

FINANCE for the POOR

GETTING SERIOUS ABOUT BANKING WITH THE POOR

STUART RUTHERFORD¹

An infant industry

Banking for poor and very poor people is in its infancy. To be sure, we have had two brilliant decades of fascinating experiments with group-based lending to women to help them start and grow small businesses. But those schemes don't have much to do with real banking for the poor. When I talk about banking for the poor, I mean providing poor men, women, and children (not just women) with the same set of basic money management services that you and I take for granted – current accounts for everyday use, savings plans of various types, and access to loans for all sorts of uses and offered with a variety of terms and repayment options.

It used to be thought that the poor don't need such banking services because they don't have much money. In the last few years we have turned that understanding on its head. We now see that *precisely because they don't have much money* poor and very poor people need banking services even more than others.

Why the poor need banking services?

How does that argument go? It is actually quite simple. If you're poor you don't have much money to hand at any one time, and most of what you have is quickly spent on food and cooking fuel. This means that you don't have enough money readily available for other needs, even quite small ones. When you want to buy clothes, improve your home, bury grandfather, go to the doctor, bribe the land registrar, buy your farm inputs, entertain your in-laws, buy school books for your children, grow your business, or any other of the thousands of daily needs for money – you find you simply don't

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have the cash available. In such cases what do you do? Well, all too often you go without, unfortunately, and that is the great tragedy of the poor's lack of reliable banking services.

How to spend money you don't have?

But often those spending needs *can* be met, and in such cases they are met in one or both of two ways – out of *past* or out of *future* cash resources. To put it simply, if you can't buy what you need out of today's cash, you must buy

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Getting Serious

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it out of yesterday's, or out of tomorrow's, or a combination of the two. How do you do that? It's straightforward. Buying something today out of yesterday's resources means having **savings**. Buying something out of tomorrow's resources means getting someone to give you an advance against your future ability to **save** – or in other words, getting someone to give you a loan. Precisely because the poor have so little money to hand, compared to you and me, they need these money-management services even more often than we do.

Some evidence from the real world

This isn't just theory. Some research now being done by the Institute for Development Policy and Management (IDPM), at the University of Manchester in the UK for the Department for International Development (DFID), in Bangladesh and India, is vividly illustrating this process. In Bangladesh, for example, the financial transactions of 42 households in six locations (including villages and urban slums) are being tracked every 15 days for a full year. They show the wide variety of devices that poor people use to store and retrieve savings, and to get advances against future savings. They struggle to save a little cash at home, they store cash with others, sometimes in the form of loans, they borrow and lend each other's savings, they join rotating savings and credit associations (ROSCAs), and accumulating savings and credit associations (ASCAs), and village savings clubs of all sorts, they take credit from shopkeepers and suppliers and moneylenders, and where they are available they join NGOs or poor-friendly insurance schemes. The existence of these devices has long been known, but what the IDPM research is revealing is the intensity with which they are used by practically every household, the

rapidity with which the cash revolves, and the complexity of the relations between the various devices. Twenty or even 10 years ago in Bangladesh, NGOs believed that the poor were without financial services of any kind other than exploitative moneylenders, whereas today we see that NGOs are just new players in an already dense net of financial relationships in villages and slums. Critics of NGOs have sometimes pointed out that NGO members often borrow from others to repay NGO loans, as if this were a criticism of the NGO's work. But we now see that this is a misconception – the use of scarce cash is optimized wherever possible, and NGOs are just another staging-post on the restless circuitry of the poor's money.

So they're doing OK on their own, then?

Does it follow, then, that the poor are already well supplied with devices to manage their money? No. One reason for the diversity of devices is precisely that none of them is adequate. The most common device is mutual borrowing and lending of each other's savings, but that is severely limited by the very small amounts of cash available, and is prone to grind to a halt in down seasons when everyone is short of money. ROSCAs are wonderfully elegant clubs, but sometimes they fail so that people lose money, and many of the very poor can't join them because of their inflexible payment schedules. Moneylenders are everywhere useful (remember the Indian proverb that says that a good village is one with a good well and a good moneylender) but they have limited resources, and offer their services to a limited set of borrowers, often excluding the poorest. NGOs are an unexpected boon, but their typical services are inflexible in the extreme – only one kind of loan with only one repayment schedule – and when they insist (as many do) on regular weekly payments the year round, they put themselves out of reach of many poor people.

