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Rural Finance

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Rural Finance

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General Topics

Adams, D.W.; Graham, D.H. & Von Pischke, J.D. (editors). (1984). "Undermining Rural Development with Cheap Credit". Boulder: Westview Press.

Adams, D.W. & Vogel, R.C. (1986). "Rural financial markets in low-income countries: Recent controversies and lessons". *World Development*, Volume 14, Issue 4, April 1986, Pages 477-487.

Abstract: Recently some researchers have criticized traditional agricultural credit policies in low-income countries. This article identifies the major points of controversy between traditional views and these new views and also summarizes the primary lessons learned from these controversies. Savings mobilization, more flexible interest rate policies, less loan targeting, and greater emphasis on improving the quality of financial services in rural areas are new views that are emphasized.

Adams, D.W. (1988) "Distinctive Features of Rural Financial Markets in Asia". In *Farm Finance and Agricultural Development*. Tokyo: Asian Productivity Organization. p. 25-40.

Adams, D.W. (1988). "The Conundrum of Successful Credit Projects in Floundering Rural Financial Markets". *Economic Development and Cultural Change* 36(2): 355-367.

Adams, D.W.; Chen, H.Y. & Lamberte, M.B. (1993). "Differences in uses of rural financial markets in Taiwan and the Philippines". *World Development* 21, no. 4: 555-63.

Abstract: Despite entering the post World War II period in similar economic situations, by the early 1990s, the rural sectors in both Taiwan and the Philippines differed greatly. The rural sector in Taiwan displayed many of the features found in developed economies, while in the Philippines, poverty was still widespread. This paper argues that the performance of Formal Rural Financial Markets (FRFMs) in the two countries explains an important part of the difference in rural development. The paper considers the success of FRFMs as being indicated by the ability to provide a sustained flow of services to an expanding number of people. The background to the development of rural finance in the two countries is discussed, taking the examples of cooperatives and government organizations as lending agencies. The superior performance of FRFMs in Taiwan is seen as a result of emphasizing the efficient allocation of resources, while in the Philippines, FRFMs were used to handle target loans and subsidies. The paper highlights 10 specific policies that help explain the superior performance of rural financial markets in Taiwan. The paper concludes that farmers in low-income economies will find it increasingly difficult to invest without strong dependable FRFMs.

Adams, D.W. (1995). "From Agricultural Credit to Rural Finance". *Quarterly Journal of International Agriculture* 34, no. 2: 109-20.

Abstract: Forty years ago, credit was thought to be a critical part of a package of inputs needed to boost agricultural production. Initial results of donor and government efforts to expand agricultural credit were so encouraging that by the early 1950s some experts felt they could transplant credit programmes from developed countries that would succeed in most low-income countries. Optimism persisted for several decades until the early 1970s when problems began to surface in numerous credit programmes. The gravity of these problems became more apparent and pessimism grew until in the late 1980s major donors began to abandon agricultural credit efforts and instead increasingly focused on rural finance. This contribution discusses the evolution of agricultural credit into rural finance. It gives also an explanation for why this evolution occurred, and then summarizes the lessons that have been learned along the way. The paper concludes by outlining the major challenges for future financial infrastructure building in rural areas.

Adams, D.W. (2001). "AfDB Policy Guidelines for the Rural Financial Sub-sector". African Development Bank.

ADB. (1997). "Proposed Loan: Rural Financial Institutions Project. Kyrgyz Republic". RRP: KGZ 28395. Manila: ADB. July.

ADB. (2004). "Technical Assistance to the People's Republic of China for Rural Finance Reforms and Development of Microfinance Institutions".

Abstract: This document provides details of the Technical Assistance (TA) proposed by the Asian Development Bank (ADB) to provide advisory support for rural finance reforms and the development of microfinance institutions (MFIs) in Inner Mongolia Autonomous Region (IMAR) and Guizhou Province of the People's Republic of China. The document outlines some of the features of the rural financial system of the IMAR and Guizhou Province:

- Rural Credit Cooperatives (RCCs) are the only financial institution serving rural areas;
- RCCs have long been influenced by various levels of government and suffer from problems such as unclear ownership structure, poor corporate governance, inadequate business scope and internal control.

The document then identifies some of the issues faced by the two regions:

- Long distances and economic disparity;
- Limited operational scale, poor financial performance and weak institutional capacity;
- Policy constraints;
- Poor corporate governance.

Finally, the document provides details of the methodology, costs and implementation arrangements for the TA.

AFRACA. (2004). "Financial Sector Reforms, Central Banks and Rural Finance".

Abstract: This document focuses on financial sector reforms in Africa and their impact on the role and rural finance policies of central banks. As structural adjustment progressed through the 1980s an 90s, it became apparent that central banks and governments still have a positive role to play in rural financial activities:

- One of the key objectives of the "reformed" central banks is to promote the development of financial markets;
- 70-90% of population lives and works in rural areas;
- There are appropriate policies for the promotion, regulation and supervision of semi-formal and informal rural finance institutions.

The book adresses these issues with the experiences of 11 participants from English speaking sub-Saharan in a 1999 conference. It offers a further focus on the safety of savings in microfinance institutions (MFIs) and the potential threat for financial sector stability due to failures of MFIs.

Agabin, M. & Daly, J. (1996). "An Alternative Approach to Rural Financial Intermediation, The Phillippine Experience". *Chemonics International occasional paper,* May.

Ahmed, M.U. (1984). "Financing Rural Industries in Bangladesh". *The Bangladesh Development Studies*, Vol.12, No 1&2, Special Issue on Rural Industrialisation in Bangladesh.

Alvarado, J. & Galarza, R. (1999). "ANED, Bolivia: Pioneering Rural Microleasing". Inter-American Development Bank (IADB).

Abstract: Featured as chapter 10 in the IDB publication *Promising Practices in Rural Finance*, this case study examines the microleasing programme that ANED (Asociación National Ecuménica de Desarollo) began in 1997. ANED's financial leasing programme is an innovative mechanism for small producers of Bolivia's rural areas to finance investment capital such as tractors, farm ploughs, motorised pumps and other fixed assets. By financing the acquisition of fixed assets, and ANED's practice of purchasing directly from the supplier, this alternative to credit circumvents some of the most important bottlenecks small producers often face in expanding their production and productivity possibilities. Inherent to this financial product is a solution to the lack of collateral that often limit small producers' access to financial services. Financial leasing also lowers portfolio risks for ANED. The results of this programme are analysed from the perspective of its outreach and financial performance. This case study demonstrates how ANED has succeeded in creating an innovative financial product that was well received and appears to have great perspectives for future consolidation as an alternative for a large sector of small rural producers. The study also identifies challenges to the expansion of this programme (e.g., funding availability, product

promotion, market exploration, training for inexperienced clients, legal framework and regulation, insurance mechanisms for leasing products) and draws conclusions based on these challenges.

Arias, D. & Covarrubias, K. (2005). "Agricultural Insurance in Mesoamerica: An Opportunity for Deepening Rural Financial Markets". Environmental Division Region II, Inter-American Development Bank, Washington D.C.

Barnes, C.; Gaile, G. & Kimbombo, R. (2001). "Impact of Three Microfinance Programs in Uganda." Washington, D.C.: AIMS.

Abstract: This assessment of three USAID-financed microfinance programs in Uganda centers on the impacts of participation and whom the programs reach. The assessment focuses on the clients of FINCA (Foundation for International Community Assistance), FOCCAS (Foundation for Credit and Community Assistance), and PRIDE (Promotion of Rural Initiatives and Development Enterprises). It covers clients and a non-client comparison group in rural Mbale district, the capital city of Kampala, and Masaka town and its periphery. The results indicate that these programs are reaching their target groups. Moreover, the findings indicate that program participation leads to positive impacts.

Basu, P. & Srivastava, P. (2005). "Scaling-Up Microfinance for India's Rural Poor". *World Bank Policy Research Working Paper* No. 3646.

Abstract: This paper reviews the current level and pattern of access to finance for India's rural poor and examines some of the key microfinance approaches in India, taking a close look at the most dominant among these, the Self Help Group (SHG) Bank Linkage initiative. It empirically analyzes the success with which SHG Bank Linkage has been able to reach the poor, examines the reasons behind this, and the lessons learned. The analysis in the paper draws heavily on a recent rural access to finance survey of 6,000 households in India, undertaken by the authors. The main findings and implications of the paper are as follows: India's rural poor currently have very little access to finance from formal sources. Microfinance approaches have tried to fill the gap. Among these, the growth of SHG Bank Linkage has been particularly remarkable, but outreach remains modest in terms of the proportion of poor households served. The paper recommends that, if SHG Bank Linkage is to be scaled-up to offer mass access to finance for the rural poor, then much more attention will need to be paid towards: the promotion of high quality SHGs that are sustainable, clear targeting of clients, and ensuring that banks linked to SHGs price loans at cost-covering levels. At the same time, the paper argues that, in an economy as vast and varied as India's, there is scope for diverse microfinance approaches to coexist. Private sector microfinanciers need to acquire greater professionalism, and the government, too, can help by creating a flexible architecture for microfinance innovations, including through a more enabling policy, legal and regulatory framework. Finally, the paper argues that, while microfinance can, at minimum, serve as a quick way to deliver finance to the poor, the medium-term strategy to scale-up access to finance for the poor should be to 'graduate' microfinance clients to formal financial institutions. The paper offers some suggestions on what it would take to reform these institutions with an eye to improving access for the poor.

Bechtel, P.K.H. & Zander, R. (1984) "Providing Financial Services to the Rural Poor: IFAD's Experience, Challenges and Evolving Approaches". Staff Working Paper No. 16, International Fund for Agricultural Development, September 1994, 35 pages.

Bouman, F.J.A. (1989). "Small, Short and Unsecured: Informal Rural Finance in India". Oxford: Oxford University Press.

Bouman, F.J.A. & Hospes, O. (1994). "Financial Landscapes Reconstructed: The Fine Art of Mapping Development". Boulder, Colorado: Westview Press, Inc.

Abstract: The book examines the changing emphasis in the policy frameworks of rural financial intermediation in developing countries, including the distribution of cheap credit via specialized farm credit institutions, to the building of linkages between banks and savings groups, to attempts to use traders or NGOs as new conduits of financial lending. It comprises revised versions of 22 papers presented at the seminar "Financial landscapes reconstructed" held in Wageningen, The Netherlands, November 17-19, 1992. It is argued that the study of financial landscapes in developing countries requires a multidisciplinary approach, combining knowledge of financial technologies with agroeconomic, political-administrative and sociological insights. The book is

divided into three parts: Part one provides a background for the following papers and places the recent changes in context. Part two examines the development of rural finance, in particular the importance of the informal sector. Part three provides a number of case studies which focus on financial structures in Sri Lanka, the Philippines, Thailand, India and Indonesia.

Branch, B. (2003). "Credit Union Rural Finance: Sicredi Brazil." Paper presented at the World Bank's Rural Finance Week, Washington, DC, 12 March.

Buchenau, J. (2003). "Innovative Products and Adaptations for Rural Finance". paper presented at Paving the Way Forward for Rural Finance: An International Conference on Best Practices, organized by USAID, Washington D.C., June 2-4,

Abstract: The paper is about innovations in rural finance. It presents financial products and innovations, which improve the management of these products. It gives some details on products designed to finance farmers, such as agricultural investment loans or loans against warehouse receipts, and on products geared to serve rural households in general that include adapted microenterprise loans, savings and remittances. It explores innovations in processes based on new technologies like credit scoring or the use of handheld computers in loan analysis and design. It reviews the characteristics of households and agricultural enterprises as well as the conditions for sustainable development of the financial institutions that serve them. Innovations are evaluated based on their contribution to expanding the frontier of rural finance, either by reducing the transaction or risk costs of the market participants or by increasing the investment capacity of the clients who use them. Based on experiences gained with innovations in different rural settings, suggestions are given to donors, governments and to the providers of financial services on how to decide which innovations to pursue, and on how best to support the process of innovation.

Buchenrieder, G. & Heidhues, F. (1998). "Transformation and Rural Finance". *CERT Working Paper* No. 98/12.

Abstract: In the process of transformation from a centrally planned to a market-orientated economy, the domestic financial sector plays two important roles. First, the financial sector itself has to be fundamentally restructured, and second, its efficient functioning is a crucial precondition for the necessary economic transformation. During the central-planning era, the financial sector typically carried out fiscal functions, namely it distributed subsidies and supported production plans. In a market-orientated economy, this fiscal function of the financial sector has to be altered to one of financial intermediation, in which the financial intermediaries mobilize, and efficiently allocate, capital. This includes the selection and monitoring of investment projects. In addition to the more general set of problems associated with macro-economic instability, which slows down the development of the financial market overall, rural financial institution building faces specific obstacles. These obstacles include difficulties relating to the provision of credit collateral due to an unclear land property situation; the relatively high transaction costs related to supplying financial services to small enterprises, the still prevalent misuse of the financial sector to supply subsidies to bankrupt state enterprises and the related poor financial discipline and credit repayment behaviour. The consequence is the development of weak financial intermediaries with large portfolios of non-performing loans. Also, these intermediaries fail to address the medium- and long-term credit demand of private enterprises for capital investments. At the macro-economic level, reforms and innovations are necessary to foster economic stability and public confidence in the reliability and efficiency of the domestic financial sector. This includes the establishment of an independent central bank and effective internal and external mechanisms for the control of banking operations. At the level of the financial intermediaries, the restructuring of the organization and its management and the adoption of innovative financial instruments are necessary in order to increase the efficiency of financial intermediation. More efficient financial intermediation will allow the needs of cost-intensive market segments formerly ignored by commercial banks, such as the rural clientele, to be addressed.

Burkett, P. (1989). "Group lending programs and rural finance in developing countries". *Savings and Development* 13, no. 4: 401-19.

Abstract: The paper derives its inspiration from the renewed interest in group lending as a method of providing credit for small farmers in developing countries. The establishment of group lending is seen as a partial response to the apparent failure of previous subsidized loan projects to meet set objectives. Group lending reduces risks, lowers administrative and transaction costs; and it is argued that its design and evaluation should reflect the goal of improving the quality of rural financial services. The functions of group lending schemes are discussed in relation to financial development, informal finance and the proper goal of rural finance projects. The mechanisms by

which interest rate ceilings and others have stunted the potential contribution of group lending to rural finance development are highlighted. The conditions for a successful use of joint liability as loan security, the proper role of savings mobilization and informal finance schemes are also discussed.

Carter, M. & Waters, E. (2004). "Rethinking Rural Finance: A Synthesis of the Paving the Way Forward for Rural Finance Conference". Madison: University of Wisconsin, BASIS Collaborative Research Support Program.

Abstract: The conference paving the Way Forward for Rural Finance, held in Washington DC, June 2003, brought together academics, donors, practitioners, and development professionals to discuss successes and failures from past involvement in rural finance, and to explore creative solutions to the problems that constrain rural financial market development. This conference was meant to encourage a reengagement and a rethinking by donors and practitioners in the field of rural and agricultural finance. This paper represents a synthesis of ideas that emerged from the conference. The ideas here are not intended as a comprehensive list of either the constraints or possible programming options. Instead, this synthesis puts forward a way of thinking about rural finance and proposes concrete programming options that flow from this conceptualization of the rural finance problem. Conclusions and recommendations presented here do not necessarily reflect USAID policy.

Catholic Relief Services. (2001). "Project for the development of rural financial markets and of products: final report Nicaragua". USAID Mission to Nicaragua.

CGAP. (2003). "Financial Services to the Rural Poor".

Abstract: This Brief sets out to distinguish between the terminology of microfinance, rural finance and agricultural finance. The common ground is found in need to ensure the provision of financial services for the rural poor. The Brief goes on to examine the constraints which make financial servies difficult to provide in rural areas and the challenges that donors face in supporting the development of such services. Donors have traditionally equated rural finance with agricultural credit, seeing it as an input to achieve agricultural production targets or other project objectives. This supply driven approach has been largely discredited but donors are frustrated by the lack of alternative models, with the result that agricultural finance is virtually ignored in many agencies. This Donor brief makes a number of suggestions of how donors can improve their contribution to rural financial service provision, e.g. building staff capacity, determining the appropriate role for subsidies, influencing governments, helping to reform existing institutions, promoting technical innovations and funding innovations in delivery mechanisms or products.

CGAP. (2004). "Rural Financial Services through State Banks". Operational Note 3.

Abstract: State banks, or recently privatized state banks, offer huge potential for sustainable expansion of financial servies to low-income populations due their existing rural presence and extensive rural networks of branches or outlets. This note offers models for engagement and recommendations for working with state banks.

Chalmers, G. *et al.* (2005). "A Fresh Look at Rural and Agricultural Finance". Washington, D.C.: AMAP/USAID, *Rural and Agricultural Finance Note* No. 1.

Abstract: This presentation highlights USAID's approach to research and intervention in rural and agricultural finance. The integral components of its approach are:

- Knowledge generation through case studies, focus notes, action research;
- Continual learning through training events, study tours and e-forums;
- Provision of support to field missions through:
    - Decision making guides,
    - Market assessment tool,
    - Technical support on programming.

The presentation also brings forth certain critical issues that need to be explored:

- Alternative approaches to increase access to credit for small farmers;

- Interventions to expand access to finance for rural, non-farm micro enterprises;
- Strategies for expanding rural deposit mobilization.

Chao-Beroff, R. *et al.* (2000). "Enhancing Rural Financial Intermediation in Ethiopia". IFAD/World Bank.

Abstract: Poor people living in rural areas need access to credit on a regular basis so they can build up their assets and diversify their income-generating activities. This programme is designed to benefit poor people who have no access to basic financial services because of limited outreach and because they have no collateral. Such people often depend on moneylenders, paying exorbitant rates of interest and depleting their resources. By training rural poor people how to use and benefit from financial services, the programme helps them become clients of existing microfinance institutions, building confidence and reinforcing a culture of credit discipline. About 40,000 women will benefit from training in business skills, and about 14,000 centre and group leaders will share experiences relating to successful microfinance activities in other parts of the country. The programme will promote the establishment of 3,375 rural savings and credit cooperative societies owned and managed by their members.

Charitonenko, S. & Johnston, C. (2004). "AMAP-FS Knowledge Generation Rural and Ag Finance Research". SEEP (Small Enterprise Education and Promotion) Network.

Abstract: This presentation describes a broad framework for the case studies (to be) undertaken as a part of the Rural and Agriculture Finance Research:

- Research components include:
  - Agricultural finance (can include urban),
  - Rural non-farm finance,
  - Rural savings mobilization.
- Each case seeks to merge the institutional perspective with the agri-commodity chain approach.
- Each case seeks to include consideration of the policy environment, legal and regulatory framework as well as financial infrastructure (key support institutions).

The paper also presents an overview of the first four case-studies covering:

- Moldova Ag Finance (credit and savings),
- Regional Ag Leasing - Russia and other countries,
- HortiFruti – Costa Rica, Nicaragua, Honduras, Uganda.

Chaves, R.A. & Gonzalez-Vega, C. (1996). 'The Design of Successful Rural Financial Intermediaries: Evidence from Indonesia," *World Development* 24(1): 65-78.

Abstract: The success (outreach and sustainability) of eight rural financial intermediation systems in Indonesia, in profitably reaching large numbers of small individual clients, is explained in terms of organizational design. Networks of semiautonomous units use local information and contract enforcement mechanisms to lower transaction costs. Reflecting basic concerns with institutional and financial viability, elements of mechanism design have included compatible incentives such as performance-based compensations (profit sharing, collection fees), efficiency wages (equivalent to quasi-equity), and system monitoring; managerial discretion over transactions conducted at market terms, policies to protect portfolio value, and no dependency-creating subsidies are important. Interventions have been appropriate for the problem at hand.

Chowdhury, A.H.M.N. & Garcia, M.C. (1993). "Rural Financial Institutions in Bangladesh and Nepal: Review and Agenda for Reforms". Occasional Papers Number 3. Asian Development Bank, November 1993.

Coetzee, G. (1998). "Retail Rural Finance in South Africa: From Policies to Practice". *Agrekon* 37, no. 4: 517-27.

Abstract: In South Africa a recent government study laid the foundations for improving access to financial services for rural people; but more is needed than simply stating the policies. It is argued that policies do not differentiate target groups adequately. This can result in inefficient implementation of policies. The concept of a broad range of institutional possibilities to improve access to financial services, none of which specifically provides a conclusive model, is considered to be realistic. The idea is to muster this range of possible forms into a coordinated effort to increase access to financial services for rural people in all rural areas. This paper emphasises the reality of the situation when choosing policy directions. NGOs, commercial banks and the Post Bank do not hold the primary key to improving access to financial services in rural areas in South Africa. Several studies discussed the broad range of possible institutional forms in the rural areas of South Africa.

Coetzee, G. (1994). "Restructuring Rural Financial Institutions". *Agrekon* 33, no. 4: 220-224.

Abstract: South Africa is in a process of change. This is also true for the agricultural sector and thus all related services. Agricultural finance, as a segment of rural finance, is the topic of an intended commission of inquiry. The current and intended public sector agricultural financial support structure should be measured against a set of guidelines. These are elaborated on in this paper. In addition, given the framework, some views are put forward as to what direction rural finance, and specifically agricultural finance, should take, and what structure should be applicable, given the principles as outlined. The paper concludes with some remarks about institutional change in South Africa and the intended rural financial services commission of inquiry.

Conning, J. & Udry, C.R. (2005). "Rural Financial Markets in Developing Countries". Yale University Economic Growth Center Discussion Paper No. 914.

Abstract: This review examines portions of the vast literature on rural financial markets and household behavior in the face of risk and uncertainty. We place particular emphasis on studying the important role of financial intermediaries, competition and regulation in shaping the changing structure and organization of rural markets, rather than on household strategies and bilateral contracting. Our goal is to provide a framework within which the evolution of financial intermediation in rural economies can be understood.

Copestake, J. *et al.* (2005) "Monitoring Diversity of Poverty Outreachand Impact of Microfinance: A Comparison of Methods Using Data From Peru." *Development Policy Review* 23 No. 6: 703-723.

Abstract: Many microfinance institutions claim to be oriented to a double bottom line, but while methods of financial performance assessment are widely agreed the same cannot be said about social performance. Monitoring social performance is most useful when it reveals variation in both outreach and impact over time and between clients. Data from a village banking programme in Peru is used to compare two methods for assessing each. On poverty outreach, we favour monitoring of proxy indicators for clients against national household survey data, and on impact we recommend making more use of individual in-depth interviews.

CDF (Co-operative Development Foundation). (1994). "Alternative Rural Finance". Hyderabad, India, February.

Davis, J.R., Gaburici, A. & Hare, P.G. (1998). "What's Wrong with Romanian Rural Finance? Understanding the Determinants of Private Farmers' Access to Credit". Centre for Economic Reform and Transformation, Heriot-Watt University Discussion Paper No. 98/08.

Abstract: This analysis of the determinants of private farmer access to rural finance in Romania has two distinct aspects: (i) a quantitative evaluation of some measurable variables for example factors affecting the amount of loans and the volume of savings; and (ii) a qualitative aspect, concentrating on the relationship between financial service suppliers and private farmers. We also consider the motivations underlying the participation or non-participation of private farmers in the development of the rural financial market. We have estimated two regression models: a) to determine the main characteristics of the private farms that have access to formal credit; and b)

to estimate how farm income, the source and utilization of credit each impact on the actual loan amounts obtained. The paper attempts at all times to reflect the problems that farmers have highlighted in gaining access to rural finance in the results of our analysis.

Davis, J.R. & Hare, P.G., "Reforming the Systems of Rural Finance Provision in Romania: Some Options for Privatisation and Change".

Abstract: It is argued, that the National Bank of Romania should not be in the business of providing direct finance to agriculture. The entire system of support for agriculture, in particular the means of providing rural finance and credit needs to be reviewed, so that non-inflationary solutions may be found. This paper will discuss the necessary reforms (directions and modalities) of Romania's financial sector policies with regard to privatisation: (i) with special emphasis on accelerating the pace of the economic reform mechanism in the rural areas; and (ii) consider the possibilities of further decentralising Romania's financial market and of improving the integrity between financial agent and client.

Dayesso, T. (2005). "Managing Costs in the Delivery of Rural Finance: The Experience of BG MFI, Ethiopia". Ethiopia, Luxemburg: Buusaa Gonofa.

Abstract: This presentation seeks to address important issues in the delivery of finance to rural areas. It also describes the strategy that the microfinance institution (MFI), Buusaa Gonofaa (BG), has employed to reduce costs. The presentation provides introductory information about BG and rural finance. It then addresses the following questions:

- Would context affect the cost structure of MFIs and the costs to clients?
- How does location matter in the buying and selling of services?
- How to reduce costs of serving rural areas that are characterized by low population density and poor infrastructure?
- How to become efficient in a context where there is limited diversification of income sources among and within rural households?

The presentation recognizes that an MFI has a dual mission – of achieving profitability while also fulfilling a social objective. It then presents the following main features of BG's strategy to reach these two objectives:

- Simplicity and standardization;
- Decentralized operations;
- Decentralization of decision-making;
- Use of collateral substitutes;
- Staff management;
- Control on personnel and administrative costs;
- Check on operative costs.

DeLancey, V. (1992). "Rural Finance in Somalia". in Adams, D.W. & Delbert, A.F. (ed) *Informal Finance in Low-Income Countries*. Colorado: Westview Press.

De Vletter, F. (2003). "A Review of Three Successful Rural Finance Cases in Mozambique". Report prepared for CGAP, Washington, DC.

Diagne, A. (2000). "Towards a New Measure of Access to Credit." Rural Financial Policies for Food Security of the Poor. *IFPRI Policy Brief No*. 13. July.

Abstract: Two common approaches are used for measuring household access to credit and credit constraints in the literature. The first method infers the presence of credit constraints from violations of the assumptions of the life cycle/permanent income hypothesis. More precisely, the method uses household consumption and income data to look for a significant dependence (or "excess sensitivity") of consumption on transitory income. Empirical evidence of a significant dependence is taken as an indication of borrowing or liquidity constraint. The second method uses direct information on households' participation and experiences in the credit market to classify them as credit constrained or not. This classification is then used in reduced form regression equations to analyze the determinants of the likelihood of a household being credit constrained. While inference based on the first method may not always be correct, the second method does not allow quantification of the level of credit constraint. This brief outlines a methodology based on the *credit limit* concept that allows a more satisfactory analysis of the determinants of a household's access to credit.

Diagne, A. & Zeller, M. (2001). "Access to Credit and its Impact on Welfare in Malawi." Washington, DC: IFPRI.

Abstract: This paper analyses the determinants of access to credit and its impact on farm and non-farm income and household food security in Malawi. It is shown that the contribution of rural microfinance institutions to smallholder income can be limited, or negative if the design of the institutions and their services does not take into account the constraints and demands of their clients. A cautious and gradual strategy is recommended for the expansion of rural financial institutions. It is suggested that rural financial institutions should focus primarily on high-potential agricultural areas where they not only lend for production of an array of cash and food crops, but also offer financial services for off-farm enterprises, at low transaction costs.

Dorward, A.; Poulton, C. & Kydd, J. (2001). "Rural and Farmer Finance: an International Perspective". ADU Working Paper ; 02/04 ed.South African Association of Agricultural Economists.

Abstract: A wide range of institutional models and financial products are currently serving, or attempting to serve, the poor's demands for savings and loan services. Loan products are often structured in ways that make them particularly unsuited to seasonal lending, unless households have access to alternative cash sources which are not related to agricultural seasonality. However, very few of these operate in lower density rural areas or in areas where there has not already been some agriculturally based growth in the rural economy. Virtually none are operating in the conditions faced by the majority of poor farmers in sub Saharan Africa offering financial products that adequately address farmers' needs for seasonal finance for food crop production. This is partly due to the high costs and risks in the supply of such services, but may also reflect high risks and relatively low returns for borrowers investing in agriculture.

