

**Agriculture and Social Sectors
Department (West)**

**A QUARTERLY NEWSLETTER OF THE
FOCAL POINT FOR MICROFINANCE**

September 2001 · Volume 2 Number 3

IN THIS ISSUE

Better Shelter for the Poor	1
Proliferation of Microfinance Institutions	4
ADB PROJECTS: Developing Credit Unions in the Kyrgyz Republic	6
Selected Readings on Microfinance	7
Book Review	8

The quarterly newsletter of the **Focal Point for Microfinance** at ADB aims to provide information on microfinance. Articles in the newsletter, however, do not necessarily reflect official ADB views. Articles may be copied with proper acknowledgement of the source. Please address any inquiries concerning the newsletter or its content, comments and suggestions to the Head, Focal Point for Microfinance, Agriculture and Rural Development Division West, Asian Development Bank, P.O. Box 789, 0980 Manila, Philippines.

- Telephone: (632) 632-6931
- Facsimile: (632) 636-2295
- E-mail: nfernando@adb.org

ADB

FINANCE for the
POOR

Better Shelter for the Poor
Housing Microcredit Responds to Their Needs

MICHAEL LINDFIELD
*Housing Finance Specialist
Water Supply, Urban Development and
Housing Division East
Asian Development Bank*

Introduction

Asian cities have very high proportions of informal dwellings, meaning those constructed to standards that do not conform to established legislation or built on land for which the occupier does not have appropriate title—or both. Up to 60 percent of dwellings in some cities are informal. These dwellings are an appropriate response of the poor to their social and economic circumstances. In many countries, there is de facto security of tenure as governments discourage evictions, acknowledging their failure to enable the land and housing market to supply shelter affordable to the poor, and cognizant of the votes wielded by the occupants of these areas. Housing in such areas can be built incrementally according to the budget and circumstances of the household concerned.

The construction of this housing is, by definition, financed by informal mechanisms, mostly through

household savings, small contractor/supplier finance, loans from relatives, sale of assets, and other means. But increasingly, the poor have access to microcredit and it is believed that the poor with access to such credit have been using it not just for their enterprises but for house improvement and construction as well. Sometimes, this becomes a “legitimate” income-generating activity as when a room is constructed for rental. Other times, livelihood loans are used for purposes for which they were not intended. FIE, a microfinance institution in Bolivia, estimates that some 20 percent of its microenterprise loans are actually used for home construction and expansion (Ferguson 1999).

The proliferation of informal housing solutions has disadvantages. First, housing investments on insecure titles constitute “dead capital” (DeSoto 2000). Households cannot use their equity in such investments as collateral for income-generating activities and cannot easily convert them into cash in an emergency, thus increasing their vulnerability. Second, investments such as footpaths, drains, and wa-

(continued on page 2)

Better Shelter for the Poor

(continued from page 1)

ter supply that are by nature collective are more difficult to implement on an informal basis. This has an adverse impact on the quality of life and productivity of residents in these areas.

There is a renewed recognition that something needs to be done about the low standards of services provided in many informal areas, and the issue is being tackled from two directions. There is a renewed movement to regularize titles and find ways to improve the quality of life in informal areas. Such initiatives as the Cities without Slums program of the Cities Alliance—a multidonor coalition led by the World Bank that is focused on urban problems—address these issues. Efforts to extend access to key services into these communities despite their informality are also needed. Often, and preferably, both approaches proceed together.

Housing microcredit, offered by microfinance institutions, supports both approaches. It can support the poor in financing their purchase of land, regularizing their occupancy, and providing services

and improved housing, thereby increasing their quality of life. It can also finance such service provision and improvements in the absence of full legal title.

This short paper will attempt to summarize the need—and demand—for housing microcredit, provide some examples of products that meet these needs and examples of their use, analyze the conditions under which housing microcredit is most effective and the constraints to its use, and set out the possible modalities for support to the microfinance sector in developing and using housing and housing-related microfinance.