What to do, then?

In principle, then, there's both the room and the need for many newcomers. But how will they do it? How can new comers at once compete with the many existing devices with long histories and local roots, offer an even more reliable and flexible service, and cover their costs? The rest of this short article looks at five guiding ideas that can help us answer these questions, and illustrates the points made by showing how one small microfinance institution, *SafeSave* of Bangladesh, is responding to these challenges.

Five guiding ideas

We can express our five guiding ideas as five adjectives: variable, frequent, convenient, affordable, and sustainable.

Variable

To be of any use to the poor and poorest, financial products must be **variable**. Because incomes are small, irregular and uncertain, poor people's ability to pay in to a service (either as savings or as repayments – the two are essentially the same) will vary over time. It will vary on a day-to-day basis and in many environments on a seasonal basis. Products with fixed times and amounts for pay-ins are awkward – if the fixed amount is too big the poor won't be able to pay it, and if it's very small they won't maximise their pay-in potential on the days when they get a bonus or sell a goat.

In the slums of Dhaka, *SafeSave* offers its client total variability: on any day they may pay-in as much or as little as they like, including zero. This goes for savings, and for loan repayments.

Frequent

To be of any use to the poor and poorest, the chance to pay in must come **frequently**. If I ask a Dhaka rickshaw driver to save, he'll most probably put his hand in his shirt pocket and pull out 10 Taka (about 20 cents US). If I do

that once a month his gross monthly savings will be 10 Taka. If I go to him once a week, he'll save 40 Taka a month. And if I got to him daily, he'll save 300 Taka a month. The same applies to loan repayments.

In the slums of Dhaka, SafeSave's bank workers, known as Collectors, visit each and every client once a day, six days a week. This maximises their opportunities to save and repay: it scoops up and uses every last coin that would otherwise be lost to trivial expenditure.

Convenient

To be of any use to the poor and poorest, a financial product must be **convenient**. This has two aspects, a financial and a physical one. Financially, the product must offer the chance to turn savings into a lump sum whenever it is needed – and that means at just about any time. Physically, it means that the service must be close at hand. No one will take a bus ride to deposit 20 cents, or take a small withdrawal or loan if it means a long delay, or multiple trips to an office and filling up endless forms.

In the slums of Dhaka, SafeSave's collectors carry out all transactions on the client's door-step daily. Requests are honored at once: if a client says she wants to withdraw or borrow two dollars to take her son to the doctor, she gets it there and then. Paperwork is minimal, and no third party has to be consulted.

Affordable

To be of any use to the poor and poorest, a financial product must be **affordable**. Clients will not use a service that charges fees or interest rates that represent more than a small fraction of the value of the client's cash passing through the system. Some idea of the local cost of money can be had by studying auction ROSCAs in the area, or finding out how much moneylenders charge for loans. Charges that are half as expensive, or less, than those of the local moneylenders are likely to be attractively priced.

In the slums of Dhaka, SafeSave charges between 3 and 4% a month for loans, depending on the product type. All other services, including the open savings accounts, are free. Interest is paid to savers at a rate between 0.5 and 1.5% a month depending on the product.

Sustainable

To be of more than passing help to the poor and poorest, a financial product must be there for the long term. The only way that an MFI can be certain of doing that is to cover its costs from the income it receives in return for its services. This cannot be done in slum or poor village conditions without a total commitment to cost control, a fully computerised management information system, and shrewd design of delivery systems.

In the slums of Dhaka SafeSave employs local bank workers who work their own slums on foot. Branches are placed close to working areas. The organisation owns no vehicles of any kind, and rents simple basic premises. The arithmetic of SafeSave's emerging sustainability is described in the box.

SafeSave's fortunes can be followed on its web page, www.safesave.org.

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Box 1: The arithmetic of SafeSave's cost recovery at a mature branch*

The following figures refer to one bank worker, who earns \$60 a month. A branch has 10 such workers, a manager (salary \$110 a month) and a data clerk (salary \$65). Branch office rents and overheads amount to approximately \$175 a month. Total non-financial costs per month for a branch are therefore \$950. Loans are charged at 3% a month, savings are rewarded at 1% per month, and borrowings of capital are costed for the purposes of this exercise at 1% a month.