Dufhues, T.; Lemke, U. & Fischer, I. (2004). "New ways for rural finance? Livestock insurance schemes in Vietnam". *Research in Development Economics and Policy Discussion Paper*, No.5.

Abstract: In developing countries, insurance markets are usually underdeveloped. Nevertheless, if the development path is supported by strong structures and institutions, anonymous markets will over time replace informal insurance net-works as they are more efficient. In Vietnam, livestock is an important household income source and has additional non-economic functions in the households. Rural financial institutions in Vietnam financed for a long time only a small array of agricultural investments, but frequently including livestock purchase. The absence of off-farm investment possibilities further encouraged investment into livestock production. Livestock death is, therefore, considered to be a main factor contributing to poverty. Farmers using credit to purchase livestock face two risks at once: (1) losing the livestock due to disease and subsequently (2) failure of the investment. Farmers would like to reduce the uncertainty. Nevertheless, a formal agricultural insurance market hardly exists in Vietnam and farm households have to rely mainly on informal mutual aid schemes. The objective of this paper is to contribute to the discussion on the general feasibility of a livestock insurance scheme (LIS) in Vietnam. In this context the supply of LIS is discussed. Qualitative data collection took place mainly between 2003 and 2004. Four different types of insurance providers were selected for analyzing the supply side:

1. Insurance tied to credit within a state owned company,
2. Insurance tied to credit within a development project,
3. A state owned insurance company,
4. A private insurance company.

By selection of these different insurance providers the variety of livestock insurances offered in Vietnam was covered. The main conclusion is that there is no insurer in Vietnam offering an area-wide, sustainable animal insurance scheme. Offering sustainable livestock insurance is mostly hampered by unreliable data on livestock mortality and by politically low set premiums.

Duong, P. & Izumida, Y. (2002). "Rural Development Finance in Vietnam: A Microeconometric Analysis of Household Surveys". *World Development* 30, no. 2: 319-35.

Abstract: This study examines rural household participation in the Vietnamese rural credit market, the behaviour of a formal lender in response to the credit needs of households, and the impact of credit. Data are collected from surveys of 300 households. The rural credit market in Vietnam is quite segmented. The formal sector specializes in lending for production purposes whereas the

informal sector's lending is quite diverse. We show that rural households are rational in deciding which sources to ask for a particular kind of loan. Reputation, the dependency ratio of households, and the amount of credit applied for by the household are identified as the determinants of credit rationing by the bank. Credit is shown to have a significant impact on household production. These findings are important for the government if it wants to support a rural financial system that encourages dynamic lending policies to meet farmers' demands.

Edelman, M. (1997). "The Adequacy of Rural Capital Markets: Public Purpose and Policy Options". *Economics Staff Paper* number 292 ed. Iowa: Iowa State University.

Abstract: This testimony highlights the authors' observations regarding gaps in rural financial markets as they relate to rural development and legislative opportunities for addressing the gaps identified. The observations are based on the author's experiences and literature reviewed as a member of two national expert panels organized by the Rural Policy Research Institute to provide policy makers and staff with analysis on (1) alternative proposals for the rural development title of the 1996 farm bill and (2) the adequacy of rural financial markets in support of rural development.

Egaitsu, F. (1988). "Rural Financial Markets: Two Schools of Thought". In *Farm Finance and Agricultural Development*. Tokyo: Asian Productivity Organization. p. 111-122.

Egger, R. (2003). "Rural Finance - What is so Special About it?" Intercooperation: Organisation for Cooperation and Development.

Abstract: This paper studies the demand, supply and environmental situation with regard to the current status of rural finance, and recommends issues that need to be considered while promoting rural finance products and services.
As per the paper, the current rural financial service providers include:

- Developmental banks;
- Developmental projects;
- Agricultural credit, which is restricted to mainly loans for cash crop production;
- Village banks, and saving and credit cooperatives.

The demand for rural financial services is for:

- Safe and easily accessible savings;
- Short and long term loans for both productive and consumptive purposes.

The paper suggests ways by which, promotion of rural finance can be made more effective, such as:

- Introducing a large range of products;
- Pricing products according to actual transaction costs, profitability and liquidity management;
- Leveraging the social capital at the village level;
- Introducing innovations to cut down costs;
- Using linkages to bring the rural population closer to the formal financial institutions;
- Adopting portfolio management practices that lead to risk mitigation;
- Covering initial developmental costs through donor funds and investment in institution building;
- Promoting favorable government policies.

Evans, A.C. & Ford, C. (2003). "A Technical Guide to Rural Finance". World Council of Credit Unions.

Abstract: This guide discusses a spectrum of rural finance products and delivery mechanisms that contribute to advancing the provision of the following financial services to rural areas: • Lending, • Savings, • Leasing, • Insurance, • Remittances.

Feinstein, O. (2000). "Rural Finance and Poverty Alleviation in Central America: Evolution and Challenges". *Rural Development in Central America: Markets, Livelihoods and Local Governance.* Ruerd Ruben, and Johan Bastiaensen, 141-50. New York: St. Martin's Press, Inc.

Abstract: The paper presents a comparison between the view dominating rural finances in Central America during the 1970s and the 'new paradigm' of the 1990s, highlighting several challenges. It focuses on a trade-off that has emerged in the evaluation of several rural finance projects in

Central America: the trade-off between outreach and targeting (TOBOT). The paper analyses some key factors behind the TOBOT, discussing possible ways to overcome it. The paper starts with a brief presentation on the evolution of the approach to rural finances in the context of rural poverty alleviation. The second section discusses a set of challenges associated with this evolution; and the third and final section discusses the trade-off between outreach and targeting, and the corresponding challenges.

Fernando, N.A. (1994). "Improving Rural Institutional Finance: Some Lessons". *Papua New Guinea Journal of Agriculture, Forestry and Fisheries* 37, no. 1: 92-103.

Abstract: Fernando provides a summary of the major criticisms of the conventional approach to rural credit. The need for a broader view and a holistic approach, and the importance of institution building is emphasized. Subsidies in building institutional capacity essential in rural savings mobilizations, the role of private commercial banks, and the need for directed finance programmes are outlined.

Fernando, N.A. (1998), "White Elephants in Rural Finance in South Asia". paper submitted to Development Finance Conference, Frankfurt, Germany.

Abstract: In 1980, J.D. Von Pischke, in his paper titled " The Pitfalls of Specialized Farm Credit Institutions in Low -income Countries (SFCIs)", discussed the reasons why SFCIs have been established, their special characteristics, why do they frequently fail and their future. Von Pischke noted that survival of particular SFCIs will be less certain and the paradigm shift in rural finance and the successes of market-oriented rural financial institutions are likely to undermine their position. While it is true that some SFCIs have been successfully reformed to become viable financial institutions providing a wide range of services, a number of these institutions in South Asia continue with little changes in their operations. The persistence of these institutions raises some interesting issues in rural finance. Dale Adams, writing in 1995 on the subject of "Reforming Development Banks" noted several features emerging out of successfully reformed development banks. These features are (i) reformed development banks can relatively quickly provide financial services to large numbers including the poor; (ii) borrowers are willing to pay relatively high interest rates for desirable loans; (iii) rural development banks can mobilize large amounts of funds; (iv) microfinance can be done profitably by development banks, if done carefully; and (v) development banks are willing to aggressively seek voluntary deposits if their access to government and donors funds is costly and limited. In the same year, Gonzalez-Vega and Graham in their paper titled " State-owned Agricultural Development Banks: Lessons and Opportunities for Microfinance", discussed why agricultural development banks were being considered potential institutions for the delivery of microfinance services, particularly in rural areas. The problems of state-owned agricultural development banks (SOADBs) have been known and discussed at least for over 20 years. Nevertheless, nothing much has been done to reform and make them sustainable in most developing Asian countries. The unreformed SOADBs operate in a region where two such banks have been successfully reformed. These two are: BRI -Unit Desa system, and the Bank Pertanian Malaysia (see Box 1). Why is that these success stories do not get adequate attention of the policy makers in the South Asian countries such as Bangladesh, Nepal, and Pakistan? Why do SOADBs in these countries continue to operate despite the fact that they involve large amount of subsidies and they continue to undermine market-oriented rural financial development? Why has it been proved difficult to actually make the necessary policy and institutional changes? What can be done to bring reforms of these banks into the policy agnda and drawing boards?

Fleisig, H.W. & De la Peña, N. (2003), "Legal and Regulatory Requirements for Effective Rural Financial Markets," paper presented at Paving the Way Forward for Rural Finance: An International Conference on Best Practices, Washington, D.C., June 2-4, 2003.

Abstract: Many otherwise well-designed donor and IFI programs that support the expansion of rural finance founder because they are inconsistent with the laws and regulations of the recipient country. This paper explores common legal and regulatory obstacles to successful projects and discusses strategies for building legal reform into the design of such programs. In the provision of credit, the most important legal feature in a country is its system for collecting debts: where debt collection systems are weak, private lenders are naturally reluctant to lend. The paper first discusses what laws and institutions form the key elements of a system of debt collection. It looks at this framework for both unsecured (no collateral) and secured (collateral) loans. It examines the laws required to link secured lending to unsecured lending and to establish links among bank, non-bank financial, and non-bank, non-financial creditors. It examines the use of movable property and

real estate as collateral for loans. The paper then turns to a number of other legal and regulatory barriers to rural development, that are linked in different degrees of proximity to rural finance. These include homestead exemptions, scope and coverage of the civil registry, age of majority restrictions on contract signature, provisions in the commercial code for formalizing business, problems in the judicial system, contract enforcement, problems in land titling procedures, bankruptcy, the right to vote, and voter registration.
The paper concludes with a review of options for dealing with legal and regulatory issues in the context of rural finance and rural development operations.

Fong, M.S. & Perrett, H. (1991). "Women and Credit: The Experience of Providing Financial Services to Rural Women in Developing Countries". Milan, Italy: Finafrica Foundation.

Abstract: Rural women have been one of the most consistently neglected groups in development planning and programming, and, paradoxically, one of the groups with the greatest unrealized potential. Direct access to credit, accompanied by savings, can become a catalyst for change that brings benefits to rural women, as well as to their families and communities. In the introductory chapter, the reasons for direct l ending to rural women in developing countries are highlighted and women's creditworthiness is reviewed. A review of women's informal practices of borrowing and savings, their advantages and disadvantages is given in Chapter 2. This is followed by an overview of women's limited use of formal financial markets for borrowing and savings, and existing constraints on the supply of credit to women in Chapter 3. Chapter 4 discusses women's demand for credit, its assessment and promotion, with reference to both institutional credit and to savings. Chapter 5 provides an overview of institutional strategies for providing financial services to rural women, either separately or together with men, with extensive case illustrations; the variety of operational linkages that are being tried between credit and savings. The role, development and functioning of grassroots credit and savings groups, and the factors that determine its effectiveness in practice are discussed in Chapter 6. The concluding chapter summarizes lessons about planning of appropriate financial services for women and the related policy implications.

Ford, C. (2004). "Synthesis of Conference Evaluations: Structure and Design of Conference, Barriers to Rural Finance and Furthering the Dialogue". BASIS Collaborative Research Support Program (CRSP).

Abstract: This short paper summarizes and analyses the results of sixty responses to questionnaires handed out at the "Paving the Way Forward for Rural Finance" conference, which took place on June 2-3, 2003, in Washington, DC, on the initiative of USAID but with the participation of representatives from many different countries and organizations. It provides a useful snapshot of the concerns of the respondents, and will be helpful not just narrowly for future organizers of similar conferences, but also for policy-makers and field workers interested in the current trends and concerns of people working in rural finance. The paper begins with a description of the participants in the survey, showing that more than half came from the private financial sector and donors, and that their main interest was in learning about current innovations and trends in rural finance, with a distinct interest in risk management, perhaps understandable given the origins of the participants in the supply side of rural finance. A second section will be of primary interest to organizers of future conferences, as it analyses the success of the present conference. 80% of those surveyed rated the conference a success, ie, 4.0 or higher on a scale of 1 to 5. The author dryly observes that "holding this conference once every three decades may not provide enough communication with key individuals." She suggests a similar conference probably ought to be held annually or bi-annually. Respondents were excited by the communications possibilities opened up by the conference website. Critiques of the conference included a list of missing topics, which would be a good springboard for creating an agenda for a follow-up conference: these include agriculture-related issues, governance issues in financial institutions, and donor and private bank issues, specifically how to encourage such banks to provide rural lending. Perhaps most useful is Section 3, "Barriers to Successful Rural Finance", which provides an analysis of the state of rural finance as of 2003, with six different areas highlighted as barriers to rural finance: an incomplete understanding of the financial sector of the rural economy, its dynamics, risks, and needs; misaligned policy design; problems with government and donor interventions; weak agribusiness due to poor rural infrastructure and missing market linkages; an unsupportive legal and regulatory framework; and the problem of banks considering rural finance to be too expensive and too risky. The author concludes that the agribusiness sector does not appear to be incorporated into formal financial systems, and thus a large portion of rural financial activities occurs unofficially, through non-transparent systems such as supplier and trade financing. If this sort of activity were included in a lending profile of the rural sector, the author asserts that a drop in risk levels would be observed, which would then encourage formal financial institutions to get involved in rural finance. She also suggests that further research, in the areas of

field analysis, pilot testing, and information sharing, will lead to more practical and more successful policy and product proposals. Such research, though time-consuming, would function as an error-checking mechanism aiding the ultimate success of projects. Keeping up to date on current trends in rural finance, and performing post-project evaluations, will help improve the success of projects, while making sure that rural finance is kept as a separate independent entity, different from finance in an urban setting, will make financial service providers more responsive to the trends and needs of the sector. This paper is brief but coherent, and provides an interesting summary of current ideas in rural finance.

FAO. (1992). "Glossary of terms for agricultural insurance and rural finance". FAO, Rome, Italy.

Abstract: This glossary was produced by FAO in 1992 with the intention of facilitating dialogue and comparisons between countries on these two subject areas. It provides a wide range of definitions, divided into two sections: 1.agricultural insurance and 2. Rural finance. It is a useful reference tool for researchers, teachers and practitioners in the field of rural finance. The French and Spanish versions are currently only available in hard copy.

FAO. (1994). "Rural Finance in FAO". Position Paper by the Rural Finance Group, Marketing and Rural Finance Service. FAO, Rome.

Fries, R.J. et al. (2003). "Making Rural Financial Institutions Sustainable". US-Republic of South Africa Bi-national Commission.

Abstract: The provision of financial services in rural communities is a very challenging task, especially in developing countries. This guide has been developed as part of a project assisting the development and replication of financial service cooperatives in rural areas of South Africa. It is a "how to" manual on designing and establishing a framework of best practice rules that will help to ensure sound, sustainable operations in a rural financial institution (RFI). The guide first stresses the need for a regulatory framework which enables RFIs to operate within a constructive set of rules, with independent oversight. The writers observe that a regulatory framework can be structured in many ways and still be effective. The important factor is to involve all the key stakeholders in the formulation of the rules to ensure that they are acceptable and likely to work. The guide then sets about defining supportive rules and standards that encompass best practices of banking and will help RFIs to be sustainable. Following the discussion of each rule are questions to consider and illustrations of generic operating rules. The issues covered include:

- business purpose and scope of business
- ownership, customers and members
- profit distribution
- governance – Board of Directors and conflicts of interest
- capital adequacy
- safekeeping of deposits
- credit policies and procedures, and managing the loan portfolio
- asset/liability management
- interest rates on deposits and loans
- accounting standards, reporting and auditing issues
- compliance with other laws

The guide also provides a useful list of reports for monitoring compliance and advice on the use of enforcement or corrective methods when unsafe, unsound and illegal banking activities are identified. Another topic covered is that of RFIs forming relationships with one another and also developing affiliations with commercial banks, funding sources or community interest groups. The guide closes with a 'sustainability checklist', which can be used by those interested to assess the completeness and adequacy of their particular RFI rules and standards. This interesting guide provides a comprehensive introduction to the most important rules and standards that any organization involved in providing financial services to small farmers, village entrepreneurs, pensioners and others should follow. It is useful resource for government officials working in the Ministry of Agriculture or Finance and staff of a central bank. It is also invaluable for people who are working to establish new financial services in rural communities or who are concerned with overcoming known weaknesses in a group of existing RFIs, as well as advisers in technical assistance programmes aimed at improving the well being of the rural poor.

Fries, R.J. & Akin, B. (2004). "Value Chains and Their Significance for Addressing the Rural Finance Challenge". USAID.

Abstract: This paper argues that the challenge of rural finance can be met by complementing a financial market orientation, one that focuses on financial institutions and their products, with a product market orientation – one that focuses on rural enterprises, the value chains they participate in, their opportunities and constraints and the financial services that they demand. The paper states that a large percentage of financial services reach the rural sector through the value chain and explores three such services:

- Trader credit;
- Contract farming/out-grower schemes;
- Warehouse receipts.

The paper lists the following advantages and limitations of these products:

- Advantages:
  - Cost-effectiveness in screening potential clients, while tapping new assets for securing loans;
  - Increase in yields and prices and change in the way products are sold.
- Disadvantages:
  - Not conducive to long-term loans needed for investment capital;
  - More interested in profits from products;
  - Not transparent in pricing.

The paper provides examples of specific objectives and interventions and concludes with a number of lessons for donors that include:

- Donors can identify opportunities and prioritize interventions through value chain analysis;
- Value chain financing is useful in addressing working capital demands, but not investment capital;
- Actors who create linkages between small producers and downstream players are key to expanding the access of rural enterprises to both markets and financial services;
- Sustainable services and relationships depend on mechanisms that reinforce the mutual benefits to buyer and seller, lender and borrower.

Fukui, R. & Llanto, G.M. (2003). "Rural Finance and Micro-Finance Development in Transition Countries in South-East and East Asia". Asian Development Bank Institute (ADBI).

Abstract: Micro-finance is an emerging important financial sub-sector in Asian transition countries. Its role is to improve financial access of the poor and small economic players and thus help them to build assets, thereby contribute to poverty alleviation. This paper provides an overview of rural finance and micro-finance development in transition countries in South-East and East Asia — Cambodia, Lao PDR, Myanmar, Viet Nam, and Mongolia — focusing on the institutional evolution and the inter-relation between policies and institutions. We find diverse potentials that formal and semi-formal financial institution—agricultural banks, micro-finance banks, micro-finance NGOs, financial co-operatives and other indigenous financial systems—have to reach out to the rural poor of respective nations. Any monolithic view that expects a single type of micro-finance institutions to dominate the rural financial markets is to be denied. To develop effective rural financial systems, some policy implications are drawn, such as reforms of agricultural banks, adoption of market-based policy framework, development of retail capacities of micro-finance institutions, progressive establishment of legal and regulatory framework for micro-finance, improvement in governance of indigenous financial systems, and the importance of savings mobilization.

Gallardo, J.; Goldberg, M. & Randhawa, B.K. (2006). "Strategic Alliances to Scale Up Financial Services in Rural Areas". *World Bank Working Papers*, No. 76.

Abstract: This publication investigates two methods that rural finance institutions (RFIs) use for expanding financial services in rural areas, namely, strategic alliances and development partnerships. Both strategic alliances and development partnerships involve a relationship between a RFI and a more formal institution such as a bank, business, or NGO. A strategic alliance is essentially a business relationship between two firms, in which both partners share in the benefits and costs. Development partnerships on the other hand, involve one partner providing a benefit for another partner, without reciprocation. RFIs use both strategic alliances and development partnerships to achieve objectives such as effectively managing costs, overcoming resource and technology constraints, and enhancing competitive position. The study focuses on the experiences of RFIs in Guatemala, Philippines, India and Ghana, in employing strategic alliances and

development partnerships to overcome obstacles to market expansion and the introduction of new products. The experience of five types of institutions which developed strategic alliances with various up market financial institutions is reviewed, i.e. credit unions and cooperatives, rural banks, non-bank rural microfinance institutions, postal financial networks and umbrella/apex institutions. Following an extensive executive summary and outline of the objectives and constraints facing the rural finance sector, a framework for understanding and assessing strategic alliances by applying a business world mentality to rural finance is elaborated. This perspective sees strategic alliances as ways to gain a financial benefit or marketing goal by relieving constraints due to resources, market presence or technology, reducing transaction and operating costs, or gaining a competitive advantage. With these objectives in mind, the study analyzes the following cases:

- Strategic Alliances to Introduce New Products: International Remittances: Guatemala: FENACOAC Credit Unions as the delivery service institutions under the WOCCU IRnet international remittance program and Mexico: Caja Popular Mexicana
- Strategic Alliances to Introduce New Products: Micro-insurance: Marketing yield-risk, property-loss and life insurance products in rural areas in India (Basix), and Gemini Life Insurance Company (GLICO), Rural and Community Banks and ARB Apex and Care-Ghana
- Strategic Alliances to Expand an Existing Menu of Financial Services: The Philippines: TSPI Development Corporation and multiple alliances and Guatemala: planned merger between Genesis Empresarial and BancaSol
- Development Partnerships: Guatemala: Development-oriented Partnerships Between Cooperative for Rural Development of the Western Region (CDRO) and Banco de Desarrollo Rural (Banrural), and the Philippines: Development Partnerships of New Rural Bank of San Leonardo.

Geron, P.S. (2002). "Market-Based Credit Policies for Increased Access to Rural Finance". BASIS - Broadening Access and Strengthening Input Market Systems.

Abstract: This paper uses the example of the Philippines to explain how a country can implement market-based credit policies and rationalizes subsidized directed credit programs. A shift to market based credit from a subsidized rural directed credit program (DCPs) has been a difficult proposition in the Philippines. Complex structures and modalities limited the outreach and access. Finally the National Credit Council (NCC), under the department of finance (DOF), was formed with the following mandate:

- Rationalize government credit programs;
- Develop better credit delivery system;
- Encourage private sector participation;
- Define guarantee programs and agencies.

This was supported by USAID under Credit Policy Improvement Program (CPIP). They carried out reviews, analysis and evaluations, followed by advocacy and implementation. The advocacy was done through:

- Providing the Government the ownership of the policy reform;
- Distributing notes;
- Conducting regional consultations and working groups;
- Building capabilities of executive, legislative and the private sector.

According to the authors, the major project implementation results were:

- Key policy reforms adopted by the government;
- Rationalization of DCPs;
- Establishment of support information infrastructure.

The paper further states that challenges faced are mainly of policy reversal and uncoordinated donor intervention. The authors list the important lessons useful for donors as:

- Interventions of an enabling credit policy environment and infrastructure have greater impact than the scarce donor resources.
- Initial stakeholder support leads to long term project sustainability.
- Sound technical studies are important.
- It is necessary to establish infrastructure for information flow.

Gobezie, G. (2005). "Livelihoods Through Micro-enterprise Services? Assessing Supply and Demand Constraints for Microfinance in Ethiopia". Paper Presented at the 3rd International Conference on the Ethiopian Economy.

Abstract: Rural financial intermediation currently constitutes a key development intervention in many poor countries. Yet, the success achieved particularly in countries who implemented such programmes a couple of decades ago notwithstanding, there remain many constraints limiting both the supply and demand in very poor countries like Ethiopia. Experience from over ten years

of financial intermediation reveals that good intentions for expansion of supply are having difficulties due to poorly designed regulations and policies, organizational behaviours, the incentive problem, as well as weak capacity of institutions implementing it. Where poverty alleviation constitutes the main development agenda, rural financial regulations and policies tend to have an in-built rationing mechanism, targeting primarily the poorest and the disadvantaged, thus often missing others who might also have the demand for it. While more efforts are still needed to rectify the restrictive effects of some regulations and policies on pricing and competition, in a situation where there is no strict supervision and monitoring of the effective implementation of the well-intended ones, there are organizations, working without any hard budget constraints and mixing microfinance business with charity, thus crowding out the operations of more sustainable rural financial intermediaries. For those who are intent on implementing the rules of strict financial intermediation, their methodologies are largely replications of those implemented elsewhere, primarily under Grameen, with little capacity to customize it to local realities. No less challenge also remains on the demand side. For the majority poor, the communication system in rural areas, particularly the road network, bars them from accessing the service. Where the access is granted, clients low skill achievement in business development dictates their business' absorptive capacity to remain weak. Many are risk averse, or don't like (for cultural reasons) to venture into non-traditional activities, while others have a very low income perspective and simply don't have the demand for such income-improving services. Such problems manifest themselves more profoundly on women, whose very access and benefit from the service is further limited because of problems emanating from a male-dominated patriarchal societal system prevailing in the country. Closing the supply and demand gap is a daunting task, but not impossible, and should involve microfinance practitioners, government, non-government organizations, donors, etc., -- for failure to do so would stifle efforts aimed at poverty alleviation and development at large.

Gonzalez-Vega, C. (1982). "Indonesia: Financial Services for the Rural Poor". Report to the United States Agency for International Development (USAID). Washington DC: USAID.

Gonzalez-Vega, C. & Chaves, R.A. (1993). "Indonesia's Rural Financial Markets. Department of Agricultural Economics and Rural Sociology". Columbus: The Ohio State University.

Gonzalez-Vega, C. (1994). "Stages in the Evolution of Thought on Rural Finance: A Vision from The Ohio State University". OSU Rural Finance Program.

Abstract: The paper utilizes optimum intervention theory as a framework for interpretation of the evolution of thought on rural finance. The paper:

- Claims that an inadequate diagnosis of market imperfections and the failure to recognize an incomplete physical and institutional infrastructure as a key explanation of lack of access to credit led to the development of unsuccessful rural finance programs;
- Examines instances of policy failure and offers recommendations for the search of appropriate interventions;

Identifies the costs of incorrect interventions in rural financial markets and it emphasizes the importance of institutional viability.

- Concludes that the provision of financial services is costly. The associated costs cannot be reduced by decree. This would require innovations in financial technologies and institutional organization.

Gonzalez-Vega, C. (1999), "Rural Financial Markets: Challenges and Opportunities". paper prepared for the Project on Promising Practices in Rural Finance, San José: Academia de Centroamérica.

Gonzalez-Vega, C. (2003). "Deepening Rural Financial Markets: Macroeconomic Policy and Political Dimensions". Lead Theme Paper at Paving the Way Forward for Rural Finance: An International Conference on Best Practices, Washington, D.C., June 2-4, 2003.

Abstract: This paper examines key features of a macroeconomic environment, policy framework, and government and donor interventions conducive to rural financial deepening. The paper also explores typical difficulties, encountered in political arenas, in the adoption of the required macroeconomic and policy framework. In particular, the paper addresses specific consequences for rural financial market development of the programs for macroeconomic stabilization, structural

adjustment, financial liberalization, and improvements in the framework of prudential regulation and supervision implemented by many developing countries in the past two decades.

Gonzalez-Vega, C. (2003). "Lessons for Rural Finance from the Microfinance Revolution". in Promising Practices in Rural Finance: Experiences from Latin America and the Caribbean, Mark D. Wenner et al. (eds.), pp. 53-66.