The Need for Housing Microcredit

Faced with the enormity of the housing need and the poverty of those in need, governments have traditionally reacted in one of two ways. First, they build low-income housing units and distribute them—at very high levels of subsidy—to the poor. Because of the

high subsidy element, only a few such units are built and, because of the decent standards adopted, the housing units are attractive to members of the middle class, who often succeed in displacing the intended beneficiaries. Second, governments subsidize finance to the poor, providing loans at interest rates far below market. These interest rate subsidies also often end up in the hands of the middle class. Worse, they distort the financial markets, preventing nongovernment financial institutions from tapping funds for housing credits.

Neither of these approaches is appropriate for either the poor or low-income groups. A better approach is to finance their own preferences in housing development and building on the investment they have already made. However, both the poor and low-income households are excluded from formal sector finance for many reasons. In particular, the poor and low-income people

- find it difficult to service the debt for even a small formal sector house acceptable to many financial institutions;

- have no capacity to make regular monthly payments over a long period of time;

- do not have the full legal title to provide the secure collateral demanded by traditional financial institutions;

- are seen by these institutions as both expensive to service and high risk; and

- find the travel costs to—and application processes of—traditional financial institutions onerous.

The revealed preference of the poor is not housing as it is formally conceived: a solid structure of four walls, a hard floor, and a sound roof on its own piece of land or within a multi-unit complex. Some of the poor and many low-income households may want, and be able to afford, such a unit; but for the majority of the population this is not the case. More likely, they will want to fund the upgrading of an existing informal house or additions to an existing house. They will want funding on greenfield sites for incremental development—first the land, then a basic structure. Lastly, they may need financing to pay for the services to the house—



MEET OUR MICROFINANCE PROJECT STAFF

Ashok Sharma

Ashok, Project Economist of the Agriculture and Rural Development Division West, has wide experience in microfinance. Early in his career, during 1982-1983, he worked for a district level rural bank in Eastern India and a commercial bank interested in downscaling to serve the poor. In 1985, Ashok joined the National Bank for Agriculture and Rural Development (NABARD), the apex rural finance agency in India. At NABARD, where he spent about a decade of his career, his work covered a wide range of issues in rural finance and microfinance development. In 1996, he moved to work for a Belgium-based consortium of 16 international nongovernment organizations (NGOs), as a credit advisor for their projects in Indochina. In this capacity, he gained firsthand experience of NGO microfinance operations.

Ashok joined the Asian Development Bank (ADB) in 1999 while he was working as a rural credit consultant under the ADB-funded Rural Credit Project in Viet Nam to develop a credit appraisal system and train staff of the Viet Nam Bank for Agriculture and Rural Development. At ADB, he is involved in microfinance sector development in a number of developing member countries. He designed a \$150 million Microfinance Sector Development Project for Pakistan last year. He has also assisted other staff in designing projects with microfinance components in Viet Nam, Bangladesh and Sri Lanka. He is now responsible for administration of the Microfinance Sector Development Project for Pakistan and the Rural Microfinance Project for Nepal and designing a technical assistance to develop a framework for microfinance development in Viet Nam.

local roads, water supply, sanitation, and other services.

When the very poor, and others for which ownership is not appropriate constitute a large proportion of their potential market, a need also exists to develop a sustainable system of financing basic rental accommodation.

The Supply of Housing Microcredit

Responding to this need, a variety of organizations have developed products and structures to provide housing microcredit. These institutions can be divided into three major categories such as those that

- have housing finance as one of their main product lines;
- have a separate unit or subsidiary for housing finance; and
- specialize in housing microcredit.

The latter group is less common as it is often difficult for such institutions to attract the deposit depth or the longer-term capital funding required to make housing loans.

The Harvard Center for Urban Development Studies (2000) reviewed several shelter finance institutions for the United States Agency for International Development. The study reviewed institutions in many countries in Africa, Asia, and Latin America. In Asia, the countries included Bangladesh (Grameen Bank), India (Sewa Bank), and Philippines (Center for Agriculture and Rural Development Bank, and the Payatas Scavengers Association). The study found several common elements in the products and structures of these institutions, that enable them to provide finance appropriate for the poor.

