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EXCLUDING THE POOR

The banking sector was not alone in a long list of society's institutions that excluded poor people Poor and low-income people are excluded roundly from most economic systems, political processes and social services.

Source: Heather A. Clark. 2005. When There Was No Money: Building ACLEDA Bank in Cambodia's Evolving Financial Sector, p. 1.

Serving Migrants Sustainably

A CASE STUDY OF REMITTANCE SERVICES PROVIDED BY A MICROFINANCE INSTITUTION IN INDIA



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INTRODUCTION

The focus of the growing attention being given to money transfer services as a potential opportunity for microfinance institutions (MFIs) has been on cross-border remittances.¹ However, in most countries, the number of

domestic migrants far outnumbers those who migrate abroad, and the volume of domestic remittances equals if not exceeds that of international remittances.² In India and the People's Republic of China, huge flows of migrants cross the country in search of a better life for themselves and their families, who mostly stay behind in their villages. Internal labor migration has a long history in India, and is probably increasing with differential rates of growth in different states and pockets within states. Domestic migrants come disproportionately from the poorest income groups and areas, which is why domestic migration plays a larger role in reducing poverty than does international migration.³ Moreover, domestic migrants come disproportionately from areas that banks have not penetrated. Outgoing cross-border migrants tend to come from families with bank accounts, or from locations that have banks and post offices. The cross-border remittances their families receive can therefore be remitted formally by banks, or by money transfer companies with tie-ups with post offices. This is not usually the case for domestic remittances. Therefore, much more action research is needed on how MFIs can viably broaden their portfolio of services by providing remittance services to domestic migrants.⁴ This article discusses the early experience from a pilot project in Gujarat in India.⁵

MIGRANTS FROM ORISSA IN GUJARAT

For historical reasons, and to minimize search costs, areas sending out migrants tend to specialize in particular destinations. Once the number of migrants from any particular area of origin reaches a critical minimum in a particular destination, it becomes feasible for an MFI to provide remittance services by establishing a

presence in both areas, or by tying up with another MFI, or a bank. One such pair of origin and destination area is a compact area of villages around Tangi in the State of Orissa in eastern India, which has at any one time a population of 8,000–10,000 migrants in Gandhidham (GDM) in the State of Gujarat in western India. They constitute half the migrant population and a fifth of the total working population in GDM. In 2002, Adhikar, an NGO-MFI based in Orissa, set up an organization of Oriya migrants in GDM, called Shramik Sahajog (“Workers Cooperation”). Adhikar was already active in providing savings and credit services through cooperatives in the originating area in Orissa. It is now using remittances, along with savings, as an entry point activity in the destination area.⁶

GDM and the area around it have a large number of small industries, some of them located inside an export processing zone (EPZ). About 20 kilometer to the south is Kandla, the second largest port in India. A large number of Oriya migrants (OMs) work in hosiery-knitting and salt-making units, and in plywood factories which process imported timber off-loaded in Kandla. However, the largest single employer of OMs is Kandla Port, where about 5,000 OMs work in small teams, in loading and unloading operations, under subcontractors or jobbers who are also from Oriya. They tend to be younger and less well educated than the semi-skilled knitting factory and other workers. During gaps in the availability of work, many of them go to other parts of Gujarat, or return home, especially in the rainy season, to work on their own farms or as farm laborers. Other groups of OMs are regular salaried employees, employed mostly in the railways, and a smaller number self-employed as small business owners running auto-rickshaws, tea shops, telephone booths, garages, etc. Only about 5,000 OMs are in the area continuously, visiting home every 1 or 2 years. The rest, mostly the manual workers, fluctuate in number, coming and going with the vicissitudes of employment.