A	Number of clients per Bank Worker	200
B	Number of outstanding loans per Bank Worker	100
C	Value of outstanding loans	\$ 7,728
D	Income generated per month by loans at 3% per month (C x 3%)	\$ 232
E	Value of saving deposits held per Bank Worker	\$ 5,152
F	Value of external funds required per Bank Worker (C – E)	\$ 2,576
G	Cost of funds per Bank Worker ((E + F) x 1%)	\$ 77
H	Fully loaded salary cost per Bank Worker (see notes above)	\$ 95
I	Total cost per Bank Worker (G + H)	\$ 172
J	Net income per Bank Worker (D – I)	\$ 60

The resultant surplus income is enough to cover loan losses, losses due to repayment irregularities, and erosion of capital due to inflation.

Notes: SafeSave keeps salaries low by employing bank workers who themselves live in the slum and have just enough education to manage basic arithmetic (usually about 8 years). They travel on foot. The Manager visits them daily from a branch not more than a mile away. Branch office are modest, consisting of one room containing a computer, printer, three tables and chairs. SafeSave owns no vehicles.

* Based on Mohammadpur Branch at June 2000

Adam Smith on Microcredit

"Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little".

From the Wealth of Nations

FINANCIAL INNOVATION: KEY TO MICROFINANCE DEVELOPMENT

BY NIMAL A. FERNANDO¹

“... the microfinance industry has ossified! It promotes group-based microenterprise loan products and is obstructing the development of the full range of services and products that poor people want and need – flexible savings, contractual savings, loans for education and health, microinsurance and lines of credit.”

David Hulme

(Co-Author of Finance Against Poverty)

Financial innovation is not a new phenomenon. In fact, it has been occurring for hundreds of years. In ancient Greece, bankers accepted deposits and lent money to individuals. According to some economists, the introduction of personal loans was a more significant innovation than that of interest rate swaps or credit cards. Financial innovations continue to occur in virtually every country, at different rates. In most developed countries, the pace of financial innovations increased in the 1970s and gathered momentum during the 1980s and 1990s. Innovation is generally considered the key to improving the efficiency of the financial system.

The subject of financial innovation in microfinance is attracting greater attention from funding agencies, practitioners, and microfinance researchers. The Asian Development Bank's (ADB) Microfinance Development Strategy (June 2000) emphasized the importance of promoting pro-poor financial innovation (see, Finance for the Poor, Vol 1. No.1 p.3). A few months ago, the Consultative Group to Assist the Poorest launched the Pro-Poor Innovation Challenge, an experimental pilot project, to support innovative poverty-focused microfinance institutions (MFIs). The Institute for Finan-

cial Services, Hamburg, recently held a best practice competition for innovative and socially responsible financial products. SafeSave, a small microfinance institution serving slum areas of Dhaka in Bangladesh, has introduced an innovative credit and savings scheme (see, pp. 1-3 of this newsletter). Microfinance researchers are also paying more attention to this subject than in the past.

Some questions

What do we mean by financial innovation? What is the relevance of financial innovation for the microfinance industry? How does innovation affect the service providers, market structure, and clients? What factors trigger it? How could we induce innovations if they are considered desirable? What is the role of funding agencies and governments in inducing innovations? There are many questions one can raise concerning financial innovation and its relationship to microfinance development. This note touches on some aspects of financial innovations.

Definition and Role of Innovation

Financial innovation can be generally defined as a new financial product or service that provides certain advantages over an existing financial product or service. The primary roles of financial innovation in the microfinance industry are to improve the efficiency with which the service providers carry out their basic functions, and expand the outreach and scope of services. Currently more than 90 percent of the poor and low-income households in the Asian and Pacific region do not have access to institutional microfinance services. The lack of financial innovation is a major reason for this limited outreach.

