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THE PERFORMANCE OF MICROFINANCE INSTITUTIONS IN SOUTH ASIA

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Despite the existence of a few flagship microfinance institutions (MFIs), Asia and the Pacific (the region) is not well known for the good performance of its MFIs. Many MFI operations are a "black box" with a huge question mark against their actual performance both in terms of poverty reduction and sustainability.

In the two years and four months since launching its credit rating service, Micro-Credit Ratings India Limited (M-CRIL) has undertaken ratings of 62 MFIs in South Asia. The ratings have provided detailed, independently verified information on MFI operations. M-CRIL has compiled the information into a database that provides useful collective insights

into the performance of MFIs in the region.

The M-CRIL database sample

M-CRIL has recently completed an analysis of information from its database on 51 MFIs which includes 44 MFIs in India, 4 in Nepal and 3 in Bangladesh. These organizations have been operating an average of 11 years. They follow different models of microfinance including the pure Grameen type; individual banking programs (IBPs), mostly via joint liability groups; and MFIs promoting and supporting self-help groups (SHGs) which function as informal village funds with support from a MFI. A

typology of the database sample used for the purpose of the analysis is presented in the table.

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Type of Program	Age of Microfinance Institution (years)	Typology	No. of Microfinance Institutions	No. of Members
Grameen	2-10	Grameen	10	212,000
Individual banking	>7	Mature IBPs	4	89,000
SHG	<7	Newer IBPs	6	50,000
	>7	Mature SHG	8	204,000
	3-7	Maturing SHG	18	130,500
	<3	New SHG	5	10,500
			51	696,000

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The Performance

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M-CRIL's rating incorporates a weighted scoring of key indicators on governance, management and financial aspects of an MFI's functioning. Based on this, only 9 of the 51 sample organizations have reached the performance levels to classify as highly creditworthy, another 22 are moderately creditworthy, 9 are marginal and the remaining 11 are not creditworthy.

Outreach

Grameen-type MFIs are dominant - but the sample's total loans to clients are small.

The outreach of the 51 sample MFIs is about 700,000 persons - though only 250,000 of these are borrowers from the MFIs. Others are all savers with the MFIs although some of them may also be borrowers from SHGs. Their total loans outstanding to client members amount to just US\$23.5 million -- a very small amount compared with the potential. Within the MFIs, the distribution is highly skewed; the best 10 organizations in terms of performance (called Top10 by M-CRIL) -- also broadly but not invariably the largest -- account for 64 percent of this portfolio. By model, the Grameen-type MFIs are dominant and account for nearly half the outstanding portfolio, while IBPs and mature SHGs each account for 22 percent. Maturing and new SHGs as well as newer IBPs are relatively small organizations - each with an average of around 5,000 members. The largest organisation in the sample is the well-known SEWA Bank - with some 73,000 clients.

Potential to strengthen savings services

Not all MFIs in the sample are able to offer savings services - particularly the four organizations registered as "for profit" non-bank finance companies (NBFCs) and, therefore, regulated by India's Central Bank. Further, the Grameen-type MFIs traditionally do not

place much emphasis on providing savings services to their members. Nevertheless, the deposits mobilized directly by the MFIs amount to \$8 million (or 34 percent of the total amount lent to clients). Actual mobilization - including amounts generated by SHGs for internal circulation but not deposited with MFIs - is nearly US\$12.3 million. This shows the value microfinance clients place on savings services and also demonstrates the potential for locally raising resources for lending. The current average savings of US\$18 per client is well below the US\$26 average for the Top 10 and US\$52 for mature IBPs.

Staff productivities

SHG performance belies the expected efficiency of village banking.

The 51 sample MFIs employ a total of 3,500 persons to provide microfinance services. Staff productivity is highest among the mature IBPs - partly because the large ones are urban, slum-based programs - but even the newer IBPs' 135 clients per staff member is better than the MicroBanking Bulletin (MBB) average of 111. Grameen-type MFIs with 94 clients per staff member are well known to be relatively staff intensive but it is the SHG programs' 50 clients per staff member that really bring down the productivity profile of the sample.