Abstract: This paper aims to highlight which institutional and technological developments hold promise for rural finance. The author argues that over the last two decades, we have essentially witnessed a disintegration of state-owned rural institutions. It is noted that the presence of public agricultural support institutions and state owned intermediaries shrank due to reductions in government expenditures and organisational reforms. Moreover, private commercial banks and other financial intermediaries have not rushed to rural areas to fill the vacuum left by state-owned credit programs despite the liberalisation of interest rates. Yet, the paper highlights, a microfinance revolution is unfolding in urban areas. The coverage of urban microfinance institutions has substantially increased and some of these institutions have been able to deliver services in a financially sustainable manner. The question this paper aims to address is what lessons can be learned from the successful urban microfinance institutions and applied to rural areas. This paper begins by discussing the decline of rural finance supplies and the demise of development banks. It also considers promising dimensions, in the form of some sources of optimism that come from theoretical development and recent policy reforms. The paper then moves on to analyse the challenges for rural finance and looks at the role of incentives, information and institutions. The key part of the paper looks at the lessons that can be learnt from microfinance institutions. In particular it points to the success of some microfinance institutions in achieving gains in outreach and sustainability in making financial services available to poor households and businesses. The paper states that experience confirms that a hospitable policy environment, appropriate innovations in financial technologies, and improvements in the institutional design of financial organisations can allow important improvement in expanding the supply of formal financial services to broader sections of the population. Also provided is a list of basic principles that differentiate microfinance institutions successful in rural areas and those not:

- They do not lend only to agriculture; they consider the global demand for financial services on the part of rural/farm households;
- They further address idiosyncratic risk by relying on the income diversification strategies of households;
- They do not condition loans to specific fund uses; instead they measure repayment ability in terms of household cashflows and they allow borrowers discretion in the use of loan funds;
- They rely on more individualised and detailed screening efforts – including risk adjusted forecasts of crop yields and prices;
- They introduce greater flexibility in terms and conditions of loan contracts that respond to the special circumstances of agricultural activities;
- They attempt to further reduce transaction costs for borrowers;
- They reduce the threat of moral hazard by requiring greater borrower equity contributions to the project;
- They base cashflow forecasts and risk assessment not only on average historical outcomes, but also on worse-case scenarios and forecasts about future conditions
- They invest in better understanding of macroeconomic and sectoral patterns, in order to address the threat of systemic risk.

González-Vega, C. (2004). "Rural Financial Markets in Mexico: Issues and Options". Mexico Rural Economy Strategy. Chemonics International Inc.

Goodland, A. (2000). "Rural finance helping to promote sustainable credit". UK: Natural Resources Institute (NRI).

Abstract: Increasing access to financial services still has a role in combating rural poverty. In the past, the narrow focus on subsidized credit for agricultural production proved unsustainable. However, recent experiences have been more positive. By understanding the breadth of financial needs of the poor, and modifying approaches to providing savings and credit services, financial institutions have begun to realize the potential of the rural market. Further expansion into this market is possible, through collaboration between the formal and informal sectors, reducing the 'distance' between institutions and their clientele, and adapting and innovating service delivery mechanisms to local conditions.

Goodland, A.; Gideon, O.; Juliana, A. & Griffith, G. (1999). "Rural Finance Policy Series No. 1". The University of Greenwich: Natural Resources Institute.

Abstract: Improvements to financial services, both formal and informal, must be customized to serve the needs of the poor. Thus, in designing approaches to lower costs and increase accessibility of financial services, consideration must be given to the limitations of the poor in making savings and using credit in productive ways. Most experience with provision of rural financial services has focused on livelihood promotion designed to boost productivity and income through access to cheap credit. Yet, this has minimal impact on poverty, as current programs have proven to be unstable and are criticized for promoting unsound investments and indebtedness. Although micro-finance holds a key place in rural economies, the poor struggle with accessing it. This reflects a lack of information, high risks, lack of collateral, physical distance from providers and small individual transaction requirements. These factors in conjunction with preconceptions of the poor as being unable to save and a potential for liability, increase the cost of servicing the poor. Three sets of issues relating to rural finance and poverty alleviation are explored; the types of finance required by the poor, the delivery mechanisms currently in place, both formal and informal, and the steps required to improve availability and accessibility of financial services. Specific attention is given to women who make up 70% of classified poor.

Gore, C. (2003). "Rural Trade Finance in Southern Africa." Presentation of research findings to the US Agency for International Development, Washington, DC.

Graham, D.H. (1992). "Informal Rural Finance in Niger: Lessons for Building Formal Institutions". in Adams D. W. and Fichett D. (Ed), *Informal Finance in Low-income Countries*, Westview Press, Colorado.

Grant, W.J. & Allen, H.C. (2002). "CARE's Mata Masu Dubara (Women on the Move) Program in Niger: Successful Financial Intermediation in the Rural Sahel". *Journal of Microfinance*, Vol. 4, No.2.

Abstract: CARE's Mata Masu Dubara (MMD) project is a women's time-bound accumulating savings and credit association (ASCA) program in rural Niger. Over the past decade, CARE has facilitated the creation of over 5,500 active women's groups with over 162,000, providing the purest forms of financial intermediation to their members in some of the poorest parts of Niger. Working from a very simple and appropriately adapted savings based product, sustainability and replication of the associations is easy to achieve. Due to the overwhelming demand for the product, CARE's role has evolved from service provider creating the associations to a facilitator that trains local animators who are then paid by the village women to train them. CARE estimates that there is a minimum of 200,000 practicing members with over $3 million in savings. This article examines the nature of markets for rural financial services in the Sahel and the characteristics of the MMD model that respond so well to that market. It also reviews the limitations of the model, and some of the adaptations that CARE has introduced to successfully replicate the program in numerous other countries in Africa.

GTZ. (2003). "Rural Finance Program Review". GTZ

Gurgand, M.; Pederson, G. & Yaron, J. (1996). "Rural Finance Institutions in Sub-Saharan Africa: Their Outreach and Sustainability". *Savings and Development* 20, no. 2: 133-69.

Abstract: A review is presented of the performance of six rural finance institutions (RFIs) in Sub-Saharan Africa. Two performance criteria are used to evaluate these RFIs: the level of outreach, and the degree of self-sustainability achieved. Each of the RFIs exhibits some weaknesses according to the identified performance criteria and crucial information on their performance is often missing. However, outreach of all six RFIs has been significant. Generally, the selected RFIs in Cameroon, Togo, Rwanda, Benin, Malawi and Burkina Faso have extended financial services to rural clients that are usually excluded from formal financing - smallholder farmers, woman and the poor. No single model for successful rural financial intermediation emerged from the study. Rather, these RFIs have employed a variety of operating modes to improve savings mobilization, provide credit, and increase their flexibility in service delivery. Assessment of sustainability reveals more varied performance. Loan collection rates are quite different across the institutions and there has been a build-up of arrears in Cameroon, Togo and Rwanda. While public intervention is often

needed during the establishment phase of these RFIs, it should be focused on institution-building and not lead to subsidized interest rates on loans.

Hartarska, V. (2002). "Three essays on finance for the poor". *OSU Rural Finance Program*.

Abstract: The dissertation contains three essays on unexplored dimensions of finance for the poor:

- Microfinance governance
- The efficacy of counseling for low-income mortgage borrowers
- The limitations of traditional banking in lending to young small firms in transition economies

The first essay focuses on the microfinance organisation in order to discover what composition of the board of directors will induce the manager of the microfinance organisation to fully disclose all the information he possesses, so that the board's decision to implement or not implement a new financial technology is based on full information; i.e. it is efficient. An important issue in this model is how the duality of the organization's objectives –outreach and sustainability– affects the optimal composition of the board, under different growth environments and with different characteristics of board members. The second essay addresses financial technologies and compares the effectiveness of the traditional screening technology used by banks in granting mortgage loans to the effectiveness of the screening technology based on credit counseling implemented by a third party. The goal is to establish whether credit counseling leads to lower rates of mortgage termination. The challenge of this study comes from the disagreement among researchers on what conceptual approach (option-based or consumer choice approaches) better captures mortgage termination behavior. Additionally, there is even less clarity as to what determines the mortgage termination behavior of low-income households. The essay uses both methods and shows that, depending on the model, results on the effectiveness of credit counseling vary. The objective of the third essay is to study how the economic transition and the policies implemented by the Russian government have affected the security of the entrepreneurs' property rights and, consequently, their investment behavior. Moreover, the essay explores the consequences, on the small firms' ability to grow, of burdensome regulations on the financial sector and of the lack of competition from foreign financial institutions, which are better suited to provide cost–efficient financial services to microentrepreneurs. An important issue in this essay is to identify what types of firms – younger or more established firms– are most affected by often-faulty government policies. Conclusions show that innovations in both lending technologies and organisational design may be more promising mechanisms to expand the frontier of finance to include the poor than repressive regulation has been.

Hasan, M.E. (2003). "Implications of Financial Innovations for the Poorest of the Poor in the Rural Area: Experience from Northern Bangladesh", *ESR Review*, vol. 5, no.2, winter.

Abstract: Providing microfinance to the poorest of the poor in rural areas remains a challenge. Grameen demonstrated that the poor are viable clients for loans and reached them on a massive scale. However, they reach only the upper level of the poor and provide narrow and limited financial services with rigid systems and procedures, which in many ways do not address the needs of the poorest. Despite earning signs of success with their SafeSave innovative approach to serving the poorest in the urban area, this rural adaptation and experiment has faced challenges because of the different social and economical structures of the rural economy and the different pattern of poverty dynamics in the rural area. Some of the recent experiments following Safe Save in the rural areas of northern Bangladesh show that understanding rural poverty, financial products, and mechanisms; identifying the poorest and their needs; and most importantly, educating clients and motivating providers and promoters are the keys to success in providing microfinance to the poorest of the rural poor.

Heidhues, F.; Davis, J.R. & Buchenrieder, G. (1997) "Agricultural Transformation and Implications for Designing Rural Financial Policies in Romania". *CERT Discussion Paper* No. 97/22.

Abstract: In the context of Romania's macroeconomic and agricultural transformation, this paper analyses the current extent of the depth of rural finance and discusses the implications for the future development of rural financial markets in Romania. The overall agricultural support system is reviewed with particular emphasis on mechanisms of rural finance. The paper argues that building an efficient rural finance system that addresses the financial needs of private sector agriculture and the rural clientele requires a multi-level approach: Innovations are needed at the finance system level, involving, in particular, the creation of an effective regulatory and supervisory framework and making the National Bank of Romania (the central bank) independent

of Government interference, at the level of financial organisations, in the processing and administration of financial services and in product design.

Hine, S. & Thilmany, D. (1998). "Rural Financial Trends: How Are Lenders and Interest Rates Changing?" Department of Agricultural and Resource Economics, Fort Collins.

Abstract: In recent history, it looked to many as if rural financial markets would become dominated by large banks that offered relatively expensive credit to agricultural firms. However, the 1990's have seen a resurgence in smaller banks with a focus on smaller, agricultural producer loans. Moreover, small banks may be more competitive than ever with respect to interest rates. This report outlines some of the important trends in rural credit markets including the types of lenders, volume of loans, interest rate trends and some discussion of specific types and sizes of loans. It is our hope that such information will allow agricultural firms and organizations to make more informed decisions with respect to securing capital, as well as choosing an appropriate lending institution.

Hock. C. (2002). "Frontier Storms: the Rural Finance Story". Johanesburgh, South Africa.

Abstract: This paper tells the story of "Rural Finance", a developmental micro-lender founded by the author in South Africa. The aim of this paper is to extract lessons from the experience of "Rural Finance", which was ultimately shut down. The paper discusses:

- The development finance landscape in South Africa;
- Structure, governance and culture of "Rural Finance";
- Products of the company;
- Equity stakes;
- The process of shutdown of the company.

The author lists the lessons learned as follows:

- Governance: Balancing flexibility and formality in the governance structure of a growing organization is difficult;
- Over-promotion: The company was over-optimistic about skills development at the management level, as a result of which some employees were stretched too far;
- Relationship with key funders: This was not good. Listening more carefully to the funders would have helped the company avoid the loss of trust that followed;
- Misjudgment: The relationship between profit and growth was misjudged.

The author concludes by stating that he is applying the lessons learnt at "Rural Finance" to a new business that will finance social housing on a large scale in South Africa.

Hofmann, A. & Grossmann, H. (2005). "Rural Finance in Conflict Environments". GTZ.

Abstract: In recent years much has been published on the subject of microfinance in post-conflict countries. However, very few experiences have been documented with regard to microfinance operations in on-going conflicts. This short paper describes how the Small Farmer Cooperatives Limited (SFCLs) of Nepal have reacted to the conflict in the country. There may be a number of lessons to be learned for other microfinance organisations in conflicts around the world. The microfinance sector of Nepal is very rural-focused and quite diversified. The state has a large share in rural microfinance (Rural Development Banks), while there are a number of private Microfinance Banks and the cooperative movement. The Maoist rebels have caused severe problems for the banks, private MFIs and many SFCLs. Only community based Savings and Credit Cooperatives, informal savings and credit groups and women-managed SFCLs have not been attacked by the rebels. Thus it is clear that the the rebels are choosing to tolerate MFIs which they perceive to be not-for-profit, people-owned, non-exploitative and not affiliated with the government. Although SFCLs are member-owned, they originate from a former government development programme and thus, many have been attacked. It is interesting that the conflict has had a "cleansing" effect on the microfinance sector of Nepal. Commercial banks, government MFIs and weak cooperatives have been driven out or further weakened, while non-government MFIs and SFCLs with active members, capable leaders and sound practices have been left alone or have recovered quickly from an attack. If members really feel that the MFI or cooperative is theirs they will stand up to the conflict parties or re-build their organisation after an attack. This message has led to the GTZ-implemented project Rural Finance Nepal (RUFIN) introducing conflict transformation training for SFCLs. The training has one core message: SFCLs can protect themselves from the conflict and even help to solve it by ensuring their cooperatives work properly and according to their mandate (helping the poor), clearing up all internal conflicts, empowering women to take part in decision making and trying to include disadvantaged groups, such as ethnic minorities and low castes,

better. In the future, GTZ-RUFIN will focus on building capacities of SFCLs and their federations and raising conflict sensitivity amongst their leaders and members. Building capacity for good financial and operational performance is nothing new to microfinance practitioners. It entails training and advice on issues such as e.g. loan appraisal, product development, accounting, internal controls, business planning etc. In the case of SFCLs cooperative-specific capacities are also needed: members must learn to actively control their leaders through the annual general assembly; leaders must learn that they are accountable to their members; cooperative managers must learn how to run their operations like businesses. Business planning training for SFCL managers will also cover aspects of corporate social responsibility, stressing the importance of addressing conflict root causes through women empowerment and social inclusion.

Hossain, M. (1991). "Rural Finance in Bangladesh", National Institute of local Government, Agargaon, Sher-E- Bangla Nagar, Dhaka, Oct.

Hulme, D. & Mosley, P. (1996). "Finance Against Poverty". London, England: Routledge.

Abstract: The theory, advocated since the 1980s by development theorists, that the provision of small loans to micro-entrepreneurs is an effective policy instrument is examined through the use of seven case studies. Detailed comparative data are presented from: Bangladesh, Bolivia, India, Indonesia, Kenya, Malawi, and Sri Lanka. Twelve institutions from these seven countries are examined, with the studies following a broadly similar format: historical and institutional background, financial performance over time, direct effects on incomes, employment and technology, indirect effects on other borrowers and lenders.

Hulme, D. & Mosley, P. (1997). "Finance for the Poor or the Poorest? Financial Innovation, Poverty, and Vulnerability." In ed. *Who Needs Credit? Poverty and Finance in Bangladesh.,* G. D. Wood and I. Sharif, Dhaka, Bangladesh: University Press Limited.

Abstract: The last decade has witnessed an explosion in both the numbers and the scale of organisations providing very small loans (micro-credit) to poor people to help them escape poverty. The Grameen Bank has spearheaded this strategy and by mid-1996 had more than two million borrowers and was advancing loans of more than US$30 million each month. Its model has been copied by many non-governmental organisations (NGOs) so that almost 25 per cent of poor rural households in Bangladesh now have access to institutional credit. Further afield the Grameen Bank is being 'replicated' in Asia (Malaysia, the Philippines, Indonesia, Nepal, China and Sri Lanka), in Africa (Kenya, Malawi, Nigeria) and North America (Canada and the USA). In Latin America the ACCION network has affiliate financial organisations in most countries operating schemes partly based on Grameen Bank principles. With the UK's Know How Fund currently exploring the possibility of using micro-credit as a selfemployment strategy in Eastern Europe and the former Soviet Union, the 'movement' may soon cover the globe. While there is growing evidence of the ability of micro-credit to reduce poverty a growing number of researchers (see Rutherford and Wright in this volume; Rogaly 1996; Bundell 1996) and practitioners (ACORD, Action Aid, Aga Khan Foundation, BURO Tangail, Christian Aid, OXFAM, SANASA and WomanKind) are arguing that what the poor need is micro-financial services (micro-scale short and long-term savings, investment loans, consumption loans and, perhaps, insurance). A micro-finance approach can also aid institutional financial viability (Robinson 1992). This chapter examines the contribution that micro-credit and micro-finance can make to the alleviation and removal of poverty. It draws on the materials from a study of 13 financial institutions (see Appendix 1) in 7 countries (Hulme and Mosley 1996). The first part explores the concept of poverty to identify the criteria that could be used to assess poverty impacts. Subsequent sections analyse the impacts of micro-finance initiatives on income poverty, income vulnerability and groups that suffer particularly high levels of economic and social deprivation. The conclusion argues that micro-credit has proved effective in poverty reduction but has done little to help the poorest. A shift towards a micro-financial services approach is needed to permit financial innovations to more effectively meet the varying needs of the poor and poorest. While micro-finance should be an element of poverty-reduction strategies it is no panacea. The contemporary micro-finance bandwagon (the inaptly named Consultative Group to Assist the Poorest and the Micro-credit Forum of 1997 amongst other initiatives) should not obscure the fact that poverty-reduction requires many other forms of action.

Hulme, D. (1999). "Impact Assessment Methodologies for Microfinance: Theory, Experience and Better Practice". Manchester: Institute for Development Policy and Management (IDPM).

Abstract: Microfinance programs and institutions are increasingly important in development strategies but knowledge about their impacts is partial and contested. This paper reviews the methodological options for the impact assessment (IA) of microfinance. Following a discussion of the varying objectives of IA it examines the choice of conceptual frameworks and presents three paradigms of impact assessment: the scientific method, the humanities tradition and participatory learning and action (PLA). Key issues and lessons in the practice of microfinance IAs are then explored and it is argued that the central issue in IA design is how to combine different methodological approaches so that a 'fit' is achieved between IA objectives, program context and the constraints of IA costs, human resources and timing. The conclusion argues for a greater focus on internal impact monitoring by microfinance institutions.

IABD. (1998). "Rural Finance Strategy Profile".

Abstract: The *Rural Finance Strategy* will address the main issues that affect the development of rural financial markets in developing economies and how the Inter-American Development Bank can best promote and support positive market-based reforms in this area. The *Strategy* will focus on how to improve access to three specific financial services: credit, deposits, and insurance. The primary but not exclusive target group will be small scale agricultural producers and business operators. In order to do so, several problems must be resolved: (1) imperfect information, (2) high levels of price and production risk, (3) high transaction costs, (4) inadequate contract enforcement, (5) the legacy of urban biased economic policies, and (6) weak intermediary institutional capacity. If appropriate policies, technologies, and partnerships can be adopted to relieve these problems, rural financial intermediation will become more profitable and a greater number of rural residents will gain access to financial services. Rural financial markets are a subset of a country's larger financial system. Both the larger, mostly urban based financial markets and the smaller, rural ones involve promissory contracts, intertemporal valuations of cash flows, and trading of claims on assets for cash. What distinguishes the two markets are differences in density of clients, reliability and cost of gathering information, and the arsenal of risk evaluation and management techniques. Due to greater spatial dispersion of clients, higher heterogeneity of production conditions, the marked seasonality of income flows, and a larger number of missing or incomplete complementary markets in rural areas, rural finance is a more challenging proposition than urban finance. The *Rural Finance Strategy* will propose priorities for the Inter-American Development Bank related to the critical issues identified and the steps that the Bank can and should take to address the development of deeper, more efficient, and integrated rural financial markets and institutions. Much of the focus will be on the legal and regulatory preconditions needed and the institutional actions necessary to strengthen the capacity, improve the performance, and increase the number of deposit taking financial intermediaries (banks and credit unions) present and active in rural areas. However, the Strategy will also include consideration of (1) agricultural risk management techniques; (2) other financial contracts --supplier credit, leasing and equipment rentals, bonded warehouses, contract farming; (3) deposit services; (4) secured transactions (the creation, perfection, and execution of security interests); (5) improvements in the transparency and disclosure of information such as credit bureaus, and (6) innovations in microcredit technology and products. An underlying premise of the *Strategy* is that rural enterprises must be made more profitable and less risky in order to become more bankable. Without rigorous analysis of elements that contribute to client creditworthiness and enterprise profitability, it will be difficult to design appropriate remedial action and in turn build market-based, sustainable rural financial markets. The *Rural Finance Strategy* is designed as a companion and complement to the *Rural Development, Financial Markets, Microenterprise, Sustainable Agriculture, and Rural Poverty Reduction*
Strategies either previously considered by the Policy Committee of the Board or in process of preparation and approval.

IABD. (2000). "Seminar: Promising Practices in Rural Finance".

Abstract: The main purpose of seminar was to share findings of a research project on emerging best practices in the delivery of rural financial services in six Latin American and Caribbean countries: Bolivia, Chile, Costa Rica, El Salvador, Jamaica, and Peru. Other purposes included receiving feedback about the applicability of the research findings and stimulating a dialogue among operational staff of the IDB and other interested parties on appropriate areas for action and types of rural finance operations to pursue in the near future. Rural Financial Markets in most Latin American and Caribbean countries, despite recent financial sector deregulation and previous attempts to strengthen rural lenders, do not function effectively. The event will highlight the challenges faced in providing efficient and sustainable rural financial services and present case

studies of various organizations and special financial arrangements that demonstrate high potential for attaining sustainability, serving a broad number of rural clients, and meeting pent-up demand for new ways to manage risk and liquidity. The seminar:

- Reviewed the lessons learned in IDB's rural finance projects.
- Presented a conceptual framework that explains the observed problems of shallowness, segmentation, and inefficiency.
- Analyzed the regulatory and legal framework that best facilities rural finance in four countries.
- Highlighted several cases of successful rural financial intermediation by commercial banks, finance companies, credit unions, non-governmental organizations, and new product development, including savings, leasing of agricultural equipment, rural credit cards, and the linking of credit, technical assistance, and agricultural marketing services.
- Built consensus on the appropriate areas for action, types of project interventions, and the role of the State.

IFAD, (2000). "IFAD Rural Finance Policy". presented to the Executive Board at the Sixty-Ninth Session, Rome, May 3- 4, 2000.

Abstract: Rural finance is a vital tool in poverty reduction and rural development. Two thirds of the Fund's current projects have a rural finance component; about 21% of the Fund's resources are dedicated to rural finance.2 Most of IFAD's target group are small producers engaged in agricultural and non-agricultural activities in areas of widely varying potential. Direct access to financial services affects the small producers' productivity, asset formation, income and food security. This policy paper is designed to provide an overall framework for the Fund's work in rural finance. On that basis, operational guidelines and regional strategies will be prepared in due course for the use of staff, consultants and partner institutions, with scope both for innovations and for consolidation of successful existing practices. Rural finance is not a panacea. It is but one of several important areas for investment in poverty reduction, and its impact is fully felt only when conducive policies are in place, markets are functioning, and non-financial services are available. The very poor, i.e. those without income, may be more effectively reached through direct microenterprise promotion, income transfers, safety nets and improved infrastructure. Through its rural finance policy, IFAD confirms its commitment to continue its search for better ways of providing support to the rural finance sector in order to benefit the rural poor. It is understood that a policy does not cover all fields of intervention and cannot be mechanically applied. It needs to be adapted to the socio-economic setting of each area and leave room for financial innovations beyond the scope of this policy paper.

IFAD, (2001). "Rural Finance Strategy, International Fund for Agricultural Development".

IFAD, (2003). "Decision Tools in Rural Finance".

Abstract: Since its inception, IFAD has developed an extensive body of knowledge in rural finance, with practices at the field level analysed in numerous thematic reports, programme evaluations and mid-term reviews. It has pulled together this experience and published a manual called: Decision Tools for Rural Finance. The manual is specifically designed to support programme and project formulation and monitoring. It is hoped that it will be a useful reference tool for country portfolio managers, programme and project staff, and consultants seeking advice on technical operational issues related to rural finance. The manual has three main sections: Section I highlights the various cross-cutting issues that are common to all IFAD rural finance programmes and form the basis of understanding rural finance. Section II examines the identification, formulation and implementation stages in the project cycle and proposes ways and means of addressing the various challenges that arise from them. Section III focuses on issues and types of interventions that are specific to each of the regions in which IFAD operates. It also underscores IFAD's comparative advantage in implementing programmes in the particular regions. The cross-cutting issues that are identified in the Decision Tools include:

- the unique characteristics of agriculture finance;
- the impact of financial sector reform, and potential roles for state-owned banks;
- the role of client participation in rural finance programmes;
- the importance of savings and remittance services;
- identifying and overcoming factors that limit expansion of rural finance programmes into remote rural areas;
- how to balance the provision of loan capital versus funding capacity-building and technical assistance;
- policy issues and conduct of impact analysis.

Decision Tools is a 'living document', which will be updated and improved as the rural finance field evolves and as new principles and practices emerge. The manual already has some case studies in its annexes. The document can be downloaded in full or as a summary.

Iqbal, F. (1981). "Dualism, Technical Change and Rural Finance in Developing Countries". A Rand Note prepared for the United States Agency for International Development (USAID). Washington DC: USAID.

Izumida, Y. & Duong, P. (2001). "Measuring the Progress of Rural Finance in Vietnam". *Savings and Development* 25, no. 2: 139-66.

Abstract: This paper attempts to measure the progress of rural finance in Vietnam by using data obtained from rural financial institutions as well as from a survey of 100 households each in the provinces of Ninh Binh, Quang Ngai and An Giang. Conventional theory of rural development finance tells that rural finance in low income countries generally has many inherent failures such as low levels of loan recovery, insufficient savings mobilization, high transaction costs, and distribution bias to relatively wealthier customers. Contrary to the theory, the rural finance in Vietnam did not encounter the above-mentioned failures so far. The development of rural finance in Vietnam after the reform could be regarded as a success. Hence, in order to refer the relevance of the theory of rural development finance, examining factors for the success in Vietnam is of great worth to draw policy implications for rural finance in low income countries.

Jahangir, A. & Zeller, M. (1995). "Overview paper on rural finance programs for the poor in Bangladesh: A review of six major programs", International Food Policy Research Institute, Washington, DC.

Jansson, T. 2003. "Financing Microfinance: Exploring the Funding Side of Microfinance Institutions". Inter-American Development Bank (IADB).

Abstract: As the microfinance industry evolves, an increasing number of specialised formal microfinance institutions (MFIs) are emerging typically through the transformation of non-profit foundations. These newly regulated institutions face different opportunities and constraints to their sources of funds when switching from a funding environment dominated by donors, to a market-based competitive environment that offers a variety of funding sources. The case studies from Mexico, Bolivia and Peru are useful to explain the various ways in which these formal sector MFIs have developed and deal with their funding issues, for example a tendency towards using financing from other financial institutions is most apparent, especially in the Bolivian and Peruvian cases. The key issues that are discussed include:

- access to capital markets
- greater reliance on foreign currency liabilities
- the search for additional equity

The paper suggests that donors accept the changing landscape of the microfinance industry and their changing role within it. Donor agencies might serve the industry better by shifting the focus away from direct funding and onto removing barriers that currently prevent sustainable microfinance institutions from accessing funding from the public, from financial institutions, and from commercial and social investors.

Jazayeri, A. (1996). "Rural Financial Service Associations - the concept". *Small Enterprise Development*, Volume 7, Number 2, June 1996, pp. 4-14(11).

