

Rural microfinance and employment. Do processes matter?

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Abstract

1 Scientific background and objectives

The main objective of the proposal is to explore the linkages between rural finance and rural employment - including diversification and migration - with a view to contributing to the ongoing discussions and interventions in the fields of rural development and poverty and vulnerability reduction.

Microfinance services are expected to contribute to rural development and poverty/vulnerability reduction. Emergency loans, savings and micro-insurance are expected to mitigate vulnerability. Microcredit is expected to strengthen local rural employment (diversification, self-employment, wage labour). Remittances are expected to improve the conditions of migration. While microfinance has been given much attention and resources by policymakers and donors, there are still controversies about whether and under which conditions rural microfinance can hold its promises.

The project will be divided into two sub-projects:

- a. rural microfinance and rural employment:

The project addresses the following research questions: what is the impact of microfinance in terms of rural employment (positive or negative, and at distinct levels - individual/household, region) and more specifically (1) whether diversification (including migration) occurs at the local level, (2) whether it promotes, directly or indirectly, higher-return activities portfolios, (3) whether it leads to a more active labor market and to desirable shifts in the nature of labor contracts and wages, and (4) what are the overall effects in terms of vulnerability.

Our hypothesis is that beyond individual characteristics such as entrepreneurial capacity, attitude towards risk, or cultural and identity features, the processes will depend on the combination of two sets of factors: (1) an enabling environment, including infrastructure, opportunities of access to other input, output and service markets, but also a supportive social setting; and (2) the quality of financial services, broadly defined as their ability to meet the local demand.

b. Microfinance as a process : governance, appropriation and quality of services

Our project addresses the following research questions: what are the processes through which microfinance institutions and their clients address the issue of improving the quality of the financial services, broadly defined as their ability to meet the local demand? What are the conditions for raising the prospect for those processes to lead to improved quality of financial services?

Our first assumption is that the governance of microfinance institutions, both at the internal and external level, plays a key role in their capacity to steer those processes in order to provide quality financial services. Our second assumption is that clients also play a key role (formal as well as informal) in co-building the quality of financial services.

2. Description of the project, methodology

The proposal relies on comparative case studies conducted in three countries - India, Mexico and Madagascar – which exhibit both common and distinctive features regarding rural finance and rural employment issues. It builds on a sound bulk of previous work conducted by the members of the team in the three countries, and will allow for comprehensive gathering of original data, through collaborations with national research institutions and national microfinance practitioners.

From a methodological perspective, the proposal intends to overcome some common shortcomings of microfinance impact studies,

- by combining economic and anthropological approaches : This pluridisciplinary approach will be adopted from the onset, not only with the purpose to bring together complementary analyses of a common research object, but also with the purpose to jointly build a common analysis framework.
- by considering several levels of analysis : individuals/households, microfinance institutions, regions

3. Expected results

The project will lead to the following expected results:

- Production and dissemination of original empirical results through scientific publications
- A contribution to the revisiting of theoretical and development approaches and concepts (rural employment and vulnerability ; money, debt and finance ; governance, participation and social responsibility, etc.)
- A methodological feedback on the combination of economics and anthropology, the combination of qualitative and quantitative approaches, and the comparative perspective

- Operational outputs for microfinance practitioners in order to improve the quality of services
- A contribution to the public debate around microfinance and rural development.

Rural microfinance and employment. Do processes matter?

Description of the project

The context

Rural finance and rural employment: two challenges for rural development and poverty reduction

In most rural areas of developing countries, access to financial services is severely constrained. This is not due to a lack of needs. Rural households do have manifold needs, related to investment and productive opportunities, seasonal cash-flow managing, livelihood cycle planning, risk-coping, etc. This wide array of needs in turn calls for a wide range of services: credit, but also savings, money transfer and insurance. Alone or combined, those services are expected to contribute to rural development and poverty reduction. Conversely, access restriction to those services can hinder development processes.