Even the mature SHG programs have not achieved better than 66 clients per staff member negating the expectation that village banking programs can be efficient in the long term as client representatives take over many staff functions. This is partly on account of the orientation of SHG programs that aim to fulfil social objectives such as promoting the self-governance capabilities of members and, therefore, are not strongly motivated to maximize productivity and limit operating cost in the short term.

In terms of the number of loans serviced, the 128 clients and US\$9,900 average loan portfolio per staff member of the Top10 in the M-CRIL sample indicates the potential improvement that could be

achieved by the others. Yet, salary scales and other cost levels in the region are so low that the US\$14 cost per borrower in the sample is less than one-tenth of the MBB sample's US\$150 per borrower.

Portfolio quality

Grameen type MFIs are the best performers.

M-CRIL measures portfolio at risk (PAR) at the 60-day level. Grameen-type MFIs are the best performers in the sample with an average PAR of 3.9 percent. The poor performers as in the case of cost coverage, are the mature programs. Some of the newer IBPs have suffered from lack of experience in managing the risk associated with different types of loan products - particularly crop loans. The sample average of 15 percent is far higher than the MBB sample PAR (>90days) of 2 percent and tends to suggest that MFIs in the region do not pay enough attention to portfolio quality. Further, they are reluctant to write off unrecoverable loans for fear of clients getting the impression that the organization will not recover loans remaining unpaid for an extended time. However, this gives them an unrealistic picture of their asset quality and tends to confuse management decision making.

Financing

Donor funds are pre-eminent; efficiency in deploying funds needs considerable improvement.

MFIs in the region have historically heavily depended on donor funding for financing both their portfolios and operations. As much as 47 percent of the total of US\$38.1 million currently deployed in the sample MFIs comprises the organizations' net worth, consisting primarily of donated equity. Accumulated losses, amounting to US\$3.2 million in 42 of the 51 organizations, have contributed to an erosion of the equity. Some 21 percent of the funds deployed in microfinance by the sample MFIs could be described as member funds comprising withdrawable and non-withdraw-

able savings and funds accumulated to cover loan losses. Another 31 percent of the funds raised by MFIs for their activities are accounted for by soft loans from development banks and dedicated microfinance wholesalers.

Given that MFIs rated so far are among the best, it is apparent that MFIs in the region have a long way to go before they can achieve a reasonable degree of commercial viability. However, M-CRIL's experience also shows that the importance of donor funds is declining and that MFI managers are increasingly aware of the need to obtain more resources from both members and various types of institutional lenders. Since MFIs in the region generally do not even see themselves as commercially viable entities their preference is to obtain resources from development loan funds on "soft" terms.

Only 57 percent of the total resources of US\$38 million available have been deployed by sample MFIs in loans to clients while as much as 23 percent has been placed in short and long term investments - mainly with banks. These investments - even in long-term bank deposits - earn no more than 8-11 percent a year. Given that annual percentage rates of 18-45 charged to clients could potentially yield MFIs higher returns, it is apparent that the MFIs are not using their resources efficiently.

Portfolio management

IBPs manage funds well.

M-CRIL's analysis of the sample MFIs' assets shows that mature IBPs are the best fund managers. These are savings-based organizations with high deposit-credit ratios (200percent), reasonable fixed to total assets (4 percent) and low ratios of liquid to total assets (3 percent). While the sample average of 4 percent fixed assets is reasonable, 9 percent liquid assets is relatively high and, as discussed, the deposit-credit ratio of 34 percent could certainly be improved.

Another important concern here is that at least four - not very small MFIs - have allowed their equity to erode to where they have negative net worth.

Operating performance

Operating costs are low but portfolio yields are even lower.