Abstract: Because of their high transaction costs, banks have made limited progress in extending their services to rural areas in developing countries, and informal savings and loans groups, such as rotating credit clubs, are limited by the fact that they do not build up their capital between cycles. This article describes a new model for rural banking: Financial Service Associations (FSAs). The article describes some of the strengths and shortcomings of other formal and informal financial arrangements before describing in detail the proposed structure and services of the FSA. These include taking savings and providing loans to clients, who qualify for membership of the FSA by being locally based shareholders. Following on from this article, it is hoped that a subsequent issue of the journal will include a description of the FSA pilot projects taking place in South Africa and several other African countries.

Kannapiran, C. (1995). "Institutional rural finance: lessons from the past and reforms for the future". *Pacific Economic Bulletin* 10, no. 1: 48-54.

Abstract: Failure of institutional rural finance to adequately provide finance to agriculture has resulted in the exploration of idea of commodity based credit through the existing banking system. The paper examines the problems experienced by the Rural Development Bank, and its current status, before presenting some ideas for experimenting with new models. It notes that in such models careful evaluation would be required, of the financial policy, institutional policies, the viability of the credit operation, the resource for lending, managerial capacity, the viability of the rural sector, and the moral ethics and willingness to repay bank loans. Needed changes relate to institutional and policy reforms, and to banking regulation policy.

Kawai, S. (1996). "The Second Assessment on Rural Financing System in the Kyrgyz Republic". Tokyo: Agricultural, Forestry and Fishery Finance Corporation of Japan.

Kotaiah, P. (1995). "A Review of Rural Finance". *National Bank News Review*, 11 (3): 11-14.

Abstract: Examines the operational environment and performance of rural financial institutions (RFIs). Notes that prudently managed rural financial institutions are supporting non-traditional activities like floriculture, sericultures, acquaculture, etc undertaken by large farmers. However RFIs are finding it difficult to meet the needs of the disadvantages sections of the rural community, as their credit needs are small and frequent which raises transaction costs. Concludes that:

- The performance of RFIs has been quite impressive in terms of growth in credit disbursement
- Banks have opened specialised agricultural branches to exclusively attend to innovative and hi-tech projects
- Most RFIs have not been able to reach a breakeven level due to the low volume of business and the high cost of operations
- The loan recovery rate of formal credit institutions is very poor

Recommends policy interventions, such as prudential guidelines and interest rates among others, to remedy the situation.

Kula, O. & Farmer, E. (2004). "Mozambique Rural Financial Services Study", Washington, DC: ACDI/VOCA, MicroREPORT prepared for AMAP project funded by USAID, Washington, DC.

Abstract: A key objective of this research task order is the identification of integrated development approaches that (1) increase the competitiveness of industries in which small and very small firms participate, and (2) increase the ability of smallholders to contribute to and benefit from increased industry efficiency. This industry competitiveness approach – which was determined to be consistent with the objectives of the Mission's Strategic Objective (SO) 6, Increasing Rural Household Incomes – became the basis of the assessment.

Krafft, N.J. (1996). "Agricultural and Rural Finance: Some Thoughts on the Road Ahead". *Agrekon* 35, no. 4: 211-17.

Abstract: The role of government in developing rural financial markets is explored with particular reference to South Africa. Some general comments on the Strauss Commission report are presented. The role of credit as a constraint to development is explored and the legal and regulatory framework for rural financial markets is examined. The proposed new Land Bank for South Africa is discussed along with successful rural financial schemes and prospects for the future.

Lamberte, M.B.; Vogel, R.C.; Moyes, R.T. & Fernando, N.A. (2006). "Beyond Microfinance: Building Inclusive Rural Financial Markets in Central Asia". ADB.

Abstract: The foreword to this book notes that rural Asia presents a paradox: poverty in Asia retains a markedly rural dimension but, at the same time, economic opportunities abound throughout rural areas of Asia. Robust, inclusive financial markets, it argues, can help people take advantage of economic opportunities, build assets, manage risks, and reduce their vulnerabilities to external shocks and, in so doing, help people living in rural areas improve their welfare. The book presents findings from a recent research into the state of rural financial systems in six Central Asian republics: Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan and

Uzbekistan. The book examines and analyzes the current status of rural financial markets in these countries and attempts to answer a fundamental question: what can be done to develop robust inclusive rural financial markets? It also highlights the need to go beyond microfinance to develop inclusive rural financial markets within the context of overall financial sector development.

Lapenu, C. (1998). "Indonesia's Rural Financial System: The Role of the State and Private Institutions. Case Studies in Microfinance. Sustainable Banking with the Poor". Washington DC: World Bank.

Lee, N. (2006). "Rural Remote Microfinance and Selfish Genes". Coady International Institute.

Abstract: The title to this document draws from the writings of Richard Dawkins on what he calls the selfish gene. The argument he puts forward is that certain genes survive over time through seemingly conscious adaptive behaviour. Some of the characteristics of selfish genes allow them to learn and create stable systems over time that survive. This paper argues that parallels can be drawn with respect to microfinance in rural areas where it is challenging for programs to survive in costly, unpredictable environments. It is noted here that rural remote communities remain largely underserved except through informal mechanisms. In providing services financial institutions can expect high transaction costs, low rates of internal capital mobilisation due to poor physical infrastructure and a low density population making outreach expensive. The paper argues that member-owned institutions have the potential to push the "rural frontier" into more remote areas because they are both self-replicating and adaptive. They are able to build on the best of local and most strategic of linked arrangements. In these ways, it is suggested, MOIs resemble selfish genes that are capable of surviving, creating stable systems in unpredictable environments. In order to survive they need to become part of the financial system. The right mix of local and linked arrangements includes drawing from local social capital and governance as a strategy for many MOIs and linkages that may involve different types of second-tiers such as federations, apexes or clusters with varying levels of inter-governance. Linkages could also be more arms-length where it is mainly a source for borrowing and depositing surplus capital. Following a discussion on member-owned institutions, remote rural access and the role of self-replication and adaptation, the paper analyses why the right mix of local and linked arrangements is matters to practitioners, donors and technical service providers and regulators. The paper concludes with the view that stable self-organising systems survive because they know how to learn.

Llanto, G.M. (2001). "Sustainable Rural Finance: Policy and Design Issues". *Philippine Institute for Development Studies Policy Notes*, 2001(04): 1-8.

Abstract: The paper states that a stable macroeconomic environment characterized by low inflation expectations is a necessary condition for growth of the financial markets as it encourages the expansion of formal financial institutions into the countryside, thereby providing stronger competitive pressure vis-à-vis informal lenders. Furthermore, it is necessary to remove barriers to entry to the financial markets in order to enhance competition in the financial marketplace. In the light of these, the paper discusses Philippine's current policy framework for rural finance. It presents:

- Some trends in access to rural credit
- Current rural finance policy framework
- A critique of past rural credit policies
- Analyses policy and design issues for sustainable rural finance

Paper concludes that for a number of reasons Philippine's agriculture has failed to sustain its growth and has remained a stagnant sector.

Mahajan, V. & Ramola, B.G. (1996) "Financial Services for the Rural Poor and Women in India: Access and Sustainability", *Journal of International Development* 8(2): 211-224.

Abstract: This paper, based on a study commissioned by the World Bank, reviews the performance of Indian financial institutions in providing services to the rural poor and examines the key issues facing policy makers and institutions as the country moves forward on financial sector reforms. The study posits two sets of causal variables for institutional performance: (i) Internal Practices Attitudes (IPAs); and (ii) mechanisms for client interface that either enhance or thwart access by the rural poor and women (MEAs). Both of these variables are largely within the control of the financial institutions. The study sought to identify changes in these variables that could improve access to financial services by the rural poor. The authors conclude, however that rural financial institutions are faced with a *hierarchy of constraints,* largely beyond their control, and any attempt at developing workable and sustainable approaches to improved access of the rural poor to

financial services will need to address a whole range of macro-policy issues including depoliticization, ownership and governance in addition to regulatory issues.

Mahajan, V. (2000). "A Framework for Building a Sustainable Rural Finance System (RFS) for India". BASIX.

Abstract: This paper argues that in order to build a healthy rural financial system (RFS) for the 21st century, policy makers will have to focus on the four components of the RFS - regulation, intermediation, supply and demand - rather than focusing narrowly on formal sector rural financial institutions (RFIs), which represent only the supply and intermediation components. The paper calls for a broadening of the concept of RFS to include credit, savings, insurance and remittance services, as well as pensions, provident funds, mutual funds, infrastructure and public goods finance. The paper:

- Estimates, and looks at the demand for savings, credit and savings services from rural India;
- Looks at the supply of RFS from the informal sector, cooperative banks, regional rural banks, commercial banks and government- owned financial institutions;
- Examines the problems of rural financial institutions (RFIs), both mainstream and new-generation.

It advocates a three-track approach for building a sustainable RFS that would involve:

- Giving incentives to mainstream RFIs to serve the rural sector as a serious business;
- Encouraging new-generation RFIs with a supportive policy framework and financial resources and linkages to expand their services;
- Building a strong demand system in the form of community-based development financial institutions (CDFIs).

The paper makes detailed suggestions for establishing a RFS and concludes by stressing the urgency of re-engineering the rural financial system in India.

Maloney, C. & Ahmed, A.B. Sharfuddin (1988). "Rural Savings and Credit in Bangladesh". Dhaka, University Press Limited.

Manndorff, H. (2004). "ACCION's Experiences with Rural Finance in Latin America and Africa". *Accion's Insight Series*, No. 11.

Abstract: In the past two years, ACCION has worked with several institutions in Latin America and Africa to institute or expand rural lending programs. These efforts have resulted in successful rural penetration as well as a range of microcredit products adapted for rural areas. This InSight briefly describes the experience of ACCION's affiliates and partners in rural areas and relates lessons gleaned from that experience on how urban, commercially-oriented microfinance institutions can enter rural markets.

Martino, L.D.; Japarov, A. & Kasybekov, E. (1997). "Rural Finance in the Kyrgyz Republic". Working Paper. Zurich: Swiss Agency for Development and Cooperation.

Mauri, A. (1985). "The Role of Innovatory Financial Technologies in Promoting Rural Development in LDCs". *Rivista Internazionale di Scienze Economiche e Commerciali*, Vol. 32, pp. 989-1002.

Abstract: Rural development of LDCs calls for an overall strategy aiming at an economic and social improvement of peasants. The advancement of this process relies on capital formation and on efficiency with which capital is used in agriculture. Domestic savings mobilization and resource allocation play a crucial role at the moment when inflow of foreign capital has dropped. Conventional views on rural finance of these countries underestimate the savings potential and concentrate on the need to supply farmers with funds at concessional terms through institutional channels. An empirical analysis shows, however, that rural areas of LDCs have a positive, and by no means negligible, saving capacity. Hoarding is a widespread phenomenon in African and Asian peasant societies. Hoarding is assumed to be a measure of the gap between savings and productive investments. Where the economy has attained a certain degree of monetization and cash crops are produced in addition to subsistence crops, a surplus in money may emerge. At this stage household savings may be mobilized. Efficient rural financial markets would greatly contribute to achieve the two objectives: savings mobilization and improvement of the quality of investments. The performance of these markets in LDCs is however poor. The development of rural financial markets requires specific measures and appropriate action. Financial innovation is the driving force behind financial development and may be defined as any qualitative change that

has a decisive impact on the structure and the performance of the financial sector. A whole range of financial innovations, some of which may even seem banal, is required on both sides of the activity of financial intermediaries: the deposit taking and the lending functions. Institutional innovations as well as new financial technologies are recommended.

Mauri, A. (1986). "Financial Innovation and Rural Development" *Ahorro,* No. 198.

Abstract: Financial intermediation is a diffused process that involves a large number of actors at different levels. Each of them in any economic environment has the opportunity to meet the challenge of innovation. In most developing countries agriculture remains a principal source of income for the majority of population, but in most of rural areas of these countries financial intermediation has a poor performance and is unable to promote development. Financial innovation, therefore, may be the way to break the vicious circle of poverty and can play a crucial role in socio-economic change in the peasant society. The paper considers some of the fundamental issues concerning financial intermediation and financial innovation in rural areas of LDCs. It consists of two main parts. The first part provides a critical overview of rural financial markets in LDCs and discusses the most relevant weaknesses of these markets, due mainly to their fragmented nature and to distortions brought in by government concessionary credit policies. Furthermore cheap-credit policies for agriculture have hampered in many instances the development of viable institutions in the formal financial sector. The second part of the paper concentrates on proposals directed to redress this state of affairs. It explores and evaluate suitable financial innovations, both institutional and operational, to be implemented in this context. Crucial reforms are needed to build more complete rural financial institutions devoted both to deposit taking and lending or, if it is the case, to transform existing single-function institutions to multi-function institutions. More appropriate financial techniques should be designed and implemented to cater for the specific needs of a rural environment.

Mattesini, F. (2003). "Financial Intermediation as a Source of Aggregate Instability". CEIS Tor Vergata - Research Paper Series No. 35.

Abstract: We consider a simple overlapping generations economy where the behavior of intermediaries, in a market characterized by asymmetric information and moral hazard, may give rise to cyclical equilibria. When capital increases output and savings also increase and therefore more capital will be available in the following period. At the same time, however, the higher supply of of savings leads to a decrease in the deposit interest rate and this will induce intermediaries to decrease the number of firms that are monitored. A larger number of firms will select low quality projects and, because of this, less capital will be produced in the following period. For some parameter values this second effect may prevail over the first one and the stock of capital in period t+1 may actually be lower than the stock of capital in period t. The model provides a rigorous interpretation of the view associated with Hyman Minsky [18], Charles Kindleberger [16], and Henry Kaufman [15], according to which expansions come to an inevitable end because of excessive or ill-considered lending that took place during the boom.

Mellor, J.W. (1995). "Some Issues in Institutional Finance for Agricultural Development: A Cross-National Review of Evidence". *The Pakistan Development Review* 34, no. 4: 509-42.

Abstract: The development of appropriate rural financial institutions in Pakistan can greatly facilitate the process of economic development. Such institutions, if developed along the lines outlined above, would enable the mobilization of savings deposits, thus providing banks with the necessary resources to undertake rural lending. This would also enable transactions costs to be reduced by spreading overheads. Increased competition will lead to better administration and hence reduced overheads and improved repayments on loans. The greater access by the small farmers would allow for high volume and high branch density. The easing of the credit constraints on small farmers will have positive effect on efficiency, employment, and equity. A well-functioning rural financial sector will also reach out to the private sector operating in the distribution of inputs and the processing and marketing of outputs. The increased volume of activity will result in reducing the overheads of the rural financial institutions while increasing the level of economic activity in the rural sector both directly and indirectly through the linkage effects.

Meyer, R.L. & Alicbusan, A.P. (1984). "Farm-Household Heterogeneity and Rural Financial Markets: Insights from Thailand". In *Undermining Rural Development with Cheap Credit*, edited by Dale W. Adams, Douglas H. Graham, and J.D. Von Pischke. Boulder: Westview Press. p. 22-35.

Meyer, R.L. & Cuevas, C.E. (1992). "Reduction in Transaction Costs of Financial Intermediation: Theory and Innovations". In *Savings and Credit for Development*. Report of the International Conference on Savings and Credit for Development, Denmark. 28-31 May, 1990. New York: United Nations. p. 285-317.

Meyer, R.L. (1999). "Rural Financial Markets and Rural Non-Farm Enterprise Development". In *Strategies for Stimulating Growth of the Rural Non-Farm Economy*, edited by Steven Haggblade, Peter Hazell, and Thomas Reardon. Washington DC: International Food Policy Research Institute.

Meyer, R.L. & Nagarajan, G. (2000). "Rural Financial Markets in Asia: Policies, Paradigms, and Performance". New York: Oxford University Press.

Abstract: A vast majority of the population in rural Asia are micro-entrepreneurs: farmers, shopkeepers, food processors, traders, and small-scale manufacturers. Despite significant income growth in the last 30 years, many of them remain poor; about 670 million rural Asians still live in poverty and continue to rely, directly or indirectly, on agriculture for their livelihoods. Like other entrepreneurs, rural Asians, including farmers, require access to dependable and well-designed financial services in order to better manage and expand their businesses. Without this access, many poor entrepreneurs are simply unable to take advantage of new market opportunities that public investments and/or market reforms provide. But conditions conducive to the rapid development of modern financial institutions are generally lacking in rural areas. Farmers are dispersed over wide areas and information on creditworthiness or project-specific risks is costly to collect, making general risk assessment expensive. Poor households lack collateral-suitable assets, transactions are small and expensive to administer, and business risks, especially in agriculture, are highly covariant. Matters are further complicated in transition countries such as those in central Asia where private ownership of capital and market-based production and exchange were introduced only in the 1990s. No wonder, then, that private sector banks have not bothered to set up shop in rural areas, and in cases where they have been arm-twisted by governments to do so, they have done so at considerable financial loss. Given this situation, how should policy makers go about contemplating rural financial policies in the 21st century in Asia? This is the fundamental question that Meyer and Nagarajan attempt to answer. They do so by considering other important questions: How do agricultural markets interact with financial markets? What have recent country experiences been like, and what can we learn from them? How have policy paradigms emerged, played out, and changed? How have institutions responded, and what lessons do they provide for the future? While there has been no dearth of writings on the topic of rural finance in the last 20 years or so, this book is clearly unique in attempting an all-Asia generalisation. The book itself is the third in a five-volume *A Study of Rural Asia* series commissioned by the Asian Development Bank, and draws largely on materials gathered from six country studies conducted specifically for the purpose. Its 12 chapters are divided into two main parts. The five chapters in Part A lay out study objectives, a conceptual framework, and the principal findings from an analytical synthesis of the six country studies, concluding with the chapter Developing Rural Financial Markets Asia: What Should be Done?". Readers interested in obtaining an overall assessment, but who prefer not to get into country-level details, can easily stop reading here: the main arguments have been presented, useful evidence has been summarised, and final conclusions have been drawn. Part B of the book, rather like an annex, presents the country case studies themselves. These studies are rich in detail and will be useful to many readers, especially those seeking information on the selected countries. The countries chosen are: Bangladesh and India in South Asia ("poor, densely populated" countries where "the state has intervened heavily in the their financial sectors"); Kyrgyz Republic and China (Central Asian countries 'in transition'), and Indonesia and Thailand (rapid growth economies recently hit by a financial and economic crisis, but "known worldwide for having developed rural financial institutions that today serve millions of clients with a minimum of subsidies"). Three 'flagship' organizations are singled out as worthy to learn from: Bank for Agriculture and Agricultural Cooperatives (Thailand), Bank Rayat Indonesia (Indonesia), and Grameen Bank (Bangladesh). The book, however, does not address clients' perspectives anywhere. The authors suggest that, historically, policy intervention in the Asian rural financial sector was rooted in agricultural finance, responding to the general assessment in the 1960s and the 1970s that credit frequently subsidised credit was necessary to enable small farmers to adopt risky new crop technologies and also to push them over to commercial (as opposed to subsistence) agriculture. Most now agree that this type of 'directed' and 'subsidised' credit administered through government owned-commercial banks failed miserably, and the authors provide an interesting discussion on whether or not these institutions should now be closed or rehabilitated. However, richer lessons might have been drawn had the authors been able to disentangle the confounding

effects of targeting, subsidisation, perverse incentives within government bureaucracies, and the on-the-ground realities of poor small farmers. Rural finance enthusiasts will have no problem embracing, as the authors do, a zero-tolerance position on poor repayment performance, administrative laxity, substandard or opaque accounting practices, and the iniquitous political capture of programs and institutions. But an indiscriminate lumping of these issues with those related to targeting and/or the use of public resources is another matter. Directing financial services to small farmers when market failures are known to abound is not itself an intrinsically bad idea. Throwing this otherwise healthy baby of an idea away with the dirty bath waters of organisational weakness and political corruption has the effect of undermining some of the important conclusions reached in the book. The authors would have done better had they instead investigated and highlighted the main threads linking these problems. The subsidy issue is also somewhat summarily tossed out, leaving the reader with the impression that it naturally and invariably contributes to a lack of discipline on the part of both providers and borrowers. Many will find this assessment not all that helpful in dealing with an industry that would literally vanish if not for public funding. For the authors, though, this is key advice, one that leads to the fundamental conclusion of the book: sustainable rural financial systems have to be market-based, and market reform and strengthening rather than any kind of social engineering is the best way forward. Hammering and re-hammering this central message is what the book does best. At the core of the authors' recommendation is a three-pronged strategy for building rural financial markets: (1) creation of a conducive policy environment (ensure sound macroeconomic management and un-repress the financial sector), (2) build financial infrastructure (build and implement legal, regulatory and information systems that make financial transactions less risky for both providers and users), and (3) nurture financial institutions that combine good client outreach with financially sustainable services. All this is genuinely sound advice: competitive and market-based financial institutions are highly unlikely to emerge under any other policy regime. But what is the timeline of such development and what are its practical implications? Why have non-profit institutions taken a more immediate and, by all standards, a totally overwhelming role? What makes them do what they do? Is there a case, in the intermediate stage, to balance market-reform and market-strengthening policies with institutional initiatives that skirt around stubborn market failures? If yes, how? If not, why not? What lessons do the generally buoyant informal financial markets in rural Asia offer in all this? Readers, particularly those working with institutions like the Asian Development Bank, would have benefited significantly more had the book delved deeper into such issues. The book is nonetheless an essential read for those interested in the current state of the Asian rural financial sector, doubly so if you happen to be interested in what is going on in Bangladesh, China, India, Indonesia, the Kyrgyz Republic, or Thailand. Abstract by: Manohar Sharma

Meyer, R.L. (2002). "Performance of Rural Financial Markets: Comparative Observations from Asia, Latin America and the US". Brazil: Brazilian Agricultural Economics Association.

Abstract: After three decades of rural financial market failure in Latin America and Asia, a renewed interest has developed. Discussion of the formation of new specialized agricultural banks neglects to consider the successes and failures of past initiatives in this area. This paper explores the existing challenges for creating sound rural finance markets to serve farmers and the rural community not serviced by microfinance. In the past, agricultural economists have focused on farmer access to financial services; terms, conditions, and institutional operation. Other research has shown how sound macrofinance policies, supportive institutions, and investments in institutional building can lower the costs and risks of rural financial intermediation. Improvements in laws, regulations, institutions, and policies in financial intermediation in Latin America must be made before rural communities will have access to self-sustainable financial services. Until these changes are made, Latin American farmers will remain at a proportional disadvantage in financial services.

Meyer, R.L. (2002). "Track Record of Financial Institutions in Assisting the Poor in Asia", *Research Working Papers Series* No. 49, Asian Development Bank Institute, Tokyo Japan.

Abstract: The impact of microfinance programs on the poor is difficult to assess, although a number of studies have tried. This paper usefully summarizes the performance of the industry and identifies a number of empirical pitfalls and methodological problems. While outreach is surprisingly impressive, financial sustainability remains a major problem in many countries. Most importantly, positive benefits vary by gender, type of program and country, and some households may be so poor and lacking basic skills that it could even be a mistake to encourage them to borrow.

Meyer R.L. & Buchenau, J. (2003). "Individual Lending in Rural Finance: The IPC Model." Paper presented at the Microfinance Regulatory Council of South Africa seminar, "Current Issues in Microfinance," Johannesburg, South Africa.

Moll, H.A.J. *et al.* (2000). "Exploring Ssgmentation in Rural Financial Markets: An Application in El Salvador". *Savings and Development*, Issue no. 1, 2000.

Abstract: Understanding the segmentation in rural financial markets is of major importance for the identification of feasible relationships between clients and financial institutions. In this article we combine different insights into segmentation in rural financial markets into a two-dimensional analysis, with the supply of credit by types of lenders and the demand for credit by types of borrowers as the dimensions. Within the grid formed by these two dimensions the existing credit relationships indicate occurrence and measure of segmentation. We apply this method of analysis to analyse the rural financial market in two provinces in southern El Salvador. The supply side is analysed by examining the stipulations of the credit contracts offered by different types of suppliers, and the demand side by examining the characteristics of different types of farm households in relation to their credit relationships. The a priori classification of lenders and borrowers is tested and found valid; the qualitative and quantitative insight into segmentation obtained from the resulting two-dimensional perspective on the rural financial market may be used by financial institutions to expand their services and reach new clients.

Moll, H.A.J. (2005). "Microfiannce and Rural Develoment". *Journal of Microfinance*, Vol. 7, No. 2.

Abstract: The long-term perspective on microfinance starts with a discussion of three central issues: first, views and policies, with two opposing views: "credit for target group" and "pushing the financial frontier"; second, the performance of microfinance institutions measured via two objectives: outreach and financial sustainability; third, microfinance and rural development. This latter issue is approached through analyses of the effects of financial services on rural households and analyses of long term national financial development. Both micro and macro studies show positive effects of an expansion of savings and lending services, financial deepening. The negative side of financial deepening, the apparently unavoidable occurrence of bank insolvencies, is also reviewed. The concluding section argues that the microfinance sector should be guided by "stability and expansion": stability to withstand shocks and to maintain the relationships established between rural households and microfinance institutions, and expansion to include more people within the financial frontier.

Nabi, I.; Faruqee, R.R. & Qureshi, S. (1996). "Rural Finance for Growth and Poverty Alleviation in Pakistan". World Bank.

Abstract: This paper highlights the importance of the rural sector in Pakistan's economy and argues that a healthy and well-functioning rural finance system can help in achieving two policy objectives:

- Accelerating agricultural growth;
- Reducing poverty.

The paper studies the rural finance sector of Pakistan in detail and presents its performance and structure. The three areas, which drive the demand for credit in the country, are:

- Agricultural investment,
- Consumption smoothing by households,
- Non-farm investments.

The paper lists the problems associated with rural finance in Pakistan:

- Existing institutions delivering formal credit are facing a serious financial crisis and cannot be sustained;
- Present rural finance system does not cover adequately the smallholders, who will be very important for future growth;
- Increase in the growth rate of agriculture will further increase the demand for credit.

In order to generate credit for the growing demand, it is important to look at sources of credit. The paper identifies some of these sources and details their performance and problems:

- The Agricultural Development Bank of Pakistan (ADBP),
- Commercial bank,
- The cooperative sector,
- The informal sector.

The paper concludes by providing some policy recommendations:

- Creating a prudent regulation and legal framework,
- Encouraging a competitive environment,

- Making credit available to target groups such as for smallholders, for non-farm activity and for women.

Nagarajan, B.S.; Narayanasamy, N. & Ramachandran, S. (1996). "A Financial Appraisal of Rural Financial Institutions in Tamil Nadu". *Journal of Financial Management and Analysis* 3(1): 1-7.

Nagarajan, G. (2003). "Going Postal to Deliver Financial Services to Microclients". *Finance for the Poor*, Vol.4, No.1. ADB.

Abstract: This article, directed toward microfinance theorists, discusses the role of post-office savings banks (POSBs), which function as microfinance institutions in many developing countries, particularly Asian countries, which form the basis for this short study. POSBs have many attractive aspects: they are accessible even in remote areas, they accept even tiny deposits, and have longer hours than most microfinance institutions (MFIs). Moreover, they generally have a good relationship within their neighbourhoods (everyone knows their mailman or mailwoman), their deposits are protected by the government and can even provide tax benefits. Despite these and other benefits, major issues restrict the use of POSBs as a viable alternative to expand microfinancial services to the unbankable. First, as POSBs are generally owned by governments, bad governance means a poorly-functioning POSB, and political issues may affect the POSB more than other MFIs. Second, POSBs are generally passive receivers of deposits, and do not offer a wide range of financial services, and are often heavily subsidised by governments, both of which tend to de-emphasise the goal of POSB self-sufficiency and viability as a microfinance institution. The author discusses ways of helping POSBs to provide an expanded series of effective services. One suggestion is to create an autonomous board of directors from the private sector, so the POSB is able to act independently of government financial policy. Financial services and products need to be diversified; the author suggests that POSBs join forces with other local MFIs to offer more services cost-effectively. Staff need to be better trained in financial services rather than just as postal workers. In the end, the article poses some questions that should be asked before development of POSBs should begin, all concerned with viability and the need for expanded services in the regions under consideration. This article comes complete with fact boxes comparing the experience of POSBs in different Asian countries, and though sketchy, it is both interesting and thought-provoking.

