

Institution: University College London		
Unit of Assessment: 22 – Anthropology and Development Studies		
Title of case study: Improving access to finance in India and enhancing Foreign Commonwealth Development Office (FCDO) anticorruption strategies for risky political economies		
Period when the underpinning research was undertaken: 2012 - 2020		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	Role(s) (e.g. job title):	Period(s) employed by submitting HEI:
Lucia Michelutti	Professor of Anthropology	2012-present
Period when the claimed impact occurred: 2016-2020		
Is this case study continued from a case study submitted in 2014? N		
1. Summary of the impact (indicative maximum 100 words)		
<p>Research led by Lucia Michelutti on criminal political economies and moneylending in South Asia has changed practices in the social financing industry and introduced new methodologies into the international development sector. By innovatively considering indigenous understandings of risk and ethnographically informed analysis of over-indebtedness, the research improved lending practices of a social enterprise by providing accurate and fairer assessments of households' creditworthiness through the design and trialling of an alternative social financing product: EDRAF (Ethnographic Driven Risk Analysis Framework). Its application has improved access to loans and business opportunities for low-caste community members (mainly women with limited or no collateral) and helped reduce their vulnerability to loan sharks in North India. Consequently, 54 rural households in 120 villages have benefitted from loans. In addition, research findings on predatory political economies helped the UK's Department for International Development (DFID - now Foreign Commonwealth Development Office) to recognise the relations between politics, corruption and serious organized crime to better understand political corruption, train advisers and reframe their research commissions and funding priorities.</p>		
2. Underpinning research (indicative maximum 500 words)		
<p>Research by Lucia Michelutti explores how criminal political economies work across South Asia. Her ESRC and ERC-funded projects [i, ii, iii] have developed new anthropological strategies to study political criminality and risk. This work is transforming understandings of democratic politics and the criminal economy in India and across the subcontinent in Bangladesh and Pakistan. Empirically, Michelutti led the production of the first comprehensive ethnography of the modus operandi of systems of bossism in South Asia and advanced the method of collaborative and cross-national political and legal ethnography in the book [R1].⁷ case studies illustrate the pragmatics and ethics of bossism among political leaders, aspiring big-men, 'gangster politicians', mafia dons, fixers and the impact of 'the rule of bosses' on local populations [R1]. Bosses are violent entrepreneurs who, as individuals, use private (and state) force as means of social control and economic accumulation. Michelutti's findings show that on-the-ground moneylending, usury and extortion are often the building blocks of their systems of power which are locally defined as 'Mafia Raj' [R1/R2]. Her granular ethnographies also map how corrupted practices in sectors such as mining, transportation, water and electricity distribution, estates and road construction are widely entrenched in everyday local economies. In such settings, problems of politics and crime (such as corruption, looting, fighting, stealing, smuggling, oppressive labour relations, loansharking and racketeering) are at the heart of developmental policy paradoxes, (where intended beneficiaries become victims), and local elite capture is rampant [R2]. This happens for example when the local boss is also the democratically elected head of the village/district or the head of the local financial cooperative. The risk of mismanagement of public funds and fraud in democratic 'Mafia Raj' systems of governance is very high [R1/R2].</p> <p>Building on this research, in 2016 Michelutti began working with the social financial enterprise Village Invest (VI) who commissioned her to produce a report of loansharking and practices of lending in North India (Rajasthan) [R3]. This research, funded by an ERC grant [i], showed that it is more shameful in these systems to not be given credit than to be in debt. In these environments, debts create everyday forms of dependency and poverty traps but also forge</p>		

aspirations, solidarity and emancipation [R2]. Against this backdrop issues of status, honour, gender and individual/ group (caste) identity are of paramount importance in shaping local understandings of creditworthiness and risk [R3].