First, they operate in areas where the poor already live or are likely to be able to afford land purchase. They undertake finance of upgrading housing in existing poorer areas or of new, very low-cost housing, developed with appropriate levels of infrastructure. They use group lending (Grameen approach) and other types of collateral for individual loans (co-guarantees and holding documentation of tenure) appropriate to the circumstances of the poor in particular societies.

Second, they tailor their products to the capacity of their clients to pay. In general, these products provide for reduced loan periods and increased interest rates compared with traditional mortgage finance. This has the additional benefit of addressing the potential mismatch between shorter-term deposit funds and borrowings being used to fund longer-term lending (asset-liability term mismatch). On the other hand, these products are offered for longer loan periods and at lower interest rates, when compared with traditional microenterprise finance. Such products may only be viable if potential borrowers have qualified through good savings and credit histories with the lender or associated institution and/or longer-term, cheaper finance is available to them directly or through an apex organization (see next section).

Third, these institutions will accept less-than-perfect proof of tenure as assurance and/or collateral. Regularization of title may be a significant parallel activity, encouraged and/or facilitated by the financial institution.

Fourth, these institutions accept the need to work closely with client communities and build into their cost structure (and thus into the interest rates charged) the resources required to do so. This also addresses the issue of access by the poor and low-income groups. Having the financial institution come to them significantly reduces their cost of access and thus increases demand.

Constraints to Upscaling Housing Microcredit and Potential Modes of Support

The important constraints applying to many of the microfinance organizations offering housing-related products are the following:

- lack of appropriate products to address the variety of shelter needs (home extension, land acquisition, and infrastructure provision, for example);
- need to train staff better and to put into place better management systems for such products;
- lack of defined strategies for ac-

cess to long-term capital; and

- lack of liquidity stemming from the relatively larger size of these loans required and the asset-liability term mismatch.

Support to these institutions should be targeted at overcoming these constraints, establishing central support sections (if within one larger organization) or apex organizations (if loans are originated by small organizations) to act as repositories of best practice and with resources to build capacity of branches/originating institutions. Within large organizations, it will be necessary to establish a separate funding stream based on long-term capital sources. For the decentralized approach with an apex organization, it will be necessary to provide either in the apex or elsewhere (such as in a large government financial institution) a fund designed to act as source of refinance, capitalized by long-term funds.

Given the huge market, the potential for housing microcredit is great, but important challenges remain for organizations in this emerging sector of the financial industry and their regulators. They are

- balancing the affordability of clients and cost of funds;
- balancing the terms of liabilities (capital funds) and assets (loans);
- tapping sustainably the lowest possible cost, longest term funding from the capital market; and
- establishing an appropriate regulatory framework that will provide the required accountability on the part of financing institutions without unduly adding to costs. □

References

- DeSoto F. 2000. *Mystery of Capital*. Basic Books, New York.
- Ferguson B. April 1999. *Micro-finance of housing: a key to housing the low or moderate-income majority*. *Environment and Urbanisation*. 11(1):185-200.
- Harvard Center for Urban Development Studies. 2000. *Housing Microfinance Initiatives*. USAID. Washington DC.

Proliferation of Microfinance Institutions

NIMAL A. FERNANDO

*Lead Rural Finance Specialist,
Asian Development Bank*

Introduction

The objective of developing a sustainable microfinance industry is to provide financial services on a continuing basis to the poor and low-income households and to microenterprises unserved and underserved by traditional formal financial institutions. While no reliable estimates exist on the size of the potential market for microfinance, it is widely recognized that in most developing countries, a majority of poor and low-income households and their microenterprises belong to this category. The promoters of microfinance services want not only services provided to this category on a continuing basis, but also several other things, including

- products and services at the lowest possible prices;
- high quality and efficient services; and
- a broad range of services.

