

Impact case study (REF3b)

<p>Institution: University of Central Lancashire</p>
<p>Unit of Assessment: UOA 19 Business & Management Studies</p>
<p>Title of case study: Global Microfinance: Fighting against poverty in developing countries</p>
<p>1. Summary of the impact (indicative maximum 100 words)</p> <p>This case study refers to the work of Professor Thankom Arun of the Institute of Global Finance and Development (IGFD) at UCLan, who has been working very closely with Microfinance Institutions (MFIs) and international development agencies to understand and tackle the critical issue of finance in the development process. The ingenuity and originality of this type of research has had a profound impact on national and international policy debates, challenging and disproving misunderstandings about the inability of the poor to engage effectively with financial services provision, such as savings and insurance. The research has had a significant direct impact on the functioning of microfinance institutions at the local and grassroots level and on the delivery of financial services to some of the most vulnerable communities around the world.</p>
<p>2. Underpinning research (indicative maximum 500 words)</p> <p>The research is built on the assumption that poor households are detrimentally affected by limited access to, and an inadequate provision of, financial services. Professor Arun's research provides a valuable contribution to the evidence base of this area of research, incorporating as it does detailed knowledge of the issues involved on the usage of loans, risk management, asset accumulation, access and use of financial services, and the regulation of MFIs.</p> <p>The research on rural households in India (2010a) demonstrates the importance of the role of clients' intended use of loans in determining outcomes. This study points out the need for developing a consistent framework to monitor the usage of loans, with adequate flexibility to capture different levels of household participation. In Sri Lanka, Professor Arun's research (2010b; 2012a) has established the significance of the role that micro insurance plays as a preventive risk-coping strategy, reducing the vulnerabilities of low-income populations. Even though the poor have high incentives to secure against future shocks, their ability and willingness to participate in micro-financial services such as insurance increases with rising self-awareness of risk. Further to this, we have noted the importance of a household's experience of shock and its impact in prioritising and sequencing the type, number and the combination of assets (2013). This finding from India has contributed to the debates on asset accumulation strategies and the debates on appropriate public policies for minimising the incidence of shocks, ultimately improving household's livelihood choices. In South Africa (2012 b, c), our research demonstrates that values, perceptions and attitudes affect demand for financial products. However, the relative importance of prior perceptions and attitudes diminishes and ultimately disappears as one moves up the financial ladder.</p> <p>Arguably, different types of micro interventions provide social protection for the low-income populations by enhancing access to finance, creating assets and helping to prevent slipping into poverty traps (2010c). However, the arguments for regulation in the microfinance sector seem appropriate when consideration is given to the level of uncertainties to which clients are exposed, such as complex procedures and high operating costs. Our research (2010c) in Africa found that the performance of MFIs depends largely on the regulatory environment, which affects the fabric of social protection, mainly through its effectiveness and outreach. Professor Arun's research (2010c)</p>

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recommends the development of regulations within the context of a broader social protection framework, developed in close partnership with microfinance institutions.

Over the period in which the research was undertaken, Professor Arun's work mapped out a future agenda for improving microfinance institutions, based on an institutional design that incorporates the varying and diverse requirements of the poor for meeting their complex livelihood needs.

The underpinning research was developed across a number of publications and research funding strands from the European Union, British Academy, British Council and ESRC. The research was also supported by a Visiting Professorship at the University of Rome, La Sapienza (2008), Honorary Senior Fellowship at the University of Manchester (2007-to date) and a Research Fellow position at IZA, Bonn (2010-to date).

3. References to the research (indicative maximum of six references)

Publications

T. Arun, (2010 a) "Microfinance and Household Poverty Reduction: New evidence from India," (with K.Imai and S.Annim) *World Development*, 38(12), pp.1760-74.

T. Arun, (2010 b) "Risk Management Among the Poor: The Case of Micro financial Services" (with M.Bending), *Journal of Economic Development*, 36(4), pp.97-126.

T. Arun, (2010 c) "Microfinance regulation and Social protection" (with V.Murinde), Background paper to the *European Report on Development 2010*, European University Institute, Florence.
<http://erd.eui.eu/media/BackgroundPapers/Arun-Murinde.pdf>

T. Arun, (2012 a) "Bequest Motives and Determinants of Micro Life Insurance in Sri Lanka" (with M.Bending and S.Arun), *World Development*, 40 (8), pp.1700-11.

T. Arun, (2012 b) "Determinants of Access to Finance: An Investigation into the Mzansi Intervention" (with P. Kostov and S.Annim), *The European Journal of Development Research*, 24 (3). pp. 397-412.

T. Arun, (2012 c) "Effect of Perceptions and Behaviour on Access to and Use of Financial Service: Evidence from South Africa" (with S.Annim and P. Kostov), *IZA DP No. 7042*; pp.1-31.

T. Arun, (2013) "Overcoming Household Shocks: Do Asset-Accumulation Strategies Matter?" (with S. Arun and S. Annim), *Review of Social Economy*, 71(3), pp. 281-305.