The OMs with the highest earnings are the salaried and the entrepreneurs. They tend to be the ones who have been here the longest, and whose families are in GDM. Another small group of relatively high earners are the jobbers (or mukkadams) around whom labor hiring, remuneration, and labor management generally are organized both in Kandla and the EPZ. The hourly wages of the manual workers in Kandla are slightly higher than what the factory workers make through piece rates, but average

days worked are lower, at about 20 days a month.⁷ Nearly all of them are without their families, sharing rooms, or living in dormitories organized by the mukkadams. Living expenses, especially health expenses, are relatively high in GDM and costs are said to go up when ships come in. Workers manage to get by with spending Rs1,200–Rs2,000 a month (\$27–\$44, at Rs45 to a dollar). The balance is saved with the mukkadams, some of it as arrears payments, or with trusted elder workers, or in bank accounts usually as recurring deposits until the deposit matures or the saved amount has been “bulked” enough to be remitted home.

A survey of the 30 Shramik Sahajog members showed that they had remitted an average of Rs1,275 per month over the last 12 months, through all channels. Their average monthly earnings in the previous year had been Rs3,222 and their families back in Orissa were indebted to the extent of Rs9,333. Their average length of stay in GDM is 7 years. Remittances are positively correlated with earnings and family indebtedness in Orissa.⁸ The net effect of length of stay in GDM is indeterminate but likely to be negative.⁹

REMITTANCE CHANNELS

The main existing modes of sending money back home are (i) carrying it back oneself or sending it through friends and relatives who are visiting home, (ii) sending it through the post office through money order (MO), or (iii) sending it through a bank by bank draft. The City of Surat, also in Gujarat, which employs about a million OMs, has in addition at least one informal sector remitter who, taking advantage of modern electronic communications, runs a private remittance service. The shares of the modes in Table 1 are guesstimates of shares based on number of remittances rather than amounts. On a volume basis, the share of bank accounts might be as high as a

A survey of the 30 Shramik Sahajog members showed that they had remitted an average of Rs1,275 per month over the last 12 months, through all channels.

TABLE 1. RELATIVE ADVANTAGES OF DIFFERENT MODES OF REMITTING MONEY

	Banks	Post Office	Private (only in Surat)	Hand-Carry (oneself, or through returnees)	Shramik Sahajog
Access	Improving, with the growing number of branches and bank accounts, and the possibility of cashing drafts through trusted friends or relatives with bank accounts	Universal	Universal	Universal, but most people cannot wait until they or a relative or trusted friend is due to return	Membership open to anyone willing to save Rs100 a month to become a member
Convenience	Recipient has to go to bank with draft to deposit, or to encash through an "introducer" who has an account in the branch. Delays are sometimes experienced on account of cash shortages	More convenient than bank since the MO is delivered at the doorstep although, in practice, the recipient often has to travel to the local post office to collect	Recipient has to visit one of several counterparts to receive remittance cash	Door to door	Door to door if remittance money is collected at residence or at the office (see below) and if the recipient is willing to pay Rs10/20/30 extra for doorstep delivery, depending on amount
Risk	Negligible	Risk of loss is negligible; but if money order gets lost because of wrong address, remittance money can be delayed for months	Not known	Possibility of theft on train back home (and also of a falling out with friend)	Negligible
Speed	3–5 days for draft to be sent by registered mail by remitter, plus a day each at issuing and paying bank. Banks can send mail drafts through their own channels, but this takes longer	15–20 days depending on residence of remittee. Post office has introduced bulk electronic transmission to intermediate centers around the country but this usually takes longer because of time taken between the receiving center and village post office. Local post office is often out of cash	Fastest. Advice reaches paying center within 24 hours, and reportedly within 1 hour on payment of extra charge for telephone communication. However, how dense the network of counterpart paying centers is is not known	Train journey takes at least 48 hours	2–3 days (procedure described below)
Cost of remitting Rs3,500 (the modal size of a Shramik Sahajog remittance)	Rs48 plus time costs. Rs20 for the first Rs5,000 for most banks, plus a registered post fee of Rs28, plus time costs of at least one trip to branch at each end	Rs175 plus time costs. At 5%, it is the most expensive mode. In practice, remitees have to go to the local post office to inquire and collect, which entails time costs	Rs140 plus time costs: 4% for a 24-hour service, double for 1 hour service. Plus visits to service provider at either end	Free, although in Surat, one often has to pay Rs50 as a tip to a friend	Rs80–100, at 2% service charge (Rs70) plus Rs10/20/30 for doorstep delivery, depending on whether the amount is less than Rs5,000; between Rs5,000 and Rs10,000; or greater than Rs10,000
Share, for Shramik Sahajog members (guesstimate)	Less than 10% of number of remittances, but growing	About a third, set to decline	Not applicable	More than half	About 4%, but set to grow