Restrictions mostly come from the supply side. Supply restrictions can take many faces: outright absence of financial services facilities in rural areas, sectorial and/or social discrimination (typically against agricultural vs rural activities, smallholder producers, the poor, women, ethnic, religious or caste minorities), or inappropriateness of products and delivery processes to the needs of the targeted populations. In most countries public agricultural banks have either closed or considerably reduced their lending portfolios, and the private sector usually disregards the rural areas. The microfinance sector holds more promises, because of its explicit mission to target populations excluded from financial services, and because of its innovation capacity. But although the microfinance sector has achieved considerable outreach (up to 100 million people served around the world), it is still on average mostly concentrated in the urban sector¹. Massive and effective expansion into rural areas is made difficult by higher operational costs, more risky environments, and the need to adapt products.

Access restrictions can also derive from the demand side, for economic or cultural reasons, e.g. lack of appropriate collateral, fear of dealing with a formal financial institution, fear of the risk implied by taking a loan (overindebtedness, loss of productive assets to repay the loan, etc.).

Despite this gloomy picture, there are cases where microfinance has achieved significant outreach in rural areas, raising high expectations in terms of rural development and poverty reduction.

Rural development and poverty reduction are also commonly related to the issue of rural employment. Rural households livelihood strategies comprise several options, including farming and non-farm activities, local self-employment and wage employment, and migration. The availability of these options, along with their prospects as a pathway out of poverty, depend on a mix of economic and socio-cultural characteristics, at the individual and household level (including asset portfolio, human and social capital) and at the community and regional level (including social networks, labour institutions, agro-ecological potentials and limitations, infrastructure and market integration, and linkages with – as well as labour absorption capacity by - urban and/or international economies). Even though dynamics such as on farm and off farm diversification, and migration, are pervasive in rural areas, their scope and nature can vary greatly, and their effects can be double-sided. They can promote accumulation processes or simply translate poverty and vulnerability into other low-productive sectors and unfavourable

¹ India being an exception to the rule.

settings; they can foster social cohesion and cooperation or on the contrary unleash or reinforce gender or social inequities; at the territorial level, they can promote local development, or contribute to greater marginalization through natural and human resource depletion, etc.

Controversies and knowledge gaps

Microfinance has been given much attention and resources by policymakers and donors. Notwithstanding various awards and official recognitions (for instance, 2005 declared “year of microcredit” by the United Nations; in 2006, nobelization of Prof. Yunus and the Grameen Bank, a Bangladeshi microfinance organisation) microfinance is considered as a tool to achieve the Millennium Development goals, especially in terms of poverty eradication. A recent international conference hosted in March 2007 by the FAO² has reaffirmed the key role of microfinance for *rural development*. However, there are still controversies about whether and under which conditions rural microfinance can hold its promises. Along with success stories, ambivalent, insufficient or undesired outcomes have been documented in many cases. Apart from anecdotal evidence, there is still a lack of systematic, comprehensive and comparable impact studies from which to draw robust conclusions.

Part of it is due to methodological issues. Classical problems of impact studies include attribution and selection biases. When cash money is involved, fungibility is another problem. Finally, the range of possible outcomes ascribed to microfinance is very open, encompassing relatively narrow and quantitative variables, such as income, and relatively open and qualitative variables, such as community empowerment. This translates in serious methodological difficulties, both in performing a single impact study trying to encompass very dissimilar variables, and in performing meaningful comparisons between different impact studies.

To our view, most existing impact studies in rural microfinance display an additional shortcoming. They intend to assess the link between a “treatment” (be it access to credit or other financial services) and an effect, but they do not consider the **processes** through which the financial services are designed, delivered, and used. This is paradoxical, all the most if we consider the diversity of organizational forms and financial services that can be found on the field, both in the formal and informal sectors. Those processes exhibit not only an economic but also a social and political dimension that are not always given appropriate attention. Likewise, the economic, social and political contexts into which those processes are embedded are often overlooked. It is our assumption that bringing processes into the picture can highlight the causal mechanisms through which positive as well as negative outcomes are achieved, thereby providing us with more relevant results both in the academic and the practitioner fields.

