

## **RURAL FINANCE PROGRAM AT THE OHIO STATE UNIVERSITY**

The Rural Finance Program at The Ohio State University (OSU) was the recipient of the American Agricultural Economics Association Distinguished Policy Contribution Award (1989) for its ability to apply robust research results in successful policy-influencing activities.

The OSU program is a recognized world leader in the analysis of rural financial markets and other finance and development questions, particularly those concerning the design and implementation of financial reform programs, the establishment of prudential regulation and supervision frameworks, and the provision of financial services to difficult clienteles (small farmers, rural and urban microenterprises, the poor, women) in developing countries. This reputation has resulted from four decades of distinguished research, publications, instruction, technical assistance, and information dissemination.

Established in the early 1960s, the OSU program has been housed in the Department of Agricultural, Environmental, and Development Economics. The activities of the program have involved several faculty members {Dale Adams (Professor Emeritus and founder of the program), Claudio Gonzalez-Vega (present Program Director), Priyodorshi Banerjee, Douglas Graham, Jerry Ladman, Donald Larson, Richard Meyer, Mario Miranda, Norman Rask and Douglas Southgate}, post-doctoral research specialists and graduate students from several parts of the world.

Program researchers are completely fluent in French, Portuguese and Spanish. The program created the *Devfinance* discussion list in the Internet, with close to 1000 subscribing researchers and practitioners from all over the world. Jointly with the University of Frankfurt, the program co-organized the Annual Seminar on New Development Finance for the fourth time in 2001 and it expects to organize it again in 2005. This has been a premier forum for cutting-edge debate in the field of microfinance. Also, every year OSU faculty members teach at the Microfinance Training Program in Boulder and other major training centers.

The program implemented the Financial Resources Management (FIRM) Project, the third in a sequence of Cooperative Agreements between OSU and the Agency for International Development (AID). In addition to core research, program activities covered Africa (The Gambia, Mozambique, Niger, Uganda, Swaziland, Ghana, Burkina Faso, Rwanda, Madagascar, South Africa, and Egypt), Asia (Bangladesh, the Philippines, Indonesia), and Latin America (Costa Rica, the Dominican Republic, Ecuador, Bolivia, El Salvador, Honduras, and Mexico). OSU also implemented a Women in Development program in Africa, the Peri-Urban Economic Growth Project in Sub-Saharan Africa, and a series of sub-sector case studies on the financing of agribusinesses.

The purpose of FIRM was to increase knowledge about the role of financial resources in rural development. The OSU's research agenda encompassed three main areas: (a) the analysis of informal financial markets (particularly in rural areas) and their linkages to formal financial and other markets; (b) evaluation of the performance (outreach, sustainability, organizational design, and operational effectiveness) of financial organizations, particularly of those serving the rural areas or small and microenterprises, and (c) investigations of macroeconomic policy, financial market restructuring and reform, and prudential regulation and supervision.

The OSU program has continued to conduct applied research through a number of projects. These efforts included participation in the Cooperative Research Support Program (CRSP) on Broadening Access and Strengthening Input Market Systems (BASIS). Gonzalez-Vega chaired the BASIS Technical Committee and was Research Program Leader for Central America. There, in collaboration with Salvadoran researchers, the OSU team has investigated the interaction between financial, labor, and land markets and the implications of their performance on rural poverty and resource conservation. Panel data for rural households and for borrowers (1995-2001) have been used for the analysis of income generation, risk management, migration and remittances, land uses and access to financial services. With GTZ sponsorship, the program also developed tools to evaluate changes in the poverty status of borrowers, with applications to *Financiera Calpiá*, and it examined the lending technologies of different financial organizations.

The OSU program also participated in the Microfinance Best Practices (MBP) project, sponsored by AID under the Microfinance Innovation Initiative. The program investigated the role of commercial banks in microfinance, alternative models of village banking and credit unions, the weaknesses and strengths of client-owned organizations, the development of microfinance technologies, and the measurement of the poverty of the clients of microfinance organizations. The OSU program also conducted an evaluation of the *caisses villageoises* in Mali, for the *Centre International de Developpement et de Recherche*, and of the PIEC program, for World Education.