quarter, and is likely to grow further as the post office loses ground to both Shramik Sahajog and those banks that have branches in the receiving area in Orissa and GDM. Higher income remitters use the banks, and Kandla Port workers who tend to go home frequently either wait until they are going home themselves or send cash through relatives or trusted friends, although this option too is not entirely free of risk given the possibility of theft. In this market for remittances entered Shramik Sahajog. Table 1 presents brief details on each of these modes.

SHRAMIK SAHAJOG: PROCEDURES

To become a member of Shramik Sahajog, one should save Rs100 a month in a recurring deposit account. Savings and remittance money received in cash is accepted by the two Shramik Sahajog staff in GDM during office hours (morning and evening, 7 days a week since both staff live on the premises) or during afternoon visits to the main residential neighborhoods, which are visited according to a fixed schedule. The money is deposited on the same or, at the latest, next day, in Shramik Sahajog's bank, which allows simultaneous (and free) crediting of amounts deposited in GDM to Shramik Sahajog's account in the Orissa branch of the same bank. A savings and money remittance statement is e-mailed to Adhikar's main office in Orissa twice a week—on Monday and Thursday evenings. On the following day, the main office withdraws the cash and sends it to the field office in Tangi, 60 miles away by bus. The field office disburses most remittances within 24 hours and all within 48 hours. Thus, if a member gives his remittance to the GDM staff on a Monday or Thursday, the recipient receives it the following Wednesday/Thursday or Saturday/Sunday (i.e., in 2–3 days). Shramik Sahajog also offers a third product—a group life insurance scheme implemented on behalf of an insurance company by collecting premia from subscribing members and transmitting them to the insurance company. A fourth product under consideration is limited lending locally in GDM as there are reports of OMs borrowing in emergencies at very high interest rates.

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PROSPECTS AND ISSUES

In progressing toward financial sustainability, the main variables that Shramik Sahajog can influence or control are the pace of membership expansion, level of the service charge, and costs (which are largely a function of staffing structure).¹⁰ The volume of remittances per member is outside Shramik Sahajog's control, and depends on the propensity to remit (currently almost 1) and on increases in income and savings of the OMs, which is a long-term process, and is tied with the growth of economy of the GDM area. Sustainability projections show that if membership grows to about 2,000 (two fifths of the permanent population of OMs of at least 5,000), Shramik Sahajog will become financially sustainable in about 3 years, on the basis of the present service charge, which is 2%. However, this has to be tested against actual results.

Since most banks charge a fixed Rs20 for drafts of up to Rs5,000, the 2% service charge can be a maximum of five times higher than the charge for issuing a bank draft.¹¹ However, just as micro credit from MFIs has to be priced higher than bank credit, given the higher transactions costs of micro loans, remittances from MFIs necessitate a higher service charge because of lower average remittance size and lower volumes. Moreover, MFIs are in a position to offer a higher standard of service in terms of superior access and convenience. Competition from the post office is much less of a threat, the most important reason being the cost of money orders, which is 5%. This is an extremely high charge (the equivalent of almost 1 day's wage every month).

CONCLUSION

India is a large country with a great deal of internal migration of various types—seasonal/semi-permanent, rural-urban/rural-rural, intra-district/intra-state/inter-state, individual/in groups, sometimes whole villages migrating seasonally en masse, self-propelled/organized through contractors, male/female, annual/skilled/clerical/entrepreneurial, and with/without families. And the extent of internal migration is likely to grow with the emergence of high growth states and areas within states. Most kinds of migrants are likely to have a need for remittance services except short distance or seasonal migrants. One requirement to enable an MFI to meet this need is that there should be a critical minimum number of migrants in the place of migration destination (which does not have to be very large,

as in the present case) from a particular place of origin, which will almost invariably be a rural area. At least a dozen larger cities in India are likely to meet this condition, each of them for several groups of migrants from different parts of the country. Like Adhikar, MFIs can either establish a base in the city or area of migration destination, or tie up with an existing MFI or bank or money transfer company in that area. Adhikar is itself planning to open another branch in the City of Surat, also in Gujarat, where almost one million OMs work as power loom weavers. The competition here will be more severe, from informal sector remitters, of which at least one already exists, as shown in Table 1. How Shramik Sahajog measures up to it will be interesting to see.