Surprisingly, in the context of the well-known management deficiencies of MFIs in the region, the database shows that operating efficiency is well within international best practice norms. Operating cost ratios (staff, travel and other expenses incurred in MFI operations, excluding financial costs, as a proportion of average loan portfolio) are largely in the 10-30 percent range. Though Grameen type MFIs record a slightly higher operating cost ratio of 27 percent, the sample average is just 23 percent compared with the equivalent average of 31 percent for the MBB sample of 90 MFIs. On the other hand, the average portfolio yield for the M-CRIL sample is just 17 percent compared with the MBB's 40 percent. So low is the portfolio yield, indeed, that the financial spread (portfolio yield minus average cost of funds) being earned by MFIs in the region is less than 8 percent leaving a 15 percent gap between it and the operating cost level of 23 percent of the average portfolio.

Return on Assets

In a bleak scenario, the newer IBPs provide some hope.

The lack of commercial viability of MFIs in the region becomes clear in considering return on their assets. The sample average loss of 4.8 percent on total assets is much worse compared with the MBB sample profit of 1.5 percent. The M-CRIL Top 10 average of -1.2 percent indicates the ground that MFIs in the region still have to cover compared with the MBB sample's 6.2 percent for fully sustainable institutions. On account of their relatively better fund management, the IBPs have average losses of just 0.5 percent of total assets.

Dependence on subsidies

Not so high as to be totally discouraging.

Financial self-sufficiency measures the ability of an MFI to meet all its operational and financial costs out of its income from operations. As expected IBPs as a group are fairly close to full financial self-sufficiency with a ratio of 96 percent - though three IBPs are still quite far from that target. Of the 10 Grameen programs, four are quite far from self-sufficiency but two are able to cover all their costs. Out of the 31 SHG programs, only seven are approaching self-sufficiency while just one is able to cover all its costs. A calculation of the Subsidy Dependence Index (SDI) shows that the average subsidy dependence of newer IBPs is the lowest at 37 percent. However, the SDI of Grameen programs (58 percent) is better than that of mature IBPs (91 percent).

The average of 72.7 percent for financial self-sufficiency and 83.4 percent for SDI for sample MFIs in the region compares poorly with the MBB average of 129.7 percent financial self-sufficiency for 63 fully sustainable MFIs and 106.6 percent for the full sample of 92 MFIs. The Top10 MFIs in the region have an average financial self-sufficiency of 91.4 percent and an SDI of 48.9 percent.

Conclusion

MFI performance still has a long distance to go before it becomes an effective, sustainable component of the poverty reduction effort.

MFIs in the region are way behind the best of the sector internationally. At the same time, much of South Asian microfinance, particularly in India and Nepal, is at an early stage of development and the many relatively young MFIs in the region inevitably show a higher level of subsidy dependence. Though, in this context, the overall performance of the microfinance sector does not appear to be too discouraging, it is clear that it has a long way to go before it can become a dynamic and sustainable component of the poverty reduction effort in the region. □

SOLIDARITY GROUPS: REACHING POOR CLIENTS WITH HIGH REPAYMENT RATES

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The wisdom in development finance has long been that lending to and saving by small farmers and other micro-entrepreneurs is doomed to failure: costs are too high, the poor are not creditworthy and they cannot save and insure, and so on. In response to these faulty assumptions, the best practice during the 1960s and 1970s was to subsidize credit, and ignore the demand for savings and insurance products.

Bold experimentation with new microfinance institutions (MFIs), supported by public action, has resulted in a number of success stories and changed this pessimistic assessment during the past fifteen years or so. This paper calls for a plurality of approaches to microfinance and notes that reliance on current best practices is simply not enough to expand outreach to the poor. The second part of the paper focuses on group lending as this institutional type, together with village banks and linkage group models, may have a greater potential to reach a poorer clientele.

Types of microfinance institutions

Five main types of MFIs can be distinguished: the cooperative model, solidarity groups, village banks, the linkage model, and microbanks. The cooperative model was the first to introduce microfinance in developing countries, inspired by the successes in Europe and North America at the end of the nineteenth century. Prominent examples of solidarity credit groups, the second type, include the Grameen Bank or the Association for Social Advancement (ASA) in Bangladesh. The village bank can be seen

as a mix between the cooperative and solidarity group models, seeking to capitalize on the advantages of each. The village bank usually has fewer members than a cooperative, and is less formalized and complex in structure. The credit guarantee is mainly peer pressure, as in the case of solidarity groups.

