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FINANCE for the POOR

MICROFINANCE, RURAL POVERTY ALLEVIATION, AND IMPROVING FOOD SECURITY

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I. Introduction

Analysts are increasingly recognizing the multiple roles for microfinance in reducing poverty and improving food security for poor people in developing countries. These views contrast with the naïve belief that small loans alone can lift people out of poverty. This note summarizes some of the new thinking about rural poverty and microfinance.

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II. Changing Perceptions about Rural Poverty and Finance

Historically, poverty was viewed largely as a problem of the poor earning too little income, consuming too little to attain a socially acceptable standard of living, and possessing too few assets to protect themselves against unforeseen problems. Poverty alleviation strategies, therefore, have usually focused on employment creation, sometimes skills development and, occasionally, redistribution of assets from the rich to the poor. Technological change for small farmers has been a part of most rural poverty programs. Improving access to financial services, especially credit, has often been viewed as an important weapon in the arsenal to fight rural poverty.

As shown in Table 1, granting production loans to small farmers was viewed as a means to augment food production under the now discredited "directed credit" approach to small farmer development pursued by many donors and governments in developing countries during the 1960s and 1970s. These loans were expected to contribute to a virtuous cycle: credit would increase production and raise incomes, permit greater consumption and savings, and lead to further investment. The borrowing farm households would gain, and so would the entire society because of greater food supplies. In this traditional view, finance was largely limited to the single role of augmenting production through loans granted to producers, often at concessional interest rates.

During the past couple of decades, poverty analysts have argued that this traditional view of poverty is too narrow and simplistic. A recent example of the

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expanded view involving multiple dimensions of poverty is found in the Asian Development Bank's Poverty Reduction Strategy and World Development Report 2000/2001 of the World Bank. These documents note that not only do the poor lack income, they lack adequate food, shelter, education and health. They face extreme vulnerability to ill health, economic dislocation, and natural disasters. They are often exposed to ill treatment by the institutions of the state and are powerless to influence many decisions that affect their lives.

Paralleling this evolution in perceptions about poverty has been an evolution in understanding the roles of finance in development. As noted in Table 1, financial services are recognized now as playing multiple roles. Improved access can have a far greater and more comprehensive impact on poor households than previously assumed. In addition to the virtuous investment and production cycle, access to financial services can produce other desirable outcomes, such as consumption smoothing and improved food security, that contribute to attacking the multiple dimensions of poverty. Moreover, supplying financial services to women in traditional societies may be especially important as it may empower them and integrate them more fully into the country's economic and social life. As it matures, the microfinance industry is seeking to design financial services that will contribute to these broader poverty impacts.

Table 1. **Changing Perceptions of Poverty and Finance**

POVERTY	FINANCE	EXPECTED RESULTS OF FINANCE
Narrow View: Low income/ consumption Lack of assets **Broad View:** Low income/ consumption Lack of assets Vulnerability Poor health Lack of education Voicelessness Powerlessness Food insecurity	**Single Role:** Small production loans for food production **Multiple Roles:** Loans for wider uses, leasing, savings, insurance, payment/ money transfer, financial intermediation	**Production and investment:** Virtuous circle of investment, production, income, consumption, savings, investment **Multiple results:** Virtuous circle of investment, production, income, consumption, savings, investment Consumption smoothing (food security) Capacity to bear risk Empowerment Better education, health, and nutrition

III. Financial Services and Food Security

Critics of the directed agricultural credit approach frequently argued that the overemphasis on credit distracted attention from the fact that poor households demand a variety of financial services. Another version of these arguments with emphasis on the ways that access to financial services affects household food security is found in the 1997 International Food Policy Research Institute (IFPRI) monograph entitled Rural Finance for Food Security for the Poor.