The other requirement is that the MFI should be willing to charge a cost-recovering service charge, since there is no social justification for subsidizing MFI remittances in the absence of the universal service obligation that the post office assumes (it undertakes to deliver a money order to any person in the country). The service charge is likely to be higher than that charged by the banks, which enjoy greater economies of scale and scope. However, until the banks become a real alternative to most remitters, MFIs have enough headroom to increase service charges sufficiently to achieve viability.

Migrants have a vast range of problems including lack of employment and physical insecurity; separation from families and children; and lack of housing, sanitation, and educational opportunities. Given the existence of the money order system and informal channels, MFI remittances services are not likely to be the most important of their needs. But they do provide an entry point for new MFIs and an opportunity to existing MFIs to broaden their portfolio of services, and to do so profitably, in the process increasing access, decreasing the cost of remittances considerably in relation to MOs, and removing the sense of uncertainty migrants experience about whether remittances have reached their destination.

ENDNOTES

¹ See, for instance, Jennifer Isern et al, "Money Transfers: Taking Advantage of a Market Opportunity," *Finance for the Poor* 6, No. 1 (Asian Development Bank [ADB], March 2005).

² In Vietnam, seven out of eight remittances received are domestic,

constituting 50% of the total in value. See Cerstin Sander, "Capturing a Market Share? Migrant Remittances and Money Transfers as a Microfinance Service in Sub-Saharan Africa," *Small Enterprise Development* 15, no.1 (March 2004): 20–34.

- ³ See World Bank, "Global Economic Prospects: Economic Implications of Remittances and Migration," 2006, and UNESCAP, "Migration Patterns and Policies in the Asian and Pacific Region," *Asian Population Studies Series* (2003): 160, which finds that in the Asia Pacific region generally, international remittances accrue disproportionately to the richer regions and domestic transfers to the poorer regions.
- ⁴ As Isern et al point out such MFIs can also provide "last mile" transmission of remittances originating from abroad by tying up with banks and money transfer companies that handle the international part of the transmission. However, in practice, the proportion of the poorest groups receiving overseas remittances is still small, at least in India.
- ⁵ It is based on a much longer version of a case study of the project: Prabhu Ghate, "Serving Migrants Sustainably: Remittance Services Provided by an NGO in Gujarat," *Economic and Political Weekly* (Mumbai, April 23, 2005). The project was sponsored by CARE India through the Research and Innovation facility of the CASHE project financed by the Department for International Development.
- ⁶ Adhikar, a registered society, started organizing savings and credit groups and linking them to the banks in 1995. Since 2001, it has been transforming federations of these groups into registered cooperatives. Shramik Shahajog is presently a branch office of Adhikar but is expected to be incorporated into the cooperatives.
- ⁷ Their work is characterized by spells of very hard work when a ship or train comes in, extending over three shifts in some cases, punctuated by gaps until the next vessel comes in, when they may just relax—given the strenuousness of the work—or leave the area altogether. They are very conscious of the risk of falling ill if they overdo it. The work is risky, and accidents are not unknown, although worse may be the health hazards in other industries such as the salt factories.
- ⁸ However, causation appears to run both ways. While debt leads to migration, migration enhances family credit-worthiness and leads to higher borrowing. See the longer version of the case study referred to in footnote 5.
- ⁹ Length of stay is positively correlated with income as migrants slowly move up the employment ladder or set up businesses. On the other hand, this effect is likely to be dominated by the fact that older migrants are more likely to be married, with some of them having their families with them in GDM, and therefore likely to remit less. Regressions were carried out to assess the significance and impact of the three variables on remittances. Only the first turned out to be significant at the 10% level, a 1% increase in lagged (last year's) earnings leading to a 0.95 increase in remittances.
- ¹⁰ Issues with regard to membership expansion are the level of the savings requirement and the degree of liquidity of the savings; and of the scope for enhancing the convenience, accessibility, speed, and reliability of the remittance service. Cutting costs in GDM seems to have little scope, although with cooperatives slated to take responsibility for distribution of incoming remittances, there are scope for economies in Orissa.
- ¹¹ For a draft of Rs3,500, which is the average size of a remittance, it is Rs70 as against Rs20 charged by the banks, as shown in the table. However, the charge is still two fifths the post office rate for money orders.