Nagarajan, G. & Meyer, R.L. (2005). "Rural Finance: Recent Advances and Emerging Lessons, Debates, and Opportunities." Reformatted version of Working Paper No. (AEDE-WP-0041-05), Department of Agricultural, Environmental, and Development Economics, The Ohio State University (Columbus, Ohio, USA).

Abstract: Rural finance remains very challenging and in developing countries it is generally weak, despite the efforts of donors, governments and private investors to improve it. However, important lessons are emerging from these experiences that provide useful guidelines on how to expand and make more effective the provision of rural financial services. This report examines these lessons about rural finance. It identifies the recent advances, current debates, major gaps, challenges and opportunities that confront efforts to expand and strengthen it. This review, conducted between June and November 2004, was commissioned by the Ford Foundation's Affinity Group on Development Finance (AGDF)'s Rural Finance Committee. It is based on the latest literature available and on discussions with various donors, practitioners and researchers active in this field. Throughout this review, the term 'rural finance' refers to the provision of financial services to a heterogeneous rural farm and non-farm population at all income levels. It includes a variety of formal, informal and semiformal institutional arrangements and diverse types of products and services including loans, deposits, insurance and remittances. Rural finance includes both agricultural finance and rural microfinance, and is a sub-sector of the larger financial sector. We utilize a conceptual framework based on the new rural financial paradigm that considers rural populations as bankable through effective institutions. The desired goals for rural financial institutions include maximizing outreach and achieving sustainability in order to make the greatest possible impact on the lives of rural people. These goals are achieved through advances made in different types of institutions, products, services, and processes in response to the information, incentives, and contract enforcement barriers that hinder financial transactions in rural areas. These advances are nurtured by a good enabling environment, consisting of sound policies and supportive institutions.

Nagarajan, G. & Meyer, R.L. (2006). "Rural Finance Today: Advances and Challenges". *Finance for the Poor*, Volume 7 Number 4. ADB.

Abstract: Rural finance is referred to here as the provision of financial services through formal, semiformal and informal institutions to rural farm and nonfarm population at all income levels. The authors of this paper state that in the past, many rural finance programs failed due to a combination of lack of attention to institution building, faulty design and implementation, and bad macro policies driven by political interests. It is noted that currently, however, promising developments may potentially push the rural finance frontier forward. The major breakthrough for current forms of rural development stem from the new rural finance paradigm of the late 1980s, which is premised on the fact that rural people are bankable, and rural clientele are not limited only to farmers and they demand varied type of financial services for which they are willing to pay. This paper highlights several advances that are being made in today's rural finance sector, and identifies a number of remaining challenges. The paper is divided into four key sections. The first section covers advances in institutions, which begins by highlighting that government agricultural development banks still dominate in several countries and some have been successfully reformed. It also discusses the fact that several microfinance institutions are increasing their rural operations and are becoming important suppliers or rural financial services, and that member-based informal institutions such as SHGs and SACCOs are increasing and have the potential to play an important role, especially in remote rural areas. The second key section highlights advances in products and services. It begins with flexible savings products that are being developed to service rural areas. It also discusses how rural leasing, under certain conditions, provides a viable financial option for rural clients. Index-based insurance, the importance of remittance services to rural areas and the emergence of products that comply with Islamic laws are also covered. Advances in processes are the topics of the third key section. The four main areas discussed here are: how a better understanding of financing through value chains is developing; how partnerships between commercial banks and informal systems are expanding rural outreach to new clients; how strategic alliances among various types of institutions are growing as a way to offer new financial products in rural areas; and, how the use of electronic technology is revolutionising the provision of rural financial services, especially in countries where the IT sector is less regulated than the financial sector. Finally, before concluding, the paper lays out three key challenges – the possible reintroduction of interest rate ceilings; reducing the costs and risks of e-banking in rural areas; and, developing an enabling policy environment.

Nair, A.; Kloeppinger-Todd, R. & Mulder A. (2004). "Leasing - An Underutilized Tool in Rural Finance". World Bank - Agriculture and Rural Development Department (ARD).

Abstract: The objective of this paper is to examine the potential of leasing as a rural finance tool. The paper analyzes the utility of leasing for rural enterprises as a means to acquire equipment and reviews the experience of a cross-section of entities providing leasing in rural areas. Additionally, the paper provides an overview of leasing (types, advantages, risks, and enabling environment) and reviews World Bank and International Finance Corporation (IFC) experience in supporting development of the leasing sector. The paper concludes by providing recommendations for enhancing World Bank support to expand access to leasing in rural areas. The paper makes four recommendations for World Bank involvement in enhancing access to leasing in rural areas of developing countries: First, the World Bank should increase the availability of information on the demand and supply of leasing (by banks and other institutions) in rural areas. Analytical work on rural finance should incorporate assessments of access to leasing. Second, the World Bank should incorporate operational support (technical and financial assistance) for leasing into rural finance projects and other projects that have rural finance components. Credit lines for rural finance should not discriminate between lenders and lessors, and projects with policy reform components should include reforms specific to leasing. Third, the World Bank should also consider creating, in cooperation with IFC, regional leasing development facilities to provide technical assistance for both policy reforms and leasing providers. Fourth, developing collaborative arrangements with other development agencies (such as the USAID and DFID) and development investors (such as the Netherlands Development Finance Company (FMO) and the German Development and Investment Company (DEG)) that have significant experience in supporting leasing development could also be beneficial. This could be done within existing and new projects.

Onumah, G. (2003). "Improving Access to Rural Finance through Regulated Warehouse Receipt Systems in Africa." Paper presented at the US Agency for International Development–World Council of Credit Unions conference, "Paving the Way Forward for Rural Finance: An International Conference on Best Practices," Washington, DC.

Abstract: Promoting efficient, sustainable and widely accessible rural financial systems remains a major development challenge in most African countries. With about 73% of Africa's population living in rural areas, and the high incidence of rural poverty, improved rural finance is seen as crucial in achieving pro-poor growth and poverty reduction goals. However, the development of rural financial systems is hampered by the high cost of delivering financial services to small, widely dispersed customers; as well as a difficult financial terrain – characterised by high and covariant risks, missing markets for risk management instruments and lack of suitable collateral. Attempts to reduce the gap in the provision of rural finance often focus on supply-side interventions, including government and donor-funded targeted credit programmes of the 1950-60s, the global failure of which is well cited (Yaron et al. 1997). Contrary to the expectations of its advocates, liberalisation of financial markets in the 1980s has not succeeded in improving the supply of finance to rural households and enterprises, as formal financial institutions (FFIs) have become more risk averse and reduced their exposure to agriculture and the rural economyii. During the 1990s, a number of NGOs converted into full-service micro-finance institutions (MFIs) targeting rural and microentrepreneurs. However, scepticism is growing about their role in mobilising rural savings and in providing agricultural finance (Murdoch, 2000). This paper takes the view that sufficient attention has not been given to interventions that improve access to rural finance through reducing risks in the rural financial environment. It is argued in the paper that rural borrowers are not attractive to FFIs because they are perceived as high risk borrowers (with "wrinkled" faces). It is stressed that their chances of accessing finance can be improved with interventions that give them a "facelift" by providing them with opportunities to manage and reduce the risks to which they are exposed. Using the case of a warehouse receipt (WR) system being developed in Zambia, the paper demonstrates how market institutions can be used to give rural borrowers a "face-lift", and to further show that setting up institutions that facilitate market delivery of rural financial services is not a short-term fix but a long-haul process. The paper is structured as follows: Section 2 looks at how low and unstable rural income as well high risks limit access to financial services in the rural economy. In Section 3 we illustrate how a warehouse receipt (WR) system can help turn this situation around. In Section 4, various WR models are reviewed and the model being established in Zambia described, including the implementation challenges faced. The summary and conclusions are set out in Section 5.

Pagura, M. (2004). "Mapping Rural Finance Products, Delivery Models and Linkages". SEEP (Small Enterprise Education and Promotion) Network.

Abstract: Within the context of demand and supply situation of rural financial services, this presentation presents an overview of innovations being tried to improve delivery:

- Using multi-partner delivery models, where apex agencies finance a mix of intermediate institutions such as village banks and credit unions;
- Utilizing the agri-business value chain for delivering financial products;
- Making innovative partnerships and linkages.

The presentation also dipicts a framework for developing strategies for delivering financial services (ACT principle):

- Analyzing and understanding the key constraints and challenges of provisioning rural finance;
- Comprehending the different products and delivery models available;
- Taking the best mix of products and delivery models to effectively deal with the constraints in the area of intervention.

Pagura, M. (2006). "Expanding the Frontier of Rural Finance Through Linkages". FAO.

Abstract: This presentation advocates the use of linkages to expand the frontiers of rural finance. It:

- Identifies the need for access to financial services for poor people, among both the urban and rural population, in various countries of the world;
- Lists the challenges in rural finance in terms of constraints on vulnerability, operations, capacity, policy and regulation;
- Describes how linkages can help overcome the key challenges in rural finance.

The presentation then details a study on linkages and presents its background, rationale and areas of research. It presents the following findings of the study:

- Much interaction between formal and informal sector primarily through direct-financial-linkages;
- Emerging private banks and insurers using linkages to go "down market".

The presentation ends by listing the following conclusions of the study of linkages in Asia:

- There is strong evidence that financial linkages expand the access to finance in remote areas;
- A critical need is to build the capacity of less formal partners;

- Lack of systems impedes efficiency and evolution;
- "Client capture" is a real concern of less formal partners;
- Right financial sector policies can help jump start linkages;
- There is a growing impact of linkages as financial systems develop;
- Effectively preparing actors at micro, meso and macro levels increases speed of development.

Park, A.; Brandt, L. & Giles. J. (1997). "Giving Credit Where Credit is Due: The Changing Role of Rural Financial Institutions in China". Working Paper. Department of Economics. Ann Arbor: University of Michigan.

Park, A. (1998). "Rural Financial Market Development in China: A Report to the World Bank". Working Paper. Department of Economics. Ann Arbor: University of Michigan.

Parikh, T. (2005). "Rural Microfinance Service Delivery: Gaps, Inefficiencies and Emerging Solutions".

Abstract: Microfinance, the provision of financial services to poor and under-served communities, has emerged as one of the most promising avenues for stimulating rural economic development through local enterprise. In this paper we will discuss some of the major technology gaps faced by rural microfinance institutions, focusing on areas that are most important for the future growth of the industry. This work builds upon six months of field research, including field studies with eight different microfinance organizations located across Latin America and Asia, and discussions with many other organizations worldwide. Historically it has proved difficult to provide sustainable micro-financial services to remote rural clients. As formal financial institutions begin to look seriously at this market, the microfinance industry faces significant challenges in maturing and scaling to sustainability. We will look at three of the major tasks faced by rural microfinance service providers today - 1) the exchange of information with remote clients, 2) management and processing of data at the institutional level and 3) the collection and delivery of money to remote rural areas. Each of these has proved to be a difficult problem to solve for microfinance institutions worldwide, and may offer opportunities for information technology-based solutions. For each of these "gaps" we will look at current best practices, examine the role information technology has (or has not) played in overcoming these obstacles, and discuss promising future directions. In this context, we will discuss the use of hand-held technologies for rural information collection, experiences in the implementation of MIS systems at the institutional level and current strategies for introducing electronic banking to remote rural areas. We will look at the results thus far in each of these directions and the potential ramifications for the long-term growth and sustainability of the sector. We will continue by presenting some of our current work in this area. This includes the design of accessible paper interfaces for reaching uneducated rural clients; and the Mahakalasm MIS – an open source toolkit for information processing and management by SHG Federations. These projects are joint work with the Covenant Centre for Development and ekgaon technologies in Madurai, India. We will conclude by discussing some interesting and powerful new trends in microfinance, and postulate some potential models for the future development of the industry.

Pearce, D.H. (2003). "Financial Services for the Rural Poor." *CGAP Donor Brief*, no. 15, Washington, D.C.: CGAP.

Abstract: The majority of the world's poor live in rural areas.Yet most lack access to the range of financial services they need. Financial services available to them are relatively costly or rigid, whether from formal or informal financial providers or traders and agricultural processors offering input credit. Financial institutions seeking to work in rural areas face numerous constraints, such as poor infrastructure and low education level. Moreover, the main products of many microfinance institutions—short-term working capital loans with frequent expected repayments—are not well-suited to seasonal or longer-term agricultural activities. The recent introduction by some donors of the financial systems approach in micro and rural finance—which emphasizes favorable policy environment and institution-building—has improved the overall effectiveness of rural finance interventions. But numerous challenges remain, especially in agricultural finance.

Pearce, D.H.; Goodland, A. & Mulder, A. (2004). "Membership-Based Financial Organizations." In the "*Rural Finance for Agriculture*" module of the *Agriculture Investment Sourcebook 2004*. Washington, DC: World Bank.

Abstract: Support to membership-based financial organizations, including relatively formal credit unions, savings and credit cooperatives, and less formal community-based savings and loan associations, has had mixed results. In some cases, sustainable institutions have resulted, successfully reducing transaction costs and collateral constraints. In others, donor support has created dependence and failed to address problems of weak governance, poor internal control, and capture by elites. This investment note describes lessons learned and good practice in supporting membership-based organizations that provide rural financial services for agriculture. Support to such organizations is recommended where rural financial markets are underdeveloped but social, geographic, and economic conditions nevertheless create a comparative advantage for this low-cost approach.

Pearce, D.; Goodland, A. & Mulder, A. (2004). "Investments in Rural Finance for Agriculture: Overview." In the "*Rural Finance for Agriculture*" module of the *Agriculture Investment Sourcebook*. Washington, DC: World Bank.

Abstract: Providing financial services to households and agribusiness in poorer and marginal rural areas remains a challenge for the World Bank and other funding agencies. The adoption of a financial systems approach and the expansion of the microfinance sector have led to significant breakthroughs in performance, outreach, and lending volumes. Such breakthroughs rarely have extended to more marginal rural areas dependent on agriculture, however. Even so, some progress has been made recently in providing financial services to poor rural households with diversified nonfarm sources of income or income from nonseasonal agricultural activities. Several factors heighten the costs and risks of financing agriculture and cause financial service providers to regard investment in agriculture as unattractive (box 8.1). However, recent efforts by the World Bank and other organizations are starting to bear fruit in the form of emerging models and successful approaches. Rather than recapitulating the comprehensive and well-documented treatments of the challenges and failures of agricultural finance (World Bank 2003; IADB 2001; Yaron, Benjamin, and Piprek 1997), this module explores promising new directions in rural finance for agriculture and identifies lessons for policy and lending.

Pearce, D.; Goodland, A. & Mulder, A. (2004). "Agriculture Investment Note: Microfinance Institutions Moving into Rural Finance for Agriculture". Agriculture Investment SourcebookWorld Bank.

Abstract: This Agriculture Investment Note produced by the World Bank details how a few innovative microfinance institutions (MFIs) have been successful in providing financial services to poor rural households dependent on agriculture. They have adopted several techniques including:

- Tailoring procedures and products to agricultural seasonal needs;
- Applying risk management techniques;
- Adopting new technologies.

The note describes the benefits of increased MFI activity in rural areas and in financing agriculture:

- Increased competition, higher volumes of finance, and a wider range of financial services are becoming available to farmers and their households;
- MFIs can offer credit, not just for agriculture, but also for non-farm, household, and emergency needs, as well as savings and transfer payment services;
- There are now more favorable and transparent terms of access for the poor;
- Good practice MFIs can also bring a commitment to efficiency, transparency in reporting, high portfolio quality and sustainability.

The note concludes by setting out the principle lessons learnt in supporting MFIs that move into agricultural finance and by providing recommendations for practitioners involved:
Lessons learned:

- Flexible disbursement and repayment schedules are key to successful agricultural lending;
- Diversification at the portfolio and client household levels can reduce the risk for MFIs;
- Technology can help lower costs and expand rural finance operations.

Recommendations for practitioners:

- Plan feasibility studies, piloting and market research to reduce risks of moving into financing for agriculture and enhance usefulness of financial services to farmers;
- Assess the impact on the financial institution itself of adapting loans to fit agricultural cycles;
- Focus on other financial services as well.

Petersen, G. (1994). "Rural Finance in Vietnam". Unpublished report for the World Bank.

Ping, X., Zhong, X., Enjiang, C. & Minggao, S. (2005). "Establishing a Framework for Sustainable Rural Finance: Demand and Supply Analysis in Guizhou Province of the People's Republic of China". ADB.

Abstract: This paper examines the demand for financial services from rural households in China. The paper:

- Assesses the extent to which the demands have been met,
- Identifies the purpose for which the finance supplied is being utilized by the poor,
- Identifies the constraints which come in the supply of credit demand,
- Analyzes all the issues related to policy, legal, operational environment and organizational structure of rural financial institutions.

The paper states that:

- All the issues of rural finance cannot be sorted out by bringing about reforms in the rural credit cooperatives (RCC) only, as China's economic development calls for diversified rural financial institutions and systems.
- At the heart of rural finance reform there is a need to:
  - Break the monopoly of the RCCs on the rural financial market,
  - Establish a competitive, efficient market,
  - Implement an appropriate supervisory framework regulate.

Finally, the paper makes the following set of policy recommendations for establishing a sustainable rural finance system:

- Create an enabling environment for the sustainable development of the rural credit cooperatives;
- Promulgate a community re-investment law and establish a mechanism to reduce the outflow of postal savings;
- Adopt a market-based interest rate regime;
- Separate regulation from management and implement minimum regulatory requirements.

Preedasak, P. & NaRanong, V. (1998). "Agricultural Cooperatives and Village Credit Unions in Rural Financial Markets in Thailand". In *The Rural Finance in Thailand*, edited by Nipon Poapongsakorn, et al. Bangkok: Thailand Development Research Institute. p. 55-82.

Project Consult (IPC) (1988). "Rural Finance in Ghana: A Research Study on Behalf of the Bank of Ghana".

Puhazhendhi, V. & Satyasai, K.J.S. (2000). "Microfinance for Rural People: An Impact Evaluation". Mumbai, India: National Bank for Agriculture and Rural Development.

Qureshi, S.; Nabi, I. & Faruqee, R.R. (1996). "Rural Finance for Growth and Poverty Alleviation". *World Bank Policy Research Working Paper* No. 1593.

Abstract: To promote agricultural - and hence economic - growth, Pakistan must make more credit available to agricultural smallholders, the rural nonfarm sector, and women. Subsidizing interest rates is not the way to help marginal borrowers. Instead, they can be helped through fixed-cost subsidies and self-selected targeting. Pakistan's rural sector accounts for more than 70 percent of employment, and roughly two-thirds of rural employment is in agriculture. Less than a third of rural households get loans, only 10 percent of which are from institutional sources. Pakistan's credit institutions are not helping the country accelerate agricultural growth and reduce poverty. To improve performance in the rural economy and efficiency in financial institutions, rural credit markets must be liberalized. The government needs to initiate the following reforms:
→Produce and price controls must be replaced by prudent regulation and supervision, combined with policies to stabilize the economy.
→Commercial banks must operate in a competitive environment. They must be allowed to set interest rates for rural lending that cover their transaction costs.
→ Credit must be made available to support productivity growth for agricultural smallholders and small producers of the rural nonfarm sector, where Pakistan`s growth potential lies.

→ Credit must be made available to women and to the rural poor for consumption-smoothing and for sustainable income-generating activities.
Policy should be directed at developing a market-based financial system for rural finance, but because of market failures to support disadvantaged groups, a special-priority program may be needed to get credit to women, smallholders (with 10 acres or less), and the rural nonfarm sector (small-scale nonfarm activities such as livestock, fishery, forestry, and rangelands, and industrial microenterprises). Subsidizing interest rates is not the way to help marginal borrowers. Instead, they can be helped through fixed-cost subsidies and self-selected targeting. Nongovernmental organizations (NGOs) should be encouraged to help, keeping in mind such NGO success stories as the Grameen Bank in Bangladesh and Badan Kredit Kecaratan (BKK) in Indonesia. Commercial banks should be encouraged to lend on other bases than the mortgage and passbook system. They could experiment with wholesaling credit through input suppliers, marketing agents, and NGOs. They should consider lending for such downstream agricultural activities as agroprocessing. The biggest challenge facing rural finance is the restructuring of cooperatives. The next important step for the Agricultural Development Bank of Pakistan would be a portfolio audit - the results of which will determine next steps, such as major restructuring of its portfolio and changing its ownership. To improve rural financing, the system of property rights, title, and default enforcement must also be strengthened, among other reforms. This paper - a product of the Agricultural and Natural Resources Division, South Asia, Country Department I - is part of a larger effort in the region to analyze major issues of agricultural growth and rural development in Pakistan and working with the government in developing a strategy to address those issues.

Quinones, B.R. (1992). "Group Lending Approach to Rural Finance in Asian Countries". APRACA (Asia-Pacific Rural and Agricultural Credit Association).

Abstract: A compilation of sixteen papers presented during the Chief Executives Conference on Linking Banks and Self Help Groups held in Kunming, China on October 13-18, 1990. The papers present experiences on group lending schemes in Asia Pacific, notably Bangladesh, China, India, Indonesia, Iran, Nepal, Philippines, Sri Lanka and Thailand. An article which identifies potential areas of difficulties when banking with self help groups (by R.A.J. Roberts and R.T. Gross) and another which describes the appropriate financial systems which support microenterprise development (by E. Kropp) are also included in the publication.

Reed, L. & Reiling, P. (1996). "The role of NGOs [non-governmental organizations] in rural financial intermediation in Ghana". Washington, DC: USAID.

Riedinger, J.M. (1994). "Innovation in Rural Finance: Indonesia's Badan Kredit Kecamatan Program". *World Development* 22, no. 3: 301-13.

Abstract: Donor agencies and governments are committing increasing resources to micro-enterprise credit programmes, much as the earlier funded rural credit. Yet few programmes embody the lessons from this earlier experience. Central Java's Badan Kredit Kecamatan (BKK) programme shows considerable promise in providing the access, convenience, and flexibility desired by poor borrowers while assuring the financial viability of the credit institution by minimizing administrative costs and imposing interest rates sufficient to cover costs and prevent capital erosion. Recent progress has also been made in mobilizing voluntary savings. Strong political support from the government has been crucial to the programme's success. The BKK was established in 1972 to provide fast, cheap and productive credit to the rural poor to finance activities that would complement and supplement their agricultural endeavours. The mandate of the BKK included a number of unique features, such as the level of access, gender neutrality and reduced incentives for 'rent-seeking' behaviour. The paper looks at some of the problems with the BKK programme, particularly the low interest seasonal loans, urban bank failures, delayed borrower repayments, insufficient village outreach and the risk of a reduction in participation by women. The model may not be transferable because of the conditions under which the BKK was established, as a direct response to political strife.

Robinson, M.S. (1992). "Rural Financial Intermediation: Lesson from Indonesia". Unpublished discussion paper. Harvard Institute for Development, Cambridge MA.

Ruben, R. & Clercx, L. (2003). "Rural Finance, Poverty Alleviation, and Sustainable Land Use: The Role of Credit for the Adoption of Agroforestry Systems in Occidental Honduras". *Journal of Microfinance*, Vol. 5 No.2.

Abstract: This paper analyzes the relationship between financial services provided by different agents, the adoption of agroforestry systems, and the implications for food security and sustainable soil management. Attention is focussed on the role of rural finance in reducing risk and stabilizing household income and yields. We conclude that credit provision performs critical functions for reinforcing the resilience of rural livelihoods in lessfavored areas. Rural development programs in the Occidental region of Honduras have been rather reluctant to provide rural financial services. Unfavorable agroclimatic conditions and the scarcity of infrastructure lead to extreme poverty. The local economy is fairly dynamic due to the availability of nonfarm income sources and crossborder trade. Within the framework of the FAO Lempira-Sur program, provision of rural credit and savings services created the conditions for adopting the Quezungual agroforestry system. This innovation contributes to higher and more stable cereal yields and reduced labor demands in agriculture. Access to rural finance thus reinforces food security and enables income diversification as a precondition for subsequent in-depth investments.

Sacay, O.J., & Randhawa, B.K. (1995). "Design Issues in Rural Finance". *WB Discussion Paper,* no. 293. Washington, DC: World Bank.

Abstract: The World Bank's policies as embedded in Operational Directive 8.30 have shifted from the fund transfer objectives of traditional agricultural credit projects to those of building viable financial institutions which operate within the purview of the rural financial market. However, this has presented a significant challenge and has had a negative impact on the volume of agricultural credit lending. The study was inspired by the need to learn how to design and implement realistic rural finance projects consistent with these policies. This study analyses all of the World Bank's on-going rural finance projects to arrive at best practices in project design, particularly with reference to the provisions of Operational Directive 8.30. Design features on on-going rural finance projects were compared to pinpoint best practices. In addition, design issues were identified and conclusions reached on these issues. On the basis of these conclusions, guidelines have been proposed to assist Bank staff in designing sound rural finance projects.

Safavian, M.; Breitschopf, B.; Nagarajan, G. & Meyer, R.L. (1998). Rural Finance for the Private Farm Sector in Romania: Obstacles and Opportunities. *Economics and Sociology Occasional Paper* 2514 ed. Columbis, Ohio: Rural Finance Program - OSU.

Abstract: This paper describes the manner in which the rural financial market and the private farm sector operate and interact. The state of the financial market, current lending conditions, and obstacles to credit flows on the supply and demand sides of the market are reviewed. We argue that there exists a preponderance of evidence which supports the notion that the limited number of observed credit transactions in the formal sector may be explained by restrictive factors on the demand side of the market. Thus, we challenge the conventional wisdom that Romanian farmers are credit rationed by lenders, and suggest that the limited frequency of credit transactions may be the result of economically rational decision making on the part of the farm households.

Sanderatne, N. (2002). "Leading Isuues in Rural Finance". University of Peradeniya. Sri Lanka.

Abstract: Rural and agricultural finance has re-emerged as a development topic of great interest for many funding agencies and policy makers. Unfortunately, recent proposals for changing policy and creating new agricultural development banks suggest that the supporters have forgotten the key lessons learned from the dismal performance of most agricultural credit programs implemented in the 1960s to 1980s under the directed credit paradigm. This book once again reminds us of those lessons. Professor Sanderatne is a recognized rural finance authority in Asia with both academic and policy experience, and this book reflects a lifetime of research and analysis of the key issues. The book contains 13 chapters. Three chapters in the first section cover the functions, features, and evolution of rural financial markets. In two chapters in section two, the author straightforwardly tackles the contentious issues concerning the role of informal finance with empirical data presented for Sri Lanka. Section three discusses rural savings mobilization. Section four on institutional finance covers important topics related to institutional lending in rural areas. Five chapters deal with the evolution of institutional credit in Sri Lanka, the problem of loan recovery, interest rate policies, an analysis of the factors that explain small farmer loan defaults, and political economy issues that contribute to defaults. Taken together, these chapters provide abundant evidence of how the old paradigm of subsidized farm credit failed to develop sustainable

rural finance in the country despite successive programs, policies, institutions and guarantees. The last chapter ends on a more positive note by reviewing key aspects of outreach and sustainability of microfinance and identifies strengths and limitations of the new financial system paradigm. Readers of this book will be reminded about how this prominent figure in the field helped compile the evidence and arguments, pointing to the failures of the directed credit paradigm in Asia. His work contributed to the base of understanding used to design the more promising approaches used today in successful microfinance programs. This material needs to be read by everyone who suggests quick and easy solutions to the challenges of rural finance.