The fourth model, the linkage type, builds on self-help groups such as rotating credit and savings associations. The linkage model seeks to combine the strengths of the informal system (client proximity, flexibility, social capital, and reaching poorer clients) with those of the formal system (such as risk pooling, term transformation, provision of long-term investment loans, and financial intermediation across regions and sectors). These four types of MFIs are member-based, and in the case of cooperatives and village banks, also member-owned.

Microbanks, the fifth type, are exemplified by the Unit Desa system of Bankya Rakyat Indonesia. They rely on individual contracts with the client. This type of MFI is closest to the traditional banks but uses non-conventional credit guarantees and much smaller loans.

The need for institutional diversity and innovation

The existence of multiple development objectives and the diversity of socioeconomic, political and agro-ecological settings drive the need for institutional diversity and innovation. Governments and donors seek to achieve a number of objectives when supporting MFIs, most notably financial sustainability, outreach to the poor and women, and welfare impact. The diversity of settings and the different levels of political, social and economic development also require that the five institutional types above be adapted to the local context, particularly through participatory processes involving the clients. Because of the top-down approach of microbanks and solidarity groups, they offer less opportunity for participation.

The five institutional models differ in their outreach to the poor if loan size is

used as the indicator. However, more research on the depth of outreach is needed. Similarly, our knowledge on how different types of institutions affect welfare of the clients is so far limited. It is conceivable that MFIs which offer complementary services in the form of business training or agricultural extension may achieve greater welfare impact than MFIs that focus on savings and credit alone.

Each of the five institutional types has certain comparative advantages. Empirical evidence suggests that the village bank, linkage model and the solidarity group reach relatively more women compared to cooperatives and microbanks. In environments with lower population density, higher illiteracy, and insufficient road and communications infrastructure, member-based institutions can be more efficient through lower transaction costs for the MFI itself. Microbanks have seen their greatest success so far in urban areas of better-off developing or transformation countries.

Which factors are important for repayment rates in group lending?

Future institutional innovations need to combine prudent banking principles with effective screening and monitoring strategies that are not based on physical collateral such as land. One important innovation has been the formation of borrower groups and the use of group responsibility and peer monitoring as the core principles guiding financial transactions. The success story of using small groups of borrowers by the Grameen Bank of Bangladesh to service the poor and achieve high rates of repayment is now well known. In Thailand, the Bank for Agriculture and Agricultural Cooperatives achieves high repayment rates even though it sometimes uses groups comprising as many as 30 members.

However, repayment rates are not uniformly high for all institutions or across groups within an institution. In Nepal, the repayment performance of groups formed under the Small Farmers Development Program (SFDP) exhibits a very mixed result. Studies by the International

Food Policy Research Institute (IFPRI) in Bangladesh, Madagascar, and Malawi have identified several important factors that microfinance managers should consider when seeking to attract group members with high repayment rates.

Diversification of assets and income sources within the group. The diversification of assets and income sources between group members makes it more likely that one member can bail out a peer who is experiencing repayment difficulties. If all group members have the same occupation, their incomes tend to drop together during bad times. A good mix of income activities, including agricultural production activities, is a desirable group characteristic.

Group size and member-based decision-making. The bigger the group, the more imperfect the flows of information are likely to be between members, and repayment can falter. In general, potential members are in a better position to screen and select the best partners for group formation, giving due consideration to factors such as potential risk-pooling benefits by co-selecting members whose anticipated income and consumption shocks are negatively correlated. External rules regarding membership eligibility should therefore be kept to a minimum, and grassroots formation of groups encouraged.

Loan amount and degree of credit rationing. The bigger the loan amount, the more difficult it is to meet repayment obligations in the event of project failure. Starting out with big loans, or rapidly increasing the loan size can have adverse effects on repayment rates. The higher the level of credit rationing imposed on the group, the higher the level of the group's unfulfilled credit demand. If this generates a greater concern for protecting future borrowing privileges, groups can be expected to increase efforts to lower delinquency rates. However, if the degree of rationing is too high, it is likely to render the loan amount more and more trivial (compared with the demand for credit), so that the MFI may no longer be considered a worthy long-term part-

ner. Hence, too much rationing will increase default just as will too little.