Pushing the Frontiers of Microfinance



Despite significant growth in the microfinance industry in Asia and the Pacific in the past two decades, millions of people in the region remain trapped in the poverty cycle because they are excluded from formal financial systems

More must be done to push the frontiers of microfinance if the industry is to have a greater impact on poverty reduction in

the Asia and Pacific region, according to Asian Development Bank (ADB) President, Mr. Haruhiko Kuroda.

Addressing the Empowering the Grassroots Economy: Microfinance for Growth and Happiness International Conference, hosted by the Government Savings Bank of Thailand, and co-sponsored by the Secretariat of the Prime Minister of Thailand, the Thai Ministry of Finance and other Thai Government ministries and agencies, in Bangkok in November, Mr. Kuroda said that while microfinance was not a “magic bullet,” it could play a significant role in the fight against poverty within an “appropriately designed, integrated approach.”

Asia has made remarkable progress in the fight against poverty but, despite this dazzling performance, the region is still home to the majority of the world’s poor. Poverty is simply and obviously our most pressing problem. And poverty reduction is ADB’s overarching objective, Mr. Kuroda said.

History had shown that economic growth is the most effective way to reduce poverty, he said. Between 1990 and 2003, rapid economic growth helped lift 300 million Asian people out of poverty. “However, economic growth can still leave many people in persistent poverty if they do not have the necessary capacity to participate in and benefit from the growth process,” Mr. Kuroda said.

FUNDAMENTAL FLAW

“Many studies on poverty indicate that the reason poor households are unable to participate in the development process is their exclusion from the financial system. This is the

fundamental flaw of our conventional formal financial systems,” Mr. Kuroda said.

In a typical developing economy in the Asia and Pacific region, the formal financial system at best serves no more than 20% to 30% of the population, he said, and excludes 70% to 80%, the majority of whom are poor.

As a result, these households find it extremely difficult to take advantage of economic opportunities, build assets, finance their children’s education, and protect themselves against external financial shocks. Thus, financial exclusion not only pushes them but also tightly binds them into a vicious circle of poverty.

Mr. Kuroda cited examples of “visionary social entrepreneurs” such as Professor Muhammad Yunus, the pioneer of the Grameen Bank of Bangladesh, “who have shown the world that financial exclusion is simply unacceptable, its underlying premise that the poor people are not bankable is simply incorrect, and that there are effective ways to address the exclusion.”

Two decades ago, only a small number of poor people in the region had access to financial services from semi-formal or formal sources, Mr. Kuroda said. Most had to rely on either informal sources or self-

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finance. “Thus, the poor were compelled to suffer from the financial market failure and to persist in poverty.”

Today, the number of poor households with access to formal or semi-formal sector financial services exceeds 100 million, according to some estimates.

“In some countries, notably Bangladesh, Cambodia, Indonesia, and Mongolia, the microfinance industry has made great strides in providing poor people with access to financial services,” Mr. Kuroda said.

OUTSTANDING INSTITUTIONS

A wide range of institutions have taken part in this effort, including nongovernment organizations, private sector commercial banks, specialized microfinance banks, state-owned commercial banks, development banks, savings banks, such as the Government Savings Bank of Thailand, and member owned co-operatives.

“Today, the region is home to some of the most outstanding microfinance institutions in the world,” Mr. Kuroda said.