Too Many Suppliers

The two basic approaches to expand the supply of microfinance services are by increasing the number of suppliers providing the same or different services and supporting growth of the existing

institutions in terms of clients and scope of services. In most developing countries, many service providers exist in the microfinance market. In Bangladesh, for example, more than 1,000 nongovernment organizations (NGOs) are providing mainly microcredit, the Philippines has more than 300, and Cambodia more than 120.

Many analysts believe that there appear to be too many microfinance service providers in most developing countries. In most countries, despite the proliferation of microfinance institutions (MFIs), outreach remains poor in relation to the potential market, and the scope of services remain limited mostly to microcredit. The informal sources of finance, in the meantime, continue to dominate the market, although most MFIs have aimed to drive informal commercial suppliers out of the market. The expected deepening and broadening of the formal and semiformal microfinance sectors have not yet taken place on a significant scale in most countries.

The proliferation of MFIs cannot necessarily be considered good for the industry. MFIs operating in small geographical areas are subject to higher covariant risks because they are less able to diversify across space and activities they finance. They also run greater risks

of being subject to liquidity problems, particularly when there is a peak in withdrawal of deposits (if they mobilize voluntary deposits) and demand for loans. Small MFIs are also unable to realize economies of scale. As a result, they are compelled to charge higher interest rates on microcredit than otherwise would be the case. In addition, many small MFIs make it more difficult to enforce effectively prudential regulation. A case in point is Indonesia, which is currently facing this problem with people's credit banks. In general, a microfinance industry—consisting of too many isolated and weak MFIs that are neither operationally efficient nor significant in terms of outreach—cannot contribute to financial sector development or broader development.

Given this context, the current status of the microfinance market raises some fundamental questions. Why have MFIs become the cottage industry in so many developing countries? Why do so many institutions continue to operate in the market? Why does the outreach continue to be low and the scope of services limited despite the many service providers?

Why is There Proliferation?

Many MFIs exist in the Asian market today mainly because too many funding agencies and governments have supported their creation and existence. Most of these MFIs are either state-owned institutions or NGOs. The widespread availability of grants and concessional funds from multilateral and bilateral funding agencies as well as national governments has encouraged the increase in such service providers.

Many funding agencies and governments have found it easier to support MFIs than to support other types of interventions for poverty reduction. This eagerness to support MFIs has been reinforced by the popular view that microcredit can have a significant impact on income and poverty. While grants and concessional funds could play a potentially significant role in building a viable industry, in most cases generous availability of such funds has resulted in a proliferation of service providers. The majority of these

Philippines: Expanding the Frontier of Formal Microfinance

The Bangko Sentral ng Pilipinas (BSP) approved a licence to the Opportunity Microfinance Bank (OMB), which opened its doors for business in August 2001. This is a milestone for formal microfinance in the Philippines.

OMB is the result of consolidating five microfinance nongovernment organizations (NGOs) under the leadership of the Alliance of Philippine Partners in Enterprise Development, Inc (APPEND) and the Opportunity International Network.

OMB will provide a range of financial and business development services, primarily to low-income households and the poor. Its goal is to have 250,000 clients by the end of 2003 and one million by the end of 2006. The APPEND partners currently have an outstanding loan portfolio of 446 million pesos in loans to 112,000 clients.

The establishment of OMB is the result of the BSP partially lifting its ban on licensing of new thrift and rural banks in January 2001, a move aimed at facilitating the creation of microfinance banks.

ADB's Focal Point for Microfinance extends its best wishes to OMB.

institutions are not seriously committed to adopting commercial practices to operate without subsidies.

Grant funds have often been provided without appropriate performance-based contracts and for too long a period. In many cases, grants have enabled inefficiencies to persist among the institutions rather than improve services and efficiency. Most funding agencies have yet to require service providers to achieve time bound, specific, and sustainable or market-oriented targets. In this sense, Dale W. Adams, a veteran rural finance expert, argues that much of the support for the microfinance industry resembles the approaches adopted by funding agencies and the governments for promoting small farmer credit in the 1970s and 1980s.