The authors of the monograph discuss three pathways or channels through which financial services affect food security. The first is through the familiar poverty-reducing path of improved income generation. The effects are expected to be twofold. First, there is the traditional argument that loans can temporarily enhance a household's productive human and physical capital. Second, access to financial services, both savings and credit, can increase the risk-bearing potential of households leading to the adoption of risky, but potentially profitable, income-generating activities. The profitability and mix of agricultural, nonagricultural, and household activities may change, leading to increased income, that contributes to human and physical capital and the virtuous investment and production cycle.

Pathway two contributes through decreasing the rural household's cost of self-insurance. Improved access to credit, savings, and insurance services can induce improvements in the household's holding of assets and liabilities. For example, the holding of precautionary savings in the form of physical assets, such as cash, jewelry, staple foods and livestock, may decline. The emergency sale of productive assets at low prices may decrease and the storage of crops for later sale at higher prices may rise. The amount of financial services obtained from more expensive informal sources may decline. Thus, improved access to formal credit, savings and insurance services can alter the structure of household assets and liabilities. Reductions in the cost of stabilizing consumption will release resources to finance greater consumption and investment.

The third pathway, consumption credit, represents the greatest divergence from the traditional narrow production and investment-oriented view of finance. Households attempt to smooth consumption over time by adjusting their disposable income. In the event of adverse shocks, such as bad weather, accidents and illness, rural households use traditional consumption smoothing measures such as the emergency sale of assets, depletion of stocks and inventories, and emergency grants and loans from family, relatives and the informal sector. Formal supplies of credit, savings and insurance services may help households smooth consumption without resorting to traditional informal methods, which are often inefficient and bind households into unproductive social relationships that discourage savings and wealth accumulation.

Financial policies will be more beneficial for the poor if they pursue all three pathways rather than only the traditional pathway of production credit. Poor households may use loans in immediately productive ways as envisioned in the narrow view so that incomes and food supplies rise, but households may also use loans to finance education, health expenses, and smooth consumption. Savings and insurance services must be emphasized, not just credit, and savings programs for the poor must be designed recognizing that liquidity and transaction cost considerations may be even more important than interest rates for poor savers. Financial institutions that supply multiple financial services to the poor have a better chance of alleviating the multiple dimensions of poverty than those that focus only on loans for production.

IV. Microfinance: the Win-Win Proposition

Microfinance refers to the provision of financial services, usually in the form of small sized financial transactions, to people who are unable to access such services from commercial institutions. They are usually among the poorest members of all societies. The microfinance industry has experienced explosive growth during the 1990s. The World Bank reported that 206 institutions surveyed in September 1995 held about US$7 billion in loans outstanding that had been made to more than 13 million individuals and groups. This was an admittedly incomplete inventory at the time and the number of microfinance institutions (MFIs) and the volume of lending and savings mobilization have continued to expand since then. In Bangladesh, one of the pioneer microfinance countries, more than 1,000 MFIs were operating by the end of 1999. As of December of that year, 533 MFIs reported loans outstanding to almost 7 million borrowers in a total amount of about US$370 million. Most of these MFIs serve only rural areas. The growth in their lending has more than offset the decline in traditional agricultural lending of the commercial and agricultural development banks so they may now be reaching the scale to make an important influence on rural poverty.

The microfinance industry includes nongovernmental organizations (NGOs), village banks, credit unions, specialized banks for the poor, and commercial banks, so it is difficult to generalize. But a large segment of this industry, especially in Latin America, operates on the so-called "win-win proposition": the poor benefit from the financial services provided, willingly pay high interest rates and fees to obtain them, which permits the MFIs to provide the services on a sustainable basis. Therefore, MFIs that follow good banking principles are those that have a better capacity to contribute for alleviating poverty.

