

# Consortium on Law and Values in Health, Environment & the Life Sciences

## Student Proposal Cover Page

### Applicant Information

Applicant Name: Maria Dooner Date: 2/18/08

Project Title: Agricultural Microfinance in Malawi: Investigating the Role of Financial Services in the Agricultural Sector of Developing Countries

Department: Law School College: University of Minnesota –Twin Cities

Home address: 1849 Washington Ave S, Apt 138 City & State: Minneapolis, MN Zip: 55454

Faculty advisor name: Not applicable Email: \_\_\_\_\_ X Not applicable

Dept. Head's name: \_\_\_\_\_ Dept. Head's email: \_\_\_\_\_

Dean's name: Guy Uriel-Charles & Fred Morrison Dean's email: [gcharles@umn.edu](mailto:gcharles@umn.edu)  
[morrison@umn.edu](mailto:morrison@umn.edu)

How did you hear about this funding opportunity? Website & Law School

### Funding

Amount of funding requested: \$ 5,000

Funding justification: [a clear statement of what you will use the funds for without going into budget details]

This funding includes travel expenses (air plane ticket to Malawi and accommodation) and salary funds, which would include time spent accessing research sources and conducting research for this project while in Malawi.

### Approvals

*Check all appropriate approvals required for your proposal. Approvals must be obtained prior to receipt of funding. If you have applied for approval but have not yet received it, indicate that below.*

IRB Date submitted: \_\_\_\_\_ Number: \_\_\_\_\_

IACUC Date submitted: \_\_\_\_\_ Number: \_\_\_\_\_

Other Explain: I have approval to visit field experiment in Malawi through University of Michigan and World Bank. (I can provide a letter/email for approval if requested)

### For Use by the Consortium Office

The proposal is 1000 words or less excluding budget, biographies, references and citations.

The proposal includes a work plan with a specific timeline using months or quarters to identify work to be done and completion dates.

The proposal includes a 1-2 paragraph biography of the applicant and all co-investigators.

## **Agricultural Microfinance in Malawi: Investigating the Role of Financial Services in the Agricultural Sector of Developing Countries**

Microfinance has often been praised as a new cure to poverty within low income countries. Access to financial services is particularly essential within the agricultural sector of these countries where “three-fourths of people live in rural areas, and are strongly dependent on agricultural activities in both indirect and direct ways.”<sup>1</sup> By providing a source of credit, microfinance strives to promote self-sufficiency and economic development in poor regions. However, rural borrowers tend to be neglected and practitioners face difficulties with establishing self-sustainable financial institutions, which provide services to agriculture. These challenges include climate and market risks, high default rates, high transaction costs, and a lack of infrastructure. As compared to other regions, “Africa is particularly vulnerable to vagaries of weather, unpredictable aid flows, and volatile commodity prices.”<sup>2</sup> Overall, access to credit is inevitably difficult for rural farming households, and only 20% of African families have bank accounts.<sup>3</sup>

Consequently, various microfinance initiatives and experiments are emerging to expand financial access for agricultural activities and to offer farmers and agricultural enterprises the opportunity to save and increase their earnings. In Malawi, where most households are extremely dependent on agriculture, “there are several institutions which offer credit to small farmholders to allow them to buy fertilizer, seeds, and other inputs for growing maize and tobacco as a way of helping raise incomes.”<sup>4</sup> Many of these farmers are extremely poor, own less than 1 hectare of land, and produce low crop yields. They are trapped in a cycle with very little financial resources to reinvest in the form of good inputs for the next agricultural season. Hardly providing enough food for themselves let alone their business, it is questionable whether these farmers can benefit from any source of financial credit

While data on financial access is known to be scarce, a recent report from the World Bank shows that “a significant amount of empirical analysis has been conducted on issues, such as measuring and evaluating the impact of financial access.”<sup>5</sup> This project aims to further

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<sup>1</sup> Agricultural Microfinance: Farm Conference- [//www.farm-foundation.org/article.php3?id\\_article=230](http://www.farm-foundation.org/article.php3?id_article=230)<=en

<sup>2</sup> “African Banks: On the Frontier of Finance” *Economist* (Nov 15<sup>th</sup> 2007)  
[http://www.economist.com/finance/displaystory.cfm?story\\_id=10146637](http://www.economist.com/finance/displaystory.cfm?story_id=10146637)

<sup>3</sup> “African Banks: On the Frontier of Finance”

<sup>4</sup> Aliou Diagne and Manfred Zeller. “Access to Credit and its Impact on Welfare in Malawi,” *IFPRI*, (2001), pg. 7

<sup>5</sup> [http://siteresources.worldbank.org/INTFINFORALL/Resources/4099583-1194373512632/FFA\\_overview.pdf](http://siteresources.worldbank.org/INTFINFORALL/Resources/4099583-1194373512632/FFA_overview.pdf)

advance the knowledge on *financial access as it relates to the agricultural sector* within poor developing countries. The final product will be a research paper which accomplishes two main goals:

- 1) The paper will analyze the advances and challenges of agricultural microfinance in low income developing countries.
- 2) This analysis will incorporate specific policies and methods which can be adopted to broaden financial access to these regions and improve opportunities for agricultural development.