Many MFIs in Asia are considered to be inefficient. However, they continue to persist partly because they can pass on these inefficiencies to their clients as high prices. In a competitive market environment, such inefficient service providers are expected to go out of business over time. Evidently, this is not happening in most countries for several reasons. First, competition in most countries is inadequate to drive out inefficient service providers. A majority of MFIs operate on a small scale in limited geographic areas. For example, in a survey of microfinance NGOs in the Philippines in 1997, it was found that only 3 of the 223 respondents were operating programs of nationwide scope; most respondents were operating only within the municipalities wherein they were located. The same survey revealed that the total outreach of 131 microfinance NGOs amounted to only about 67,000 clients. In the meantime, eight microfinance NGOs and a microfinance bank with a combined network of 98 branches reported an outreach of 168,000 clients at the end of 2000.

Second, many MFIs are still using their initial capital, even though the amount of capital is decreasing because of continued losses and inflation. Surveys revealed that many MFIs lack reliable basic data on outreach, repayment rates of loans, and loan portfolio and its quality. Most MFIs also do not prepare proper financial statements of their operations. Hence, the actual financial

Subsidies: The Crutches of Microfinance

The vast majority of microfinance programs in Asia are subsidy-dependent. But many argue that subsidy dependency is bad and MFIs should try to reduce this dependency. Why is decline in subsidy dependency considered a good thing? According to MicroRate, a Washington DC-based private-sector agency dedicated to evaluation of MFIs, subsidies are counterproductive on two counts: first, they discourage MFIs from looking for more expensive commercial money including voluntary deposits and second, they breed inefficiency. If the growth of the industry is subsidy-dependent, the services cannot be provided to a large number of clients because of scarcity of resource for such support on a large scale. Reduction in subsidy dependency will also release resources of donors and governments to increase support for investments in other areas such as primary education and primary health care that would bring substantial benefits to the poor.

Efficient MFIs can offer low lending rates to their clients while low efficiency breeds high lending rates. Since subsidies lead to low efficiency, there is a direct correlation between subsidy dependence and high lending rates. Strikingly, the main argument in favor of subsidies – that they reduce the cost of loans to the poor – is not borne out by what happens in the real world. On the contrary, according to MicroRate, lowest rates are not charged by subsidized MFIs, but by those that depend heavily on commercial funding.

Undeniably, subsidies have a role to play in microfinance. But the role of subsidies, MicroRate argues, should be confined to help an infant industry meet the cost of pioneering a new activity. Subsidies are most effective in the very early stages of a microfinance program. Beyond that, according to MicroRate, subsidies quickly become “a burden and embarrassment, much as diapers become for children as they grow up”.

Source: MicroRate. October 2000. Putting the Finance into Microfinance. MicroRate: Washington D.C.

health of these institutions, the extent of inefficiencies, and the gravity of various financial and operational problems that they face are not known. Third, several MFIs have continued access to subsidized funds for their operations and so have no incentive to be efficient or even to grow to realize economies of scale. The subsidies, in many cases, enable continuation of inefficient operations.

Despite the proliferation of MFIs, the outreach of microfinance services continues to be limited in most countries. A main reason for this is the lack of capacity among MFIs to reach a significant number of potential clients. Having created directly or indirectly many MFIs, both governments and funding agencies find it difficult to support too many institutions to address effectively their capacity constraints because of scarce funds and diverse capacity building requirements. As a result, many MFIs appear to continue with a limited capacity and tend to have a few clients.

Needed Redirections

Based on the current status of the industry, one could argue that if funding agencies were to cut off grant support and other associated subsidies to MFIs, a majority of the service providers will go out of business within 2-3 years. The answer to the proliferation

and persistence of inefficient MFIs in the industry, however, should be more pragmatic than immediate removal of current support extended by the funding agencies and governments. It may be more realistic and appropriate for funding agencies and governments to consider establishing minimum conditions for support. Such support may be provided on a timebound basis and linked to the achievement of specific sustainability and outreach objectives. A greater transparency of donor and government support for MFIs is also needed.