Although MFIs are beginning to offer a wider range of financial services, the industry is still dominated by those that specialize in lending to the poor. They target the poor, but unlike the traditional small farmer lenders, the good ones do not impose strict restrictions on the use of loan funds. They acknowledge the fungibility of money and recognize that borrowers will use funds to earn the highest economic return or meet their greatest emergency, including consumption smoothing and medical expenses. Therefore, the MFIs concentrate on educating clients to be prudent and to expect that they must repay loans regardless of how the funds were spent. Many MFIs use incentives such as interest rebates and automatic access to new loans to encourage the high repayment rates that are essential for institutional sustainability. Many use some form of joint-liability group lending technology so group members screen out those who are less likely to repay and apply peer pressure on those delinquent in payments. The most successful MFIs recover most of their loans and experience loss rates of only one or two percent, a record far superior to most financial institutions that operated under the directed agricultural credit paradigm.

MFIs are evaluated on their ability to achieve three objectives. The first is outreach, to reach a large number of poor clients. The second is long-term sustainability, so the MFIs can continue to provide financial services after any initial government or donor start-up funds have been exhausted. The third is impact on the clients served. There are complementarities among these objectives. For example, MFIs that serve a large number of clients may achieve economies of scale that contributes to their sustainability. But there may also be trade-offs. If MFIs try to serve very poor clients (i.e. improve their depth of outreach and impact on the poor), loans and savings deposits will be smaller and costs will be higher, so sustainability may be more difficult to achieve. This has prompted some analysts to fear mission drift because MFIs that strive for sustainability may abandon serving the poorest of the poor.

The objective of institutional sustainability is one of the most fundamental changes in the paradigm shift from directed agricultural credit to market-oriented microfinance. The objective is difficult to achieve; however there are a few highly successful "flagship" institutions. For example, the unit desa system of Bank Rakyat Indonesia (BRI) serves several millions of rural clients and has been so successful that each year the equivalent of millions of dollars in profits and surplus funds are transferred to bank headquarters to finance urban operations. BancoSol in Bolivia is an example of an NGO successfully converted into a specialized bank for the poor and it currently manages a portfolio of over US$75 million. The problem is that less than two percent of all MFIs have reached the ability to cover their costs and mobilize funds on a commercial basis.

V. The Drive for Sustainability and Increased Impact on the Poor

MFIs are experimenting with practices and products that will improve their impact on food security and poverty alleviation, as well as increase their sustainability. To attract more clients and generate greater revenues, some MFIs are beginning to aggressively mobilize voluntary savings rather than rely exclusively on compulsory savings and donor and gov-

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ernment funds. Some are experimenting with offering leasing, insurance and other financial services to the poor. If these efforts are successful, they can also have a win-win dimension. By offering more services desired by the poor, MFIs will also contribute more to rural poverty alleviation and improved food security. In the process, they may improve their sustainability. Governments and international agencies should welcome these changes, but this will require improved understanding about the multiple dimensions of poverty, and the potential and limitations of microfinance.

The microfinance industry is now entering a second generation of innovation. The first generation of innovations accomplished the difficult task of developing products, technologies, and institutions to deliver simple highly standardized loan products. However, the many rural people that choose to not participate in MFIs, the large number of drop-outs and/or graduates in many programs, and the frequency with which clients participate in more than one MFI are taken as evidence of the highly restrictive nature of the "one size fits all" approach followed by many microlenders. This realization has induced a search for products and institutions with more flexibility. There is a greater emphasis on understanding market demand and competition, and creating special products with greater appeal for the very poor. For example, the innovative SafeSave project in Bangladesh is experimenting with a savings and loan model designed specifically to serve the very poor in urban slums. It is testing the idea that the poor need highly flexible financial products that allow them the possibility of making savings deposits and loan payments in variable amounts on a daily basis. BRAC (Bangladesh Rural Advancement Committee) is working with the government of Bangladesh and the World Food Program on an Income Generation for Vulnerable Group Development (IGVGD) project designed to provide food grain assistance to destitute rural Bangladeshi women who have little or no income earning opportunities. Women who are able to successfully use this grant assistance to eventually graduate from absolute poverty can become regular microfinance clients.