These included the Grameen Bank, known for its pioneering efforts in showing that the poor are bankable; the Bank Rakyat Indonesia, similarly noted for its outreach, profitability and success in deposit mobilization; the Association for Social Advancement in Bangladesh, known for its efficiency, profitability and massive outreach to the poor; BRAC in Bangladesh, known not only for its integrated approach to financial services to the poor, but also for its innovative programs to deepen the services to the poorest; and ACLEDA Bank in Cambodia which has shown remarkable success in building commercial microfinance in a country that still suffers from the legacy of more than 20 years of civil unrest.

“This institutional diversity is critically important to better serve the poor, whose needs are also diverse. No one institutional model fits all,” Mr. Kuroda said.

He also cited the diversity in approaches to

providing such services. “Some institutions provide services directly through their own branch networks. Others rely on a multi-pronged approach and partnerships with other institutions to reduce transaction costs. An increasing number of institutions have integrated new technologies to reach the poor more effectively.”

AVOIDING COMPLACENCY

However, Mr. Kuroda, while recognizing that such achievements were “remarkable by any measure,” also warned against complacency.

“The stark reality is that the majority of poor households do not have access to financial services from any semi-formal or formal source,” he said. “Today, most microfinance industry clients are near the poverty line: the industry has not as yet paid adequate attention to pushing the frontier of services to include the poorest.”

In most countries, microfinance does not reach many remote

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broadening the scope of services will we make the financial system inclusive in the true sense of the term," he said.

Though he admitted there were no simple solutions, he outlined a three-pronged approach to making the industry more accessible.

Firstly, it was essential to recognize the pivotal need to bring



areas or poorer states or provinces, Mr. Kuroda said. In India, for example, most outreach is concentrated in three or four southern states, while states with a much higher poverty incidence have not benefited from the industry's growth.

"With few exceptions, microfinance is heavily credit biased. Demand-driven deposit services, micro-insurance and domestic money transfer services are yet to become a major component of the industry's scope of services," he said.

Mr. Kuroda stressed the need to address these issues: "Only by enabling the poorest to access financial services, reducing the unevenness in the industry growth pattern, and

broadening the scope of services will we make the financial system inclusive in the true sense of the term," he said.

down the high cost of semi-formal and formal microfinance.

"For example, some institutions in the region charge effective annual interest rates in the range of 40% to 80% on microcredit," Mr. Kuroda said. Many poor people borrowed at these rates because the alternative source of credit for such people is the informal markets where the rates are much higher and usurious.

It was essential to recognize that there are many millions of poor people who are unable to access the services of semi-formal and formal sources of finance partly because the prices charged on the products and services are beyond their ability to pay.

IMPROVING EFFICIENCY, CUTTING COSTS

"While charging cost recovery interest rates is important for financial viability, profit and growth of the institutions, it is also essential to improve efficiency and reduce costs so that interest rates do not have to be exorbitant," Mr. Kuroda said. This would enable the industry to serve an increasing number of poorer people in particular.

He said not enough attention had been paid to the importance of improving efficiency and reducing high costs in the industry. "The answer to high costs and high interest rates, however, is neither subsidies nor interest rate caps on loans to the poor because both would reduce, rather than increase, poor people's access to financial services, and thereby eventually hurt them," he said.

Some industry promoters assumed that the demand for microcredit was inelastic. If this is true, high prices do not matter, he said. A recent study by the ADB Institute in Tokyo challenges this elasticity assumption. The study shows that poor people are very sensitive to interest rates.

Second, Mr. Kuroda said it was crucial for governments to pay more attention to creating an enabling environment for profitable investment opportunities for the poor.

For this, rural infrastructure and other facilities must be

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inappropriate interventions such as the interest rate ceilings that hurt industry growth. But adopting sound policies that promote finance for the poor, and supporting capacity development of retail institutions are most definitely within their purview, he said.

“ADB has been assisting governments in these tasks and will continue to do so,” he said.

“A financial system that serves only a minority of a country's people is unacceptable. Building inclusive financial systems that serve the majority should be made a central goal of every developing country.”

Mr. Kuroda stressed ADB's strong commitment and support to promote this goal and build inclusive financial systems in the region.

improved. Such investments will reduce risks and transaction costs for both clients and the microfinance institutions, and thereby help expand the industry in a more equitable and sustainable manner.