Satish, P. (2003). "Rediscovering Rural Finance by Retooling the Existing Institutions". BASIS - Broadening Access and Strengthening Input Market Systems.

Abstract: India is home to the largest concentration of farmers in the world and is also a country where agriculture accounts for a relatively high share of GDP at 24.7 percent. Furthermore, 56.70 percent of the workforce is still engaged in agriculture. Like the proverbial curate's egg, India's rural finance system is good in parts. The good part is that, unlike many developing countries, the country has a rural finance system that is extensive and well organized. There are thirty State Cooperative Banks and 369 District Central Cooperative Banks (DCCBs) with network of 13,635 branches, 92,219 Primary Agriculture Credit Societies and 196 Regional Rural Banks (RRBs) with a network of 14,358 branches. The mainstream Commercial Banks have 32,538 rural and 14,608 semi urban branches whose portfolio is predominantly in agriculture and allied sectors. In addition, there are twenty State Cooperative Agriculture Development Banks and 739 Primary Agriculture Development Banks, which are technically not banks, but do disburse credit for investment activities in agriculture through their network of 2001 branches. However, until the mid nineties, the entire rural finance system was characterized by a lack of operational freedom due to all pervasive governmental intervention as well as the control of all aspects of the functioning of the institutions by the Central Bank of the country, the Reserve Bank of India (RBI). From the mid-1950s to the mid 1970s, the main concern of the government was to increase food production, but during the mid 1970s the focus shifted to poverty alleviation through subsidized credit. The predominant aim of policy makers from the 1950s to 1980s was to extend the outreach of the rural finance system and to increase the level of credit flow to agriculture and to poverty alleviation programs. The issues relating to the development of a proper banking system or rural financial market involving, proper loan appraisal, recovery and recycling, resource mobilization, mobilization of savings and sustainability and viability of the operations were ignored or forgotten. The outcome of these policies was a rural finance system with a poor resource base, high transaction costs, low or negative margins, mounting bad debts and continuous losses. By 1994-95 India had reached a stage where the financial needs of the rural population could not be met without a complete overhaul of the existing system or the creation of an entirely new system.

Schmidt, R.H., & Kropp, B.W. (1987). "Rural Finance: Guiding Principles". Bonn, Germany: GTZ.

Abstract: The study shows how the German Agency for Technical Cooperation (GTZ), the German Foundation for International Development (DSE) and other German institutions for economic cooperation are in the process of reorienting their approaches and activities in accordance with the period of transition undergone by rural finance in developing countries over the last 10 years. Secondly, it offers an orientational framework which adopts, integrates, and makes these new developments accessible to all those persons who are working on the analysis, design and promotion of rural finance or are affected by it. After a general introduction, Chapter 2 discusses the concept of rural finance and the role of the rural financial system in rural development, the experience with promotion policy to date, and the goals and target groups of the promotion policy of the GFR. Chapter 3 outlines the conceptual model of a desirable and feasible rural financial system which benefits the poorer segments of the population. It is the conceptual model which serves as the basis for the economic cooperation measures offered by GTZ and DSE. The relevant parameters, financial activities and financial institutions are discussed in this context. Finally, Chapter 4 describes the promotion policy of GTZ. It shows under which conditions, with which goals and by which means GTZ can bring its experience to bear and implement its instruments for the promotion of rural finance in the interests of the target groups.

Schmidt, R.H. & Kropp, E. (eds.) (1987). "Rural Finance: Guiding Principles". Eschborn, Germany: BMZ, GTZ and DSE.

Schrieder, G.R. & Heidhues, F. (1995). "Rural financial markets and the food security of the poor the case of Cameroon". *Savings and Development* 1-2: 131-54.

Schrieder, G.R. & Heidhues, F. (1995). "Reaching the Poor through Financial Innovations". *Quarterly Journal of International Agriculture* 34, no. 2.

Abstract: The financial systems of developing countries are quite heterogeneous and have undergone substantial changes over the past two decades. The lessons learned from past formal financial market failures, the thriving of the informal market, the need to adapt to the general decline in foreign capital inflows, and the rapid changes in financial technology and banking praxis is leading most developing countries to reshape their financial market development approach. This paper discusses modifications in financial technology and banking praxis, referred to as financial innovations. Financial innovations are crucial in the economic development process. They can reduce the intermediaries' and the clients' transaction costs and as a result bring about widening, deepening and integration of financial markets. This process thereby accelerates economic growth by stimulating savings, investment and production. Despite the well perceived positive effects of financial innovations on economic development, the wide range of financial innovations that are anchored around different levels of the financial intermediation process (financial system, institution, processing, product) have neither been well defined nor classified in development economics. Nevertheless, there has been wide use of the term financial innovation. This paper attempts to clarify the innovation debate in development economics. It first defines and categorizes the diverse types of financial innovations and then discusses their impact on the rural financial markets' effectiveness to alleviate poverty.

Schrieder, G.R. & Sharma, M. (1999). "Impact of finance on poverty reduction and social capital formation a review and synthesis of empirical evidence". *Savings and Development* 23, no. 1: 67-93.

Schrieder, G.R. (2000). "Poverty, Rural Financial Institution Building and Gender Sensitive Demand Analysis in the North-West and West Province of Cameroon". *Savings and Development* 24, no. 1: 95-110.

Abstract: Research on rural finance has devoted little attention to household preferences regarding financial services. Yet, part of the success of financial institution building depends on the potential clients' acceptance of the services offered. Cameroon's financial market shows the dualistic structure of an informal and formal sector, typical for most developing countries. Research on informal financial markets revealed that particular traits exist that distinguish them from their formal counterparts. From the 1980s onwards, rural financial institution building started to adopt instruments of informal financial intermediaries to strengthen their performance. Despite this, many programmes failed. This paper argues that the adoption of financial instruments in the informal market ought to be complemented by a forward analysis of households' requirement profiles for financial services. Conjoint analysis provides a powerful method to (1) predict client preferences and demand for financial service profiles; and to (2) involve the target group already in the pre-marketing phase of the financial institution building process. This paper concisely presents econometric results of an innovative Conjoint analysis application in the context of a preference analysis in a developing rural economy. The analysis is based on 356 interviews conducted in 1992 in seven villages of Cameroon. It quantitatively identifies the demand for specific financial service profiles and formulates policies oriented towards rural financial market development. Particular stress is laid on demand aspects in financial intermediation that relate to food security, thus, emphasizing rural women's demand structure. Also, concepts from the New Institution Economics are integrated in the discussion to interpret the findings of the empirical demand analysis.

Schreiner, M. & Colombet, H.H. (2001). "From Urban to Rural: Lessons for Microfinance from Argentina". *Development Policy Review* 19 (3), 339–354.

Abstract: The recent success of microfinance for the urban self-employed contrasts with decades of failure on the part of public development banks for small farmers. This article describes the ways in which rural microfinance organisations have tried to adapt the lessons of urban microfinance to manage the risks and control the costs of the supply of financial services in rural areas. It then asks whether the lessons of urban microfinance are likely to apply in the poorest rural areas of Argentina. The article concludes that microfinance is unlikely to improve access to small loans and small deposits for many of the rural poor in Argentina; distances are too great,

farmers too specialised, and wages too high. Improved access depends not on targeting loans by government decree but on strengthening institutions that support financial markets.

Seibel, H.D. (1992). "The Making of a Market Economy: Monetary Reform, Economic Transformation and Rural Finance in Vietnam". Saarbruken, Germany and Fort Lauderdale, Florida: Verlag Breitenbach Publishers.

Seibel, H.D. (1998). "From Cheap Credit to Easy Money: How to Undermine Rural Finance and Development". The Netherlands: Mansholt Graduate School of Social Sciences (MGS).

Abstract: Critiques the idea of cheap and easy access to credit as a poverty alleviation strategy. Explains the context and evolution of this idea and specifies credit dependency as one of its effects. States reasons why subsidised and targeted credit negatively affected loan recovery, how the financial systems were repressed through rigid government regulation, and why the assumption of a single market rate of interest is a fallacy. Recommends strategies for financial infrastructure development in the field of micro-finance that emphasise local institutions, member-based or community based, including:

- Adapting formal financial institutions to the local environment
- Upgrading informal or semi-formal financial institutions
- Linking formal and informal financial institutions
- Creating new institutions, or infrastructural innovation

States that none of these strategies are universally applicable, or offer an optimal approach, but that their appropriateness depends on local circumstances and conditions, which first need to be carefully assessed. Ground rules for intervention are outlined including:

- Interventions can only depart from the state of the system as a whole at a given point in time, including the cultural, social and political set-up to which the intervention must be properly adjusted
- Acceptance of interventions depends on interactive rather than prescriptive approaches
- In complex interrelated systems, all interventions have unintended results so careful impact monitoring is necessary
- Interventions will at best lead to satisfactory, not optimal, results
- In evaluating result of interventions it is more important to envisage the overall process of change
- Interventions can only succeed with the market, not against the market
- The market, not governments or donors, decides its acceptance

Seibel, H.D. (2000). "Equity Participation in Financial Intermediaries: A New Donor Instrument in Rural Finance?" Cologne, Germany: University of Cologne.

Abstract: This paper discusses various parameters that would be taken into consideration for equity investments. IFAD, while introducing a new instrument for rural financing, would finance apex institutions. The arrangement provides necessary capital to the sector and strengthens the capital base of apex institutions. The author elaborates on the requirements for commercially operating financial apex institutions and other financial intermediaries. There is need for favorable political environment, regulatory framework and efficient banking system to make equity participation a viable alternative for transforming non-formal financial institutions into formal entities. The paper mentions the following points as areas of intervention for IFAD in the order of magnitude of engagement:

- Equity participation in financial intermediaries;
- Investment in existing or new funds;
- Agency line with development finance institution;
- Subsidiary agreement or trust deed with a development finance institution;
- Establishment of an investment fund.

Seibel, H.D. (2000). "Poverty Reduction and Rural Finance: From Unsustainable Programs to Sustainable Institutions with Growing Outreach to the Poor". Cologne, Germany: University of Cologne.

Abstract: This paper offers suggestions for making poverty reduction sustainable in the rural scenario. It also presents examples of unsustainable project interventions that have turned into sustainable institutions. The author offers the following suggestions for sustainable poverty reduction:

- It requires well-designed, long term development measures and a prudentially regulated institutional framework;

- It must build on individual self-help and institutional self-reliance;
- The growth of outreach to the poor is contingent upon the dynamic growth of self-reliant institutions;
- It requires political will and adequate policies;
- Rural and microfinance have a crucial role to play in it;
- Only viable institutions can continually increase their outreach to the poor.

The paper lists the following seven projects that have gradually become sustainable:

- An income-generating project for marginal farmers and fishermen in Indonesia;
- The support given by donors to institutional diversity in Guatemala;
- Rural Financial Services in Armenia, Albania and Macedonia;
- The formation of self-governed cooperatives in Nepal;
- The reform of Savings and Credit Cooperatives (SACCOs) in Tanzania;
- The Center for agricultural and Rural Development (CARD) in the Philippines;
- The reform of an agricultural development bank in Thailand;
- Bank Rakyat, Indonesia.

The paper concludes by stating that donors may contribute to sustainable poverty alleviation by strengthening associations of microfinance institutions (MFIs) as well as large-scale financial intermediaries.

Seibel, H.D. (2001). "Rural Finance for the Poor: From Unsustainable Projects to Sustainable Institutions". *IFAD Rural Finance Working Paper* No. 83285.

Abstract: The large majority of the poor and poorest are rural That has to be uppermost in our minds as we think about what microfinance means. For IFAD, the finance issue is crucial to the task of reducing rural poverty. We do not insist on any particular institutional model. The demand for financial services is very diverse even among the poor, and we believe that any sustainable response will have to be pluralistic. Some require access to more capital than local savings systems allow. I am thinking about those who face clear investment opportunities that will allow a sustainable improvement in food security and income. For this sort of effective demand to be met, it is essential that we foster linkages with upstream financial institutions with a much larger capital base. Support can take a wide variety of forms, from intense training of qualifying microfinance institutions, so they may become viable partners with the private sector, to taking equity stakes in private-sector institutions to increase their rural outreach. We have to keep in front of us how the rural poor make their livelihood. If we do that we can begin to chart the concrete means of reducing poverty – and understand the challenges that microfinance and microfinance institutions must confront.

Seibel, H.D.; Lubbock, A. & Dommel, H. (2002). "Women and Men in Rural Finance in the Syrian Arab Republic: State-Owned Banking vs. Self-Manged Microfinance". AEF University of Cologne.

Abstract: Document states that there is serious concern about social equality, equal opportunities and the effectiveness of financial institutions to provide service outreach. Examines:

- Access of men and women to rural finance under conditions of social equality and economic disparities;
- Client and institutional perspectives on transforming an unviable bank - Agricultural Cooperative Bank (ACB) - into a sustainable financial intermediary with outreach to low-income men and women;
- Men and women owners and users of Sanduq - a microfinance innovation in Syria.

It finds that the Sanduq is a financial institution of the people, which has demonstrated that:

- Poor men and women can save, invest small short-term loans profitably and repay their loans on time;
- The poor can manage their own financial institutions with prudence and provide appropriate financial services;
- A culturally appropriate way has been found of empowering women through joint ownership of the MFI, but separate appraisal of loan applications by the women themselves. As viable financial institutions, the sanadiq have expanded their outreach.

The paper finds that ACB:

- Might have an important role to play in the growth of rural finance;
- Is weak through its lack of autonomy resulting in governance problems and a mixed between profitable commercial operations, loss making operations and inverse interest rate structure.

IFAD proposes to provide credit funds through arrangements with ACB and to finance income-generating activities through sanduq, which could lead to linkages between the institutions and the wider financial environment.

Seibel, H.D. (2004). "What Matters in Rural and Micro Finance". University of Cologne.

Abstract: This paper is a brilliant résumé of ...well, what matters in rural and microfinance. It is full of wise advice for donors and policy-makers. Dieter Seibel starts by providing historical perspective, reminding readers about the two worlds of development finance - the old needs-driven approach and the new institution-building approach. He provides an excellent tabulated summary of how these two worlds differ in terms of a whole variety of factors, e.g. policy environment, legal framework, institutional focus, selection of clients, agricultural banks, rural banks, remote areas, sustainability and many more. He reviews the rural and micro finance market, noting that one might conclude from the CGAP Micro Banking Bulletin that there are relatively few viable MFIs in the world but also pointing out that when you take into account rural credit cooperatives in China, rural and village banks in Indonesia, rural banks and savings and credit cooperatives in the Philippines, community and rural banks in Nigeria and Ghana, and the vast numbers of banks, cooperatives and self help groups in India, the numbers don't look quite so small. Worldwide the number of informal financial institutions probably runs into the tens of millions.

Seibel, H.D. (2005). "Rural Finance Innovations: Topics and Case Studies". World Bank.

Abstract: Financial market liberalization, innovations in the area of risk management, and reductions in transaction and supervisory costs have had significant positive impacts on agricultural finance institutions. Building on these positive developments, this study will attempt to contribute ideas based on recent experiences with innovation from developing countries in order to spur more innovations in rural finance. This study focuses on four key areas where innovation could lead to greater access to agricultural finance: warehouse receipts and collateral securitization mechanisms; risk management products; supply chain finance; and technology. The paper describes the issues surrounding the themes and how innovative techniques can be used to overcome traditional barriers to providing financial services to agriculture by reducing either the risks associated with lending, the costs, or both. The diverse group of case studies and thematic discussions also underscore some key lessons regarding the role of government in its quest to lower costs and risk in the rural finance space.

Selvavinayagam, K. (1995). "Improving Rural Financial Markets For Developing Microenterprises". FAO Iinvestment Centre - Occassional Paper Series No. 2.

Abstract: There is virtual consensus on the need for expanding and strengthening microenterprises (MEs) in rural areas. This is in part due to the potential they offer for employment creation, poverty alleviation and a healthier economy in general, and in part due to recognition that the capacity of the agricultural sector to absorb the increasing number of rural people in more densely-populated countries and regions is very limited. One of the few alternatives to rural-urban migration (with all its attendant problems) is the promotion of MEs. The development of this sector is largely hindered by its limited access to formal credit which has been a persistent criticism of the financial system around the world (The World Bank, 1994). This limitation reflects rising concerns, both among policy makers and donors about the slow pace of rural financial market development. The last decade has seen the emergence of active financial and other assistance to MEs by both formal and informal financial institutions, aided by donor agencies including the World Bank, the Asian Development Bank, International Fund for Agricultural Development, Inter-American Development Bank and the United States Agency for International Development. Even with a more diverse and competitive financial sector and a stronger flow of saving and investment stimulated by current policies for monetary deregulation, special measures will still be needed to improve financial services to MEs. The problem is a common one; such enterprises are usually perceived as uncreditworthy borrowers because of their riskiness, weak capital positions, non-existent credit history and lack of collateral (Binks, 1979). The deepening of rural financial intermediation and a more diversified provision of financial services to support the economic activities of rural communities in a cost-effective and sustainable manner therefore becomes critical. Although several studies have been carried out in the past by the governments, donors and others, information on the functioning of the rural financial markets, particularly, of the informal financial institutions and schemes operated by NGOs, is still not widely known. The paper attempts a review of operational experiences with special focus on what does and what could work in developing rural financial markets. This review is mainly confined to experiences of microfinance institutions in Asian countries.

Senanayake, S.M.P. & Ho, D.P. (2001). "What Makes Formal Rural Financial Institutions Successful in Viet Nam ?" *Savings and Development*, Issue no. 4, 2001.

Abstract: This paper uses original data from a survey of 62 Formal Rural Financial Institutions in Vietnam in order to analyse factors contributing to the success of these institutions. The results obtained by using regression analysis confirm that there is a strong correlation between borrower outreach and mobilisation of savings and also between low default rate and use of incentive mechanisms to repay. A correlation also exists between the number of field level units of the institutions and the low default rate. The analysis leads to the conclusion that alternative policies should be implemented if the lending efficiency is to be improved.

Sharma, M. (2000). "The Scope for Policy Reforms in Rural Microfinance". IFPRI. Rural Financial Policies for Food Security of the Poor. *Policy Brief* No. 14.

Abstract: This policy brief considers the scope for policy action in seven areas: Regulation of microfinance institutions, provision of saving services, product innovation, organizational issues in microfinance, poverty impact of microfinance, agricultural finance, and subsidy and sustainability issues.

Sharma, M. & Zeller, M. (2000). "Rural Financial Services for Poverty Alleviation: The Role of Public Policy". IFPRI, Rural Financial Policies for Food Security of the Poor. *Policy Brief* No. 7.

Abstract: This brief begins from the premise that access to credit and savings functions has the potential to make the difference between poverty and an economically secure life. Yet at the same time it notes that in most developing countries, rural financial services remain inadequate and largely provided through informal mechanisms and markets. It suggests that as innovative and useful as the informal sector may be, it frequently runs up against severe constraints. For example, informal credit markets, by their very nature, are segmented. Financial intermediation in the form of a clearinghouse for borrowers and lenders does not take place to the fullest extent possible, resulting in credit rationing or extremely high interest rates. The brief argues, therefore, that overall, the task of delivering financial services to the rural poor cannot be left entirely to market forces. Successful financial outreach to the rural poor requires institutional innovations that reduce the risks and costs of lending small amounts of money. Whilst noting that there is no single institutional blueprint for success, the brief suggests that just as public policy should play a role in promoting technological innovations that generate social benefits, it should help promote institutional innovations that assist the disadvantaged or address intrinsic market failures. The brief further argues that some experiments in institutional innovations will succeed and some fail but public policy will need to support and evaluate this experimentation process and nurture those designs or institutions that hold promise of future success. Governments, donors, practitioners, and research institutions must work together closely to pinpoint the costs, benefits, and future potential of emerging financial institutions. In the long run, the brief concludes, the payoff to public investments in institutional innovations will lie in the transformation of currently nascent microfinance institutions into fully-fledged, financial intermediaries that offer savings and credit services to smallholders, tenant farmers, and rural entrepreneurs, thus alleviating policy. Links have also been provided below to a fuller study on this topic conducted by the same authors, "Rural Finance and Poverty Alleviation", which cites evidence derived from nine countries in Asia and Africa.

Sisodia, N. *et al.* (2005). "Rural Finance in Contemporary Times: Interface with Microfinance". *Vikalpa*, 30(2): 81 – 109.

Abstract: In India, when we talk about rural finance, the stereotype offered is that of a banking system that fails to reach out to the poorer clients and, when it does, fails to recover the money so disbursed. The counter-point offered is usually the magic wand of microfinance. This Colloquium was an interface between leading bankers and microfinance practitioners in India to examine where these two worlds meet and how they could learn from each other. The discussions were organized around three themes: a) the legacy of the banking system, b) the limitations of microfinance, and c) an assessment of the potential. On the issue of legacy, the message was clear that the intervention of the state in certain aspects has been undesirable. These areas were clearly identified as granting general pardon for loans, tinkering around with interest subsidies, and interfering with the commercial aspects of banking. The limitations of the microfinance institutions were in terms of their sustainability and their inability to draw commercial capital and grow rapidly. However, these limitations were partly seen as a consequence of regulatory apathy and support from the state both in terms of formulating and articulating a regulatory framework

and also in terms of the central bank being reluctant to supervise the efforts. These did not help in enhancing the legitimacy of microfinance institutions. The participants saw a great potential in the rural markets which were beyond agriculture. The emerging sectors were identified as construction, non-farm enterprise, handloom, clusters that involve garment making and quarrying, etc. According to them, there was scope for both the banks and the microfinance institutions to intervene. The following points emerged from the discussion:

- Rural finance has suffered from interventions from the state in the past. While some interventions have been positive, they have harmed the sector when compromises such as write-offs have been made.
- Microfinance has emerged as an important mechanism to reach out financial services to the poor. There are interesting lessons from this for the banks to adopt.
- There are problems for the microfinance institutions in the form of regulatory and supervisory apathy. This leads to financial exclusion of large segments of the poor.
- There is a huge market for financial services — both loans and savings.
- Innovations across the world indicate important breakthroughs in delivery of financial services. These can be implemented provided the regulatory impediments are removed.
- The issue of risk management has to be systematically addressed.
- The role of the state, wherever positive, has been effective and, therefore, this should be sharply defined to see how the state could contribute to this sector.
- The issue of interest rates continues to be vexatious and needs to be addressed urgently.

Skees, J. (2003). "Risk Management Challenges in Rural Financial Markets: Blending risk-management innovations with rural finance". paper presented at Paving the Way Forward for Rural Finance: An International Conference on Best Practices, sponsored by USAID and WOCCU, Washington, D.C., June 2-4, 2003.

Abstract: Rural finance is about managing risk. Lenders can effectively pool and aggregate risk held by a large number of borrowers if the risk they face is largely independent. A major advantage of microfinance entities and other forms of collective action has been the ability to pool risk. However, correlated risk can not be pooled. Small rural finance entities (RFEs) are simply not capable of pooling and managing correlated risk on their own. Agriculture remains a dominant activity in many rural economies of the poorest nations in the world. A large majority of the poorest households in the world are directly linked to agriculture in some fashion. Risks in agriculture are correlated. When one household suffers bad fortune it is likely that many are suffering. When agricultural commodity prices decline everyone faces a lower price. When there is a natural disaster that destroys either crops or livestock, many suffer. Insurance markets are sorely lacking in most developing and emerging economies, and rarely do local insurance markets emerge to address correlated risk problems. There a numerous challenges in developing financial markets to manage risk in developing countries. Many of these are reviewed in this paper. Nonetheless, there is hope. This paper builds upon that hope by reviewing innovations in global financial markets that provide unique opportunities for RFEs to manage correlated risk and expand their ability to help rural households. Two innovations offering the most hope are: 1) the use of global futures markets by intermediaries who can offer a form of price insurance; and 2) the use of index insurance contracts to shift natural disaster risk into the global markets. Recommendations are offered for blending these forms of index insurance and rural finance.

Srinivasan, R. & Sriram, M.S. (2005). "Rural Finance in Contemporary Times: Interface with Microfinance (in India)". Indian Institute of Management.

Abstract: In September, 2004 a colloquium was held at the Indian Institute of Management, Ahmedabad, which brought together leading bankers and microfinance practitioners to discuss the interface between rural finance and micro finance. When people talk of rural finance in India, the stereotype offered is that of a banking system that fails to reach out to the poorer clients and, when it does, fails to recover the money so disbursed. The counter-point offered is usually the magic wand of microfinance. Participants in this Colloquium set out to examine where these two worlds meet and how they could learn from each other. The discussions were organized around three themes: The legacy of the banking system, the limitations of microfinance, and An assessment of the potential. On the issue of legacy, the message was clear that the intervention of the state in certain aspects has been undesirable. These areas were clearly identified as granting general pardon for loans, tinkering around with interest subsidies, and interfering with the commercial aspects of banking. The limitations of the microfinance institutions were in terms of their sustainability and their inability to draw commercial capital and grow rapidly. However, these limitations were partly seen as a consequence of regulatory apathy and support from the state both in terms of formulating and articulating a regulatory framework and also in terms of the central bank being reluctant to supervise the efforts. These did not help in enhancing the legitimacy of microfinance institutions. This colloquium report is a fascinating example of policy

dialogue in which key actors set out their views on the selected topic and provide critical guidance for decision-makers. Some examples: "Most of us assume that the quality of life will automatically change if only we have money. Therefore, we attribute most of the ills of the rural areas to lack of access to credit. … It is a fallacy." "We need to find mechanisms of providing an opportunity for depositors and for protecting their interests. This can be done by having depositors involved in governance." "Commercial banks need to recognise the value of providing consumption credit – a single-minded focus on production credit may be self-defeating since incorporating consumption needs appears to reduce loan default." "It is important that institutional support for micro-livelihoods be in place for financial services to have value.""The century old rural cooperative credit system is in poor shape and carries a warning for those who do not wish to learn from history." This report contains much of interest not only for people in India but for all policy makers with an interest in the problems of and prospects for improving rural financial services. It is also an excellent example of the way in which policy dialogue can be conducted, in the interests of improving the policy framework to enable mainstream banks and microfinance institutions meet the challenging demand for financial services in rural areas.

Thillairajah, S. (1994). "Development of Rural Financial Markets in Sub-Saharan Africa". *World Bank Discussion Papers* 219 ed. Washington, DC: World Bank.

Abstract: The report is a regional overview drawn from several country case studies intended to stimulate further research and discussion in the countries of sub-Saharan Africa (SSA), the donor community and the World Bank itself. The study draws on the experience and lessons from several countries (mainly Benin, Ghana, Kenya, Madagascar, Malawi, Niger, Nigeria and Tanzania), but does not attempt to summarize all the findings in the country studies. The report attempts to synthesize the promising elements in rural finance operations reviewed in countries within and outside SSA, with the focus on savings mobilization, improving loan portfolio management, reducing transaction costs, etc. The experiences reviewed point to the relatively successful performance of the informal sector, particularly financial cooperatives, group finance and trade finance, and the promise it holds through possible greater integration with the formal financial system for the development of viable rural financial markets in SSA. Chapter 1 explains the emphasis placed on rural financial markets development, on financial intermediation, on the financial viability of lending institutions and sustainability of the financial systems, including the informal systems, serving rural households and enterprises. A summary description of the financial systems and rural financial services with special reference to SSA countries is provided in chapters 2 and 3. The importance of interest rates, transaction costs, and risk management is discussed in chapter 4. The role of governments and aid agencies is the theme of chapter 5. Lessons of experience, drawn from the country cases and special reviews as well as the most promising initiatives are summarized in chapter 6. The key issues identified in the course of study are recapped in chapter 7, and findings and recommendations are summarized in chapter 8.