V.V. Bhatt, who carried out some pioneering work on this subject, categorized financial innovations into two types: (i) cost- and risk-reducing innovations, and (ii) cost- and risk-increasing innovations. Obviously, what is needed for the microfinance indus-

try is the cost- and risk-reducing innovations. The microfinance industry deals in general with poor and low-income households and their microenterprises, the size of whose financial transactions are inherently small. Therefore, transaction costs in microfinance are high. The clients of MFIs also present high risks. As noted by J.D. Von Pischke, the financial “frontier may be more difficult to penetrate in poorer areas because of less favorable conditions overall. Cost- and risk-reducing innovations can thus play a major role in expanding the services to those outside the frontier. Such innovations have a direct positive effect on the innovator institution and its clients: they can facilitate the expansion of the outreach of microfinance services and improve the menu of products and services thereby providing the clients with less expensive products or services, greater choice, convenience, and more flexibility; and they can enhance the profits of the innovator or enable the innovator to increase or retain its market share.

Cost- and risk-reducing innovations can also have a positive impact on the microfinance industry by widening the market. For example, innovation in housing finance for the poor, in credit to the poorest households, or in credit for fixed assets may expand the market.

Innovation may make the market more competitive by encouraging new firms to enter the market. The circular relationship between innovation and competitive markets is important and reflects the dynamic nature of innovation. Although an innovation allows the innovator to reap profits, the increased profitability encourages other suppliers to follow and thus may erode the initial profits of the innovator. However, the initial innovator may still gain some advantages in terms of market share or an improved image in the market as a leader. Whether the larger market share will enable the initial innovator to make larger profits will depend on if it can realize economies of scale.

An innovation of a product or a service may also influence the way it is delivered to the clients. In such cases,

innovation needs to be evaluated together with the related delivery mechanism to fully understand its impact.

What triggers financial innovations?

Innovation is influenced by a wide array of factors. These include volatility in prices (exchange rates, inflation, interest rates); developments in information technology and telecommunications; the threat of competition; financial liberalization; and characteristics of the supervisory, regulatory and legal frameworks. The high rate of inflation in the 1970s in many developed countries induced several financial innovations.

In the 1980s and 1990s, financial innovations mushroomed because of the financial deregulation process and rapid advancements in information technology and telecommunication. Deregulation demolished the traditional barriers between different types of financial institutions and significantly increased the level of competition in financial markets. Recent developments in information technology and telecommunications have enabled collection and processing of large amounts of data and information at a low cost (i.e., lowered production cost of innovation) and provided efficient, low-cost ways of delivering financial products and services (i.e., lowered marketing cost of innovation).

Why has the rate of innovation been low in Asia?

The rate of innovation in the microfinance industry, however, has been relatively slow. Despite the fact that some of the early innovations in microfinance were in Asia, this is particularly true for most developing countries in Asia. Several factors explain this slow pace.

First, the scope and scale of financial liberalization in many Asian countries have been limited. The financial liberalization process has not touched significant elements that have a bearing on sustainable microfinance development. Second, information

technology still involves a high initial investment cost for MFIs. Many MFIs find it difficult to afford these costs. Third, many MFI leaders in Asia have not yet recognized the wide range of potential applications of new information technology to improve operational efficiency of their institutions. This reflects the digital divide between developed countries and developing Asian countries and the urban areas and rural areas within Asia. Fourth, underdeveloped infrastructure continues to impede adoption of new information technology in many rural areas of Asia. Innovation based on information technology and better telecommunication facilities tends to create significant imbalance with existing infrastructure, thus reducing the potential profitability and the quest for innovation. Fifth, policy, legal, and regulatory environments have generally not been conducive for innovation. For example, in countries where ceilings on interest rates on microcredit are set at very low levels, there is little incentive for microcredit innovation. Regulation in general plays a negative role in innovation by compelling MFIs to focus their attention on innovations that are aimed at circumventing restrictions imposed by regulation. Sixth, subsidized government programs and continued availability of grant and concessional funds to MFIs from external funding agencies for onlending undermine competition, and with that, incentives for innovation.

Institutional setting matters

The institutional setting has also a significant bearing on the slow pace of innovation in Asia. The Asian microfinance industry is dominated, with few exceptions, by nongovernment organizations (NGOs) and government-owned institutions and programs operated on noncommercial principles. These institutions and programs have little incentive to innovate partly because they are not subjected to a threat of competition.

Microfinance NGOs in Asia, however, have introduced some innova-

tions in credit and delivery mechanisms. These have been motivated more by social considerations to provide the poor with credit facilities than by economic considerations to improve the efficiency of operations. More recently, a few NGOs in the region have also introduced innovative savings products and delivery mechanisms. However, in general there is little incentive for staff in NGOs to innovate. This problem is compounded by easy access that many NGOs have to concessional funds from funding agencies.