Focusing on countries in sub-Saharan Africa, this paper will explore strategies employed by researchers and institutions which provide small loans and savings products to farmers, and encourage the use of savings for agricultural inputs. It will also address techniques utilized to mitigate risk associated with the vulnerabilities within the environment as well as the political and economic instabilities within developing countries.

In order to accomplish my two main goals, I will conduct literature reviews on agricultural microfinance in low income countries, collect data through existing research and websites of organizations, such as the World Bank, and gather on-site information and knowledge through a two-week visit to a field experiment in Malawi<sup>6</sup>, conducted by the Malawi Rural Finance Company, Cheetah Paprika, the University of Michigan, and the World Bank. While in Malawi, I will speak with banks, agricultural companies, farmers, and members of the World Bank, who are conducting this project to expand financial access to Malawian farmers. I will particularly focus on 1) their promotion of savings accounts, which are used to help farmers invest in agricultural inputs, and 2) their emphasis on certain cash crops, such as paprika, which “offer the prospect of larger returns to investments in improved inputs.”<sup>7</sup> I will investigate the various obstacles encountered by each of these groups, and will gather a large portion of information from focus group discussions with farmers. This project will explore their attitudes towards these savings accounts, their ability to save, and challenges they face in the agricultural

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<sup>6</sup> My visit to this field experiment has been authorized by University of Michigan Professor Dean Yang and World Bank Consultant, Santhosh Srinivisan.

<sup>7</sup> Biometric and Financial Innovations in Rural Malawi (BFIRM), Concept Note, (Feb 2008)

sector. In addition, I will assess their relationships with the multiple actors in this project, and address issues involving transparency, trust, and commitment.

### **Time Plan**

***June to Mid- July:*** Research on agricultural microfinance and the access of financial services in developing countries.

***Mid-July to Early August:*** Two week trip to Malawi to investigate and gather research on microfinance field experiment with rural farmers.

***August:*** Analysis and Completion.

### **Innovative Contribution on Interdisciplinary Work on Agricultural Development**

This research project will help contribute to work which strives to improve agricultural development within low income countries. By having access to financial services, many rural farmers and agricultural enterprises will have a better opportunity to compete and will be in a better position to “make long term investments and important decisions for unpredictable and risky income flows.”<sup>8</sup> Studying the role of financial service access in agricultural development has significant potential to increase participation by multiple organizations, which can successfully work together to develop inclusive financial systems, improve the lives of smallholder farmers, and combat poverty. Through a Consortium grant, I will be able to utilize my knowledge and research experience to contribute to these issues and successfully prepare a paper for publication.

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<sup>8</sup> World Development Report 2008: Agriculture for Development, *The International Bank for Reconstruction and Development/World Bank*, (2007).

### **Budget Estimate**

#### ***Travel***

Airplane ticket= \$2,800

Accommodation= \$300

Total Travel Expense= \$3,100

Total Travel Reimbursements= \$2,000

#### ***Salary***

Salary: Research ( $\$15 * 20 \text{ hrs per week} * 10 \text{ weeks}$ ) = \$3,000

Total Salary: \$3,000

**Total Budget Request= \$5,000** [(Salary = \$3,000) + (Travel Reimbursement= \$2,000)]

### **Biography**

Over the past four years, I have been involved in a combination of private and public sector work on finance and economic development. Following graduation from college, I worked in finance and accounting at PricewaterhouseCoopers in New York, however, my strong interest in economic development did not emerge until I was a graduate student in public policy at the University of Michigan. During this time, I worked as a research assistant for a law professor on a study of access to financial services within the Detroit Metro Area, and also helped teach a course on STATA (statistical software program) at the University of Cape Town in South Africa. Through the *South Africa Learning Distance Project*, I created a teaching module on “Remittances in South Africa”, which analyzed the amount of money sent and received within the townships of the country. Recently, I co-authored an article in *Yojana* Microfinance Issue (Publications Division of India), which addresses the credit needs of rural farmers in India. I am presently a law student at the University of Minnesota, and would like to pursue a career where I can contribute to issues involving economic development and the reduction of domestic and international poverty.

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The budget form is complete including the funds sought for this project, other pending applications for this project, and the amount/source of matching or other funds.

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The applicant's faculty advisor is copied on the application email. Professional students w/o advisors check NA.

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All necessary approvals are pending or received.

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*Consortium on Law and Values in Health, Environment the Life Sciences*  
**Budget for Student Proposals**

Requested funding	Matching/other funding	
Amount	Amount	Source
\$3,000		
0		
0		
\$3,000		
0		
0		
0		
\$2,000		
\$2,000		
<b>\$5,000</b>		