capacity constraints and vested interests. Microfinance – along with all potential instruments of development – needs to be appraised against country-specific

¹ j.g.copestake@bath.ac.uk. This paper was first presented at a workshop organized by the Centre for Research into Microfinance in Brussels on the microfinance and development studies. I am grateful to Ariane Szafarz and other participants for comments, as well as to Julie Humberstone, on whose work I have drawn heavily in footnote 14.
² Monetary payment here refers to the service of facilitating transfers of purchasing power, rather than the wider transaction underpinning the transfer. For example, it refers to the means by which a cash transfer is made by government to a poor person rather than the full terms of such a transfer.
historical realities. Evaluating it instead in relation to a universal view of its role in some idealized market or state-led view of development can be viewed either as a naïve and idle distraction, or as irresponsible and self-serving.

A well-being regime framework
As an antidote to naïve or ideologically biased micro analysis of microfinance this paper advocates developing a wider understanding of its role as part of an evolving well-being regime. The idea of well-being regimes can be traced back to classical political economy, refashioned – particularly under the influence of Karl Polanyi - into contemporary comparative social policy. The main emphasis (followed here also) is on a well-being regime as an open and evolving national level system, but such analysis can be applied at global and local levels too. \(^3\) It is captured in its simplest form by Diagram 1. This depicts a feedback loop whereby from any given starting point (captured by an endowment of *conditioning factors*) an *institutional matrix* of state, market, civil society (or community) and household mechanisms distribute resources in such a way as to determine *well-being outcomes* for a population. \(^4\) Well-being is defined broadly to include human capabilities, opportunities and emotional states including life, liberty and happiness. \(^5\) A given well-being outcome (along with popular perceptions of the institutional matrix that delivers it) triggers a set of *reproduction consequences*. These include changes in the distribution of power and wealth that alter the institutional matrix and hence future well-being outcomes in processes of cumulative causation. They also affect the regime more profoundly by altering the conditioning factors that underpin the institutional matrix. However, implicit in the idea of a *regime* is the assumption that there is substantial overall system stability and that radical regime change or breakdown is an exception to the norm. In contrast the framework is designed explicitly to encourage analysis of social dynamics. These can range from those that have limited structural effects, such as business and electoral cycles, to those that entail more complex institutional change including cycles of increasing state power over society, both triggered by and leading to episodes of state weakness.

The term *well-being* is deliberately chose over *welfare* to distance itself from analysis based on the assumption that individuals operate solely on the basis of material self-interest and that institutions persist solely as a consequence of their functional contribution to individual and collective material interests. This is not to deny the power of such political economy perspectives, but simply to avoid downplaying the importance of other social processes, including those with cultural origins. Use of the term, in other words, signals an

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\(^3\) See Gough and Wood (2004), Copestake (2008). It echoes North, as well as Polanyi, in its emphasis on national path-dependence in the ongoing tension between forces of commodification and de-commodification.

\(^4\) The term institution is taken to refer to rules and norms governing resource allocation that are protected by culture in the sense that non-compliance is widely enough viewed as an affront to cherished values that it provokes a political reaction sufficient to uphold order.

\(^5\) More specifically, this echoes the definition of well-being at “a state of being in society where people’s basic needs are met, where they can act effectively and meaningfully in pursuit of their goals and where they feel satisfied with their life.” (Copestake, 2008:3)
attempt to combine an understanding of the politics of resources and redistribution with the politics of identity and recognition. One further clarification is that notwithstanding use of the term well-being, the framework aims primarily to inform positive rather than normative analysis; thus particular well-being regimes may more appropriately be referred to as an insecurity regime or an inequality regime, for example.

**Microfinance and well-being regimes**

How is this framework to be used? One purpose is to aid analysis of how a specific component of a regime, such as microfinance, is likely to be affected by wider system dynamics. This requires a critical analysis of the system-wide role the component performs. If particular institutions (such as chronic informal rural indebtedness) are resilient over time, then this suggests they contribute to overall regime stability in some way and warns against naïve assumptions about how easily they can be changed. It is necessary to understand these roles, and also the forms of resistance likely to arise from any attempt to change them. More generally, the framework can also be used to explore how a particular component is likely to be affected by largely independent forces of change (conditioning factors) in a particular historical context. This is the approach adopted here by viewing microfinance in India as an endogenous component of the institutional matrix, subject not so much to autonomous change but to being moulded by more powerful forces such as global climate change, the ICT revolution and the deeper cultural and political revolution taking place in India.