The lack of transparency and accountability of the microfinance sector can also be a limit to rigorous impact studies. Finally, even when the range of potential outcomes considered by microfinance impact studies is very wide, it does not include the issue of rural employment. Even though rural finance and rural employment are among the key challenges identified by the forthcoming World Development Report 2008, devoted to agriculture and rural development, to our knowledge, no study has yet set out to systematically address the linkages between rural microfinance and rural employment. This proposal intends to bridge the gap.

Objectives and originality of the proposal

The main objective of the proposal is to explore the linkages between rural finance and rural employment - including diversification and migration - with a view to contributing to the ongoing

² <http://www.fao.org/ag/rurfinconference/index.asp?lang=en>

discussions and interventions in the fields of rural development and poverty and vulnerability reduction.

The proposal relies on comparative case studies conducted in three countries - India, Mexico and Madagascar – which exhibit both common and distinctive features regarding rural finance and rural employment issues. It builds on a sound bulk of previous work conducted by the members of the team in the three countries, and will allow for comprehensive gathering of original data, through collaborations with national research institutions and national microfinance practitioners.

The originality of the proposal is threefold :

- from a thematic perspective, the proposal intends to bridge a double gap,
 - o by bringing together the issues of rural finance and rural employment which have mostly been dealt with separately, both in the literature and in development interventions.
 - o by bringing the processes into the picture, considering the links between governance of microfinance institutions, the quality of financial services, and their appropriation by rural individuals and households.
- from a methodological perspective, the proposal intends to overcome some common shortcomings of microfinance impact studies,
 - o by combining economic and anthropological approaches : This pluridisciplinary approach will be adopted from the onset, not only with the purpose to bring together complementary analyses of a common research object, but also with the purpose to jointly build a common research framework.
 - o by considering several levels of analysis : individuals/households (with a special focus on gender distinctions), microfinance institutions, regions
- from an outcome perspective, the proposal will seek to achieve a balance between academic and applied results. In particular, it will seek to provide operational feedback to practitioners regarding the diversity and complexity of local needs, in order to promote a better adaptation of their products and processes of delivery.

Description of the project and expected results

A. Research questions

I. Rural finance and rural employment: assessing the linkages

This proposal is based on the assumption that the linkages between rural finance and rural employment go both ways. On the one hand, the features of the rural employment market contribute to shape the demand for financial services (which in turn, may, or may not be translated into the corresponding supply). On the other hand, the conditions of access to and use of available financial services contribute to shape the rural employment market.

The proposal focuses mainly on microfinance institutions for two reasons: the first one is that they are often the only formal provider of financial services in rural areas; the second one is that they explicitly include some rural development goals in their mission statement. However, we will also examine any other local source of financial services provision: formal and informal suppliers, and also institutional arrangements including a financial service component, sometimes linked to a labour component, such as interlocked contract farming. Bringing other financial services options into the picture will be done with a view to look for the links with the rural labour market, but also to explore the relationships with the microfinance institution (coexistence, cooperation, concurrence, etc.) and the microfinance products (substitutability, complementarity etc.)

The project will set out to explore the nature and the evolution of the linkages between financial services and rural employment, focusing on three dimensions which we consider particularly relevant given the rural development challenges faced by the three countries under study, that is diversification, migration, and vulnerability.

1. Diversification

Diversification refers to the broadening by rural individuals/households of their income-generating activities portfolios. Diversification includes on-farm activities (e.g. incorporating a new crop or livestock into the production system), and/or off-farm activities. Labour implications of diversification at the household level can be more self-employment, engaging into wage labour, or hiring wage labour, thus providing a job to one or several persons outside the household. It is a common assumption that credit provision can foster diversification. In turn, diversification can affect the demand for financial services: for example, a diversified activities portfolio may require a diversified supply of credit products; investing in a new productive activity may require medium-term rather than short-term credit, etc.

2. Migration

Migration can take many forms which in turn affect the prospects for local rural development prospects: temporary or permanent, rural or urban, national or international destinations, involving individuals or entire households, motivated by the prospect of higher incomes or merely by survival rationales, etc.

