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The All-Party Parliamentary Group on Microfinance

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Questions:

- a) Of all the various products and interventions that fall under the broad heading of 'microfinance', can you be specific about which of these you will focus on in regard of the remaining questions and provide a brief definition of the same?

I think the major challenge the microfinance program is: whether the credit provided to borrowers is large enough to bring any noticeable change to their lives. I think increasing attention should be put into giving them larger credit along with focused skill development in order to enable them to use their loan for more productive purpose. My research, using a large sample survey dataset from Bangladesh, shows that not all borrowers of microfinance are benefitted by the program (see Islam 2011). Only those staying for longer period to get larger loan size are benefitted. The main focus on microfinance should be providing credit. However, the loans should be extended to agricultural purposes. The gestation period between loan disbursement and the first instalment should be extended from the current 2-4 week period to at least 12 weeks (depending on the type of investment and loan).

- b) How important do you think microfinance is for achieving the Millennium Development Goals and eradicating extreme poverty in the developing world?

We are yet to know for sure whether microfinance can help poor in moving them out of poverty. The empirical evidence is not clear cut. Existing empirical studies find conflicting results (see, for example, Dean Karlan (2008, 2010) papers, Banerjee and Duflo's 2009, and Islam 2008). There is some anecdotal evidence that a lot of the borrowers got worse-off. There are also signs of uneasiness with the government about how microfinance sector is performing. I guess microfinance needs to address this challenge - to minimize the number of people getting worse off. The sector is to reach the very hardcore poor, perhaps with the assumption that they are not loanable. Therefore, the challenge remains for microfinance to show that it is helping to achieve the poverty.

However, I have less doubt about the non-credit aspect of microfinance and its impact on education, health, social awareness, and empowerment. These programs are not similar across different microfinance institutions (MFIs). Hence, we need to find the best case scenario and try to implement it in a wider scale.

- c) Should the reduction of poverty be the primary goal of *all* microfinance programmes?

I think the primary goal of microfinance should be to reduce poverty, not just earning profit. Commercialisation of microfinance should not be allowed as that would only enhance the competition among the microfinance institutions and resulting higher interest rate. There are now ample evidence of expanding microfinance clients by just many profit-seeking microfinance institutions, and also expanding rapidly. While I do not see expansion of clients as a problem per se, however, that must be achieved keeping its objective of poverty alleviation.

- d) How can we measure whether microfinance reduces poverty?

We need more evidence based on large survey datasets from developing country. Recently, academic interests tend to focused mainly conducting field/lab experiment and looking at whether particular aspect of program works. My experience working with clients and conducting various surveys indicate that field experiment might not give us better answer beyond of what we know now. There is no harm doing field experiment as a part of research, but expanding such programs to a wider scale based on results of a field experiment might not produce the intended results. In fact, this is less likely to give us the answer “what would happen if we expand the program”. The external validity of the field experiment is an important question, and I wish to see more emphasis on large survey datasets based on actual programs. It is also important for researchers themselves to visit fields to get the feeling of what is actually happening. Relying on hard facts is good, but they need to understand the ground reality. Most academics hardly do these days.

- e) What factors make microfinance successful in alleviating poverty?

Make microfinance free from commercialization. We should not allow the institutions like SKS in India, Compartamos of Mexico to operate in the name of microfinance. The government should have active but helpful role in getting rid of these types of microfinance institutions while supporting those with good intentions of alleviating poverty. The donors need to make a balance- to ensure that intervention to not disturb the progress of the institutions operating for poverty reduction.

- f) Is microfinance still valuable even if it doesn't reduce poverty directly (or if causality can't be proved)?

Apart from poverty alleviation, microfinance generates a lot of employment and hence can be a tool for fighting unemployment. However, they should not come at the expense of poor borrowers. We must make all efforts that microfinance meets its main objective: to reduce poverty.

- g) Should we be concerned about the financial sustainability of microfinance models? Is achieving financial sustainability compatible with the social goal of alleviating poverty?

I think financial sustainability can be achieved without compromising the social goal of alleviating poverty. There are many good examples in the world (like Grameen Bank, BRAC) where they have shown how to attain both.

- h) Which groups should or should not be targeted by microfinance programmes and why? (For example: the economically active poor, the poorest, etc).

Obviously, the poor should be the target of microfinance movements. The access to microfinance by non-poor should be restricted. Otherwise high demand for microfinance would drive up interest, and invite profit-seeking entrepreneurs to take advantage of it in the name of microfinance.

- i) How can governments and donors contribute to the poverty reducing capabilities of microfinance programmes?

I think the government and donor should attach the condition that all major new projects need to be tested and be evaluated before it goes for a larger scale. The existing evaluation by the MFIs is not adequate and they need to be evaluated by proper methodology. The academics involvement can be an important part of it.

- j) What form should the UK's support for microfinance take; how should the effectiveness of UK interventions be measured?

The support should come in all forms, proving fund to disburse credit. UK can also help academics to identify projects before being funded and be evaluated once the project is implemented. The future release of funds should be attached to the strict evaluation method. The existing evaluation practice by ost of the microfinance institutions is not scientific enough to give us a credible result.

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