Easy to reverse engineer

According to some practitioners, the ease with which other MFIs can imitate innovations is a major factor that continues to dampen the pace of innovations in the industry. To sell financial products and services in the market, their characteristics must be clearly explained to the potential clients. Thus, an MFI cannot keep product secrets to take advantage of its innovation. Also, in general, financial innovation cannot be protected by a patent as in the case of an innovation in manufacturing. Because of these reasons, a rival MFI can easily copy an innovation or “reverse engineer” and produce a competing product before the initial innovator can recoup the investment and make a profit. This threat of the free-rider problem is a significant issue in the microfinance industry because the production and marketing cost of innovation can be high in relation to the scale of operations of an MFI. A review of microcredit products in many Asian countries will show that they are standard products with minor variations and have been more or less copied from an MFI considered to be a leader.

How could innovation be induced?

Financial innovation represents efforts of service providers to adapt to changing conditions in the market. A dynamic market is essential to induce

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Financial Innovation

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innovation. Whether innovation in the microfinance industry can be continually induced through actions of those who consider their mission primarily as social is doubtful.

The foregoing discussion suggests that a major way to induce innovation in the microfinance industry is to nurture conditions for greater competition. Thus, measures contributing toward deepening of financial liberalization will help. As has been suggested by V.V. Bhatt in his work on financial innovation, central banks in developing countries can play an important role in creating conditions favorable for innovation.

Governments can support the development of policy, regulatory, and legal frameworks needed for a competitive microfinance industry. Governments can also support the development of information technology and telecommunication facilities to reduce the digital divide between urban and rural areas. Such developments will reduce the potential imbalances between innovation and infrastructure. Governments can also increase the availability of data and information on socioeconomic characteristics and the finances of poor and low-income households and their microenterprises through periodic surveys.

Funding agencies can also play an important role in promoting innovations. Such agencies should demand adoption of commercial practices from MFIs that they are supporting. Funding agencies themselves need to adopt business practices that do not undermine competition of microfinance in the countries in which they operate.

The process of innovation is influenced by changes in production and marketing costs of new products and services. Production costs include research, information gathering and processing costs. Marketing costs include identifying and educating buyers and training staff to sell innovation.

A reduction in these costs will have a significant positive impact on innovation provided that MFIs are committed to achieving financial sustainability.

Funding agencies can provide support for research activities leading to innovation and contribute to the development of financial infrastructure such as credit bureaus. Such measures will reduce both production and marketing costs of innovation. Given the externalities involved in innovation, a fixed sum grant to MFIs at early stages of development to cover the initial fixed cost of an innovation can induce innovation. Dissemination of information on innovation occurring in different countries can also facilitate the process.

Conclusions

Financial innovation has dramatically improved the outreach and efficiency of the financial system in developed countries and to some extent in developing countries. However, the rate of innovation has been low in microfinance markets in most developing countries in Asia during the 1990s. This is likely to change slowly in the medium-term. However, innovation will gather momentum in the long-term with forces that will improve the level of competition in these markets.

The scope of innovation will also expand significantly in the future. Although many MFIs have paid attention to financial innovation only sporadically in the past, they will be ill-advised to continue such a policy into the future. While the future scenario of microfinance is almost impossible to predict accurately, it is certain that financial innovation will become a more frequent phenomenon in this industry. MFIs that ignore this possibility are likely to be marginalized by those that will pay increasing attention to innovation on a systematic basis.

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From the Experts On serving the poor with Microfinance

DAVID C. RICHARDSON
(Director of Technical Development,
World Council of Credit Unions)

- The only way we will reach the masses is by opening the microfinance doors to all people, especially those who have been excluded from basic financial services. There are many people in this situation, and they are not only the poorest of the poor.

- The most successful microfinance programs are the ones that serve various economic groups of people and simultaneously meet their changing needs. One of the marvelous aspects of financial intermediation is that, with such a broad diversity of needs, it is possible to serve many market niches simultaneously for the benefit of all. By opening the doors to everyone, the poor become a piece of a larger pie, but that slice will be much larger than a whole pie comprised of just poor people.