Social networks within groups. Since information flows are better within socially connected groups made up of friends and relatives, one would expect less moral hazard and lower transaction costs associated with bailing out a relative who is unable to meet the repayment requirements. However, cultural factors may make it socially unacceptable to impose sanctions on relatives, and in this way dilute the enforcement process. For precisely this reason, some MFIs have rules against groups containing close relatives to prevent possible collusion.

Gender. Findings in Bangladesh show that repayment rates are higher for groups that have a higher percentage of women. First, they tend to be more cautious in their business ventures and are likely to choose projects that are less risky. Women may also choose less risky projects because, given pervasive gender inequalities, project failure may lead to sanctions against the woman within the household.

Joint liability. Most group lending programs claim to enforce strict group liability that where no new loans are given to any borrower until all current loans of the group are repaid. In addition to being generally disliked by the majority of borrowers, an in-depth study of group lending in Malawi showed that strict enforcement of joint liability can encourage strategic default of the entire group. In fact, it is not the threat of losing access to future credit embedded in joint group liability but the expectation of the borrower to obtain a new loan if the current one is fully repaid that motivates borrowers to repay.

Rather than excluding the whole group in case of a single default, MFIs can experiment with some sort of limited group liability such as a policy to exclude any delinquent borrower from the group and to impose a penalty on the remaining group members. This limited liability can be adapted to a local context, and has the potential to yield lower delinquency rates while retaining good clients.

Access to future financial services. The average amount borrowers in a group-lending program in Malawi are willing to pay to maintain their access to credit was found to be 24 percent of the average loan size per member. The findings demonstrate that a lending policy of gradually increasing the loan sizes of good and repeat borrowers (which increases the value of maintaining future access to credit) will have a positive impact on repayment rates. Motivation to remain in good standing with the MFI can also be enhanced by demand-oriented savings and insurance services.

Community characteristics. The less remote and more buoyant the local economy, the better the market opportunities for profitable enterprise. Hence repayment rates are expected to perform better. However, IFPRI research indicates that this is not always so: in Bangladesh, remote communities had better repayment rates. The more remote the village, the greater the value placed on institutional credit services because alternatives are very limited or more expensive.

Concluding remarks

MFIs need to demonstrate their responsiveness to the clients' demand, and convince clients of the benefits from investing in a long-term business relationship with the MFI. In a nutshell, it is all about gaining trust. In fact, it is precisely this type of realization among borrowers that has contributed to the building up of a critical mass of social capital that supports successful group-based institutions. Without this social capital and trust, repayment rates in solidarity groups would quickly flounder. Understanding the financial demand of the poor is therefore indispensable. After all, there is little incentive for borrowers to build a lasting relationship with MFIs that do not address their demand for a diverse range of savings, credit and insurance services.

Future innovation needs to aim at reducing transaction costs for MFIs and clients, and designing more pro-poor products so as to also improve outreach and wel-

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Solidarity Groups

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fare impact. For the poor, access to savings and insurance services may be more important than credit. Institutional innovation in microfinance, and bold experimentation with adapting different institutional types to local environments, has led to several large, successful MFIs

as well as new promising approaches, such as the village banking and the linkage model. Many of these innovations were not borne out of market forces, but relied heavily on financial support from the state and funding agencies. The focus should be on building cost-efficient and sustainable MFIs that are congruent with market principles and that can reach poorer segments of the society as clients. □

From the Experts Efficiency in Microfinance

MONICA BRAND
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(STRATEGIC SOLUTIONS)

- High levels of operating efficiency in microfinance are unfortunately the exception rather than the rule. The reason is twofold. First, many microfinance institutions (MFIs) have not fully exploited the minimum economies of scale required to improve efficiency. There are many small MFIs serving too few clients to operate efficiently. Second, many MFIs still operate in noncompetitive environments where

there is little pressure to improve efficiency, given that high operating costs often can be covered by charging high interest rates.

