

Microfinance and Governance

PhD Program- Amrita School of Business

Amrita Vishwa Vidyapeetham/University

Objective of the Course:

Microfinance is the practice of providing financial services (mainly credit) to the people with low income levels with the objective of improving their economic well-being. Though the jury is still not out on whether this is the universal solution to improve their well being, there are large positive impacts of participation in microfinance observed from various parts of the world. Hence it is attracting a lot of attention of late, from academicians, development agencies, thinkers and practitioners across the world. The course is intended to provide knowledge on the theoretical overview of the practice of microfinance and the various issues and debates on its implementation and effectiveness. The course is expected to address skill sets for appraising, sanctioning, disbursing and collecting micro loans, with a right mix of concern for social welfare and institutional self sustainability. The course also aims at introducing the scholars to basic concepts of microfinance and sensitise them to various problems relating to information asymmetry, property rights and transaction costs by reading and understanding seminal works in the field and bringing in cases and applications from the real world.

Learning Goal:

Pedagogy will consist of discussions, review and assignments. Scholars are expected to read 20-30 pages of preparatory material and actively take part in discussions to extract maximum advantage out of the course.

1. Understanding theoretical premise of Microfinance in general.
2. Contextualisation of Microfinance theories in real world application in Strategic Business and Management Research.
3. To develop the written skills of critical review of literature in the areas of Microfinance.

Course Duration:

30 Hours

Evaluation

Review	25%
Seminar Presentation	25%
Final Term Paper*	50%

* Expectation from this paper is of similar quality expected in a standard peer reviewed journal in terms of structure and as far as possible in terms of content.

Course Outline

Module 1: Introduction to Microfinance and its relation to development

- Microfinance meaning and rationale (What is microfinance? Rationale of microfinance, Microfinance is a creation of alternative credit delivery mechanism for the poor.
- The concept of microfinance and pioneering efforts in India
- Current international practice
- Microcredit Summit and goals
- Role of women in microfinance
- Common assumptions and myths
- Guiding principles of microfinance.

Readings:

- Banerjee, A., E. Duflo, R. Glennerster, and C. Kinnan (2009). The Miracle of Microfinance? Evidence from a Randomized Evaluation. mimeo, MIT.
- Armendariz, B. and J. Murdoch (2005): *The Economics of Microfinance*. Cambridge, MA: MIT Press
- Daley-Harris, S. (2006). State of the MicroCredit Summit Campaign Report.
- Sahu, Gagan Bihari and Surjit Singh (2011): *Microfinance and Gender: Social and Economic Empowerment*, Centre for Microfinance Research, Bankers Institute of Rural Development, Lucknow, Institute of Development Studies, Jaipur
- The Hindu : BUSINESS : 'Banks must look at last mile in micro finance'-
http://www.thehindu.com/todays-paper/tp-business/article3603887.ece#.T_XAbt3VUI.email

Module 2: Methods and Implications of Microfinance Models in India and world

- Institutional structure of microfinance in India
- The concept of Self-Help Group (SHG), stages of growth, functioning, governance, quality, financial management etc.
- Implications of Clusters and Federations
- SHG bank linkage models
- Microfinance Institution Models
- GRAMEEN Models-The Grameen Bank, BancoSol, Bolivia, Bank Rakyat Indonesia, Compartamos, Mexico, Basix Hyderabad, Share Microfin etc
- Joint Liability Groups (JLG) and its implications
- Individual lending models
- Difference between different microfinance models, their merits and demerits
- Role of Banks, Cooperatives and RRBs in the provisioning of microfinance

Readings:

- Karlan, D. and J. Zinman (2009). Expanding Microenterprise Credit Access: Using Randomized Supply Decisions to Estimate the Impacts in Manila. Yale University, mimeo.

Module 3: Operationalising Microfinance

- The model would focus on providing and understanding about issues concerning operationalising microfinance interventions for a more meaningful and sustainable way.

- The need for and ways of understanding socio-economic context including poverty and deprivations, community characteristics, social customs and norms in the area of operations.
- Understanding demand and supply of financial services and their purposes? What is the nature and magnitude of such demand?
- Defining Target groups. How to identify them?
- Creating appropriate institutional mechanism for delivering microfinance. What are the agencies including formal and informal locally present? To what extent they can meet such needs of the poor?
- Given the local conditions/environment, which institutional structure or mechanism is more appropriate?
- Institutional constraints
- Legal regulatory constraints
- Microfinance Bill

Module 4: Sustaining Microfinance

- What is financial sustainability?
- Functioning within the market/structure
- Role of Wholesalers and Retailers
- Role of banking institutions, funders and donors
- Introduction to financial ratios, balance sheet, profit and loss
- Financial management and sustainability
- Cost of providing Microfinance
- Issues on Interest rate in microfinance

Module 5: Issues of financial inclusion

- What is financial inclusion?
- Rational of financial inclusion
- Target groups
- Mechanism of financial inclusion
- Role of banks in financial inclusion