Another activity of the OSU program was an investigation of the role and conditions for success of microfinance apex organizations, in collaboration with the Consultative Program to Assist the Poorest (CGAP) at The World Bank. The program conducted case studies of apex organizations in Bangladesh, Benin, Bolivia, Costa Rica, Honduras, India, Mexico, and Paraguay. Several members of the OSU team have also provided assistance on financial market development in transition economies (Russia, Ukraine, Romania). Funding arrangements for small and medium enterprises were documented in Romania. In collaboration with the Asian Development Bank, the OSU program investigated the role of financial markets in rural development in Asia.

Recent research and technical assistance activities have focused on the relationship between, on the one hand, deposit mobilization and lending technologies and, on the other, the inclusion or exclusion of specific client types in microfinance loan portfolios. The program has also addressed the difficulties of measuring the poverty status of clients of microfinance organizations. In this connection, the program has examined the levels and sources of the costs of rural financial intermediation as well as the role of learning in addressing imperfect information and in reducing transaction costs. Components of successful lending technologies (signaling, screening, monitoring, and contract design and enforcement) have been identified for different microfinance organizations. Elements of the lending technology have been matched to features of target clienteles and the results have been tested with surveys of loan officers and of clients of organizations in Bolivia, El Salvador, Mali and Russia.

A detailed analysis of the success in outreach and sustainability of five prominent Bolivian microfinance organizations, sponsored by the Organization for Economic Cooperation and Development (OECD) in Paris, *Internationale Projekt Consult* (IPC) in Frankfurt, and the USAID Mission in La Paz, initiated an ambitious research agenda in Bolivia. This agenda has included an investigation of the causes and consequences of over-indebtedness of the clients of microfinance organizations. A survey of households was implemented to obtain information about household characteristics and financial experience. In Bolivia, over-indebtedness has been the result of unexpected exogenous shocks, increasing competition in the market for microfinance, regulatory failure, and opportunistic behavior as a consequence of distorted government policies. The research has shown the patterns of debt of different types of households. The program also developed a framework for the analysis of idiosyncratic and systemic risk to provide theoretical underpinnings to this effort.

Another purpose of the research agenda in Bolivia has been to generate profiles of clients of *Pro Mujer* and *CRECER*, two village banking programs. The OSU team conducted a survey of 450 households of clients of each of these organizations, in several parts of the country, and computed a poverty (basic needs satisfaction) index for these clients. The OSU researchers have investigated the robustness of poverty measures and their potential as policy tools. A survey of the households of clients of CRECER and SARTAWI has been used to investigate the influence of participation in various types of microfinance programs on human capital formation at the household level. Positive and negative impacts of microfinance on the schooling of children have been identified. Results from this research were reported at the Annual Meetings of the Association of Economists of Latin America and the Caribbean, in Madrid, and the Annual Meetings of the American Agricultural Economics Association, in Montreal.

In Bolivia, OSU also collaborated with The Rural Financial Services (SEFIR/DAI) project and is currently collaborating with the PREMIER project. OSU researchers have assessed the macroeconomic crisis in Bolivia and its implications for the performance of different types of financial intermediaries. Research has focused on the sources and consequences of systemic risk on the asset and liability performance of different financial intermediaries. One striking result has been the better performance of microfinance organizations compared to banks and cooperatives. The program has investigated the evolution of the institutional framework for the promotion and regulation of rural financial markets. This research highlighted distortions introduced by the government's second-tier organization *FONDESIF*. The program also evaluated the rural lending technologies of several microfinance organizations, including *Caja Los Andes*, *PRODEM*, *FADES* and *CRECER*. This research has explored how problems of lending are resolved by different types of technologies, their effects on borrower transaction costs and lender cost structures, and the implications for outreach. OSU researchers have assisted the Superintendence of Banks and Financial Institutions in an understanding of the dynamics of clients with relationships with multiple financial intermediaries, using data from the credit rating system of the Superintendence. Also, the savings mobilization performance of microfinance organizations has been evaluated.

In the US domestic scenery, the OSU program has been involved in an experiment to identify the effects of cash-flow management and borrower counseling on the repayment performance of low-income mortgage loan borrowers. Fannie Mae has sponsored this project, in cooperation with Huntington Bank and Paul Taylor & Associates.

The Ohio State name immediately comes up in any forum of discussion about rural or microenterprise finance.

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