Even though migration can be viewed as a particular form of diversification, we will deal with it separately in the project because its potential linkages with rural finance are distinctive. On the one hand, an appropriate supply of credit services can slow down the migration flow (particularly the survival type) by offering new and more attractive local labour opportunities. On the other

hand, credit can intensify migration flows, by allowing cash-constrained migration candidates to pay for the migration costs (particularly the urban and the international types), or, on a more adverse note, by compelling overindebted loanees to migrate in search for an alternative solution to repay their loans.

Depending on its economic and social characteristics – here the social and historical fabric of migration channels will be taken into account –, migration in turn can affect the demand for financial services. It first generates a demand for money transfer services, to channel the migrants remittances back to their families. This remittance flow can also generate a demand for savings services. It can also be expected to foster a virtuous cycle of local productive investment, which connects us back to the diversification issue above. However, this virtuous cycle can be jeopardized if migration flows deprive the area from its most dynamic human resources (such as the young or the relatively more skilled).

3. Vulnerability

Current notions of poverty emphasize not only the low-income component but most of all the vulnerability component, that is the limited ability to bear the risk and uncertainty involved in the households economic activities and lifecycle. Note that in many situations, lifecycle events such as marriage, social and religious rituals, etc. while being a key component of individual and collective identities, can represent a significant source of vulnerability in the sense that they place a strong burden on the households finance, even though their occurrence is predictable. In rural settings risk and vulnerability exhibit other distinctive features, linked to the seasonality of agricultural cycles and the covariant climatic risk.

The vulnerability issue is transversal to diversification and migration. Diversification (including migration) is usually considered as a risk-reducing strategy, thus potentially allowing for steadier accumulation processes. However, risk-aversion can also come at a cost for the overall profitability of the household activities portfolio, if it leads households to engage in low-risk low-return activities, thus reducing the prospects for a pathway out of poverty. With respect to labour, vulnerability can be linked with precarious or exploitative contracts or labour relationships, often linked to social hierarchies and adverse social conditions.

The need for individuals and households to cope with risk and vulnerability can affect the demand for financial services. Even though insurance appears as the most suited financial product to cope with risk, other financial products can work as substitutes, such as emergency loans, precautionary savings, but also longer-term savings for expectable lifecycle events. Thus, financial services at large can have a vulnerability reducing effect, by smoothing consumption, alleviating shocks, and planning ahead for expectable family and social expenses. In the longer run, this vulnerability reducing effect can allow households to feel less risk-averse and to engage in higher-risk higher-return activities (including activities requiring hiring wage labor). Yet, credit can also make loanees more vulnerable if they find themselves unable to repay their loans, whatever the reason. Bonded labor found in India is an extreme illustration of how indebtedness can result in great vulnerability and dependence upon exploitative labor relationships. In this context, microfinance can pave the way to untying those exploitative relationships, although it must also be acknowledged that over-indebtedness can unintendedly affect microfinance users as well. It must also be acknowledged that the social dimension of exploitative labor contracts can significantly limit the scope of microfinance interventions. A special attention will be given to the social dimension of money, debt and finance. Many informal financial links – including exploitative labor contracts based on debt - however exploitative they may be, also include a social and protective aspect which must be taken into account to understand the impacts of

microfinance.

4. Four research questions, a common hypothesis

Based on an analysis of the links between rural microfinance and rural employment, the project will seek to empirically explore **four research questions which we assume are linked to the more global issues of poverty reduction and rural development : (1) whether diversification (including migration) occurs at the local level, (2) whether it promotes, directly or indirectly, higher-return activities portfolios, (3) whether it leads to a more active labor market and to desirable shifts in the nature of labor contracts and wages, and (4) what are the overall effects in terms of vulnerability.**

For each of the three dimensions stated above, the project will seek to identify the diversity of linkages, as well as analyze the causal processes underneath and the conditions for such processes to take place, with a view to address potential adverse effects and to look for leveraging or replicability of potential positive effects.

Our hypothesis is that beyond individual characteristics such as entrepreneurial capacity, attitude towards risk, or cultural and identity features, the processes will depend on the combination of two sets of factors: (1) an enabling environment, including infrastructure, opportunities of access to other input, output and service markets, but also a supportive social setting; and (2) the quality of financial services, broadly defined as their ability to meet the local demand.