CLAUDIO GONZALEZ-VEGA
(Professor of Agricultural
Economics and Economics at
Ohio State University)

- The poor seek viable, efficient, profitable, well-managed financial intermediaries with which to establish permanent relationships.

- Appropriate technology is clearly a necessary condition for reaching the poor with sustainable financial services. It is not, however, a sufficient condition. While policies, procedures and technologies matter, policies will not be enacted, procedures will not be revised, and technologies will not be

adopted unless it is in someone's interest to do so.

- The most difficult remaining question in the provision of financial services to the poor is thus the design of organizations with the correct structure of incentives and governance rules.
- The greatest challenge for the progress of finance for the poor, therefore, is in the institutional design of such organizations. □

Selected Readings on Microfinance

Books:

Westley, Glenn D. and Brian Branch (ed.) 2000. *Safe Money: Building Effective Credit Unions in Latin America*. Washington, DC: Inter-American Development Bank.

Wright Graham A.N. 2000. *Microfinance Systems: Designing Quality Financial Services for the Poor*. Dhaka: The University Press Limited.

Yunus, Muhammad. 1999. *Banker to the Poor: Micro-Lending and the Battle Against World Poverty*. New York: Public Affairs.

Journal Articles:

Hulme, David. January 2000. Impact Assessment Methodologies for Microfinance: Theory, Experience and Better Practice. *World Development*. 28 (1): 79-98.

McGuire, Paul B. 1999. Policy and regulation for sustainable microfinance: country experiences in Asia. *Journal of International Development*. 11(6): 717-729.

Schmidt, R.H. 2000. Banking Regulation Contra Microfinance. *Savings and Development*. 24 (1): 111-120.

Other Publications:

Christen R.P. and R. Rosenberg. 2000. *The Rush to Regulate: Legal Frameworks*

for Microfinance. CGAP Occasional Paper No. 4. Washington DC: CGAP.

Consultative Group to Assist the Poorest. 2000. *Microfinance and Risk Management: A Client Perspective*. Focus No. 17. Washington DC: CGAP. □

New ADB Publication on Microfinance

The Role of Central Banks in Microfinance in Asia and the Pacific, Volume 2. Country Studies. 2000. Asian Development Bank: Manila.

To order this publication, contact Asian Development Bank, Publications Unit, P.O. Box 789, 0980 Manila, Philippines, Fax: (632) 636-2648/E-mail:adbpub@adb.org □

Selected Websites on Microfinance

World Council of Credit Unions (WOCCU)

WOCCU operates as a worldwide representative organization of credit unions and similar cooperative financial institutions. WOCCU represents 85 countries around the globe and is extensively involved in microfinance development through credit union support programs. The website address of WOCCU is: <http://www.woccu.org>

Women's World Banking (WWB)

WWB was established in 1979 with the objective of supporting the involvement of women in enterprise creation the world over. The website of WWB is a good source of information on microfinance and can be accessed at <http://www.swwb.org/>

The Directory of Development Organizations

The Directory of Development Organizations lists over 18,500 contacts of

organizations promoting private sector development and poverty alleviation through: microfinance, business development services, small enterprise development, appropriate technology, community development, environmental protection, research, training and education. The directory can be accessed through the following website address: <http://www.devdir.org/> □

BOOK REVIEW

Joe Remenyi and Benjamin Quinones, Jr. (Editors). 2000. *MICROFINANCE AND POVERTY REDUCTION: Case Studies from Asia and the Pacific*. London UK: Pinter. XXVI + 293 pp.

Less than 5 percent of poor households in Asia and the Pacific region have access to "user-friendly" institutional financial services. Only 50 or so microfinance providers account for more than three-quarters of all microfinance activity in the region. Not more than one in five of them covers all their operating costs. The remaining four in five are dependent on continuing access to donor grants and/or heavily subsidized loans to remain in operation. This is the broad background against which the book sets out to address the twin challenges of financial sustainability and expanded outreach facing the microfinance industry in the region.