Yet, as of today, vernacular evaluations of ‘good debts’ versus ‘bad debts’ and ‘perception of riskiness’ are still largely ignored by current digital social financial models whose aim is to promote rural prosperity across South Asia (in particular in India) [R3]. In the digital social financing industry, there have been a plethora of attempts to develop scoring tools for farmers and other non-urban communities. However, lack of local empirical detailed knowledge compels this industry to use “big data” and GPS-related data – which does not include information on populations who do not hold bank accounts. With no adequate credit scoring datasets to assess financial solvency for Indian rural families (mostly with limited or not collateral), these people remain excluded from affordable financial services. As a result, informal financial institutions, such as village savings and credit organizations, Self-Help Groups (SHGs), SHG Federations, and financial cooperatives, often constitute the only option to access affordable credit. However, they mostly operate at a small, local scale, and can only provide small loan amounts [R3]. For larger credit needs, local moneylenders are the only alternative and they normally charge exploitative interest rates, triggering cycles of intergenerational indebtedness [R1].

In sum, Michelutti’s research shows that lack of credit rating tools for rural populations, and lack of benchmark data to track and measure social impact [R3], undermines financial inclusion in South Asia. Crucially it also shows how to mitigate the risks of nonperforming social loans in localities characterised by high corruption and criminal/informal political economies [R1/R2].

3. References to the research (indicative maximum of six references)

- R1.** Michelutti, L. A. Hoque, N. Martin, D. Picherit, P. Rollier, A. Ruud and C. Still. (2018) *Mafia Raj: The Rule of Bosses in South Asia*, Stanford: Stanford University Press. (Arose from ii) [available on request]
- R2.** Harriss-White, B and Michelutti L. (2019). *The Wild East? Criminal Political Economies in South Asia*. London: UCL Press (Arose from iii) [available on request]
- R3.** Michelutti, L. and Sbriccoli, T. (2019). *Coercive political economies and social financing. Ethnographic notes from North India (Rajasthan)*. Report of Village Invest (Arose from i) [available on request]

The scientific value of the underpinning research has been recognised through continuous Research Councils’ support for it. Key peer-reviewed grants underpinning the research include:

- i. (August 2018-Feb 2020) (as PI) *Village Invest: Low-cost loans for unbanked people in risky political economies*, (/780143, European Research Council Proof of Concept Grant, EUR150,000.
- ii. (March 2012- Feb 2016) (as PI) *An Anthropological Investigation of Muscular Politics in South Asia*, AISMA/284080 (European Research Council Starting Grant, EUR1,200,000.
- iii. (August 2012- July 2016) (as PI) *Political Cultures in South Asia (PCSA)*, Economic Social Research Council, ES/I036702, Research Grant, GBP864,457.

4. Details of the impact (indicative maximum 750 words)

To improve access to finance opportunities and poverty alleviation strategies in risky political economies, Michelutti and her team worked in collaboration with the former Senior Rural Development Specialist at The World Bank and founder of the social financial-technology enterprise Village Invest (VI), and with the team leader of the Governance, Conflict, Inclusion and Humanitarian Research Commissioning Team (GCIH) at DFID (now FCDO).

Shaping understanding of, and framing new research commissions on, politics, crime and governance at Foreign Commonwealth Development Office (FCDO)

Michelutti’s collaboration with FCDO (formerly DFID) shaped their understanding of the application of ethnographic methodologies and data sets. This informed their advice on

governance and corruption and their training of new advisors. Knowledge exchange began in 2012, when the team leader of GCIH represented FCDO on the Advisory Board of Michelutti's ESRC grant (iii). From 2013 onwards, the team leader "provided suggestions about how to link the new ethnographic research [which also informed Ethnographic Driven Risk Analysis Framework (EDRAF – discussed below)] with other sources and available quantitative datasets, such as public data on flows of government funds through procurement and contracting" [A]. The team leader of GCIH explains that "Drawing links between big data sets and analysis and ethnographic research to better understand the individual networks at the foot of the contracting chains, and how public funding reinforces political structures and corruption has informed my own work for DFID [now FCDO] in advising on governance and corruption, including in the training of new governance advisors" [A]. These insights featured in internal documents and were publicised by FCDO via Twitter [B] "to set out the points for wider audiences, and also to have an easy reference for new DFID trainees and our partners" [A].