II. Microfinance as a process: governance, appropriation and quality of services

The microfinance sector has already proven its capacity to reach populations excluded from formal financial services through innovations in products and delivery systems. However, rural microfinance raises further challenges. If they are to be effective, rural microfinance services must develop beyond the current standard, one-size fits all microfinance model. The challenge for rural microfinance institutions is to adapt to the diversity and complexity of the rural demand for financial services, in order to comply with their social mission and to promote virtuous circles of rural development, while sustaining internal balances and financial as well as organizational viability. This challenge first raises the issue of the social mission and accountability of microfinance institutions, which fits into the broader concept of social responsibility. It also raises the issues of their technical, financial and organizational capacity to innovate, to react to clients feedback, to adapt to changing and often adverse environments etc.

In line with the broad definition of quality that we adopted in this project, we will not only consider the technical and financial features of the financial services (such as product segmentation or flexibility, pricing, or conditions of access) but also their modes of delivery and the interactions between the microfinance institution and its clients or members (for instance, the commitment of field staff).

Dealing with the issue of adapting financial services to the demand requires to overcome the dualism of the “market view” (according to which the quality of services would be the mechanical result of competition within a “free” and “perfect” market) versus the “participatory view”, according to which clients participation would mechanically improve the quality of services. We rather consider that there is a need to analyze the various ways, formal and informal, used and experienced by microfinance organisation to design the services they provide, to monitor and to incorporate feedback from their clients/members and to understand which factors/conditions are instrumental in determining the quality of microfinance services;

Our starting point is that whatever the institutional design, the provision of microfinance services by the microfinance institutions and their ultimate use by their clients or member is the result of an interactive *process*, made of successive innovations, adjustments, appropriation, compromises, manipulations, which imply learning, trials and errors but also tensions, and sometimes crises.

Our project addresses the following research questions: what are the processes through which microfinance institutions and their clients address the issue of improving the quality of the financial services, broadly defined as their ability to meet the local demand? What are the conditions for raising the prospect for those processes to lead to improved quality of financial services?

Our first assumption is that the governance of microfinance institutions, both at the internal and external level, plays a key role in their capacity to steer those processes in order to provide quality financial services. Our second assumption is that clients also play a key role in co-building the quality of financial services.

1. The microfinance institution perspective: governance as permanent compromises

In our project, the notion of governance goes well beyond its common managerial sense. We rather consider the governance of microfinance institution as both the processes and the results of permanent compromises between a wide range of stakeholders, each with their own interests, perceptions, and means of action. Beyond the microfinance institution boundaries (internal governance), the governance issue also encompasses the broader social, economic, political environment into which the institution is embedded (external governance).

Our purpose is not to compare theoretical governance models, but rather to start from in-depth case studies to analyze the linkages between the two components of governance (in terms of opportunities and constraints) and the quality of microfinance services.

- **the internal governance** relates both to the mission of the institution and to its daily operations. Governance mechanisms include decision making process, staff management (training, incentives, etc.), information sharing systems, articulation between managers, administrative and field staff and elected bodies, etc.
- **the external governance** includes the relations of the microfinance institution with external stakeholders : local leaders, public authorities, other formal informal finance providers, partners, donors, experts, researchers etc. Focusing on external governance makes all the more sense given the pace of changes currently occurring in the rural microfinance sector, particularly with regards to public actors, through decentralization, regulation etc. The project will explore the linkages between external governance and the quality of services (for instance, through the local legitimacy and reputation of the microfinance institution, the intensity and the nature of competition -more or less healthy-, the conditionality imposed by donors or investors, etc.).