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7 The approach can hereby be seen as part of a wider literature exploring the relevance of “an institutionally grounded complexity analysis” (e.g. Room, 2008).
Potential well-being outcomes to clients from access to a full range of microfinance services (savings, credit, insurance, payment) include capacity to save, to spread risks, to smooth consumption, to meet lumpy expenditure needs and investment opportunities, to make and receive transfers easily, and so on. These services are an important part of the institutional matrix. Financial exclusion deprives people of these potential benefits, while adverse incorporation entails having to trade them against high costs, loss of autonomy and restricted aspirations. It is implicit in the definition of microfinance that access to them is indeed segmented by income, whether because technology is not scale-neutral, because there are socio-political barriers to access, or more likely a combination of both. Hence microfinance not only delivers important well-being outcomes but also play a critical role in the reproduction. On the supply side, the effect of unequal control over who controls microfinance services, and thereby derives income and wealth from it, is also important.

To be sure, technical change that lowers the transactions costs of providing microfinance offer opportunities for improvement in material well-being. If users experience reduced vulnerability and are able to accumulated assets then this has potentially benign reproduction possibilities, including virtuous cycles of financial inclusion as poor people raise their “debt-capacity” and this in turn reduces unit costs of microfinance even further. At the same time, exclusion from microfinance services, and inclusion on adverse terms, can contribute importantly to the reproduction of poverty and inequality. But such arguments highlights a general danger with the very definition of microfinance: which is to separate analysis of services for the poor from those available for the rich. An excessive focus on the potential of microfinance can simultaneously serve as populist modality for benevolent paternalism, convenient smokescreen for the messy finances of crony capitalism and fodder for an ideology of equality of opportunity over economic justice. By emphasizing the importance of individual access to financial services, a narrow definition of microfinance also risks contributing to the neglect of a wider development finance agenda that includes improving financial allocations to the collective services needed by poor people such as physical infrastructure, security, health and education services. These arguments help to explain why social scientists have treated donor interest in financial inclusion cautiously (e.g. Fernando, 2006; Weber, 2004). At the same time, the more recent shift towards a broader and in some ways more old-fashioned view of development finance among donors (Johnson, 2009) also

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8 See Collins et al. (2009) for case study material from India, Bangladesh and South Africa on how poor people use financial services.

9 A more profound issue is the possibility of change in the conditioning factors governing finance, including generalized trust across markets and the influence on economic growth of the institutions governing creditor risk (e.g. Fergusson, 2006). An important issue here concerns the extent to which these are non-rival and/or excludable. A positive view is that institutional development at the top end of the financial market is likely to have positive spillover or trickle-down effects on lower market segments. But it is equally possible to view cultural and political differences governing macro and microfinance as an important factor in the reproduction of unequal well-being regimes.
needs to be treated with caution, given the ease with which this could be associated with a dilution of the focus on poverty outcomes, an issue discussed further in the final section.

A second recurrent danger with taking a narrow focus on microfinance is that it leads to a neglect of the way differentiated access to financial services is interlinked with other components of the institutional matrix. A tenet of the neo-liberal endorsement of microfinance as a tool for poverty reduction is that it frees individual users to make use of improved liquidity as they see best, unencumbered by other condition. Likewise the shift from village and solidarity based peer-lending mechanisms to more flexible and open-ended individual money-lending (such as the shift from Grameen-1 to Grameen-2) is assumed to be benign, because of a preoccupation with reducing loan transaction costs in order to expand scale of provision, rather than with how microfinance can contribute to a potentially more transformational package on services. This may be true in some circumstances, but not in others: for there is abundant evidence that interlinked or bundled microfinance institutions (formal and informal) are widespread and resilient, as well as clear theory to explain why.

Linked to this is the trend towards downplaying the spatial segmentation of microfinance. Rural urbanization, increased spatial mobility and improved communications all help to explain why location matters less than it used to for many people, and why crude models of rural-urban dualities are misleading. But poverty remains overwhelmingly rural in many parts of the world, including India. And decontextualising microfinance also panders to overly-simplistic models of integrated financial markets. In contrast, villages remain a repository of a host of resilient conditioning factors and institutional mechanisms (e.g. for collective management of natural resources) that perpetuate deep market segmentation. Broadening the normative conceptual framework to include relational as well as material welfare is important in this regard: we should remain open to the possibility that finance may be less important to poverty reduction as an end in itself, and more as a means to the end of facilitating various forms of collective action in service of the common good (Deneulin and Townsend, 2006). Likewise its role in securing quasi-feudal subordination can have important cultural as well as material dimensions.