ADB has recognized the importance of infrastructure for poverty reduction and is increasing its assistance for infrastructure development.

Third, governments have a critical role to play in building inclusive financial systems that serve the poor. However, this role needs to be carefully carved out depending on the country context, and efficiently and effectively executed.

In general, Mr. Kuroda said, governments need to avoid

BOOK REVIEW

Savings Services for the Poor: An Operational Guide

By Hirschland, Madeline, ed.

Bloomfield Connecticut: Kumarian Press, Inc., 2005.

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In the 1960s and 1970s when small farmer credit was being emphasized, most policy makers and financial institutions involved in providing credit to small farmers overlooked an important component of rural financial services: savings services. Thus, some researchers described savings as "the forgotten half" of rural finance. However, despite the lessons learned during that period about the significance of savings services for the rural population, the microfinance industry also repeated the same bias against savings services. For most practitioners, microfinance was essentially provision of micro credit to the poor. While the early period domination of nongovernment organizations in the microfinance industry had a significant bearing on this bias, a more fundamental factor was behind it. This factor was the deep-rooted presumption that the poor have neither a capacity nor a willingness to save in financial assets. Today, most policy makers, practitioners, and promoters of microfinance seem to recognize the importance of savings services for the poor. However, as the editor of this book notes in her introduction, "our pursuit of microfinance best practices has largely bypassed savings" and "credit is still the focus of the vast majority of resources and training. This is a problem because managing savings well is critically important", "distinctly demanding, and often neglected" (pp. 1–2). The book expects to "help fill this gap" (p. 2).

The book is intended to provide a practical, step-by-step guide for developing and managing sound savings operations. According to the editor, “this guidance is directed toward two types of institutions. The first are credit-led microfinance institutions (MFIs) that want to initiate or strengthen their savings operations. The second are regulated financial institutions that already have strong savings operations and want to extend these to smaller or more rural depositors. The book addresses the chief management challenges for each (p. 2) and aims at “two sets of readers. The first are senior managers, board members, and technical assistance providers who are involved in savings operations...The second group includes donors, regulators, and other policy makers whose work can make or break these efforts” (p. 8).

The book is well structured and consists of three parts. Part I provides an overview to savings operations. Part II discusses the building blocks of viable and valued services, and Part III deals with the question of how to manage risks and achieve high productivity. The major focus of the book is on the savers who are unlikely to be served by commercial banks. With this focus, it looks at how this category of the potential clients could be served efficiently and effectively by a variety of financial institutions.

Despite the editor’s modest claim, Part I provides the readers with much more than an overview of savings operations. Although Stuart Rutherford’s chapter on “Why do the poor need savings services?” repeats most of what he has already published elsewhere, it outlines the case for voluntary savings services and specifies basic factors that MFIs must pay attention to, if they are to capture an increasing share of the market that informal sources now largely serve. Chapter 2 by Katharine McKee deals with conditions that an MFI must meet to offer voluntary savings services. This chapter not only raises a comprehensive array of practical questions that governing boards and MFIs must ask themselves before venturing into savings operations but also provides guidance on how to deal with these critical questions. What is remarkable about the chapter is that it clearly spells out the author’s position in respect of each question. For example, McKee points out that “well-managed nonprofits in some settings...have proven capable of effective governance and intermediation despite the absence of owners” and hence “nonprofit organizations should be

considered as candidates for offering deposit services if the preconditions described in the chapter have been met” (p. 34). However, her position that “the disclosures alert and enable depositors to consider for themselves whether the institution has sufficient internal capacity and is strongly governed” (p. 37) is highly questionable.

Chapter 3 of the book deals with the question of how costs can be contained within reasonable limits to make mobilization of small deposits a financially viable proposition. It provides guidance to achieve adequate volume of deposits and to manage operating costs. What I liked most about this chapter is the explicit recognition of the importance of maintaining an open door policy of savings services and guidance provided to MFIs on how this can be done. Chapter 4 provides a step-by-step guidance on how to develop or strengthen voluntary savings operations; examines the most common challenges; and emphasizes, as in many others, the critical importance of serious commitment of the board and senior management, if savings operations were to be successfully introduced, developed, and strengthened. Like in most other chapters, the boxes that provide institution-specific information drawn from a diverse set of countries enrich the value of the chapter.