2. The clients' perspective: use and appropriation of microfinance services

Clients typically have two ways to address the quality of microfinance services, which will both be explored in the course of the project. The first one is to give feedback to the institution, either positively, by formulating comments and suggestions, or negatively, by exiting the institution altogether. The second one is often more neglected by practitioners and researchers alike. It relates to how the clients understand, interpret and translate microfinance services in order to use them in their own way, often by diverting them from their original purpose (at least from the microfinance institution perspective) but in a way which might be more adapted to their own needs. Far from restricting themselves to passive consumer behaviour, the clients are in a process of tactical adjustment - which aims to compensate for the weaknesses of the services provided (weaknesses in regard to their own constraints, perceptions and aspirations). This

capacity of adjustment is under-assessed because it is harder to observe. However, we consider that it is fundamental to proceed to an in-depth analysis of this process of appropriation and the way microfinance clients « reinvent » microfinance on a daily basis (including combining or substituting microfinance products with other financial products, from the formal as well as the informal sector).

B. Methodology

I Main features of the methodology

The project methodology relies on the following features:

- a pluridisciplinary approach
- a combination of tools for data collection and analysis
 - an emphasis on the production of primary data
 - a combination of several levels and units of analysis
 - a combination of quantitative and qualitative tools
 - a dynamic approach
- a comparative perspective across three countries
- a strategic collaboration with microfinance institutions.

1. A pluridisciplinary approach

The pluridisciplinary approach will include inputs from institutional economics, economic anthropology, and econometrics. The rationale for the pluridisciplinary approach relies on the following acknowledgment : even though we will be looking at economic practices (such as taking a loan or engaging in diversification or migration), we will consider the social and cultural fabrics into which those practices are embedded, with the assumption that they give insight into both the rationale for those practices and the final outcome. We will strive to build this pluridisciplinary approach from the onset, not only with the purpose to bring together complementary analyses of a common research object, but also with the purpose to jointly build a common research framework. The fact that institutional economics share some concerns with economic anthropology, such as the attention given to processes, actors, perceptions, cognitive aspects, etc., should help us in this endeavour. We also consider that a pluridisciplinary approach allows for a controlled combination of tools and approaches that can be beneficial for the global understanding of the processes at play, and bring added value to the project through a greater reliability and relevance of the results.

2. A combination of tools for data collection and analysis

An emphasis on the production of primary data

The project team shares a strong concern with respect to the relevance, reliability and comparability of the empirical data. Therefore, the project relies heavily on the production of primary data, which implies a strong investment in fieldwork.

However, use will also be made of secondary data when relevant, particularly for quantitative and spatial analysis, since it may allow for more options of cross-analysis. Several recent and relevant open-access databases at the individual/household or the commune level have already been identified for the three countries under study (see table below). While not open-access, additional relevant databases might be made available to the national research teams upon a previous memorandum of understanding.

India	<ul style="list-style-type: none"> - National Bank of agriculture and rural development (yearly census of microfinance supply at national and district level) - panel database of microfinance institution clients (400 households : 2002-2004-2006) - own IFP panel database (500 households, annual follow-up since 2000)
Madagascar	<ul style="list-style-type: none"> - Rural Observatories network panel database (15 observatories, 500 households per observatory, annual survey of household economics) - ILO (Cornell University-PACT) project commune database : 1385 communes surveyed in 2001 - CECAM-EU panel database (500 households, 2003-2006-2007) : upon previous agreement
Mexico	<ul style="list-style-type: none"> - UC Davis panel database (600 households, 2005-2006) - Colegio de Mexico-UC Davis panel database (1800 households 2003-2008) - PATMIR (Public microfinance support programme) panel database (5800 households, annual survey 2004-2008) : upon previous agreement

A combination of levels and units of analysis

The “rural microfinance and employment” component of the project (axis I) will be addressed through a combination of local case studies and surveys, in order to consider the interplay of three levels where the linkages between rural microfinance and employment can take place: the individual and household level (with a special attention to gender distinctions and disparities), the community/village level, and the small region level ((with a special attention to the evolution of local labour and credit markets and their interlocking, including migration channels). In India, the project will include an analysis of commodity chains, since previous work has already been done and allows a comparison over time.

The “governance, appropriation and quality of services” component (axis II) will be addressed through in-depth case studies of a selected sample of microfinance institutions (including an analysis of the stakeholders and the environment), and will be completed by data collected at the clients household levels.