Michelutti's research findings on criminal political economies [R1/R2] have also informed the framing of new research commissions. The team leader of GCIH explains that [R1] and [R2] "have helped shape the way we [FCDO RED's GCIH team] think about politics, corruption, governance and serious organised crime, and this will inform the framing of new research commissions on SOC [Serious Organised Crime] in 2020/21 to ensure that we take into account and commission local level research, including social anthropology, as well as macro level analysis of whole sectors and use of large data sets" [A]. In doing so, FCDO are drawing on the comparative method and the "triangulat[ion] of ethnography with quantitative data sources" employed in grant [iii] [A]. He called the project's comparative methodology a "good, practical move" to overcome a criticism levelled at research funded by FCDO, namely that it is "too context dependent" [A]. [R1] and [R2] shaped discussions within FCDO about "how specific development programmes and budgets (e.g. related to India's Public Distribution System, and Public Procurement) are entangled in the extra-legal political sphere, particularly at local level" [A]. The approach modelled by Michelutti's research shows how "technical reforms may have diverse and unintended consequences, particularly at local level" and how to study and tackle such corrupted political and economic practices [A].

Changing the methodologies of a social enterprise lending platform and the development of EDRAF (Ethnographic Driven Risk Analysis Tool)

Michelutti's research has been applied at the local level by lending platform, Village Invest. Village Invest (VI) is a crowd-funded lending platform that supplies small loans through local saving credit associations. Michelutti began working with VI in 2016. As the CEO explains, Michelutti's research [R1/R3] changed VI's methodologies and lending practices. It "challenged [VI's] initial assumptions and methodologies", leading VI "to rethink our in-house credit rating scoring" and re-design their data collection strategies and leading to the development of EDRAF by Michelutti and her team at UCL [C]. The development of the tool was supported by an ERC Proof of Concept grant [i].

EDRAF is a novel instrument to assess and minimise risks in the social lending/impact investing sector and generate measurable impact in rural South Asia. The tool comprises a research toolkit to assess political, economic and social risks for social financing in rural South Asia, and a mobile software application for Android to collect and map households' debt and credit histories in joint or extended family systems. The tool is also designed to monitor and track the social impact of the loans (for a description of the tool and how it works see [D]). EDRAF collects and analyses granular and first-hand financial and non-financial data of rural households and their savings and credit organizations (such as Self-Help Groups and their Federations in India; financial cooperatives; community savings and credit associations in Africa, etc.) using a household survey. The household survey aims at understanding household economies and the complex cultures of debt and credit in rural markets. The app automatically prepares business plans with each family. This process helps the families involved to understand their financial situation and to learn what is involved in starting a business. The collected data constitutes the basis from which households will be rated. Importantly, however, they also inform the benchmark for measuring subsequent ratings and, crucially, the loans' social and economic impact. Thus

EDRAF provides innovative impact/vulnerability scores, enabling investors to measure the social impact of their loans and evidence whether social investments 'make a difference' on the ground.

EDRAF methodology improves previous VI rating practices in multiple ways. EDRAF takes into account that high levels of social stigma can be attached to low credit scoring. As shown in [R1], [R2], and [R3], these are systems where borrowing money is at the heart of the social fabric and it is shameful not to be given credit. As a result, VI now anonymises and protects borrowers/villages' identities in their online platform and has adopted a more rigorous data security protection approach and ethical guidelines [C]. Secondly, VI's initial rating strategies identified as 'bad' debts mainly those that were owed to moneylenders. Drawing on Michelutti's findings, the scoring risk criteria were recalibrated in EDRAF "by considering insights that showed how 'bad' debts are not always the hardest ones financially and that - contrary to [VI's] initial assumptions - often the most sensitive debts were those with kin rather than those with moneylenders" [C]. In so doing, the tool takes into account local 'hierarchies of debt' and shapes the ways in which potential borrowers' financial and social vulnerabilities may impair their ability to pay back the loan or to get loans from other sources. Thirdly, VI "learnt that creditworthiness should not be assessed on the basis of immediate households' budget" and consequently "completely redesigned the questionnaire of our social finance and credit rating tool" [C]. Thus, EDRAF's methodology differs from previous VI methodologies by taking into consideration the reputation and budget of the whole family; it is a data collection tool capable of collecting information about 'extended-network-families budgets' rather than 'individual budgets' and as such has the potential to enhance financial inclusion and wider social impact. In short, the inclusion of family finances recalibrates the risk scores for individuals. Finally, the EDRAF toolkit now enables VI (and other potential users) to identify local power relations and/or institutional conflict that could severely undermine any current or future impact of social lending. It allows for a micro-political economy risk assessment that helps the selection (or exclusion) of operational areas where there are the following risks: poor governance, political instability, communal divisions, criminal networks that may hamper field implementation and elite capture.

