

The crucial role of communities in microfinance intervention effectiveness

This brief, designed for the UNCDF, and based on the analysis of a case study, recommends that the promotion of microfinance focuses on key communities rather than influential individuals when targeting a given area.

Context of the study: With only 40 million dollars in core funding, the issue of resource allocation is crucial for the UNCDF, whose mission is to help develop the 47 poorest countries in the world. From 2006 to 2010, the Bharatha Swamukti Samsthe (BSS), a microfinance institution linked to the UNCDF, has deployed a microfinance program in 43 villages in South India. To this end, BSS selected several individuals that appeared to have influence in their respective village, based on their role, informed them about the program, and asked them to spread the word. In parallel, Banerjee et al. (1) gathered data on the social structure of each village, under the form of social contacts and household characteristics. We concluded from our study that in certain villages, introducing microfinance through communities rather than influential nodes could drastically improve the effectiveness of the operation.

Methodology : From the gathered data set, we first identified villages comprising strong associations of individuals who share the same attitude towards microfinance adoption. We then elaborated a propagation model particularly adapted to our case study and used it in those villages to compare the diffusion of microfinance when focusing on node importance or on communities.

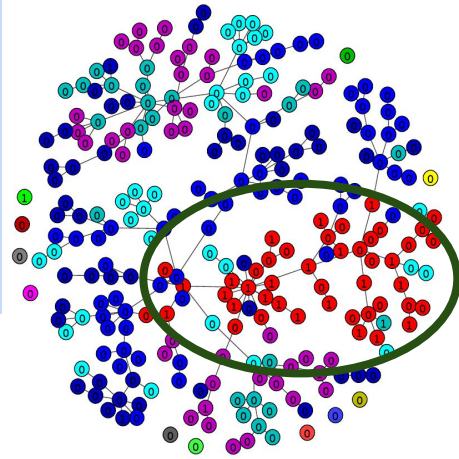


Fig. 1 Village where the communities align with microfinance adoption. Here, the red community contains many microfinance adopters denoted by 1.

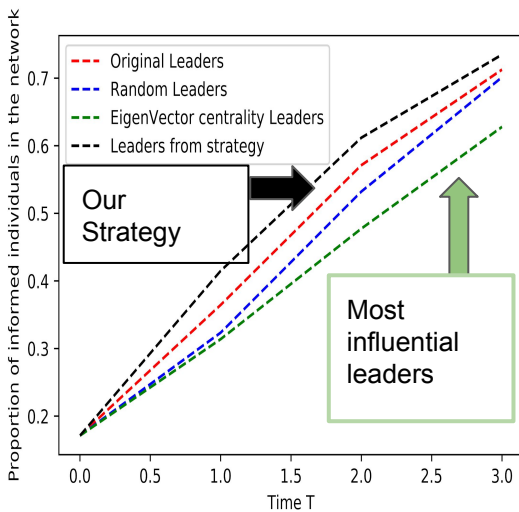


Fig. 2 Predicted adopters ratio for multiple strategies. The “leaders” are the initially informed individuals.

Implications : We prompt officials to orientate their preliminary studies, prior to introducing microfinance in a chosen area, on the identification of social structures, before seeking potential leaders on the different modules that are then considered independently.

Focusing on communities rather than individuals can save 30% of the operating expenses

Our simulations show that, when a village displays community structures, allocating efforts on the leaders of local communities rather than locally influential leaders can drastically improve microfinance adoption. In the other cases, our strategy is not less effective.

Reference: (1) Banerjee A, Chandrasekhar AG, Duflo E, Jackson MO (2013) The diffusion of microfinance. Science:341(6144):1236498.