To sum up, this section has presented a simple framework for positive analysis of microfinance as part of a broader historical-institutionalist analysis of well-being regimes. This has also led to emphasis on the need to view rural microfinance in context as one component of wider financial and agrarian systems and structures.

2. Microfinance in India’s well-being regime

An abiding memory of my personal experience of conducting field work into rural finance in Tamilnadu during the 1980s (before the word microfinance had even acquired currency) is of a sense of being engaged of what might be called social science archeology. Each visit to a rural bank branch, cramped primary agricultural credit coop office, or the half-empty headquarters of a government scheme in one of Madurai’s new extensions seemed to unearth another slowly
decaying relic of rural finance initiatives past. And lying on top of the clogged pipes of previous schemes there always seemed to be a new one, privileged conduit of new money for a short period, but destined itself to creeping neglect as money moves on to still newer schemes. At the same time I also marveled at the scale and resilience of some of these historic institutions: the survival from one government to the next of the coop system as a conduit for short-term agricultural credit; the continued operation of remote rural branches of commercial banks decades after they were opened following impromptu nationalization in 1969; the survival of so many regional rural banks (RRBs) despite years of losses, and the perpetuation of IRDP as an instrument of central government patronage long after it was launched in 1979 (Copestake, 1996).10 Slowly, however, what emerged was a realization of the depth of the role of informal lending and chronic indebtedness as part of a deeply exploitative grid of interlocked and monopolistic markets serving to reproduce high levels of inequality (Shah et al., 2007).

State sponsored credit can readily be viewed as part of a durable Indian well-being regime combining in different ways in each state with subsidies on electricity, food and fertilizer, public spending on infrastructure, and a plethora of nutrition and employment creation schemes. While neo-liberal commentators have mostly lamented the high cost, weak targeting and adverse incentives to innovation associated with the public credit component of this settlement, some of the more rigorous and longer-term studies have been more less sweeping in their assessment of its overall effects on poverty.11 Others have also highlighted the adverse effects of credit reduction after 1991, evident for example in the rise in money outstanding with moneylenders between the 1991 (48th) and 2002 (59th) rounds of the National Statistical Survey (Pillariseti, 2007:31).

A matter of ongoing controversy here is how far the economic reforms after 1991 succeeded in unraveling public sponsored rural finance as part of this regime. Pillarisetti (2007:28-30) points out that the number of rural bank branches, which peaked at 35,396 in 1993-94, still exceeded 30,000 in 2005-6; while the total number of loan accounts below Rs 25,000 fell from a peak of 63 million in 1991-2 to a trough of 37 million in 2003-4 before beginning to rise again. Such statistics do not reveal the average throughput of resources per branch and per account. And other commentators are more thorough in their review of how reforms instituted after the Narisimham Committee report of 1991 went about dismantling mechanisms for channeling credit to priority sectors and backward regions (Ramachandran and Swaminathan, 2005; Shah et al., 2007). While accepting that the reforms were in part legitimized by the scale of corruption and waste associated with some regions and programmes (particularly IRDP in the North and East) they argue that they also reflected a political swing

10 IRDP was rebranded as SGSY in 1999. This subsequently became a major source of funding for the SBLP. Despite chronic weaknesses, the short-term cooperative credit system still had 127 million members in 2005, including 45 million who received loans (GOI, 2009:73).

away from rural and agricultural interests in favour of growing middle class urban interests.

If so, then the Victory of the United Progressive Alliance in May 2004 can be interpreted as a popular reaction against a thirteen year swing towards a market-led model of development. Since then there has been significant reaffirmation of the importance of both rural finance and public investment in rural infrastructure as part of a well-being regime focused on achieving social inclusion through a combination of increased democratic participation and “inclusive growth” (Thorat, 2008). For example, the Rangajaran report of the Committee on Financial Inclusion (GOI, 2008:42-44) sets a target of providing “comprehensive financial services” by 2012 to 50 percent of the 65 million cultivator and 47 million non-cultivator households identified by an NSSO study as lacking access to formal financial services in 2003.