Townsend, R.M. (1995). "Financial Systems in Northern Thai Villages". *Quarterly Journal of Economics* 11(4): 1011-1046.

Abstract: Field research attempted to measure the risky environments, the information structures, the institutions, and the risk-response mechanisms of ten villages in northern Thailand. Various key features are then modeled in an abstract but realistic way, either with a full-information risk-sharing model or an information-constrained version of the same model. Observations from some of the villages seem consistent with one or the other of these models, but in many of the villages one is left with risk-response variations across households which suggest that Pareto improvements are possible.

USAID. (2005). "A Fresh Look at Rural and Agricultural Finance". *RAFI Notes* (Rural and Agricultural Finance Initiative) Issue 1.

Abstract: RAFI (Rural & Agricultural Finance Initiative) Note #1 begins the series by discussing the benefits and challenges of two approaches in rural and agricultural finance: the financial sector approach and the value chain approach. The Note proposes a complementary approach that builds off the strengths of using both a financial sector lens and a value chain lens.

Van Empel, G.J.J.M. & Sluijs, J. (2001). "IFC Rural Finance Study: Analysis of strategies, approaches, best practices and workable solutions of the multilateral and bilateral donors". Rabo International Advisory Services BV.

Abstract: This study made an inventory and analysis of the strategies, approaches, best practices and workable solutions of the multilateral and bilateral donors. The projects examined were targeted to the private sector and had to show sustainability and have good outreach. Analysis of

the different projects came from personal interviews of different staff within the donors' organizations, previous work completed in the field of rural finance and different strategy papers.

Vogel, R.C. (1981). "Rural Financial Markets: Implications of Low Delinquency Rates". *American Journal of Agricultural Economics* 63, no.1: 58–65.

Abstract: In contrast to most developing countries, nonrepayment of agricultural loans has not been a problem for the Costa Rican banking system. Delinquency rates have in fact been lower for agricultural than nonagricultural loans and lowest on loans to small farmers. This good performance is due largely to efficient techniques developed for gathering information about potential borrowers and incentives for borrowers to repay promptly to maintain access to bank loans which carry interest rates substantially below equilibrium. The pattern of low delinquency rates reflects the structure of low interest rates which causes farmers, especially small farmers, to be rationed most severely.

Vogel, R.C. & Adams, D.W. (1997). "Old and New Paradigms in Development Finance". *Savings and Development* 22(4): 361-382.

Von Pischke, J.D.; Adams, D.W. & Donald, G. (eds.) (1983). "Rural Financial Markets in Developing Countries". Baltimore, Md.: The Johns Hopkins University Press.

Von Pischke, J.D. (2003). "The Evolution of Institutional Issues in Rural Finance Outreach, Risk Management, and Sustainability". Lead Theme Paper at Paving the Way Forward for Rural Finance: An International Conference on Best Practices, Washington, D.C., June 2-4, 2003.

Abstract: This paper provides an overview of the opportunities that have evolved in donor-funded rural finance. It presents the issue in institutional terms. The paper suggests the checking of institutional viability of rural finance organizations against the three elements represented by the microfinance triangle - financial sustainability, outreach to the poor, and impact. It further emphasizes on including transparency as a fourth element that is essential for risk management. The paper presents, in five parts:

- *The past*: reviews the costs of inappropriate technical efforts in a hostile political environment and provides cautionary measures,
- *The continuing*: studies institutions based on donor grants and confronts possible areas of weakness as well as the risk management challenges they may pose.
- *The recent*: discusses institutional changes in financial markets that facilitate the movement of the frontier of formal finance towards the poor. It also draws a hypothesis about how important institutions of microfinance might relate to the rural finance revival, and notes the rise of commercial financial service providers.
- *The open*: addresses future possibilities and outlines new institutional forms and responses that could help more poor people through rural finance.
- *The annex*: lists institutional features or attributes that may be helpful to donors in their searches for entities that would implement their interventions in rural finance.

Wenner, M. (2000). "Lessons Learned in Rural Finance at the Inter-American Development Bank". IADB - Inter-American Development Bank.

Abstract: This paper discusses the problems in rural finance markets in Latin America and the need for a conceptual framework, actions and policy reforms that are needed to develop the financial market
The author discusses:

- The financial depth, efficiency indicators and access to formal financial services (credit and deposit services) in various countries in the continent;
- The lack of other services such as insurance and commodity-linked services;
- The need for a conceptual framework for analysis to unify the consideration of risk, imperfect information and high transaction costs, which he identifies as being the main causes of problems;
- The strengths and weaknesses of formal intermediaries (banks and finance companies), informal intermediaries (supplier-traders, money lenders, etc.) and semi-formal intermediaries (NGOs, credit unions, village banks and cooperatives).

He recommends the following actions to promote a competitive, efficient and stable rural financial market:

- An improved policy and institutional environment conducive for rural intermediation;
- Better intermediary retail capacity – ways to improve operational efficiency in rural financial institutions and investment in new financial technologies;
- Introduction and diffusion of financial instruments other than credit.

The paper concludes with the argument that there is much to be done in improving rural financial intermediation in Latin America. There is a need to develop the legal, regulatory and information environment and to build stronger rural financial institutions.

Wenner, M. (2001). "Making rural finance work". *Microenterprise Development Review*, 3(2): 1-4.

Abstract: The paper states that there are problems of risk, imperfect information, and high transaction costs in rural finance. Concerted and sustained actions will be needed in policy, institutional, and product development. Governments and international development organisations should lay a sound foundation of policy and institutional reforms Identifies problems of rural finance and says that rural finance faces the same general set of challenges as urban finance

- how to cope with imperfect client information
- how to manage and mitigate risk
- how to minimize transaction costs

Paper acknowledges that for a number of reasons, these problems are significantly more severe in rural areas. There is a renewed interest in rural finance as institutions have managed to overcome or neutralise some of the difficult challenges characterizing rural markets and rural finance is getting a fresh look. Concludes that

- while much progress has been made in overall macroeconomic and financial market policies in the last decade, much work is needed in improving the legal, regulatory, and information environments and in building stronger rural finance retail institutions
- the laissez-faire notion of "getting prices right" is not enough; it must be complemented by the idea of "getting institutions and technologies right", particularly once basic financial and economic liberalisation has occurred

Wenner, M. & Proenza, F.J. & IABD. (2001). "Rural finance in Latin America and the Caribbean: challenges and opportunities".

Abstract: The paper sees that, despite substantial financial deregulation in larger financial systems, rural financial markets in Latin America are shallow, segmented, and inefficient. Reviews current situation and the causes of the problems observed in rural finance in Latin America and the Caribbean. Presents a conceptual framework that explains why these markets do not work well andwhy formal intermediaries find small-scale entrepreneurs unattractive clients. It highlights areas that show promising solutions to those problems and identifies the main actions and policy reforms that are required to resolve the problems identified. It says that the principal reasons for the observed market failure are:

- pervasive risks
- information asymmetries
- high transaction costs present in rural financial markets

It suggests that in order to improve the situation, yet avoid government failure, there should be policy reform, institutional capacity building and new product development. Discusses the role of donors and national governments and says their role is primarily to create a conducive environment and the role of the private intermediaries is to assume risks and to provide financial services. Concludes that

- the financial market and economic policy liberalisations that occurred in the late 1980s and early 1990s in Latin America and the Caribbean were necessary but not sufficient conditions for the deepening and improved functioning of rural financial markets.

Wenner, M. & Vives, A. (2001). "Rural Finance Strategy". IADB.

Abstract: The principal purpose of this strategy is to orient the operational staff of the Bank responsible for designing rural finance projects. In so doing, it complements and extends the financial markets strategy. The secondary purposes of the strategy are: to serve as a point of departure for discussions between the Bank and member governments on this topic; to help member governments design their own rural finance strategies; and to assist the Bank

management in understanding the issues and institutional implications of adopting and implementing the strategy. The objective of the Bank's rural finance strategy is to promote the provision of efficient, broadlybased, and sustainable rural financial services. In order to achieve this end, actions are being proposed in three areas: (1) creation of a favorable economic, legal, and financial regulatory environment; (2) creation of sustainable and efficient financial intermediaries dedicated to serving rural areas; and (3) promotion of new financial services, such as insurance, leasing and factoring, in those markets where the first two actions are well advanced. The document is not specifically focused on agricultural finance but recognizes agricultural production and marketing as the significant part of most rural economies in present-day Latin America and the Caribbean. The rural, nonfarm sector is an increasing by important part of the rural economy, representing a growing share of total rural income and employment. Accordingly, much of the document highlights issues such as the need to develop financial services other than short-term credit (namely medium- and long-term credit, deposits, insurance, leasing, and inventory credit) that will specifically enhance the productivity and expansion possibilities of nonfarm service, processing, and manufacturing enterprises.

Wenner, M.; Alvarado, J. & Galarza, F. (eds.) (2003). "Promising Practices in Rural Finance: Experiences from Latin America and the Caribbean." Academia de Centroamerica, Centro Peruano de Estudios Sociales. Lima, Peru: Inter-American Development Bank.

Wenner, M. (2004). "Issue Brief on Rural Finance". SEEP Network, Handout during Innovations in Rural Finance Training.

Abstract: In developing countries, access to rural financial services (credit, deposits, transfers, insurance) has been problematic for decades. From approximately 1950-90, state led supply-side interventions were the norm. In the 1990s, the paradigm shifted form one of directed, subsidized credit channeled through a state-owned agency to one of liberalized interest rates and private sector driven intermediation. Efforts were made to either reform or liquidate state-owned agricultural banks and other government credit programs. With a few exceptions, mostly in Asia, state-owned rural financial institutions are now a shadow of their former selves. In the vacuum created, however, few large-scale, robust, and commercially oriented, privately owned, rural financial institutions have emerged. Rather the vacuum has been partially filled with many small, non-regulated credit granting institutions and semi-formal arrangements that do not satisfy all the demand for financial services. Many of the current rural intermediaries are not sustainable and offer only a limited set of financial products. The reasons why rural financial markets do not function well are well documented—low effective demand due to high incidence of poverty and low rates of return for most rural productive activities; severe asymmetric information problems; high transaction costs due to poor communications infrastructure and spatial dispersion of clients; high levels of unmitigated risk stemming from lack of insurance products, weak contract enforcement, and inadequate regulatory frameworks; and lastly, inappropriate service delivery technologies. To date, policy makers have not found the will or the resources to systematically eliminate the aforementioned obstacles that make the construction of deep, competitive, and efficient rural financial markets exceedingly difficult. From practical perspective a number of gaps exists that hinder the development of better functioning rural financial markets. Namely, accurate and reliable information is lacking, not so much on what to do but on how to do it in a cost effective manner.

World Bank. (1996). "Bangladesh-Rural Finance Agriculture and Natural Resources Division. Report No. 15484-BD". Washington DC: World Bank.

Abstract: The objective of the study was to identify specific actions that would reduce existing and potential financial sector constraints to agricultural and rural development. The aim would be to develop, over time, an efficient and sustainable system of rural financial intermediation. The 'system' is visualized as an integrated whole comprising of formal, semi-formal and informal sectors, which exploits the comparative advantages of different intermediaries in cost-effectively delivering financial services to rural areas. Particular emphasis is paid to identify practical and cost-effective mechanisms of expanding services to sections of the population who currently have little or no access to such services, especially the small and marginal farmers and entrepreneurs including w omen.

World Bank. (1997). "Kyrgyz Republic: Rural Finance Project, Staff Appraisal Report". Washington DC: World Bank.

World Bank, (1998). "A framework for World Bank Group support for development of micro, small enterprise and rural finance in Sub-Saharan Africa".

Abstract: The framework presented in this report explores how the resources of the Bank Group as a whole can actively help Sub-Saharan Africa to foster private sector growth, strengthen the institutional underpinnings for product and financial markets, and facilitate the entrepreneurial eforts of the poor to earn sustainable livelihoods. The Bank's strategy is to increase access to financial services by small enterprises and low-income households by addressing three principal areas:
Fundamental issues - the policy, legal, and regulatory frameworks that allow innovative financial institutions and instruments to develop; institution building - exposure to and training in best practices that banks and microfinance institutions need to expand their outreach and develop sustainable operations, along with performance-based support for capacity building; and innovative approaches - leasing, lending, and other products that the Bank can use to increase access to financial services. While common principles apply to developing financial systems that serve the majority of African populations and businesses that lack access to banking services, this strategy differentiates between the financial and development needs of microenterprises, small and medium-scale enterprises, and rural households.

World Bank. (1998). "India: Draft Rural Finance Report". South Asia Region. Washington DC: World Bank.

World Bank & IFAD, (2000). "Ghana – Rural Financial Services Project". Washington DC & Rome..

World Bank. (2003). "Rural Finance Services: Implementing the Bank's Strategy to Reach the Rural Poor". Washington, DC: World Bank.

World Bank. (2004). "Colombia - Rural finance - Access Issues, Challenges and Opportunities". Vol. 1 of 1.

Abstract: The history of rural finance in Colombia is characterized by a system which channels benefits to limited numbers of beneficiaries, at the expense of the economy as a whole. This paper finds that access to financial services in rural Colombia is limited and segmented, and traces this to:

- Inadequate services;
- Lack of innovation in financial intermediation in rural areas;
- Outdated model of public intervention in agricultural credit.

The paper recommends reforms to exploit the existing private (including cooperative) and public institutional base, and calls for:

- Re-directing public interventions;
- Substantially expanding institutional outreach;
- Facilitating high quality financial services in rural areas.

In the past powerful agricultural lobbies, such as coffee, livestock etc., have led to sector-biased legislation in Colombia. Hence the paper also calls for a review of the policy environment in the country:

- Substantially revising the usury law;
- Reforming the legal and judicial framework;
- Using moveable property as collateral.

World Bank. (2005). "Rural Finance Innovations: Topics and Case Studies".

Abstract: his study of innovations in agricultural finance seeks to educate policy makers, task managers, and practitioners by highlighting four key areas where innovation could lead to greater access to agricultural finance: Warehouse receipts and collateral securitization measures; risk management products; supply chain finance; and technology. The paper explores these themes by giving examples from around the world where these strategies are being applied. Because many of these case studies are in the nascent stages, a full analysis of their "success" cannot be made at this point in time. The paper attempts to address the outcomes to date, and where the case studies are sufficiently advanced, give an indication of their results. The paper describes the issues surrounding the themes and how innovative techniques can be used to overcome traditional barriers to providing financial services to agriculture by reducing either the risks associated with lending, the costs, or both. The diverse group of case studies and thematic discussions also

underscore some key lessons regarding the role of government in its quest to lower costs and risk in the rural finance space. This paper makes considerable use of tables to summarize and make the information easy to assimilate. The appendices, for example, have a useful overview of physical and financial price risk management instruments and enabling technologies. The blend of theory and practical examples is also extremely useful to those who are less familiar with any of the four key themes that the paper addresses.

World Bank. (2005). "Meeting Development Challenges: Renewed Approaches to Rural Finance". Agriculture and Rural Development Department. WB Approach Paper.

Abstract: The key purpose of this rural finance approach paper is to provide practical guidance to World Bank staff that design and implement rural finance projects. It aims to assist staff to knowledgably choose appropriate design as well as to enable them to provide advice and guidance to their counterparts in partner countries. The primary target of the paper is task team leaders who are non-financial sector specialists working on rural development, irrigation and other programs and projects where access to finance is an issue. This paper largely focuses around the financial institution level of rural finance sector development and aims to create awareness of the complexities of rural finance and its relevance for rural development, and to explain the principal methods and solutions that have been successful. In doing so, the paper begins by providing an overview of the main issues restricting rural finance on the three levels of policy, enabling environment and institutional capacity. It also discusses the issues of appropriate subsidies and the use of grants versus credit. The meat of the paper then provides an analysis of the delivery channels and models for supporting rural finance, including special purpose institutions and products, and an overview of several cross-cutting issues. The preceding sections are illustrated throughout with useful case studies from a broad range of counties. In the concluding section the paper pulls this discussion together and sets out a practical approach to the formulation of a country-specific rural finance strategy. The practical strategy formulation developed is broken down into the following sections:

1. Information on the key elements of the policy context, enabling environment, and financial institutions are collected and analyzed, along with information on the characteristics and structure of the real sector
2. Findings from step one are then coupled with an analysis of the demand for financial services in the proposed project area
3. Conclusion of the analysis with the identification and prioritization of intervention options

This three-step focus is intended to provide a structure that will guide task-managers and help to ensure that all important elements in the project design process are considered.

Wynne-Williams, J. & Coleman, B. (2006). "Rural Finance in the Lao People's Democratic Republic: Demand, Supply, and Sustainability". ADB.

Abstract: This study is based on a national survey of nearly 1,200 rural households, as well as all commercial banks and known microfinance initiatives in 2004, and provides a comprehensive overview of rural finance in the Lao PDR. The study finds that the formal sector (banks) and semiformal sector (microfinance initiatives) are not meeting the demand for financial services of the vast majority of rural households in the Lao PDR. However, the study notes that the Government's new market-oriented policy has the potential to have a significant positive impact on sector development. Further the key recommendations of the study include the following:

- Carrying out concrete actions to operationalize the new market-oriented policy;
- Phasing out directed lending from the banking sector;
- Supporting commercial microfinance initiatives through improvements in the policy, legal, and regulatory environment;
- Attracting foreign investment in the microfinance sector;
- Ensuring that private microfinance initiatives follow good practices and focus on sustainability from the outset;
- Holding regular stakeholder meetings to provide feedback to the authorities and propose new solutions to further develop the rural finance sector.

Yadav, S.; Otsuka, K. & David, C.C. (1992). "Segmentation in Rural Financial Markets: The Case of Nepal". *World Development* 20(3): 423-436.

Abstract: Based on a farm household survey in Nepal, this study found that farm size and irrigation are major determinants of borrowing from formal institutions, whereas family size is the most decisive factor in borrowing from informal sources. Formal sector borrowing per hectare of cultivated area, however, initially increases and then decreases with farm size. Our analysis indicates that while very small farmers tend to be excluded from the formal financial market because of a lack of collateral, very large farmers choose to borrow less from that source because of lower production efficiency.

Yaron, J. (1992). "Rural Finance in Developing Countries: Agricultural Policies". World Bank.

Abstract: This paper highlights that:

- Agricultural credit systems justified by shortages of short- and long-term finance that have arrested agricultural growth, delaying/preventing adoption of new production technology and intensive nonlabor inputs;
- Commercial lending institutions focus on large-scale farmers and ignore small-scale farmers because of transaction costs, collateral and risk;
- Shortage of formal credit markets has been accompanied by the persistence of informal credit institutions, which disburse funds rapidly, and the transaction costs for borrowers are low;
- Specialized agricultural credit institutions have suffered from design deficiencies and cannot function as true financial intermediaries that mobilize deposits to make loans.

The solutions include:

- Lending groups and credit cooperatives could reduce both transaction costs and the risks involved in lending to small farmers.
- State or donor support should focus on institution building and development for viable rural financial institutions.

Yaron, J. (1992). "Successful Rural Finance Institutions". *World Bank Discussion Paper* 150, Washington, D.C.

Yaron, J. (1994). "What Makes Rural Finance Institutions Successful?" *World Bank Research Observer*, 9 (1): 49-70.

Abstract: Providing affordable credit to the rural population has long been a prime component of development strategy. Governments and donors have sponsored and supported supply-led rural finance institutions both to improve growth and equity and to neutralize or mitigate urban-biased macroeconomic policies. But because of high risks, heavy transaction costs, and mounting loan losses, many of the programs have drained state resources to little purpose, reaching only a small part of the rural population and making little progress toward self-sustainability. There are, however, a few success stories. This article reviews the policies, modes of operation, incentives, and financial performance of four publicly sponsored programs in Asia that are widely perceived to be successful, to find out what economic, social, and institutional factors contributed to their success.

Yaron, J.; Benjamin, M. & Piprek, G.L. (1997). "Three Success Stories. Rural Finance Issues, Design and Best Practices". *Environmentally and Socially Sustainable Development Studies and Monographs*, No. 14: 117-37. Washington, D.C.: IBRD- World Bank.

Abstract: This chapter examines the management practices and modes of operation underlying the success of three rural financial institutions (RFI). The Bank for Agriculture and Agricultural Cooperatives (BAAC), Thailand, the Village Banks (Unit Desas BRI-UD) of Bank Rakyat Indonesia(BRI), and the Grameen Bank (GB) in Bangladesh, have all proven successful in achieving their core objectives of outreach and self-sustainability. Even though each of the three institutions differs in many ways, all have consistently practiced the same basic principles. And although BAAC, the BRI-UD, and the GB are not the only successful RFIs, there is substantial information accessible about their particular successes. Also, all three of these institutions are important to both the rural and national financial sectors. In examining the external factors that contributed to the success of these three RFIs, association may be brought to the complimentary macroeconomics conditions for which they functioned, still they each faced their own limitations and constraints in the implementation of new policies and operating methods. And although the

guiding principles of these institutions should be explored, careful measures must be taken in adapting these operations and consideration must be kept in regards to the context of each RFI's individual objective and clientele. A solution that is successful in one environment may not adapt well in another.

Yaron, J.; Benjamin, M. & Piprek, G.L. (1997). "Performance Criteria for Rural Financial Intermediation". *Rural Finance Issues, Design and Best Practices.* Washington, D.C.: IBRD- World Bank.

Abstract: Government-supported interventions in rural financial markets are often geared to impact development by expanding incomes and reducing poverty. Because it is necessary to ensure that goals will be achieved, interventions often involve the use of scarce public funds, without consideration of the costs to society. With the problems associated with the methodology with impact assessments, the proxies for development impact best evaluate the success of rural financial institutions. The success of the RFI can be evaluated by the extent of the outreach and self-sustainability. This paper examines the methodological problems associated with measuring the impact of rural credit projects, and the second part develops a framework to assess rural financial institutions.

Yaron, J.; Benjamin, M. & Piprek, G.L. (1997). "Rural Finance: Issues, Design and Best Practices". Washington DC: IBRD.

Abstract: Traditional and new approaches that governments have taken to rural finance are outlined. The report outlines the traditional approach to rural finance, which relied heavily on supply-led, state-owned agricultural credit institutions. Second, it highlights how wide-spread urban-biased policies impeded rural development and the promotion of rural financial markets. These policies included over-valued exchange rates, inflexible price controls on food produce, under-investment in rural infrastructure, and protection of domestic industries against import competition. The volume then illustrates the emerging new approach, which focuses on creating an environment to promote viable rural financial markets. Specifically, it focuses on creating a favourable policy environment in terms of the macroeconomy, agricultural and financial sectors, rural development, and the legal and regulatory framework. Moving from the macroeconomic and sectoral to the institutional level, the report offers two primary criteria, outreach and sustainability, as the bases for assessing the performance of rural financial institutions. It reviews and analyses the modes of operation and performance of three successful rural financial institutions: the Grameen Bank of Bangladesh, the Bank of Agriculture and Agricultural Cooperatives (BAAC) in Thailand, and the Bank Rakyat of Indonesia, Unit Desa (BRI-UD). The analysis illustrates the phenomenal growth and development that these institutions underwent over the past decade.

Yaron, J.; Benjamin, M. & Charitonenko, S. (1998). "Promoting Efficient Rural Financial Intermediation". *World Bank Research Obsserver*, 13: 147-170.

Abstract: Although governments have traditionally used subsidized credit programs to promote agricultural growth, this approach has generally failed to improve incomes and alleviate poverty in rural areas. It has also led to the mistaken belief that rural credit programs cannot be profitable. A new approach seeks to raise standards of living in rural areas by casting the government in a very d role—one of setting a favorable legal andpolicy environment for rural financial markets and addressing spec market failures cost effectively through well-designed and self-sustaining interventions. There is evidence that this approach can be highly successful. The Village Bank system of Bank Rakyat Indonesia has shown that financial services can be extended to millions of low-income rural clients without relying on subsidies. Indeed, the program has generated enormous profits for the bank by using simple, innovative, and largely replicable techniques.

Yaron, J. & Charitonenko, S. (2000). "Review of Bank Rural Finance Lending: Projects Approved FY94 – FY99". Washington, D.C.: World Bank Rural Development Department, Environmentally and Socially Sustainable Development Vice Presidency.

Zeller, M. (1995). "The Demand for Financial Services by Rural Households-Conceptual Framework and Empirical Findings". *Quarterly Journal of International Agriculture* 34, no. 2: 149-70.

Abstract: The paper aims to conceptualize the relationship between food security of the rural poor and access, or lack thereof, to financial services. The conceptual framework shows that households

based on the food security motive demand not only production credit, but also credit for consumption, savings, services and insurance. Using household data from a survey in Madagascar in 1992, a regression analysis is used to assess the effects of informal and formal credit on household income and consumption. While most of the formal loans are used for production, informal loans are frequently used for stabilization of consumption of food and other basic needs. The analysis shows significant positive effects of formal and informal loans on household income. Furthermore, informal loans significantly increase food consumption. It is concluded from this analysis that a broader array of rural financial services in developing countries could contribute to household food security.

Zeller, M. *et al.* (1996). "Rural Financial Policies For Food Security Of The Poor: Methodologies For a Multicountry Research Project". IFPRI *FCND Discussion Paper* No. 11.

Abstract: The objective of IFPRI's multicountry research program on rural financial policies for food security of the poor is to identify policies and institutional arrangements that help the poor integrate themselves into sustainable savings and credit systems such that they have an increased capacity to invest, bear risk, and smooth consumption. The focus of the research on policy and program design and their effects on household investment and consumption requires field data collection at the institutional and household level. This paper presents the underlying conceptual framework and various methodological approaches that have been reviewed and tested by the team at IFPRI and at collaborating institutions. Methodologies are presented for analysis at the institutional level, mainly focusing on the determinants of the formation of financial institutions and the analysis of effects of program design on institutional conduct and performance, and at the household level, thereby addressing determinants of access to and participation in financial markets and related effects on household welfare.

Zeller, M.; Schrieder, G.R.; Braun, J.V. & Heidhues, F. (1997). "Rural Finance for Food Security for the Poor: Implications for Research and Policy". IFPRI, *Food Policy Review* no. 04.

Abstract: Over the past three decades, rural financial policy in developing countries has often sought to improve access of the poor to credit through supply-oriented and subsidized credit institutions. The lessons learned from the widespread failure of state-run rural credit programs; the existence of thriving informal financial institutions providing credit, savings, and insurance services to the rural poor; and recent institutional innovations in microfinance have led the authors of this food policy review to consider the current role of public action in developing rural financial markets. In *Rural Finance for Food Security of the Poor: Implications for Research and Policy*, Food Policy Review 4, the authors take a fresh look at the role of rural financial policy in improving household food security and alleviating poverty. They develop a conceptual framework for relating access to financial services to food security and review empirical findings on household demand for financial services. They explore the potentials for linking informal lenders (relatives, credit groups, and moneylenders) with the formal financial systems (banks and cooperatives). Then they review the constraints to development of rural financial markets and ways to circumvent these constraints by examining innovative institutions, especially those that include participation by the poor themselves. Given seasonal agricultural income and a multitude of risks affecting income generation and consumption, access to financial services can contribute to improved income generation and consumption stabilization, thereby addressing the transitory and chronic food insecurity of many poor households in developing countries. The objectives of this review are to examine these potentials for improved food security, to derive implications for policy and institutional design, and to point out future avenues of research.