VI. Conclusions

Making one or a series of small loans is not likely to singlehandedly lift poor people out of poverty. But microfinance can contribute to alleviating some of the broad dimensions of poverty and food insecurity. The microfinance industry is searching for innovations that will help it meet its potential. The success that some MFIs have achieved through the first generation of innovations involved considerable time, effort and experimentation. The same will be true for this second generation. For example, the well-managed and respected ASA (Association for Social Advancement) in Bangladesh found that it had to make significant changes to its highly flexible savings products because they generated few additional savings, and the cost of the savings mobilized was high relative to the cost of funds available from the apex institution, PKSF. Governments and donors need to support this second generation process of product design and experimentation, just as they did the first generation of innovations, so that microfinance can more fully achieve its potential in reducing poverty and improving food security. ❒

From the Experts: Dropouts in Microfinance

Graham A.N. Wright
(Program Director of MicroSave-Africa)

- Client desertion is a serious problem in many microfinance institutions (MFIs). The reasons for desertion are multidimensional and complex. Careful analysis of the reasons almost invariably points to inappropriately designed products that fail to meet the needs of the customers. High dropout rates often indicate dissatisfaction with the financial services offered by the institution and/or they have identified a better alternative.

- Much of the problem is driven by the attempts to replicate models and products from foreign environments without reference to the economic or socio-cultural conditions into which they are being imported.

- Many of the clients are driven out not only by the inappropriate design of loan products but also by the unwillingness of MFIs to recognize that there are seasons when savings services, not loans, are required. Thus, clients are forced either to borrow and try (against the odds) to service the loan, or to leave the MFI. Often, their need for savings services is unmet and ignored.

- MFIs that want to reduce their level of debilitating dropouts should carefully examine their services and products, and seek to improve them continuously. ❒

ASIAN DEVELOPMENT BANK

List of Ongoing Microfinance Loans and Equity Investments [1]

No.	Date of Approval	Loan No.	DMC	Project Title	Loan Amount (US$ million)	Microfinance Component	Source of Funds [2]
I.	**Loans**						
A.	**Microfinance Projects**						
	West Region						
1	13-Dec-00	1805(SF)	PAK	Microfinance Sector Development Program	70.00		ADF
2	13-Dec-00	1806(SF)	PAK	Microfinance Sector Development Project	80.00		ADF
3	27-Apr-00	1741(SF)	CAM	Rural Credit and Savings	20.00		ADF
4	8-Dec-98	1650(SF)	NEP	Rural Microfinance	18.66		ADF
5	29-Sep-98	1634(SF)	BAN	Rural Livelihood Project	42.26		ADF
6	20-Jan-98	1603	BAN	GrameenPhone Telecommunications	16.67		OCR
7	19-Jun-97	1524(SF)	BAN	Participatory Livestock Development [3]	16.58		ADF
8	24-Jun-93	1237(SF)	NEP	Microcredit for Women	3.08[4]		ADF
	East Region						
1	19-Oct-00	1768(SF)	PNG	Microfinance and Employment	9.60		ADF
2	21-Aug-97	1529(SF)	KGZ	Rural Financial Institutions Project	11.87		ADF
3	23-Apr-96	1435(SF)	PHI	Rural Microenterprise Finance	18.12		ADF
4	25-Oct-94	1327(SF)	INO	Microcredit Project	23.60		ADF
				Subt-total (A)	**330.44**		
B.	**Projects with Microfinance Components**						
	West Region						
1	18-Mar-99	1672(SF)	PAK	Malakand Rural Development Project	40.52	5.28	ADF
2	26-Feb-98	1609(SF)	NEP	Community Groundwater Irrigation Sector	28.79	12.98	ADF
3	4-Sep-97	1531(SF)	PAK	Dera Ghazi Khan	34.29	2.75	ADF
4	19-Sep-96	1461(SF)	NEP	Third Livestock Development Project	16.63	4.61	ADF
5	12-Sep-96	1457(SF)	VIE	Rural Credit Project	46.20	2.00	ADF
6	1-Dec-92	1201(SF)	SRI	Fisheries Sector Project	26.03	2.67	ADF
	East Region						
1	19-Oct-00	1766	INO	Community Empowerment for Rural Development Proj.	65.00	15.00	OCR
2	27-Jan-98	1605	INO	Central Sulawesi Integrated Area Devt. & Conservation	32.00	1.58	OCR
3	25-Nov-97	1583	INO	Rural Income Generation	62.25	20.40	OCR
				Subt-total [5] (B)		**67.27**	**(36.98)**
				Total Loan Portfolio[5] (A+B)	**397.71**	**(36.98)**	
II.	**Equity Investments**						
1	20-Jan-98	7143	BAN	GrameenPhone Telecommunication	1.60		OCR