Sustainability and outreach are the central subject matters that draw extensive research as reflected in the microfinance literature. What differentiates this book from other recent books on the subject is that it provides an assessment of the experience and performance of a diverse group of 44 microfinance providers in 11 countries in Asia and the Pacific (4 in South Asia, 3 in Southeast Asia, and 4 in the Pacific). The book has its origin in the *Bank Poor'96* conference convened by the Asian and Pacific Development Centre in Malaysia in 1996 when the

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initial country studies were presented. The original studies have been substantially revised and updated to present a coherent analysis of the state of affairs of the microfinance providers in recent years.

The 44 microfinance providers represent a significantly diverse group in respect of nature of organizations, operating mechanisms, scope and scale of operations, funding sources and working in different socioeconomic environment. The book adopts a general framework to assess their experience and performance. The framework covers four themes: (i) capacity of microfinance providers for outreach to the poor, (ii) microfinance provider financial viability, (iii) resource mobilization for expanded outreach, and (iv) policy and regulatory environment to support greatly expanded outreach. The book selects and addresses these four themes with the overriding purpose to distill practical wisdom and draw implications to overcome the constraints for microfinance providers to make significant inroad in reaching the poor.

The book brings out a number of findings that corroborate those in the microfinance literature. The capacity to reach the poor must include the existence of effective mechanisms to identify and then deliver appropriately designed financial services to poor households (p. 8). Ways to increase outreach vary in different circumstances. While there are economies of scale in delivery of microfinance, there can be no best practice concerning the manner in which outreach is achieved. What is important and critical is for microfinance service providers to devise special products and instruments to effectively serve different local markets (p. 259). Many microfinance service providers continue operating with unsound financial practices. Easy money provided by donors, in particular, tends to stifle the incentives needed

for microfinance providers to make financial viability their priority. Donors typically insist on documentation and monitoring requirements that are specific to their own funds, with the result that the administrative burden of a grant or a soft loan increases disproportionately (p.260). Contrary to expectations, for donor-dependent microfinance providers, outreach targets are typically conservative and lacking in boldness (p. 258). The number of savers is a multiple of the number of borrowers, for the group of microfinance providers under study. Those with voluntary savings schemes tend to have a much larger number of savers, indicating that provision of savings service is a significant aspect of microfinance operations (p. 261).

Do microfinance providers need an exclusive focus to reach the poor? The book in its synthesis (chapter one) appears to give an affirmative answer. “The contrast in outreach record between the microfinance providers that target the poor exclusively and those that do not is telling and supports the view that serving the non-poor drains off scarce resources, both financial and human, that could have been used to increase outreach to the poor” (p. 8). This is a sweeping statement, which the country chapters do not seem to bear out clearly. The comparative data on poor and non-poor clients presented in some country studies only suggest that some microfinance service providers tend to have more poor savers than the not-poor, and less poor borrowers than the not-poor. This may have given rise to a concern that savings from the poor are not recycled into loans to poor borrowers. However, one can hardly argue that savings service is an equally important aspect of microfinance outreach. Further, one should like to know not just how many poor households a microfinance service provider has reached or wishes to reach, but how they are reached and what special products and instruments are in place to do so. The book’s last chapter offers a more considered view – “[T]he evidence from the case studies is that the balance between services

offered for outreach and services extended to established but not-poor clients can be so managed as to be complementary and not competing... Microfinance providers that serve both poor and not-poor clients have a track record that demonstrates significant success in resource mobilization” (p. 257). Sustainable inroad in reaching the poor requires striving for value creation and risk and cost reduction. Thus, one wishes to know the comparative financial performance of microfinance providers with different client mixes.

The book draws attention to the fact that the overwhelming majority of microfinance service providers under study have yet to achieve financial viability. Drawing on the detailed assessment, it restates a significant point made earlier by several other prominent microfinance specialists – financial viability is a choice. The book provides a set of nine broad guidelines to achieve financial viability – ranging from vision setting and strategic planning, to sustainable pricing and financial independence, cost and risk management, to staff capacity building (p. 264). The guidelines represent a set of decision parameters and variables that microfinance providers can and should set out as a matter of strategy and policy and strive to achieve by means of operations management and continued financial innovations. They also provide an important reference for donors and governments as they attempt to provide further support for microfinance development.

The book is a welcome and important addition to the microfinance literature. It reinforces many findings in the literature and raises a number of issues – including the exclusive poverty focus, the scale economies, and the treatment of subsidies – that call for further research attention. Together, the book warrants a careful and critical reading.

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