Providing access to affordable loans, strengthening individual household finances and local economies in Rajasthan, India

EDRAF was trialled in Rajasthan, North India in December 2018 - March 2019 and evaluated in January - February 2020 [supported by i]. By providing access to affordable loans and, crucially, giving borrowers a voice in negotiating their credit worthiness, EDRAF strengthened individual households and local economies [E/F]. The beneficiaries are the women, men and children living and working in a selected cluster of communities in rural Rajasthan. This includes nearly 120 villages and involves 20,000 members of the local village savings and credit community organizations (Self-Help Groups (SHGs)).

By November 2019, after which the COVID-19 pandemic put a halt on this phase of the project's rollout, 54 households had been granted VI loans under the new methodology. 98 per cent of the borrowers are repaying the loan – which is indicative evidence that the rating process works [R3]; 40 per cent of families said that they are now better off and that their new businesses (financed by VI loans) helped them to get out of debt with local moneylenders and improved their overall standard of living and, crucially, helped them to improve the standard of education of their children [E]. It should be noted that these households would not have received loans for productive business activities from other sources. For example, one villager said "with VI loan I have bought a buffalo, I have built a fencing wall for my house [...] most importantly I have made my children study and I have also managed to pay back the loan instalments regularly" [F]. Likewise, another family member said that her family used the loan to pay off a debt with a moneylender and to buy more land and buffaloes: "We have taken one lakh loan. We have bought a buffalo, which cost 50,000 rupees. With the remaining 50,000 rupees I have repaid a debt that I had with a local moneylender and got back one bigha of land that he kept as collateral [...] We got a great benefit from the loan. Now we have four buffalos, and one male buffalo calf. From the buffalos we are getting good milk, and by selling it we are able to repay household expenses [...] In the past we had to go often to the moneylender, as soon as we had money problem, but now we don't have to ask them money any longer" [F]. For this family the biggest

impact has been to learn about how to manage a family budget. By sticking to the original business plan generated through the use of the app, they managed to greatly increase their monthly income. They no longer need the local moneylenders for loans in the period between the crops, and they can rely on the SHG's loans if in need.

There are about 250,000 SHGs (involving 3,000,000 households) in Rajasthan. As of February 2020 the local Federation (with 50,000 households) had agreed to adopt EDRAF for their operations with a view to extending the use of the tool to other Federations in Rajasthan by early 2021 (delayed by COVID-19 pandemic). The Federation and SHGs leaders who administer the loans also asserted that their involvement with VI has been beneficial by improving their access to bank credit: The Federation President stated that "The Federation greatly benefitted from VI loans as our involvement with VI greatly improved our linkages with the bank by enhancing our credit rating" [F].

In sum, the application of Michelutti's findings and methodology has enabled the development of new lending practices, providing access to affordable loans for households in India and made a concrete difference to the lives of individuals in 54 households in Rajasthan. Her methodologies have also shaped understanding of and framed new research commissions on politics, crime and governance at FDCO.

5. Sources to corroborate the impact (indicative maximum of 10 references)

- A. Testimonial from team leader of the Governance, Conflict, Inclusion and Humanitarian (GCIH) Research Commissioning Team in the Department for International Development (DFID), now the Foreign Commonwealth and Development Office (FCDO)
- B. Twitter thread on public procurement: <https://bit.ly/3rUqD1Z>
- C. Testimonial from Village Invest CEO
- D. Description of EDRAF
- E. EDRAF impact reporting from villagers in Tonk district (2017-2018) ('How a loan to purchase a buffalo is enabling [a villager] to build a better future for their children' (<https://vimeo.com/259064187>); 'Investing in livestock: a stepping stone to a more secure life in rural Rajasthan' (<https://vimeo.com/258164374>); 'A simple fix to double the harvest: fencing the fields' (<https://vimeo.com/263879331>); 'Investments that are changing lives for real in a cluster of villages in rural India' (<https://vimeo.com/258154538>). All videos available on request.
- F. EDRAF impact reporting from villagers in Tonk district, Rajasthan (2019-20)