Notes:
1. This list does not include loans which have been approved but not become effective as of 10 May 2001.
2. ADF = Asian Development Fund; OCR = Ordinary Capital Resources
3. Total loan amount of this is $19.09 million.
4. Total loan amount of this is $4.96 million.
5. OCR amount of which is given within parenthesis.

ADB Technical Assistance to CGAP

In April, ADB approved a regional technical assistance (RETA) project to provide support to the microfinance out reach initiatives of the Consultative Group to Assist the Poorest (CGAP). The RETA's main objective is to strengthen the capacity of Asia-Pacific microfinance institutions (MFIs) to provide demand-driven financial services to the poorest households on a financially sustainable basis.

Despite rapid growth in the microfinance industry over the last two decades, the poorest households still mostly remain outside the reach of MFIs. It is estimated that no more than 10 percent of the potential market has been reached. The RETA will help CGAP to strengthen its microfinance outreach program: it will help CGAP to carry out case studies and action research on innovative MFIs; further its pro-poor innovation challenge program; and provide support for training programs in new product development and sustainable ways of expanding microfinance. Implementation of the RETA will begin in July. ❐

ASIAN DEVELOPMENT BANK

List of Microfinance Loans Awaiting Effectiveness

No.	Date of Approval	Loan No.	DMC	Project Title	Loan Amount (US$ million)	Microfinance Component	Source of Funds[1]
A.	**Microfinance Projects**						
	West Region						
1	12-Dec-00	1802(SF)	VIE	Rural Enterprise Finance Project	80.0	42.0	ADF
				Sub-total (A)		**42.0**	
B.	**Projects with Microfinance Components**						
	West Region						
1	21-Sep-00	1758	IND	Housing Finance II	100.0	25.0	OCR
2	21-Sep-00	1760	IND	Housing Finance II	80.0	5.0	OCR
3	21-Sep-00	1761	IND	Housing Finance II	80.0	10.0	OCR
4	26-Oct-00	1771(SF)	BAN	Chittagong Hill Tract Rural Development Project	30.0	1.6	ADF
	East Region						
1	28-Nov-00	1786(SF)	KGZ	Skills and Entrepreneurship Development Project	25.0	0.8	ADF
2	21-Dec-00	1822(SF)	MON	Agriculture Sector Project	10.0	5.5	ADF
				Sub-total (B)[2]		**47.9**	**(40.0)**
				Total Amount (A+B)[2]		**89.9**	**(40.0)**

Note: 1 ADF = Asian Development Fund; OCR = Ordinary Capital Resources
2 OCR amount is shown within parenthesis.

Selected Readings on Microfinance

Books:

Bhatt, Nitin. 2001. Inner-City Entrepreneurship Development: the Microcredit Challenge. Oakland, CA: Institute for Contemporary Studies.

Rahman, Aminur. 2001. Women and Microcredit in Rural Bangladesh: Anthropological Study of the Rhetoric and Realities of Grameen Bank Lending. Boulder, CO: Westview Press.

Rhyne Elizabeth. 2001. Mainstreaming Microfinance: How Lending for the Poor Began, Grew and Came of Age in Bolivia, Bloomfield, Connecticut: Kumarian Press.

Steinwand Dirk. 2001. The Alchemy of Microfinance: The Evolution of the Indonesian People's Credit-Bank's from 1895 to 1999 and a Contemporary Analysis. Berlin, Verlag fur Wissenschaft und Forshung (VWF).