Chapter 5 of the book focuses the attention to regulated financial institutions and deals with the question why few such institutions have chosen to expand their savings services down market. The chapter lists three major obstacles they face in downscaling savings services: costs, controls, and culture. The author emphasizes the key role of cost

The major focus of the book is on the savers who are unlikely to be served by commercial banks. With this focus, it looks at how this category of the potential clients could be served efficiently and effectively by a variety of financial institutions.

structure which eventually determines the customers that an institution will or will not serve, and points out that “in most cases, an institution set up to attract better-off clients simply cannot afford to serve large numbers of smaller depositors in its banking hall” (p. 95). Thus, regulated institutions need to develop low-cost delivery channels to reach the low-end of the market. The discussion of the chapter has been enriched with examples drawn from eight institutions that have implemented strategies to extend savings services to poorer or more rural clients. The chapter concludes that if banks are committed and willing to customize their savings services and delivery channels for low-end clients, “they can find a large and profitable market” (p. 112).

Part II of the book focuses on key aspects of providing quality savings services on a viable basis. Chapter 6 briefly discusses the process of developing or refining products. This chapter, written by Graham Wright, a well-known specialist in savings product development for low-income clients, emphasizes in particular the importance of understanding the market—its structure, performance, and other characteristics both from the point of view of the suppliers and potential clients. While providing operational guidance on product development and refinement, the chapter also conveys a strong message to MFIs to move from a “product-driven” to “market-driven” approach if they are serious about remaining in business. Chapter 7 moves the focus from the process of product development to the products themselves, discusses different types of products that meet the demand of low-income people and how MFIs should go about in choosing a mix of products. Process innovations are as much important as product innovations to expanding the frontier of financial services for the poor. This is why chapter 8 looks at different delivery channels. What delivery modalities can be, and are being, used and what factors influence the appropriateness of different types of modalities are discussed in this chapter. The chapter is enriched with cases from a range of countries and institutions. Chapter 9 offers guidance on how to set interest rates and fees for savings products and services, a subject which has hitherto received relatively little attention within the microfinance community. MFIs can benefit immensely from this chapter, given the fact that most do not adopt a systematic approach to setting prices. The final chapter of Part II looks at promotion of savings products and services and provide guidance on how to develop an effective

promotional strategy to “attract a larger number of depositors and a larger volume of deposits” (p. 211).

Providing savings services is not a simple matter of developing products, pricing them right, and marketing the products effectively. It is much more complex. First, there is a paramount need to ensure the safety of poor people’s deposits. Second, services need to be cost efficient. Meeting these twin requirements is a challenge that each institution must face. Part III of the book which consists of five chapters looks at the complex issues that go beyond the basic building blocks of viable and quality savings services. Thus, Part III primarily examines how to manage various types of risks ranging from risks of fraud, theft, and mismanagement to liquidity and interest rate risks, how to assess and ensure cost efficiency, and how to design staff incentive schemes to achieve high productivity which, in turn, is critical to viability of the services. Taken as a whole, Part III adds tremendous value to the book through its examination of these practical and complex issues.

There are many myths and misconceptions about providing savings services to the poor and low-income households. The literature on the subject in general has dealt with many of these. This book with its focus on providing practical guidance goes beyond the general myths and misconceptions helps readers to understand the complex issues associated with savings services and offer guidance on “how to” address those issues in a systematic and comprehensive manner. A remarkable characteristic of the book is that it draws from a diverse set of institutions in terms of scale, regulatory status, profit orientation and target orientation. This allows senior managers and board members of different types of institutions and donors, regulators, and policymakers involved in development of microfinance in general to better understand how issues vary depending on institutional types and develop deeper insights on how to address complex institutional-specific issues in an effective manner.

The book is highly recommended for those interested or involved in promoting quality savings services for the poor and low-income households. Although it is an operational guide, the book is also recommended for students seeking a better understanding of institutional savings services for the poor. The editor, chapter authors, sponsors, and publisher of the book must be commended for their efforts in adding this to the existing literature.

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