- Improving efficiency should, however, be of paramount importance to MFIs, from a social as well as a financial perspective. Competition and market saturation will prevent many MFIs from charging undifferentiated, high interest rates in perpetuity. For inefficient MFIs facing these conditions, the only way to maintain self-sufficiency is via larger loans, which are typically not well-suited to lower market segments and thus may conflict with the desired social mission.
- In short, efficiency is critical for an MFI to remain agile, competitive and responsive to client needs. □

New ADB Publication on Microfinance

The Role of Central Banks in Microfinance in Asia and the Pacific, Volume 1 Overview. 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: adbp@adb.org □

Selected Readings on Microfinance

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Series. No. 12. Washington, DC: Accion International.

Brown, Warren and Geetha Negarajan. 2000. *Bangladeshi Experience in Adapting Financial Services to Cope with Floods: Implications for the Microfinance Industry*. Microfinance Best Practices Project. Development Alternatives Incorporated. Washington, DC.

Campion, Anita and Cheryl Frankiewicz. 1999. *Guidelines for the Effective Governance of Microfinance*. The Microfinance Network Occasional Paper No. 3. Washington, DC. Microfinance Network.

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ADB Technical Assistance to Commercialize Microfinance

ADB approved in November 2000 a regional technical assistance (RETA) to create a better understanding of commercializing the microfinance industry and to recommend ways to achieve this.

Microfinance outreach has expanded significantly over the last decade, yet most potential clients lack access to institutional microfinance services. How can outreach be expanded on a sustainable basis?

Some say commercialization is the answer, but there is no consensus on this issue among stakeholders in Asia and the Pacific.

The RETA covers Bangladesh, Indonesia, Philippines and Sri Lanka. It has three components: country studies on commercialization; country workshops to discuss country-specific issues on, and institutional experience of, commercialization; and a regional workshop to compare aspects of commercialization and recommend ways to promote commercialization. Implementation of the RETA will begin in April 2001. □

Selected Websites on Microfinance

The Foundation for International Community Assistance (FINCA)

FINCA's mission is to support the economic and human development of poor families. It has created village banks consisting of peer groups of 10 to 50 members, predominantly women. FINCA's website presents its programs, testimonies of clients, annual financial statements, and news. The website can be accessed through: <http://www.villagebanking.org>

Microfinance Network

The MicroFinance Network is a global association of microfinance practitioners. The members of the Network are committed to improving the lives of low-income people through the provision of credit, savings and other financial services. The website of the Network presents the profile of Microfinance Network, its activities, publications, membership, and includes links to microfinance-related sites. The website can be accessed through: <http://www.bellanet.org/partners/mfn/>

Microfinance Gateway

The Microfinance Gateway is a one stop information resource base, which is intended to be a forum for microfinance practitioners, nongovernment organizations, funding agencies, and others to learn and share microfinance information. It is a joint project of the Consultative Group to Assist the Poorest (CGAP) and ELDIS, an information technology company based in the Institute for Development Studies at the University of Sussex, United Kingdom. The site has a search facility that allows access to an extensive collection of documents and practical tools on microfinance development. It includes the industry services section which contains information on training and conferences, job opportunities, and web links, as well as a "communicate" page for suggestions and additional information.

The Microfinance Gateway can be accessed through the following two addresses: <http://www.cgap.org> and <http://nt1.ids.ac.uk/cgap/index.htm> □

The Virtual Library on Microcredit

This site has been developed as a repository of electronic information on microfinance as an enabling tool to fight poverty. Its main aim is to support microfinance in relation to policies, strategies, tools, case studies and other related information. The site has links to bibliographies, documents, case studies, libraries, internet resources, education, research summaries, and best practices, and can be accessed through: <http://www.gdrc.org/icm>

United Nations Capital Development Fund - Special Unit for Microfinance

SUM is the "lead technical unit on all matters pertaining to microfinance at the UN Development Programme. It supports the growth of effective microfinance institutions that have transparent track records and solid institutional and financial performance in reaching poor clients, particularly women, on a sustainable basis." This site presents the "Microstart" program, "Microsave" program, profile of the UN Capital Development Fund, SUM reports, and related links. The site can be accessed through: <http://www.undp.org/sum>

BOOK REVIEW

Mwangi S. Kimenyi, Robert C. Wieland, and J.D. Von Pischke (Editors). 1998. *Strategic Issues in Microfinance*. Ashgate Publishing Co., Brookfield, Vermont 05036, USA.