Weber, Heloise and Caroline Thomas (eds). 2001.The Politics of Microcredit: Global Governance and Poverty Reduction: Human Security in the Global Economy. London: Pluto Press.

Journal Articles:

Brown, Warren. March 2001. Microinsurance - the risks, perils and opportunities. *Small Enterprise Development* 12 (1):11-24.

Christen, Robert Peck and Richard Rosenberg. December 2000. Regulating Microfinance-the options. *Small Enterprise Development*. 11 (4):4-23.

De Aghion, B.A. and Morduch, J. 2000. Microfinance Beyond Group Lending. *Economics of Transition*. 8(2):401-420.

Merrill, Sally Roe. March 2001. Innovations in Microfinance for Housing in the United States and Emerging Markets: Can We Transfer Methodologies? *Housing Finance International.* 15(3): 3-16.

Mosley, Paul. March 2001. Insurance Against Poverty? The 'New Generation' Agricultural Microinsurance Schemes. *Small Enterprise Development*. 12 (1):51-58.

Other Publications:

Campion, Anita and S. Halpern. 2001. Automating Microfinance: Experience from Latin America, Asia and Africa. Washington DC. Microfinance Network and Accion International.

Christen, Robert Peck. December 2000. Commercialization and Mission Drift: The Transformation of Microfinance in Latin America. Occasional Paper No. 5. Washington DC: CGAP.

CGAP. April 2001. Microfinance, Grants and Non-financial Responses to Poverty Reduction: Where Does Microcredit Fit? Focus Note 20. Washington DC: CGAP.

CGAP. May 2001. Linking Microfinance and Safety Net Programs to Include the Poorest: The Case of IGVGD in Bangladesh. Focus Note 21. Washington DC: CGAP.

Pennell, John A. 1999. Apex Microfinance Institutions: A Review of Their Record. Washington DC: United States Agency for International Development.

Rosengard, J. et. al. 2000. Microfinance Development in Kenya: K-Rep's Transition from NGO to Diversified Holding Company and Commercial Bank. Development Discussion Paper No. 762. Cambridge: USA. Harvard Institute of International Development.

Sa-Dhan. 2001. Microfinance Regulation in India. New Delhi: Sa-Dhan. ❒

Selected Websites on Microfinance

ENTER Web: The Enterprise Development Website

This is an information gateway that lists and rates electronic resources related to microfinance in general and microcredit in particular. It provides access to information on micro, small and medium enterprise development both in developed and developing countries. Sites included in this list are rated according to content depth and value addition. Design, ease of naviagation and speed of loading are also considered in rating. The site can be accessed through ***http://www.enterweb.org/microcre.htm***

USAID Microenterprise Innovation Project

The Microenterprise Innovation Project (MIP) is USAID's principal vehicle for microenterprise development activities. Its objective is to provide microentrepreneurs, particularly women and the very poor, with greater and more reliable access to financial and nonfinancial services needed to improve enterprise performance and household income. To achieve this objective, the individual components of MIP are designed to increase the capacity, outreach and scale of the international and indigenous organizations providing services to the microenterprise sector.

The site provides detailed information on various components of USAID's microenterprise program. It also provides valuable information on many publications on microfinance. The site can be accessed through: **http://www.mip.org**

ILO Social Finance Unit

The Social Finance Unit of the ILO deals with finance sector issues (microfinance) that have implications for poverty alleviation, employment and social integration.