An important link from pre-1991 to current credit policy has been the growth of the Self-Help Group (SHG) movement. This emerged during the 1980s, particularly in the Southern States and through the social intermediation of rural development oriented NGOs (Fisher, et al. 2002). The role of SHGs as intermediaries between individual clients - mostly women - and the banking system accelerated particularly after NABARD launched the National Self-Help Group Bank Linkage Program (SBLP) in 1992. In April 2001, 285,000 self-help groups (SHGs) had taken loans from Indian commercial banks, regional rural banks and cooperative banks through NABARD’s self-help group-bank linkage program (SBLP). With an estimated average of 17 members per group, it could thereby claim to reach approximately 4.5 million people (Fisher, et al. 2002). By 2009, in contrast the number of people accessing formal credit and savings through SBLP had increased tenfold to 63.6 million, through 3.47 million SHGs (Sa-Dhan, 2009:2; Srinivasan, 2008).

The SBLP approach has been praised for its ability to increase outreach and encourage significant savings, and described as India’s dominant mode of microfinance (Basu 2006). Financial and technical support has not only been routed via banks under the SBLP but also through a rapid expansion in the number and size of specialized microfinance institutions (MFIs). The 233 MFIs reporting to the sector’s leading umbrella organization, Sa-Dhan, reached 22.6 million clients independently of SBLP, with 62% of this outreach being accounted for by for-profit MFIs (Sa-Dhan, 2009:ii).

Rapid growth of lending through SHGs and MFIs has also generated a new set of challenges and concerns (Basu 2006; Sa-Dahn 2009; Srinivasan 2008). NGOs operating as SHG promoting institutions overstretched their management systems, and a new wave of more opportunistic organisations with

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12 In addition to the SBLP programme, discussed below, Thorat (2008:5) identifies the establishment of NABARD’s Rural Infrastructure Development Fund and the Small Industries Development Bank of India (SIDBI) as initiatives taken in the 1990s to maintain the flow of development finance to Priority Sectors.

13 Agreement on precise definitions of financial exclusion and realistic targets for comprehensive coverage with respect to individuals as well as households remains lacking. The Financial Access Initiative (2009), for example, draws on World Bank data compiled by Honohan to suggest India had achieved 48% coverage of households in use of financial services by 2008.
weaker management and governance also began to engage in SHG promotion. Competition amongst microfinance organizations also increased, and in some areas this has resulted in multiple borrowing and over-indebtedness. In 2006, microfinance organizations in Andhra Pradesh were accused by politicians and the media of charging usurious interest rates and of unethical debt collection techniques that contributed to a wave of suicides among indebted farmers. This eventually led to debt forgiveness benefitting nearly 40 million farmers – a political response that signaled regime continuity between the SHG model as a modality of rural finance and many of the credit initiatives that preceded it. Evaluations of MFIs and SBLP have been broadly positive about its economic impact on the households of clients (e.g. GOI, 2009:78,124-8).14 At the same time Garikipatti (200) argues strongly that the switch to directing credit towards women has not been associated with a general improvement in their status within households. This reinforces a position that state support for rural finance has been more supportive of regime stability than of major regime change: the pre-1991 swing to populism and the post-1991 liberal reforms testing its limits in each direction.

To sum up, state support for rural finance has been a significant and resilient component of India’s well-being regime for fifty years, despite perennial changes in credit disbursement modalities and a sustained attempt to curtail

14 The diverse well-being outcomes of microfinance remain a central research question. NABARD and donor-commissioned studies include those carried out by Swain & Varghese 2009, Swain & Wallentin 2009, Puhazhendi & Satyasai 2001, Puhazhendi and Badatya 2002, and Deininger and Liu 2009. These generally report some positive economic impact, but rarely sufficient to have a major impact on poverty. This is consistent with evidence that few loans are used to set up new businesses (Gadenne & Vasudevan 2007; Kalpana 2008; Sa-Dhan, 2009), with loans being used as frequently as working capital in existing household enterprises, to purchase livestock or to manage consumption flows. Limited impact is variously associated with the small size of loans, lack of business opportunities and failure to complement microcredit with complementary inputs such as education, training and business development services (Fisher et al., 2002). Greeley and Kabeer (Chapters 2, 3 and 4 in Copestake et al., 2005) find poverty outreach of selected Indian NGOs supporting SHGs is better than poverty oriented MFIs elsewhere in the world, and report modest positive impact across a range of indicators. Most studies do find positive cognitive and attitudinal effects, including increased reported self-confidence, self-esteem and ability to deal with problems (Puhazhendi & Badatya 2002b; Moyle et al. 2006; A. Sinha 2008; Fisher et al. 2002). However, evidence of significant and tangible positive effects on women’s decision-making power, control over assets and participation in extra-household networks is less pronounced than on the indicators of self-worth or self-esteem (Garikipati 2008; Banerjee et al. 2009; F. Sinha 2006; Puhazhendi & Badatya 2002a). Studies generally indicate that SHGs supported and linked to banks by NGOs perform better (in terms of targeting, social and economic impact, and repayment rates) than SHGs linked directly to banks or by governments to banks (Swain & Varghese 2009b; Puhazhendi & Satyasai 2001). Government linked SHGs tend to perform the worst (A. Sinha 2008). Most of these impact studies rely on quasi-experimental designs, comparing new and mature clients or comparing client conditions pre- and post-SHG participation (generally using recall for the pre-SHG participation data) and report positive but modest economic benefits. But the first studies of microfinance based on randomized controlled trials are also becoming available. For example, Banerjee et al., (2009) report on a study randomized across urban slums in Hyderabad that fails to find significant poverty reduction effects after an 18 month period. However, the study does find some positive impact on business investment.
between 1991 and 2004. In the twenty years to 2007 absolute rural poverty (as measured by the headcount ratio) fell by on average more than half of one percent per year (Pillarisetti, 2007:22). However, estimating the well-being outcome of India’s fluctuating commitment to state provision of microfinance is extremely difficult. Shah et al. (2007) suggest that the scale of the commitment may indeed be seen with hindsight to have been modest and temporary against the backdrop of a century of chronic agrarian indebtedness, while Harris-White reminds us “the commercial money-lending firm remains key to the cycle of production” (2008:550).