Module 6: Delivering Microfinance Appropriately

- Formulation of a pro-poor strategy: Income and employment generation, livelihood strategies, undertaking microenterprises
- Formulation of a pro-poor women strategy: Understanding the lives of women, understanding the life-cycle needs of the poor in general and women in particular
- Repayment strategy, fixing of instalments, control and utilisation of loan

Module 7: Capacity Building versus Microfinance

- The need of capacity building
- Training to SHG members for financial management and undertaking Income generating activities
- Role of research and training

Module 8: Loan Delinquency

- What is loan delinquency?
- How to define default in “Microfinance”
- Calculating non-performing assets (NPA) in Microfinance
- Extent of NPA in SHG Bank linkage model/ Joint Liability lending
- Causes of non-repayment of loan by members and groups to Bank
- Future strategy

Module 9: Microfinance and Women’s Empowerment

- Defining empowerment
- Defining empowerment Versus Microfinance models

- Measuring women's empowerment
- Evidence from the latest literature
- Inferences and implications of such findings

Module 10: Microfinance and MIS

- Definition of management information system (MIS)
- Need and importance of MIS systems
- Designing MIS systems
- Credit rating, social audit and social performance management
- Monitoring and evaluation
- Poverty alleviation outcomes
- Development outcomes

Module 11: Governance and Microfinance Institutions

- What is governance issue in microfinance?
- Rationale of governance
- Implication of governance

Academic Misconduct:

Plagiarism is the use of another person's words without proper citation. Because the writer represents these words as his or her own, plagiarism is the academic equivalent of theft. Plagiarism will not be tolerated in the class or at University. In accordance with the University Code of Academic Misconduct, plagiarism in any form will result in an "F" for this course and possible expulsion from the University. If any doubt about the possibility of plagiarism in your work, meet the instructor before submitting it.

Text Book and References

1. The Economics of Microfinance (TEM), Beatriz Armendariz, Jonathan Morduch, Prentice – Hall of India
2. Microfinance Handbook (MH), Joanna Ledgerwood, World Bank
3. Indian Microfinance (IM), Prabhu Ghate, Sage Publications
4. Microfinance Sector Report-last 5 years, sage publication
5. Klein, G., Peter. 1999. New Institutional Economics
6. Kherallah, Mylène and Kirsten, Johann. June 2001. The New Institutional Economics: Applications For Agricultural Policy Research In Developing Countries
7. North, C., Douglass. Winter 1991. Institutions. *The Journal of Economic Perspectives*, Vol. 5, No. 1. (Winter, 1991), pp. 97-112.
8. North, C., Douglass. The New Institutional Economics and Development.
9. North, C., Douglass. Five Propositions About Institutional Change
10. North, C., Douglass. Institutions, Organizations and Market Competition
11. Coase, Ronald. May 1998. The New Institutional Economics. *The American Economic Review*, Vol. 88, No. 2, Papers and Proceedings of the Hundred and Tenth Annual Meeting of the American Economic Association (May, 1998), pp.72-74
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14. Shaw, M E. (1971). Group Dynamics: The Psychology of Small Group Behaviour, McGraw Hill, New York.
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Sushanta Mahapatra currently serves as Professor of Economics at Amrita School of Business (ASB), Kochi. He received his Ph.D degree in Economics from a premier Indian Council of Social Science Research Institute (ICSSR), Madras Institute of Development Studies (MIDS) through the University of Madras, Chennai. Prior to joining ASB, he has worked at Institute for Financial Management and Research (IFMR) and at JRD Tata Ecotechnology Centre, M.S. Swaminathan Research Foundation (MSSRF) Chennai. He has collaborated in research projects supported by organizations like ILO Geneva, CARE Foundation, Harvard School of Public Health, Rashtriya Swasthya Bima Yojna (RSBY), Sir Ratan Tata Trust (SRTT), Ministry of Rural Development, Human Resource Development of Govt of India, SBI and NABARD. He has worked as a Consultant to World Bank, Japan International Co-operation Agency (JICA). He has published his research ideas in Books, journals, edited volumes, conference proceedings and working papers in the areas of Development Studies, Agricultural Economics, Natural Resource Economics, climate change, sustainable development. Besides, he has presented several papers in International and National level seminars and acted as reviewer for several journals. He is the recipient of prestigious Malcolm Elizabeth Adiseshiah Doctoral Merit Fellowship from Madras Institute of Development Studies, Chennai. Recently he has received the prestigious European Commission Post-Doctoral Fellowship (PDF) Erasmus Mundus India4EU II Programme carried out at Department of Economics Science (DSE) University of Bologna, Italy.



Interest Areas of Teaching, Research and Consulting

His current teaching, research and consulting interests include in the areas of Economics, Finance, Environmental management, sustainable development & livelihood, development sector policy and action research, micro insurance, microfinance, natural resource management, Corporate Social Responsibility, quantitative and qualitative field research, Research Methodology.