4. Details of the impact (indicative maximum 750 words)

In many developing countries, less than half of the population has access to formal financial markets (World Bank, 2008). The programme of research has addressed this concern, and has made significant contributions to understanding the impact of financial innovations (such as microfinance and microinsurance) on low-income households. Following this, we have researched the nature of regulation among microfinance institutions, examining how regulation contributes to intended impacts.

Professor Arun's research asserted the positive contribution of microfinancial services among households through extensive data-based analyses in various countries. The study in India (2010a), based on a nation-wide sample, addressed the impact of microfinancial services on household poverty, utilizing an Index Based Ranking (IBR) method, which correctly captures the multidimensional aspects of poverty. The study established the poverty-reducing effects of access to microfinance and loans used for productive purposes. We have found evidence (2010b, 2012a)

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in Sri Lanka that microinsurance has provided greater opportunities for the diversification of financial-risk exposure for the poor and enhanced their capabilities in financial management. Based on a household survey, supported by British Academy, this research found that the probability of taking up financial services increased with rising household perception of risk. The ESRC research project in South Africa employed a combination of models and variable selection methods to reveal the effect of financial perceptions and behaviour on access to, and use of, different types of financial services. The findings reveal a robust relationship between financial perception and behaviour on (a) access to and use of general accounts and services, and (b) access to and use of insurance/assurance products. Our research has enabled us to generate significant impact at two levels – (1) impacts on practitioners and services (2) impacts on international development and public policy debates.

(1) Impacts on practitioners and services

As part of a DeLPHE project financed by The British Council, we collaborated with Yaalex Microfinance Limited in Ghana (<http://www.yaalexfinance.com/joomla16>), one of the 'A' category organisations in the Ghana Association of Microfinance Companies (GAMC) Ratings; The research examined the risk-coping mechanisms adopted by women entrepreneurs. Our research and training collaborations have impacted on Yaalex as an organisation, contributing to the expansion of the business and the development of enhanced professional standards and training. Yaalex clients have been enabled to take better financial decisions (Contact 3) with demonstrable benefits in the areas of education and health. Our involvement with Yaalex has facilitated the diffusion of research knowledge and current best-practice throughout both the company and microfinance institutions within this region of Ghana.

(2) Impacts on international development and public policy debates

Our research evidence has stimulated policy debates and international agencies have been influenced by our research. We have been invited by the European Commission to contribute a background chapter on "Microfinance and Social Protection" for the European Report on Development (Source <http://erd.eui.eu/media/BackgroundPapers/Arun-Murinde.pdf>). We have argued for sector-specific regulations in the microfinance sector, to enable the distinctiveness of this sector to be captured. We have advocated for the enhanced mobilization of savings and for developing linkages with the formal sector. These findings have featured in the report (4;5).

Arun has been invited to provide evidence to the All-Party Parliamentary Group (APPG) on the impact of Microfinance as one of the three academic expert members (Sources 1 and 3). The evidence has contributed to the APPG report "Helping or hurting: What role for microfinance in the fight against poverty?" (<http://appg-microfinance.org/inquiry.php>,2; Contact 1 and 2). The report acknowledged Arun's contribution and referenced Arun's work (2010c). The report set out to generate greater interest and understanding amongst the legislature and there is evidence to confirm that this has been the case (<http://appg-microfinance.org/parliament.php>, part of 2; Contact 1 and 2). The microfinance related parliamentary questions have nearly doubled since 2011, compared to 2007-11 period as per the data available in the website.

Further to this, Arun has been invited by Dr. Duncan Green, strategic adviser for Oxfam GB, to reply to Dr. Milford Bateman's criticism on the impact of microfinance in the very popular blog 'From Poverty to Power'. Arun's critical engagement on this issue argues that the "one size fits all"

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strategy does not work in relation to microfinance and that concepts of microfinance need to be flexible and incorporate enhanced understandings of the diverse needs of the poor. (<http://www.oxfamblogs.org/fp2p/?tag=microfinance> ;3).

5. Sources to corroborate the impact (indicative maximum of 10 references)

1. <http://www.theguardian.com/global-development/poverty-matters/2011/jun/10/microfinance-friend-or-foe> - Guardian article, 10th June 2011
2. APPG enquiry with further details: website <http://appg-microfinance.org/inquiry.php>
3. Oxfam blog on "From Poverty to Power" - <http://www.oxfamblogs.org/fp2p/?tag=microfinance>
4. European Report on Development - http://ec.europa.eu/europeaid/how/public-consultations/documents/erd_2010_social_protection_for_inclusive_development_en.pdf
5. Microfinance Regulation and Social Protection - <http://erd.eui.eu/media/BackgroundPapers/Arun-Murinde.pdf>

CONTACT 1 Mr. Aaron Oxley, Executive Director, RESULTS UK.

CONTACT 2 Annette Brook MP, Chair APPG on Microfinance, House of Parliament

CONTACT 3 Mr. Alex K. Dadzie, Managing Director, Yaalex Microfinance Limited