The resilience of India’s well-being regime could be further elaborated by a more detailed investigation not only of changes in the institutional matrix, welfare outcomes and reproduction consequences but of the political processes regulating system change. Mooij (2007) points in this direction by noting (in relation to education and food policy) a persistent need on the one hand for central government to assert the importance of progressive social policies, and its control over them, while on the other hand lacking commitment to combating local subversion of their implementation at state level and below. A plethora of development programmes framed in the language of universal citizenship are distorted “…beyond all recognition in implementation such that although practical outcomes vary according to local balance of social and political forces, they tend to reinforce unequal citizenship.” (Harris-White et al., 2009:3). However, to the extent that financial and other forms of liberalization increase income polarization (by region, caste, class, ethnicity, gender) so the centre is constrained to retain its fiat on compromised mechanisms for disbursing regional patronage as a means to the reproduction of national unity.

3. Some drivers of change in the role of microfinance in India
Having provided a very rough sketch of how microfinance in India fits into a well-being regime analysis this section asks how this role may be affected by three largely exogenous changes in regime conditioning factors. These are (a) rising popular aspirations and political responses to them; (b) food insecurity and climate change; (c) organizational implications of new information, communication and financial technologies.

Politics and aspirations
Rural finance in India cannot be viewed in isolation from the unfolding social revolution initiated by the introduction of universal suffrage more than sixty years ago and reinforced by the 1992 constitutional amendment (ratified in 2001) in favour of political decentralization to panchayat institutions. Rao (2009) describes the delegation of decision-making power over public funds to more than one million village panchayats as the largest ever experiment in deliberative democracy in global history, emphasizing that notwithstanding their flaws the electoral processes thereby instituted cannot be dismissed as entirely scripted in advance by locally or externally dominant groups. Immediate wellbeing outcomes in terms of voice, dignity and influence are, he emphasizes, less important than expanded reproduction possibilities in terms of rising political and material
aspirations. This suggests a huge need for institutional mechanisms through which local, state-level and national politicians can respond and be seen to do so. While inevitable distortions and compromises in implementation reduce well-being outcomes, the political purpose is nevertheless served if these aspects provide grist for the mill of local and regional political struggle. With respect to microfinance policy, this constitutes the demand side dynamic to match the supply-side proposals on financial inclusion in the Rangarajan report. At the same time anti-developmental, sectarian and Naxalite movements will continue to thrive on aspiration gaps arising from a failure to improve equality of access to financial and other services arising from clientelism and corruption.

This brief discussion suggests two sets of research questions. The first is to explore positive engagement in the form of direct linkages between financial services and the effectiveness of panchayats within the institutional matrix. Kabeer (in Copestake, 2005) provides one example of this in reviewing the links between SHG membership, social identity and active citizenship. At a more tangible level, SHGs and their federations offer means to increase the density of social networks, communication and transparency (institutionalizing suspicion as well as trust) that is critical to deliberative democratic processes. A second line of research would look at the relationship between MFIs, rural finance and Naxalite activities. While there is ample ethnographic and macro political analysis of the Naxalite movement, much less research has been done on how it affects and is affected by variation in the way social and development policies are implemented in areas under its influence or control.