Funding agencies and governments should have clear exit strategies and these should be made known at the outset to the MFIs that they support. Improved donor coordination will help in more rational use of support to build a viable and robust industry. The industry may also benefit from the introduction of better standards for disclosure of financial information of MFIs. These measures will contribute toward transforming the current microfinance industry consisting of too many unsustainable institutions into one that will be made up of fewer market-oriented, efficient MFIs. □

Acknowledgement: The author is grateful to Dale W. Adams, Richard Meyer, and John Whittle, for their thoughtful comments on the earlier version of this note.

Developing Credit Unions in the Kyrgyz Republic

JOHN WHITTLE

*Senior Project Economist,
Agriculture and Rural Development
Division East
Asian Development Bank*

The Kyrgyz Republic has a population of about 4.9 million. The majority of the people live in rural areas and are dependent on agriculture and related enterprises for their livelihood. With a per capita income of about \$380 (1999), Kyrgyz Republic is one of the poorest countries. Most of the households, particularly in rural areas, do not have access to financial services.

As part of the financial sector reform program adopted by the Government following independence in December 1991, two major banks, Elbank and Agroprombank (the agricultural bank), were liquidated leading to a decline of the branch network of banks from 170 to 70, and leaving 25 of 42 districts without full banking services. Thus, the rural areas faced severe problems in the availability of and access to even basic financial services. Kyrgyz Republic needed new institutions to provide financial services in rural areas.

In 1996, the Asian Development Bank (ADB) completed a feasibility study to establish viable and sustainable financial institutions to serve the rural community. As part of this study, three trial credit unions (CUs) were established with ADB assistance. On the basis of the study and the pilot testing of CUs, ADB approved a loan in August 1997 for \$12.5 million to establish a nationwide system of CUs in rural areas to provide financial services. The key elements of the project included the development of (i) a network of 280 CUs, an apex institution, and consultative committee; and (ii) a legal and regulatory framework for CUs.

The National Bank of the Kyrgyz Republic (NBKR—the central bank) established the apex, the Financial Com-

pany for the Support and Development of Credit Unions (FCSCU), in April 1997. FCSCU is a limited-liability company with capital of Som10 million (then \$575,000). Ownership is to be transferred from NBKR to the CUs during the implementation of the seven-year project. Individual CUs initially were established under a Decree on Credit Unions, prudential regulations issued by NBKR, and its own Charter.

For a CU to be registered and licensed, a minimum of 10 members with initial share savings of Som50,000 (in 1997 \$2,875), a minimum share savings of Som1,000 (\$57) per member, and a maximum share savings per member of 10 percent of total share savings are required. All services are restricted to members only. Under the project, CUs are provided matching loan funds, through the FCSCU, equal to total share savings up to a maximum of \$35,000 per CU. Lending to CU members was not targeted or restricted but limited to a loan/share savings ratio of 3:1 and

a maximum loan per member of 15 percent of total share savings of the CU.

Regulation and supervision of the CUs is the general responsibility of the NBKR. However, supervision responsibility was devolved to the FCSCU because of the expected growth and number of CUs, and the limited capacity of NBKR to supervise a substantial number of new financial institutions. In 1999, the Parliament passed the Law on Credit Unions.

The project effectively commenced in April 1998 but the Government, following the piloting of CUs under the feasibility study and the establishment of the FCSCU commenced a program of promotion and CU development. Consulting service support is being provided independently by the German Government through Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) and Deutscher Genossenschafts-Und Raiffeisenverband (DGRV).

The subsequent growth of the CU system has exceeded original design expectations. By the end of April 2001, an estimated 160 CUs with 10,000 members were to be established. The table below shows the status at the latest review by ADB in June 2001. The estimated delinquency rate for loans to CUs is 2.9 percent of loans outstanding and for loans to CU members, on a consolidated basis, is 1.0 percent.