A combination of quantitative and qualitative tools

The rationale for the combination of quantitative and qualitative tools is to make the best use of their respective strengths and weaknesses. Quantitative tools ensure representativeness of the results, allow to quantify and to rank observed phenomena, and establish statistically significant relationships between variables. On the other hand, they constrain the data collection and do not allow to highlight the complexity of motivations that underscore observed practices. We consider that qualitative approaches are the only way to uncover rationales and strategies, and to highlight interactions between different domains of livelihood, including finance, employment, their embeddedness into broader family and social settings, and their evolution over time.

One way to implement the combination of quantitative and qualitative tools will be through the following strategy. In the early stage of the research process, qualitative approaches will allow to strengthen and better focus the quantitative survey questionnaire, thus improving the relevance and the reliability of collected data. During the analysis stage, going back to qualitative approaches will help us interpret and clarify quantitative results that might appear counter-intuitive or ambiguous.

Efforts to combine both qualitative and quantitative tools will mostly deal with the “rural microfinance and employment” component of the project (axis I). Quantitative tools will include questionnaire surveys and spatial econometrics. The latter is an innovative tool which combines geographical and other quantitative variables. It allows for regional level analysis and cartographic outputs. Qualitative tools will include open interviews, life histories and narratives, and participant observation. The component on “governance, appropriation and quality of services” (axis II) will rely more heavily on qualitative data such as qualitative interviews, participants observation, and review of internal documentation of microfinance institutions.

However, quantitative tools such as management information systems (when available) and spatial analysis tools will be mobilized as well, if needed.

A dynamic approach

The dynamic approach is constitutive to our project, since it addresses processes and development issues. The dynamic dimension will be addressed both through qualitative tools (such as life histories, ex-post trajectories reconstitution) and quantitative tools (such as longitudinal panel data). The project will also build on previous research performed by the members of the team in the three countries to provide qualitative and quantitative follow-up.

3. A comparative perspective across three countries

Challenges and rationale of the comparative perspective

Previous work by the members of the team has allowed for accumulating a good understanding of local contexts and rural microfinance in specific settings in Southern India, Southern Mexico, and Central Madagascar. The rationale for the comparison is to build on this accumulated knowledge, in order to build a common research framework and to provide evidence at a more general level to feed our central hypothesis, already stated above : *the nature and the outcome of the processes associated to the links between rural microfinance and employment (in terms of diversification, migration, and vulnerability) will depend on the combination of two sets of factors : (1) an enabling environment; and (2) the quality of financial services*. The comparison (along with a dynamic approach) should allow us to separate between the two explicative sets of factors.

We are aware that the three countries differ greatly in many respects, making comparison difficult in the first place. However, each country is representative of a specific type in terms of rural development issues and trends : Madagascar belongs to the group of less advanced countries, and its economy still relies heavily on agriculture; Mexico is an emerging and urbanized country, but its rural sector is lagging behind, thus raising strong challenges in terms of rural poverty; India is part of an intermediate group of countries undergoing a fast process of urbanization while inequities between urban and rural sectors are aggravating. The three countries also greatly differ in terms of rural development modes of intervention. In Madagascar, the State has very little room for action, and initiatives come mostly from NGO and multilateral organizations; in Mexico and India, the State is very active, along with other initiatives from the civil society.

Apart from their differences, the three countries also share some common features which make them interesting candidates for comparison. On the one hand, the intermediary level of organisational development of rural microfinance, and the numerical importance of participatory models (cooperatives or equivalent) make comparison between microfinance institutions across countries relevant. On the other hand, the broad categories of rural employment that we have defined for our project are relevant (although obviously with local variations) for the three countries. For example, migration can be found in the three countries, with Mexico exhibiting a specific feature of international migration. The same applies for wage farm labour, although in the smallholder agriculture, wage labour is much more common in India and Madagascar than in Mexico, etc.

Another point is that comparison will be performed not at the country level but rather at the regional level. Although there is some path-dependency involved, given the previous fieldwork

by the members of the team, there will be some room in the first phase of the project to select a subset of local settings sharing some common characteristics in line with our research objectives.