More generally, the growing literature on aspirations and poverty, particularly in the face of increased socio-economic flux and complexity reinforces the case for researching the diverse mental models that inform how individuals frame and respond to new livelihood opportunities. Research in Mexico illustrates how physical access to microfinance is often less of a constraint to its uptake than socially-embedded attitudes to saving and borrowing (Nino-Zarazua & Copestake, 2008). Understanding this is important to effective product development and marketing of MFIs, especially in increasingly saturated markets. Stronger NGOs and MFIs are also in a position to act as catalysts for changing the individual and shared mental models of their potential clients (e.g. Narendranath, 2005).

Food insecurity and climate change
The core subject here is the matrix of institutions enabling and undermining the efforts of farmers to insure against drought, flood, disease and death, as well as to finance seasonal and idiosyncratic fluctuations in income relative to expenditure needs. With respect to India’s rainfed areas Harriss-White (2008) highlights a problem of the decreasing market viability of small scale production, a trend likely to be only partly offset by opportunities for rediversification linked to growth in urban incomes. Rising world food prices may benefit larger farmers but will exacerbate poverty among the majority of rural inhabitants who are net purchasers’ of food over the year. Meanwhile rising water scarcity and extraction costs will induce further changes in cropping patterns and technology, and are
also likely to accentuate land consolidation and hence force a more rapid flight to urban areas and even fiercer struggles to diversify into legal and illegal non-farm income sources. One issue here is how to avoid livelihood support mechanisms that delay migration and other diverse forms of adaptation: microfinance at least offers only temporary liquidity to enable individuals to respond in ways that suit their own situation, and this is constrained by limited debt-capacity. It may also be that cash transfers inter-linked with savings and credit are more flexible than food transfers linked to public works.

Microfinance will also need to be complemented with mechanisms to finance and manage collective infrastructure investments (for irrigation, erosion control, flood defence, applied agronomic research and technology development) to mitigate the effect of uncertain weather patterns on agriculture. There may be nothing radically new about this, but the combined local effects of both global climate change and tightening of global food markets raises the magnitude of the problem to new levels. Federations of SHGs may have some role in facilitating collective responses, though relatively lack of involvement of men may be a limiting factor. More important, perhaps, it the need for more research into the effectiveness of other forms of development finance, such as the Rural Infrastructure Development Fund (Chandrasekhar & Ray, 2005:22).

A new and possibly growing issue is the role of rural finance in aiding India’s efforts to reduce its own contribution to climate change carbon equivalent emissions. These include mechanisms to finance renewable energy production in the form of biofuel, wood, biogas, solar and wind, with new and substantial possible sources of international finance under the Clean Development Mechanism, expanded REDD and related initiatives (World Bank, 2010:258). More radical but perhaps even more far-reaching is the possibility of new mechanisms for compensating farmers who are willing to reduce their carbon footprint, or to pay them to fix carbon through agro-forestry. This cannot be separated from the longstanding issue of the relative effectiveness of state, market and civil society solutions to management of commons, such as hill forest tracts (e.g. Baland et al., 2008).

Organizational uptake of new information, communication and financial technology.

As the scale of problems facing agriculture rise so will pressure for innovation to augment the organizational capacity to respond, and it seems likely that new information, communication technologies and linked financial innovation can greatly assist this. Such changes are already having profound effects on conventional banks through computerization of back-office activities and the extension of ATM networks. However, here I focus particularly on prospects for branchless banking, defined by CGAP (2009a:1) as “the delivery of financial services… using ICT and nonbank retail agents, for example, over card-based

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15 A study of long-term adaptation to declining water availability in the context of the highly unequal agrarian structure of Sindh Province in Pakistan found that a shift to lower water intensity crops and a fall in total area cultivated was associated with a marked fall in sharecropping and increasing reliance among the poorest on non-farm income sources (2009).
networks or with mobile phones.” The paper suggests that four factors are likely to affect branchless banking worldwide: the changing demographics of users, government regulation, crime and the spread of the internet through data enabled phones. It also suggests that responses will be highly dependent upon country specific factors including competition, the effect of temporary system failures, the evolution of viable business models and relations between regulators, MFIs and mobile network operators (MNOs). CGAP (2009b) draws attention to another potential driver of change which is the linkage between microfinance and innovation in the way governments make direct payments to poor people both as employees and as recipients of cash transfers, under the National Rural Employment Guarantee Scheme, for example.¹⁶ A key issue is whether new payment mechanisms can be interlinked into more flexible financial products and services, and their interim conclusion is that the costs of developing such systems suggest banks are unlikely to do so without prompting. A more far-reaching issue for India is how new modalities for paying poor people under all kinds of populist programmes will affect the messy local politics of patronage that they feed.