This initial stage of development

Status of Licensed Credit Unions

(as at 31 March 2001)

	31/12/97	30/6/99	31/3/00	31/3/01
No. of Credit Unions	13	131	162	206
No. of Members	308	4,986	8,078	12,544
Total Assets (Som)	1,859,460	29,463,427	59,036,946	141,768,108
Total Loans Outstanding (Som)	1,626,851	26,315,777	53,510,632	138,913,992
Total Loans Outstanding of				
FCSCU (Som)	275,000	8,881,000	21,596,225	55,266,900
Total Share Savings				
Outstanding (Som)	1,512,810	17,666,881	32,137,000	72,305,535

has been successful due to several factors. The Government has provided strong support and promotion through various media, thus increasing the awareness of CUs among the population. The early establishment of the apex under the Central Bank provided an institution perceived as safer than other financial institutions and also provided the means for an intensive promotion and training program. A high level of social capital due to the level of education of the population provided a sound base for training and initial establishment of CUs. The introduction of a Law on Credit Unions and its effective implementation together with enforcement of regulations, which continue to evolve, has instilled a level of discipline among CUs. The Government also supported CUs by granting an exemption from income tax. The creation of these new community-owned and managed CUs that have started to meet the demand for financial services has increased confidence among the rural population to use formal financial services.

However, this rapid growth has also seen the capacity of FCSCU and the CUs stretched in terms of management, training, and supervision. As the CU network moves into the next phase of development, their growth needs to be consolidated and the overall quality and safety and soundness of the system must be improved. Since a solid foundation has been laid for viable and sustainable CUs, the emphasis in the future will be directed toward expanding the institutional capital of the CUs; introducing more savings deposit products, and increasing savings mobilization as the principal source of funds; introducing further improvements to the regulations and supervision; introducing more flexibility into membership fees and loan products; and focus on enhancing the financial management skills of CU staff to meet the new challenges.

ADB expects to continue its assistance in coordination with other funding agencies to support the measures required to develop a safe and sound CU system in the Kyrgyz Republic. □

SELECTED READINGS ON MICROFINANCE

Books:

Robinson, Marguerite. 2001. *The Microfinance Revolution: Sustainable Finance for the Poor*. Washington, DC. The World Bank.

Journal Articles:

Copestake, James et al. April 2001. Assessing the Impact of Microcredit: A Zambian Case Study. *The Journal of Development Studies*. 37 (4): 81-100.

Hickson, Robert. June 2001. Financial services for the very poor – thinking outside the box. *Small Enterprise Development*. 12 (2): 55-67.

Kevane M. and B. Wydrick. July 2001. Microenterprise Lending to Female Entrepreneurs: Sacrificing Economic Growth for Poverty Alleviation? *World Development*. 29(7): 1225-1236.

Mayoux L. June 2001. Tackling the Downside: Social Capital, Women's Empowerment and Micro-Finance in Cameroon. *Development and Change*. 32(3): 435-464.

Mosley, Paul. April 2001. Microfinance and Poverty in Bolivia. *The Journal of Development Studies*. 37 (4): 101-132.

Safavian M.S. et.al. July 2001. Corruption and Microenterprises in Russia. *World Development*. 29(7): 1215-1224.

Schmidt, R.H. and Claus-Peter Zeitinger. June 2001. Building new development finance institutions instead of remodelling existing ones. *Small Enterprise Development*. 12 (2): 32-43.

Other Publications:

Brown, Warren et. al. 2000. *A Cautionary Note for MFIs and Donors Considering Developing Microinsurance Products*. Microfinance Best Practices Project. Development Alternatives Incorporated. Washington, DC.

Gomez, Arelis et. al. 2000. *Regulation and Supervision of Microfinance Activities: The Bolivian Case Study*. Microfinance Best Practices Project. Development Alternatives Incorporated. Washington, DC.