This is one of a handful of books that make important contributions to the on-going debates about microfinance. It deserves more attention than it has received because of the fundamental issues raised in the 14 chapters authored by some of the well-known persons in the microfinance field. The book does not contain highly detailed empirical papers but the authors discuss the issues based on their considerable field experience. The papers included in this edited volume were first presented in a Brookings Institution conference in the fall of 1994. It is surprising how many of the issues raised then are still highly relevant today.

The first chapter written by the editors introduces the themes presented in the volume. The second chapter by Claudio Gonzalez-Vega discusses the role of finance in poverty alleviation emphasizing the importance of economic growth for finance to make an impact. Appropriately designed institutions are also important to success. Chapter three, written by Reinhard H. Schmidt and Claus-Peter Zeitinger, presents a comparative analysis of group and individual lending technologies and a strategy for donor support to a new financial NGO. They express reservations about the appropriateness of new institutions engaging in aggressive savings mobilization.

Part II contains chapters on microfinance program design strategies. In chapter 4, Marguerite S. Robinson discusses the paradigm shift that has occurred from thinking of finance as credit delivery to thinking about sustainable financial intermediation. She draws heavily on the impres-

sive financial reform experience of Indonesia and compares it with the Grameen Bank in Bangladesh. In chapter 5, Dale W Adams discusses the dilemmas of donors, first in supporting targeted production credit and now in supporting what he labels altruistic programs championed by non-government organizations (NGOs). He notes that both approaches are politically attractive but neither contributes directly to the need for financial sector development. In chapter 6, Lynn Bennett discusses the need for and dangers in combining social and financial intermediation. Social intermediation is needed so some poor people can take advantage of financial services, but the mission can become "muddled" when commercial and welfare goals are approached together. Examples are drawn from five South Asian NGOs.

Otto Hospes argues for a careful second look at informal finance in chapter seven, while in chapter eight Carlos Cuevas concludes that most of the new formal financial alternatives have tapped niche markets rather than become substitutes for informal finance. In chapter nine, Lynn Bennett, Mike Goldberg and J.D. Von Pischke summarize their analysis of priority sector lending programs in Nepal and map out a detailed multi-staged performance based strategy designed to improve the performance of group-based finance.

Part III ends the book with five chapters on the general topics of sustainability and accountability of microfinance. Laura Vigano, in chapter 10, presents one of the first credit scoring models proposed for a developing country financial institution. It was proposed and tested for a rural development bank in Burkina Faso as an aid for credit screening. Robert Christen then summarized the four keys to financial sustainability that emerged from a United States Agency

for International Development study of 10 highly successful microfinance institutions. They include interest rate policy, loan portfolio standards, orientation towards productivity, and effective liquidity management. In chapter 12, Robert Vogel argues for caution in attempting to regulate and supervise microfinance institutions. In chapter 13, J.D. Von Pischke discusses how financial concepts and analysis can be used to improve the relatively weak analysis made of most small enterprise lenders. In the last chapter, David Richardson, Barry Lennon and Brian Branch summarize the strategy used to effectively stabilize and reform credit unions in Guatemala whose long-term viability was threatened. The program involved a new credit union model that established new discipline, policies and procedures.

Taken together these 14 chapters address many of the issues that still plague the development of market-oriented sustainable microfinance. No clear roadmap is provided for every situation, but readers will find a good discussion of the issues and some sense of the state of the art that is still valid, even several years after these papers were written. Policy makers and managers of microfinance institutions in Asia and the Pacific could improve the performance of the region's microfinance industry if they took some of these lessons to heart.

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