Building on pilot activities in the four Southern States, the Rangarajan Committee puts a lot of emphasis on expansion of the business correspondent model, setting the goal of there being a “BC touchpoint in all 600,000 villages of the country” (GOI, 2008:52-57). The prime objective here is to facilitate cash payments and withdrawals through a wider network of potential transaction points, and there has been less discussion of what role correspondents might play in authorizing loans or manage insurance services. CGAP (2009:16) suggests margins for banks and MFIs from such services could quickly fall due to excess demand for reliable agents; this leads it to paint a future scenario where some MFIs concentrate instead on developing mobile based technology for flexibilising SHG transactions aimed at effectively turning SHG leaders into an additional cadre of agents. Experiences with mobile phones, simplified accounts and smart cards in Brazil, South Africa, Malawi, Kenya and elsewhere suggest an even wider array of possibilities. A key driver of the likely cost of all these approaches will be the effectiveness of central government to develop a Unique Identification Protocol on the basis of which banks, MFIs, their agents and credit rating agencies can be sure individuals at points of transaction are who they say they are. Unlike the existing Kisan Card and similar means of identification these will rely on biometric data and so there will be no burden on individuals to carry anything.

4. Methodological issues
Long-running discussions over how best to assess the well-being outcomes of different sources of rural finance show no sign of abating, and this is an issue that will increasingly be extended to address environmental outcomes also. The central concern of the economics literature on the topic is how to deliver quantitative estimates of impact that are as free as possible from selection bias.

¹⁶ Other countries are making the running in this area. But the paper does cite the use of an electronic pre-paid account accessed via a smartcard in Andha Pradesh (p.6).
The portfolio of econometric methods available to address this problem continues to expand, though often at a price in terms of complexity and research costs. The most promising development has been increased use of randomized control trials (CGAP, 2010; Duflo, 2006; Banerjee et al. 2009). RCTs offer an elegant solution to the selection bias problem, and the practical implications of the findings they generate can often be more easily interpreted than those produced by quasi-experimental impact assessment methods. However, discussion continues over the range of issues that they can be used to address, as well as their cost-effectiveness and external validity or generalizability (Copestake, Goldberg & Karlan, 2009; Ravallion, 2009; Rodrik, 2008). Both Rodrik (2008) and Deaton (2009) argue strongly that quantitative research should not be carried out solely for the purpose of impact assessment, but also to test and extent relevant theory so as to inform decisions over the role of rural finance in contexts that can never precisely replicate those that were subjected to research. Few researchers would disagree, nor with the potential benefits to complementing quantitative research with a range of qualitative methods focusing not only on client level impact but also the role particular financial product play within wider systems of finance, rural livelihood reproduction and the reproduction of the wider well-being regime within which they have evolved.

This discussion can be further developed by reviewing methodological options in relation to the three broad themes highlighted in the previous section. On the issue of aspirations and aspiration gaps, for example, future impact studies can usefully include indicators not only on outcomes but also on the goals and values of respondents in order contribute to understanding of the importance of internal preference constraints and mental models on use of financial services, particularly poor people. There is a danger here of too narrow an emphasis on econometric analysis of income aspirations and self-perception of poverty: rather than incorporating indicators, methods and insights that are well established in social psychology and political science. Survey data also needs to be combined with more open-ended research into the reproduction consequences of such well-being outcomes, including collective action, political mobilization and linked policy responses.

Table 1 contrasts policy-specific or instrument-oriented with more open ended research into this, and the other two issues discussed in the previous section. Both narrow and broad research agendas are important, as is synthesis and cross-fertilization between them. To the extent that the narrower agenda is more closely linked to predetermined and quantifiable questions then the distinction does reflect an epistemological division of labour between mainstream economics and broader social science, including development studies. However,

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17 For example, Berhane (2009) uses multiple observation panel data to correct for individual trend (as well as time invariant) unobservable characteristics, such as how individual entrepreneurial flair is affected over time through borrowing. He also takes advantage of having four sets of observations to investigate variation in impact according to timing of credit uptake, comparing recipients with forward looking sequential counterfactuals.

18 See, for example, Yamamoto (2009) on use of principal component analysis and structural equation modeling to analyze aspiration gaps relative to an array of locally determined goals.
this association is not and should not be perfect: qualitative research is important to the framing of the narrower agenda, and statistical analysis is important to the broader agenda.