Sebstad, J. and M. Cohen. 2001. *Microfinance, Risk Management and Poverty*. CGAP: Washington, DC.

Wright, Graham A.N., et. al. July 2001. *ASA's Culture, Competition and Choice: Introducing Savings Services' into a Microcredit Institution*. MicroSave-Africa: Nairobi.

BOOK REVIEW

Marguerite S. Robinson. 2001. *The Microfinance Revolution: Sustainable Finance for the Poor*. Washington, DC: The World Bank. 352 pp.

If you are looking for a book that can provide a global overview of the current microfinance sector with a historic flavor from both a theoretical and practical perspective, you have one place to go: Marguerite S. Robinson's new book "The Microfinance Revolution". Robinson's vast experiences in Asia and skills as a financial anthropologist are well combined to provide a gourmet treat to a wide variety of readers including academics, microfinance practitioners, consultants, policy makers, and researchers. In short, it is a must read for all stakeholders in microfinance.

Robinson provides the reader with a very educative and interesting account of the microfinance revolution. She notes that the revolution started with replacement of missionaries with bankers and is now evolving into democratizing capital through provision of financial services to the economically active poor on a large scale by multiple and competing set of financially self-sufficient institutions. She predicts the trajectory of the revolution in the emergence of a commercially viable industry to efficiently serve the poor with financial services. Some may have different opinions regarding her optimism for deposit services for the poor and commercialization but they may not deny the rigor with which she has advocated the thesis.

The Microfinance Revolution is a three-volume book. Only volume 1, subtitled Sustainable Finance for the Poor, has been published. Volume 2,

Lessons from Indonesia, is expected to be published at the end of the year and volume 3, the Emerging Industry, is expected sometime next year.

Volume 1 consists of two parts: The Paradigm Shift in Microfinance, and A Critique of Theories of Local Finance. Robinson narrates the paradigm shift in microfinance from a subsidized microcredit to commercial microfinance. She explores the reasons for the gap between the supply of commercial finance and the demand for such services among the poor. The poverty lending and financial systems approaches are explained and emerging paradigm shift and its implications are examined. The supply leading finance theory, information paradigm, informal commercial credit market and market interlinkages, and role of savings are examined with great detail and rigor. The author compares the theoretical world and microfinance in practice and offers suggestions to improve the theoretical framework to examine microfinance. The book is generously sprinkled with colorful anecdotes and conversations with clients that make the discussions very lively.

The book is worth the read and can be used as a reference material by a diverse set of microfinance players. The book is published by the World Bank and Open Society Institute. It can be ordered on-line from www.worldbank.org/publications or books@worldbank.org. □

Geetha Nagarajan
Associate Editor
The MicroBanking Bulletin

Marguerite Robinson's book . . .

is a tour de force, remarkable both for the breadth of its vision and for the wealth of experience it captures. Dr. Robinson folds page after page of telling information about real people and their financial behavior, and about real institutions and their achievements, into a vigorously argued and sometimes controversial synthesis.

The book is unusual in its scope, bringing together a global overview of microfinance, including its development over the last two decades; a coherent theory about how and why microfinance works; a thesis on the future of microfinance; an especially strong treatment on microsavings; institutional experience from MFIs in seventeen different countries; and rich empirical detail on a number of important topics, including a fascinating treatment of moneylenders and their interest rates.

It is a great book. I have no hesitation in recommending it as a must-read for the microfinance field.

RICHARD ROSENBERG
Senior Adviser
Consultative Group to Assist the Poorest
Washington, DC

* * * * *

I especially liked three aspects of this tome: It makes a strong case for emphasizing deposit mobilization in microfinance efforts; it does a thorough job of covering recent literature on this topic; and the discussion is enriched with anthropological perspectives that remind us that microfinance clients are complex people.

DALE W. ADAMS
Consultant in Rural Finance
Utah, USA

THIS NEWSLETTER CAN BE DOWNLOADED FREE OF CHARGE FROM:
<http://www.adb.org/documents/periodicals/microfinance>