Finally, our main argument for the comparative approach is the rationale that underlies it. **Our main purpose is not to compare objects or situations but *processes and mechanisms*. Our question is not: what are the main similarities and divergences between two situations, but what are similarities and differences between the processes and mechanisms which have lead to any given outcome.** Insofar as the comparison is about processes rather than situations, we consider that the relevance of the comparison relies not so much on the similarities of the realities studied but rather on the quality of the methodology.

How to perform comparison in practice

The comparative approach requires a specific strategy within the program. The main challenge is to build **a common conceptual framework and a common system for reporting back the results of the research**. This means providing the team with a transversal, cross-cultural, cross-national system of interpretation, which requires prior agreement on the components of the concepts, categories and variables which will be the focus of comparison. It will require not only an effort to promote standardization and harmonization but also a clarification of the scientific vocabulary which goes beyond semantic differences.

This has implications on the organization of the project, as it will require **a strong coordination at different levels of the research** (according to the work packages presented below). The coordinators will play a key role: they will be responsible for setting up and maintaining the harmonization of concepts and categories, and for drawing up the comparative research framework while providing for its continual readjustment on the basis of permanent communication with the different teams.

4. A strategic collaboration with microfinance institutions

The project will be based on a strong collaboration with practitioners (microfinance organisations but also other stakeholders). Such a partnership serves two main purposes:

- the first added-value of the research will consist in helping the partners to improve their own practice (products as well as procedures), not through top-down expert-like recommendations, but rather through a permanent dialogue, from the design of the research until the restitution of the results
- in a more pragmatic way, the partnership is often the only mean to get access to the field and to the data (data base of the organisation, relations to the clients, observation within the organisation)

The team has already developed several strategic partnerships with microfinance institutions and other related stakeholders in the three countries under study (see table below). The definitive sample of institutions will be jointly defined in the first phase of the project.

	India	Madagascar	Mexico
Microfinance organisations	BASIX, BDWA, ASSEFA	CECAM, TIAVO	Microbancos
Other stakeholders	NABARD (public bank) Dhan Foundation (national network) APMAS (regional network)	ICARE (NGO) APIFM (national professional body)	Amucss (national network) Prodesarrollo (national network) Patmir (public rural microfinance support programme)

II Risks identified and strategies to deal with them

The project team is aware of two main risks with regards to the implementation of the project. Even though both the methodology and the organization sections (see below) have been devised with a view of overcoming those risks, they may be worth mentioning explicitly.

1. The risks of juxtaposition

The project bears a risk of juxtaposition of disciplines, of qualitative and quantitative approaches, and of country case studies. A first way to deal with this risk is to recognize that everything cannot be encompassed into a single framework. Thus, some juxtaposition will occur. However, we have devised a strategy to reduce the risk of juxtaposition when it is considered as a threat to the overall objectives of the project. For example, a real threat is the risk of misunderstanding among researchers belonging to different disciplines, traditions, and national contexts. It will be dealt with through a specific effort on working out a common language and interpretation framework for the purpose of the project.

The profile and the previous experience of the members of the team also allow for a reasonable level of confidence as to their capacity to deal with the risk of juxtaposition by building bridges across approaches, disciplines and countries. For example, several members of the team are familiar with two of the three countries under study, and most members of the team have already worked with a combined qualitative and quantitative approach. All the members with econometric skills also have a strong experience in fieldwork, and have already combined their econometric studies with an economic anthropology interpretation framework derived from their direct field knowledge.

2. The risks associated with the partnership with microfinance institutions

If partnerships with practitioners is not only legitimate but necessary, it is also a real challenge, mainly because of contradictory constraints: different time frames, confidentiality issues, misunderstandings regarding the role and the scope of research (resulting for instance in excessive expectations from the practitioners' standpoint in terms of how the research can lead to operational recommendations), etc. However, previous experience of the team in terms of partnerships, the pre-existing links and the effective implication of the partners at various stages of the research project should allow us to build a mutually productive collaboration.

C. Organisation of the collaboration

Our strategy for implementing the project relies on a) a strong partnerships between institutions and researchers with complementary skills and previous experience in terms of collaboration b) a very precise mode of organisation based on 7 working packages c) a schedule divided in 5 main overlapping phases.