Table 1. Narrower and broader responses to selected research priorities

<table>
<thead>
<tr>
<th>Topic</th>
<th>NARROW</th>
<th>BROADER</th>
</tr>
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<tbody>
<tr>
<td>Popular aspirations and political responses</td>
<td>Incorporate a wider range of aspiration variables into microfinance impact assessment.</td>
<td>How (if at all) does access to finance feature in research into dynamic processes of social mobilization and policy responses. How far do mental models of microfinance among different stakeholders connect?</td>
</tr>
<tr>
<td>Food insecurity and climate change</td>
<td>Standard farming systems research into adoption and effects of policies and programs to promote increased output and greater food security (e.g. weather insurance). Appraisal and evaluation of new climate change mitigation instruments, including enforcement and validation methods.</td>
<td>Individual, household and community level livelihood coping, diversification, and migration strategies, with an emphasis on changing resource or extended asset portfolio management. How does access to finance affect this for different socio-economic groups?</td>
</tr>
<tr>
<td>Organizational responses to technological change</td>
<td>Evaluation of supply-side financial effects of product and process innovation (e.g. branchless banking), and impact assessment of their effects on client outreach and impact.</td>
<td>Changing landscapes of informal and formal finance, including cultural and sociological ramifications of new ICT on state/bank interactions and personal financial management practices of poor people.</td>
</tr>
</tbody>
</table>

Lurking behind these research questions and indeed much of what is written about rural finance is the more fundamental about the tension between structure and agency. Most areas of development practice have incorporated (or been incorporated into) the rather Utopian so-called “new public management” discourse of precise and rational implementation of strategies for achieving clear and measurable goals. This discourse has virtually achieved hegemonic status within Western donor circles (under the unifying banner of the Millenium Development Goals). But it has also elicited a strong dissenting academic literature for whom a technocratic conceptualisation of globalised public management has strong post-colonial characteristics, because they are incompatible with a more political notion of development as self-actualisation of the victimized and marginalized supposed beneficiaries of development activities. Gulrajani (2009) suggests that this polarization of debate over the nature of development management can perhaps be resolved by developing Barbara Townley’s idea of “romantic practice” in management as a foil to the excesses of managerialist thinking. Such a tradition places complexity, uncertainty and diversity of interests at the centre of development, along with deliberative but unavoidably messy political processes of framing and instituting actions that may not ever be able to reconcile all differences, but at least recognizes and responds to them.
This theoretical debate is directly relevant to microfinance as an arena of contestation between often conflicting ideologies or “shared mental models” of development (Gravesteijn & Copestake, 2010). I have previously suggested that a strength of microfinance as development practice is the clarity with which it has been possible to frame organizational strategies for achieving financial sustainability, thereby clarifying the task of managing a phased movement from organizational dependence to self-reliance (Copestake, 2004). But I have also argued that pursuit of this financial autonomy for its own sake (or its reification as a necessary and sufficient indicator of progress) risks a hegemony of means over ultimate ends that is anathema to a broader vision of development as individual or collective empowerment and self-discovery. This highlights the importance to microfinance of explicit social goals as a foil to financial performance within the culture of developmental states as well as MFIs (Copestake, 2007). The methodological implication of this is clear: to focus too narrowly on policy-driven impact assessment is to risk being co-opted into narrow ideological visions of what microfinance should be and could be about.

This paper has pushed towards a further exploration of microfinance as one component of a country’s evolving well-being regime. In contrast, to focus on outreach and allocative efficiency of the financial sector as a self-contained component of the countries’ institutional matrix would be to mistake development means for ends. It would also fall into the trap (highlighted in the Introduction) of assuming the historical-institutional preconditions for pursuit a pluralist liberal orthodoxy are in place. Instead, I have emphasized the importance of research into the role that development finance plays in relation both the wider challenges of food insecurity, climate change, and rising political aspirations. The well-being regime framework can assist in guarding against research into microfinance proceeding too narrowly can. It is also located firmly within the broad and policy relevant (but not policy driven) interdisciplinary tradition of development studies. To put the point another way, production and use of research into microfinance is framed in many different ways, and the effect of highlighting some issues and thereby excluding others can have a profound effect on policy. It is a matter of professional ethics for researchers to try to be explicit about this. Development studies has a particularly important role to play in this regard, because it is the field of academic study that most explicitly seeks to locate specific problems and policy issues within a globally integrated and interconnected understanding of the historical process of production of well-being.

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