The site provides detailed information regarding ILO's microfinance operations, publications on microfinance and its microfinance portfolio. It also provides links to a number of other microfinance websites. The site can be accessed through: **http://www.ilo.org/public/english/employment/finance/index.htm**

Intermediate Technology Publications: Alternative Finance

Alternative finance is sustainable financial services whose objective is to redress inequity, alleviate poverty, promote livelihoods and improve services to disadvantaged people. This site aims to give researchers and practitioners access to unpublished documents on various aspects of alternative finance. ***http://www.alternative-finance.org.uk***

Opportunity International

Opportunity International is a nonprofit organization that fights poverty worldwide. It is one of the pioneers in microenterprise development. Its strategy is to "provide loans and basic training in business practices for the poor to break the cycle of poverty and foster social and spiritual transformation." The following site provides links to their many locations. ***http://www.opportunity.org/Main.htm*** ❒

BOOK REVIEW

Dirk Steinwand. 2001. *The Alchemy of Microfinance*. Berlin: Verlag. für Wissenschaft und Forschung. (VFW) 367 pp.

Most publications on microfinance lack historical perspective; authors often describe a microfinance program as if it were inserted into a financial vacuum. Steinwand's book is a refreshing reminder that microfinance activities, including informal finance, typically have a long and colorful history. This reminder should be unnecessary if one recognizes that billions of poor people have faced problems for millenniums that finance helps to resolve. It should not be surprising, therefore, that many individuals, communities, and governments have designed ways to provide financial services in small increments since commercial trading began. Providing these services in rural areas has proved to be difficult everywhere and this makes Steinwand's book especially interesting, since he concentrates on rural finance.

In a book that runs to about 350 pages Steinwand describes the growth and evolution of the peoples' credit banks (rural banking) in Indonesia from 1895 to 1999. For those unfamiliar with Indonesia, the institutions that Steinwand describes — what he terms the BPR system — are separate from the better known Bank Rakyat Indonesia's (BRI) Unit Desa system. Small private banks are one portion of the current BPR system and two other segments are essentially village-owned banks.
Steinwand notes that the initial efforts to form rural banking in Indonesia by the colonial government were influenced by the earlier experience with credit cooperatives in Germany. Had he chosen to do an Asian study, he could have noted the powerful influence of the same German experience on the formation of the rural credit cooperatives in Japan that were later successfully exported to South Korea and Taiwan. He could have also noted that the British attempted similar institutional transplants to their colonies in the sub-continent particularly, India and Sri Lanka, as did the Americans in the Philippines, with mixed results. In some cases these institutional transplants failed, but in other cases, including Indonesia, these transplants gradually evolved until they conformed to local conditions. Steinwand does an admirable job of describing that complicated evolution in Indonesia and drawing useful lessons.

In addition to the rich historical perspective, I appreciated several other aspects of Steinwand's book. He stresses deposit mobilization and concludes that these services are more important than additional debt for most rural people. The data he presents on the BRI/Units, showing more than 8 depositor clients for every borrower, reinforces this argument. While not all of the BPR system has been as successful as the BRI/Units in mobilizing deposits, Steinwand argues that those segments that have have exhibited superior financial performance.

I also appreciated that Steinwand delved into informal finance. This made him skeptical about the stereotypes that often stigmatize informal moneylenders. He might have taken an additional step into informal finance in Indonesia and analyzed the self-help financial groups known as arisans that are so popular there. This would have given him additional ammunition to argue for more attention to deposit mobilization. As an aside, I remember giving a speech to about 50 bankers in Indonesia some years ago, asking how many were currently members of arisans, and seeing most of them raise their hands.

Too many of the publications I read on microfinance show the author(s) have scant knowledge of related literature; the breadth and depth of a bibliography says a lot about the usefulness of the material that proceeds its. Steinwand's bibliography shows he has dug into, and understood a large amount of background material. Other microfinance authors can profit from his extensive list of references.

I liked Steinwand's book and heartily recommend it to others who are interested in Indonesia and the historical background of micro- and rural-finance problems.

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Dale W. Adams
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Dirk Steinwand's book . . . .
is a tour de force, a fine work of scholarship, and an extraordinary addition to the microfinance literature. This book's analysis is deeply grounded in Indonesia, but its findings should be of interest to many in microfinance: practitioners, governments, banks, donors, academics and others.

Marguerite Robinson
Author of the Forthcoming Three-volume
Book "The Microfinance Revolution"