Zeller, M. & Sharma, M. (1998). "Rural Finance and Poverty Alleviation". Food Policy Report ed. Washington, DC: International Food Policy Research Institute.

Abstract: Presents information on the credit constraints that poor rural households face, derived from detailed rural household surveys conducted by IFPRI and its collaborators in nine countries of Asia and Africa (Bangladesh, Cameroon, China, Egypt, Ghana, Madagascar, Malawi, Nepal, and Pakistan). It uses this information to make the case for appropriate public intervention in strengthening rural financial markets and draws conclusions about areas where public resources may best be spent. It describes how informal, often indigenous institutional arrangements from savings clubs and lending networks to small retail shops and input dealers have succeeded in tailoring savings, credit, and insurance services to the poor. What enables informal institutions to provide sustainable financial services that banks and cooperatives in the formal sector institutions, with few exceptions, fail to provide? What are their strengths and weaknesses? What lessons can formal sector institutions draw from them? The report argues that the basic problem lies in

institutional arrangements, summarily transplanted from urban-based formal banking systems that have high transaction costs for lenders and borrowers alike. For the lender, these costs are incurred in screening large numbers of borrowers, monitoring and enforcing unsecured loan contracts, and managing tiny savings deposits. For the borrower, these costs take the form of time and other resources spent securing loans or making deposits, or in appropriate deposit or loan terms. Finally, the report looks at examples of recent institutional innovations that overcome some of these obstacles. It concludes that just as there is a role for the public sector to develop or support science based technologies, concerted public action is also needed to create an enabling environment in which institutional innovation is encouraged and given more room to spread. Governments, donors, banking practitioners, non governmental organizations, and research institutions must work together closely to pinpoint the costs, benefits, and future potential of emerging rural financial institutions.

Zeller, M. & Sharma, M. (1999). "The role of rural financial services for improving household food security. Concept, evidence, and policy implications". In *Overcoming world hunger: Challenges, opportunities, and strategies*, ed. M. Schulz and U. Kracht. Münster, Westfalen: Litt Verlag, pp. 531–54.

Zeller, M. & Sharma, M. (2000). "The demand for financial services by the rural poor". IFPRI.

Abstract: This policy brief summarizes lessons learned from IFPRI's multicountry program on rural finance and household food security. It points out that the notion that the poor are not creditworthy or cannot save has been laid to rest by the number of successful financial institutions that are providing savings, credit and insurance services to poor people in developing countries. To satisfy the demand for financial services by the poor through institutional and product innovation is not possible without a thorough appreciation of the issue of food insecurity. For example, in poor households the spheres of consumption, production and investment are inseparable in the sense that consumption and nutrition are important to a household's ability to earn income. Thus consumption loans should be regarded as working capital loans which maintain the production factor labor. Research by IFPRI on the demand for financial services points out that product innovation that responds to the food security motives of rural households can lead to higher outreach and higher impact on the poor. However, policy makers also need to recognize that while the poor are creditworthy and able to save and insure, financial institutions may still fail to cover their costs, even with improved products

Zeller, M. (2003). "Models of Rural Financial institutions". Lead Theme Paper at Paving the Way Forward for Rural Finance: An International Conference on Best Practices, Washington, D.C., June 2-4, 2003.

Abstract: This paper describes different models of rural finance institutions, and examines their comparative advantages as well as related challenges to and strategies for deepening rural financial systems. A greater emphasis is given to microfinance, however the paper addresses other institutions under a rural financial systems perspective as well. This topic requires a description of the different types of informal financial institutions and their strengths and weaknesses, and a discussion of the objectives of rural financial policy within the broader framework of development policy and goals, as presented in Chapter 2. Chapter 3 compares the main characteristics of rural as opposed to urban environments. This highlights the specific constraints and issues of rural and agricultural finance. Chapter 4 presents different models of rural financial institutions. In view of the specific characteristics of rural areas and of agriculture, and in view of multiple policy objectives, I seek to highlight the comparative advantages of different institutional models, and discuss challenges to and strategies for sustainably enhancing a rural population's access to financial services. This paper is not about which type of institution is better or worse for a particular target clientele in a particular operating environment. Instead, one of the major recommendations of this paper is that there is no blueprint for rural finance. Institutional diversity is desired to enhance competition, depth and breadth of outreach, and welfare impact. In Chapter 4 I further discuss in the transferability of existing microfinance best practices to rural and agricultural contexts. Chapter 5 summarizes the major conclusions. What follows next is a discussion of the motivations for a renewed interest in rural and agricultural finance.

Zhongfu, M. (2003). "The Evolution of the Rural Financial System and Policy". in Rural Financial Markets in China, Canberra, Australia: Asia Pacific Press, 2003, pp. 35-45.

■ *Rural credit:*

Adams, D.W. & Nehman, G.I. (1979). "Borrowing Costs and the Demand for Rural Credit". *Journal of Development Studies*, 152: 165-176.

ADB. (1997). "Technical Assistance to the People's Republic of China for the Reform of the Rural Credit Cooperative System". Manila: ADB. December.

ADB. (2005). "Impact Evaluation study of the Rural Credit Project in the Socialist republic of Vietnam".

Abstract: The Rural Credit Project (the Project) was financed by a loan of $50 million from the Asian Development Bank (ADB). The loan was approved in 1996 and implemented from 1997 to 2002. With goals to promote economic growth, diversify the rural economy, and reduce rural poverty, the Project aimed to improve household income, expand rural employment, and strengthen the rural financial system through the provision of long-term funds to participating financial institutions (PFIs), which included the AgriBank (AB)—a large state bank accounting for 92% of the formal financial market in rural Viet Nam—and people's credit funds (PCFs), which were then newly formed and privately owned by members. The Project is rated relevant. It was, and still is, consistent with the development strategies of the Government and the operational strategies of ADB at the project design and postevaluation stages. The project design correctly identified rural households' lack of access to formal credit as the key constraint, with the primary cause being the PFIs' shortage of long-term funds. Based on the problem diagnosis, the project interventions tackled the key constraint by providing long-term credit to PFIs to channel subloans to rural borrowers. Since AB already had an extensive retail network covering all rural areas, the project design used the existing financial infrastructure instead of creating new institutions. Furthermore, the design did not restrict the use of its credit line to a particular subsector or particular regions, but intended to cover all rural areas in the country. On the downside, however, the Project narrowly limited its subloans to those for "productive investment," denied borrowers' requests for loans for children's education and for emergencies, and thereby missed the opportunity to address these two primary causes of poverty and reversion to poverty status. The inclusion of two "add-on" components in the Project—lending to the poor and institutional strengthening—did not work due to a lack of client demand. The Project is rated highly effective. It provided the intended resources to AB and PCFs, and substantially exceeded its target of extending rural credit to 102,000 rural borrowers. Partly due to support from the Project, AB's clients increased from less than 3 million at appraisal to more than 9 million in 2004. As a result, it provided services to a large number of previously "unbanked" rural residents. The quality of AB's services was also improved, with fast processing, good repayment rates (above 95%), small amount of overdue loans (1.74% as of 2004), and flexibility in repayment scheduling. During the project period, Viet Nam experienced rapid economic growth and substantial reduction in rural poverty. While the achievements were the results of many factors, fieldwork found that rural credit played a key role in poor households' exit from poverty by enabling private investment in animal raising and thereby enhancing the opportunity for self-employment by the poor and near poor. AB and PCFs made a significant contribution to poverty reduction by making formal credit easily available to a large number of rural residents. The Project is rated less efficient, however. It was implemented in an economic environment in which optimal allocation of resources was precluded by government control on interest rates. While the Project, through its design and implementation, contributed to the removal of this policy distortion, the use of its resources was less than efficient during the implementation period. Furthermore, the project funds were re-lent to PFIs at interest rates below the cost of funds from other sources—both borrowing from commercial banks and deposits from clients. The low cost of the ADB funds stimulated high demand for them and resulted in equal distribution to all PFIs of scarce long-term funds that should have been used exclusively for financing medium- and long-term lending to end borrowers.

Ahmed, Z.U. (1989), "Effective Costs of Rural Loans in Bangladesh". *World Development*, Vol. 17, No.3, pp. 357-363.

Abstract: The paper compares transaction costs of borrowing from both formal and informal sources in rural Bangladesh and finds that transaction costs of loans from formal lenders are higher than those of loans from informal lenders. Transaction costs per taka of loan decrease with loan size, but much faster for formal than for informal loans. The effective costs of loans are calculated to show that for small loans, the effective costs of formal loans were higher than those of informal loans, while for large loans the formal loans were cheaper than informal loans. Thus large borrowers benefit from the subsidy in the formal credit market.

Alamgir, D. & Ali H. (1994). "Impact of PKSF Rural Credit Program on the Beneficiaries-Reflection from a study of some selected organizations". PKSF.

Abstract: It is a significant research work carried out in 1994 by Mr. Dewan Ali Haider Alamgir, the then Assistant General Manager of PKSF, who is now working in Grameen Shakti as General Manager. In this research work the overall scenario of microcredit operation in Bangladesh covering, both prospects and constraints has been highlighted.

ALIDE; FAO. (1996). "Collateral in Rural Loans".

Abstract: This paper was prepared by the Rural Finance Group of FAO in collaboration with ALIDE, following studies of the role and importance of collateral in agricultural and rural loans in ten Latin American countries. It was noted that collateral is vital for the growth of formal credit markets, particularly for smallholder farmers.Different types of conventional collateral, e.g., third party guarantee, mortgage, pledged assets, guarantee funds, are examined in terms of their legal and economic characteristics. The scope for non-conventional collateral is also explored, e.g., solidarity groups, blocked savings, endorsement, loan graduation, interlinked transactions. The report is aimed at the staff of development finance institutions.

Allavi, P.; Havan, C. & Amakumar, R.R. (2002). "Micro-Credit and Rural Poverty An Analysis of Empirical Evidence". *Economic and Political Weekly*.

Abstract: This paper reviews empirical evidence on NGO-led micro-credit programmes in several developing countries, and compares them with state-led poverty alleviation schemes in India.The study shows that micro-credit programmes have been able to bring about a marginal improvement in the beneficiaries' income. However, the beneficiaries have not gained much by way of technological improvements, given the emphasis on 'survival skill'. Also, in Bangladesh the practice of repayment of Grameen Bank loans by making fresh loans from moneylenders has resulted in the creation of 'debt cycles'.

Amin, R.; Becker, S. & Bayes, A. (1998). "NGO-Promoted Microcredit Programs and Women's Empowerment in Rural Bangladesh: Quantitative and Qualitative Evidence". *The Journal of Developing Areas* 32(2): 221-236.

Ammar, S. *et al.* (1993). "The Thai Rural Credit System and Elements of a Theory: Public Subsidies, Private Information, and Segmented Markets". In *The Economics of Rural Organization: Theory, Practice, and Policy*, edited by K. Hoff, Avishay Braverman, and Joseph E. Stiglitz. Oxford: Oxford University Press. p. 154-185.

Abstract: Thailand has sought to increase farmers' access to credit by government intervention. In 1966 it created a government agricultural bank to lend solely to farm households, and beginning in the late 1970s it required commerical banks to lend heavily in the rural sector, either directly or by making deposits in the agricultural bank. The result was an enormous expansion of credit in the rural sector. But because formal lenders were either unable or unwilling to solve the information problems involved in the broad range of rural credit transactions, the informal credit sector (which charged interest rates many times higher than the formal sector) continued to thrive. Using household surveys and surveys of moneylenders, this article provides a detailed analysis of the ways in which lenders in the informal sector have solved the information problems of providing credit. The authors argue that the informal sector in competitive, and that high interest rates reflect high information costs, not the scarcity of funds.

Anderson, J. (1990). "Does regulation improve small farmers' access to Brazilian rural credit?" *Journal of Development Economics*, Volume 33, Issue 1, July 1990, Pages 67-87.

Abstract: Brazilian policymakers attempted to counter the inherent tendency for concentration in subsidized rural credit programs by requiring banks to lend a specified volume to small farmers. Inferences about the regulation's success are drawn from farm-level, panel data from São Paulo in the early 1980s. Membership in the target group should have a positive effect in an 'access rule', relating farmers' characteristics to their probability of receiving credit. When allowing for time-invariant individual effects, possibly correlated with target group indicators, tests indicate that the

regulation had no effect. Subsidiary results cast doubt on the efficacy of a broader set of regulations.

Barkema, A.D. & Drabenstott, M. (2000). "Rural Credit Markets of the Future: Obstacles and Opportunities". *Agricultural Outlook Forum 2002.*Kansas City, USA: Center for the Study of Rural America.

Abstract: Rural America's challenges are both numerous and widely diverse. Many rural communities struggle to maintain their fundamental physical and social infrastructure including roads, utilities, and educational and health services. Another new and critical infrastructure challenge for many rural communities is connecting to the new digital economy. In many rural areas, paying for these important services will require new engines of growth, beyond the traditional locomotives of agriculture and energy. Regardless of how America responds to these challenges, access to capital via credit market will remain vitally important. The unevenness of the rural economy presents many communities with serious challenges in the period. Five challenges appear particularly important: closing the digital divide, growing new entrepreneurs, leveraging the new agriculture, sustaining the rural environment, and boosting human capital. Community banks will almost certainly remain dominant rural business lenders in the period ahead, especially given the new tools they received in the FSMA. And while technology will clearly change the banking business, most rural community banks will remain heavily tied to their communities through a legacy of business relationship. The simple relationship still holds: as go their communities, so go community banks.

Barua, B.K. & Dasgupta, S.K. (1996). "Rural credit delivery system for poverty alleviation", BARD, Comilla.

Bastiansen, J. & D'Exelle, B. (2002). "To Pay or Not to Pay: Local Institutional Difference and the Viability of Rural Credit in Nicaragua". *Journal of Microfinance.* Vol, 4; No.2.

Abstract: Innovative credit enterprises, aiming to expand the frontier of the rural credit market, can attain financial sustainability and broadened social outreach if they embed financial operations in local institutions, such as social networks and prevailing rules. Only in this way can the "rules of the game" imposed by the credit enterprise gain the local legitimacy that is necessary to reduce transaction costs sufficiently. The nature of preexisting local institutional environments, therefore, has a profound effect on the performance of credit enterprises. Our analysis of a rural microcredit program in two neighboring villages in Nicaragua indicates that existing patron-client structures, conditioned by Sandinista agrarian reform and the harshness of agro-ecological conditions, had a negative effect on the local acceptance of strict repayment rules. This analysis suggests that the evaluation of credit enterprise performance should take into account differences in local institutional environments and that efforts should be made to fine-tune standard financial technology to more adverse institutional conditions. If not, the microfinance industry may tend to exclude more difficult and poorer rural areas.

Basu, S. (1997). "Why Institutional Credit Agencies are Reluctant to Lend to the Rural Poor: A Theoretical Analysis of the Indian Rural Credit Market". *World Development* 25, no. 2: 267-80.

Abstract: This paper examines why institutional credit facilities remain unable to extend credit to the rural poor. Analysis indicates that poor peasants at best can offer an entitlement set as a mortgage, comprised only of future shares of their harvest, which itself is subject to risk. Consequently, lenders cannot advance loans without risking extensive loss of loanable funds. As landlords' income is subject to the same risk as that of peasants, they advance loans to ensure that their own income is not affected by the peasants' financial situation. An extension of institutional credit to peasants results only in subsidization of landlords.

Bell, C. (1988). "Credit Markets and Interlinked Transactions". in *Handbook for Development Economics* Vol I, H. Cherney and T. N. Srinivasan (eds.) Elsevier Science Publishers.

Berger, Marguerite. (1989), "Giving Women Credit: The Strengths and Limitations of Credit as a Tool for Alleviating Poverty" *World Development,* Volume 17, Number 7, pp. 1017-1032.

Besley, T. (1994). "How do market failures justify interventions in rural credit markets?" *World Bank Research Observer*, vol 9, no 1, January.

Abstract: Understanding of the economic causes and consequences of market failure in credit markets has progressed a great deal in recent years. This article draws on these developments to appraise the case for government intervention in rural financial markets in developing countries and to discover whether the theoretical findings can be used to identify directives for policy. Before debating the when and how of intervention, the article defines market failure, emphasizing the need to consider the full array of constraints that combine to make a market work imperfectly. The various reasons for market failure are discussed and set in the context in which credit markets function in developing countries. The article then looks at recurrent problems that may be cited as failures of the market justifying intervention. Among these problems are enforcement; imperfect information, especially adverse selection and moral hazard; the risk of bank runs; and the need for safeguards against the monopoly power of some lenders. The review concludes with a discussion of interventions, focusing on the learning process that must take place for financial markets to operate effectively.

Bhaduri, A. (1982). "The role of rural credit in agrarian reform with special reference to India". *Economic Bulletin for Asia and the Pacific*, 33, pages 104-11.

Bhatt, V.V. (1988). "On financial innovations and credit market evolution". *World Development*, Volume 16, Issue 2, February 1988, Pages 281-292.

Abstract: This paper examines the role of financial innovations in the economic development process. It discusses the place of policy intervention in the financial development of developing countries and, through a case study of an innovative bank, illustrates the nature and characteristics of the financial innovations necessary for financing small enterprises and mobilizing resources from low-and-middle-income groups. Such financial innovations are shown to reduce transaction costs and risk and as a result to bring about widening, deeping and intergration of capital markets. This process accelerates economic development through a favorable impact on savings, investment and output.

Bhattacharyya, S. (2005). "Interest rates, collateral and (de-)interlinkage: a micro-study of rural credit in West Bengal". *Cambridge Journal of Economics*, Vol. 29, Issue 3, pp. 439-462.

Abstract: This study, based on a primary field survey in rural West Bengal, analyses the terms and conditions of the differentiated structure of rural credit with the advent of capitalist agriculture within the interventionist state. The sample households are classified according to the economic classes of Patnaik as well as the standard acreage criterion. The possibility of interlinkage between credit and all other structures is remote. The average rate of interest is inversely related to ascending class status. There is a systematic association between rate of interest and the value of collateral on the one hand, and marketability of collateral and interest rates on the other.

Bhende, M.J. (1986). "Credit Markets in Rural South India". *Economic and Political Weekly*, Vol. XXI, Nos. 38 and 39, September 20-27, pp. A: 119-A: 124.

Binswanger, H.P. (1986). "Risk Aversion, Collateral Requirements, and the Markets for Credit and Insurance in Rural Areas", in P. Hazell, C. Pomareda and A. Valdes, (eds.), *Crop Insurance for Agricultural Development: Issues and Experience,* Baltimore and London, The Johns Hopkins University Press: 67-86.

Boucher, S. & Guirkinger, C. (2005). "Risk, Wealth and Sectoral Choice in Rural Credit Markets". Department of Agricultural and Resource Economics University of California, Davis.

Abstract: We develop a model, which suggests a re-evaluation of the role of the informal credit sector in developing countries. The informational advantage of informal lenders is portrayed as the ability to monitor borrowers. Monitoring reduces the incentive problem and allows for contracts with lower collateral. This enables informal lenders to serve two types of clients: 1) Those who cannot post the collateral required by the formal sector; and 2) Those who are able but do not want to post collateral. The model is thus consistent with the conventional view of the informal

sector as recipient of spillover demand (quantity rationed) from the formal sector. It also demonstrates an additional role of the informal sector - namely as provider of insurance as the lower collateral requirement implies greater consumption smoothing across states of nature.

Braverman, A. & Guasch, J.L. (1986), "Rural Credit markets and Institutions in Developing Countries: Lessons for Policy Analysis from Practice and Modern Theory". *World Development*, Vol. 14, No.10/11, pp. 1253-1267.

Abstract: We present the evidence of government intervention in rural credit markets of LDCs in the past three decades and confront it with modern theory. That evidence shows a significant failure of subsidized credit programs either to achieve an increase of agricultural output cost-effectively or to improve rural income distribution and alleviate poverty. In addition, many of the financial institutions that were created to channel rural credit have been shown to be inept and lacking accountability. Modern theory has focused mostly on two areas, credit rationing in competitive markets and interlinking of credit contracts with labor and land contracts. We outline the policy implications of these theories and find them insufficient to account for the empirical evidence. We contend that a more systematic and rigorous analysis of institutions and institutional environments is essential for understanding and implementing effective policy reforms of rural credit markets. We present suggestions for undertaking such an analysis.

Braverman, A. & Gausch, J.L. (1989). "Rural Credit in LDCs: Issues and Evidence", *Journal of Economic Development* (Korea), issue 14(June), pp. 7-34.

Braverman, A. & Guasch, J.L. (1993). "Administrative Failures in Rural Credit Programs". In *The Economics of Rural Organisations*, edited by Hoff, K., A. Bravermann and J. Stiglitz, Oxford University Press: New York

Brett, N. (2004). "Review of IFAD Experience with Rural Credit in Bangladesh", pp.71-90, in Ahmed, S. and M. A. Hakim (eds.) "*Attacking Poverty with Microcredit*", The University Press Limited, Dhaka.

Abstract: This paper describes IFAD's (the International Fund for Agricultural Development) policy and approach to rural credit, its experiences in Bangladesh and the impact of a series of recent projects. The paper outlines the performance of credit operations in these projects. Finally, some of the challenges for future projects are described.

Caselli, F. (1997). "Rural labor and credit markets". *Journal of Development Economics,* Volume 54, Issue 2, December 1997, Pages 235-260.

Abstract: This paper studies changes over time in the incidence of labor tying. The existing literature is successful in explaining the emergence of this institution, but contains the counterfactual implication that there should be an increasing trend in labor tying. However, previous contributions have so far implicitly assumed that there are no consumption-credit markets available to workers. I show that taking account of borrowing opportunities leads to new predictions about the evolution of permanent labor. In particular, declines in borrowing costs associated to efficiency gains in the financial sector lead to a fall in the fraction of rural workers who are tied. In addition, if consumption-credit markets are operating, a fall in the size of the rural population will cause, under certain conditions, a decline in the percentage of permanent workers. These predictions are consistent with the observed trends in developing countries. Hence, this paper complements previous theoretical work on labor tying: with its addition, the theory now explains the emergence, persistence and final demise of this institution.

Cheng, E. & Malcolm, L.R. (1995). "Provision of Institutional Credit and Economic Transition in Rural China". Working Paper. Chinese Economies Research Centre. Adelaide: University of Adelaide.

Cheng, E.; Findley, C. & Watson, A. (1997). "We are Not Financial Organizations: Financial Innovation without Regulation in China's Rural Credit Foundations". Working paper. Chinese Economies Research Centre. Adelaide: University of Adelaide.

Cheng, E. & Xu, Z. (2004). "Rates of Interest, Credit Supply and China's Rural Development". *Savings and Development*, Issue no. 2, 2004.

Abstract: By analyzing the data on the supply of rural credit, we find that official statistics have overstated the supply of institutional credit in rural China, as the supply of institutional credit as a proportion of rural deposits in China has actually plummeted after 1996. The decline in the supply of rural credit has impacted negatively on China's rural economic development, particularly on off-farm production undertaken by rural enterprises, the engine of China's rural economic growth since the economic reforms in the late 1970s and early 1980s. Using the findings from field investigations in China, we argue that the current official lending rate of interest is unsustainable and that state regulation of interest rates and consequential market distortions have contributed to the ever-growing numbers of non-performing loans and financial losses of rural financial institutions, and hence to the decline in the supply of rural credit. The paper concludes that the official restriction on the rates of interest should be removed and the borrowing costs to farmers and rural enterprises should be reduced. Moreover, the interest rate liberalization should be accompanied by macroeconomic stability and adequate prudential supervision and regulation of the banks.

Cheston, S. & Reed, L. "Measuring Transformation: Assessing and Improving the Impact of Microcredit". Washington, D.C.: Microcredit Summit Campaign, 1999.

Abstract: This paper explores impact monitoring from the practitioners' perspective. It examines how managers can use impact assessment and monitoring as essential tools for decision-making and organisational learning. It draws from the Christian Enterprise Trust of Zambia (CETZAM) which has worked closely with its primary donor, the British Department for International Development (DFID), to develop a system that is well integrated into its regular operations The paper posits that other practitioners can learn from CETZAM's experience consider how to use impact assessment and monitoring as an essential management tool in better serving clients, staying competitive and fulfilling their mission to reduce poverty. The paper challenges practitioners to take the lead and develop impact assessment and monitoring systems that use internal feedback loops to integrate field knowledge into management decision-making. It concludes that CETZAM's experience demonstrates that impact monitoring provides good information to support good decision-making.

Chowdhury, A.M.R.; Mahmood, M. & Abed, F.H. (1991). "Credit for the rural poor in Bangladesh". *Small Enterprise Development* 2(3) 4-13.

Abstract: As the rural population of Bangladesh increases, landlessness among people once dependent upon agriculture is a growing problem. The Bangladesh Rural Advancement Committee (BRAC) has been working with the rural poor since 1972, and in 1979 it began to provide credit via its 81 branches through the Rural Development Programme (RDP). Ten years later the success of the RDP in generating incomes and employment through small businesses and building up assets has been evaluated, and this article describes the results of the evaluation.

Conning, J. (2000), "Of Pirates and Moneylenders: Contracts and Competition in a Rural Credit Market in Chile". "Industrial Organization and the Food Processing Industry", Toulouse, France, June 22-23, 2000.

Abstract: Economic liberalization and an export boom brought increased competition and new intermediaries and contract forms to the market for rural finance in Chile. Monitored and tiedcredit from export and agro-industry contract farming firms became a dominant mode of finance. Existing theoretical interpretations suggest that interlinked contracts serve as collateral substitutes and hence should benefit small farmers. Yet most new interlinked finance in Chile was aimed at better-capitalized medium and large commercial farmers and existing, more traditional forms of tied credit for small farmers from informal trader-moneylenders actually became *less* common during this period. This apparent puzzle is explained using insights both from a theoretical model and field case study observations. The model highlights the interaction between the problem of ex-ante moral hazard in the use of borrowed funds and the problem of post-harvest costly state verification. I argue that informal trader-moneylenders were forced to reduce tied-credit to small farmers following liberalization because increased product market competition in certain crops exacerbated the problem of 'pirates sales'' or post-harvest opportunistic default. This only restricted the already narrow set of enforceable claims upon which interlinked and monitored credit contracts for collateral-poor borrowers could have been fashioned. The problem was avoided

in the emergent export sector because product markets are more concentrated and because legally enforceable crop liens were easier to establish with medium and larger farmers.

Copestake, J.; Bhalotra, S. & Johnson, S. (2001). "Assessing the impact of microcredit: A Zambian case study". *Journal of Development Studies* 37 No. 4: 81-100.

Abstract: Expectations are high, but evidence of the impact of microcredit remains in short supply. This article estimates the impact of an urban credit programme in Zambia on business performance and on a range of indicators of wellbeing. Borrowers who obtained a second loan experienced significantly higher average growth in business profits and household income. Inflexible group enforcement of loan obligations resulted in some borrowers, especially amongst those who had taken only one loan, being made worse off. Our methodological investigations suggest that the supply of rigorous impact studies can be increased by basing them on data collection that serves a wider range of purposes, including market research.

Copestake, J. (2002) "Inequality and the Polarizing Impact of Microcredit: Evidence from Zambia's Copperbelt". *Journal of International Development* 14: 743-755.

Abstract: While much research has addressed the impact of microcredit on poverty, less attention has been paid to inequality. This paper draws on research on the Zambian Copperbelt to show how impact on income distribution depends upon who obtains loans, who graduates to larger loans, who exits and group dynamics. Some initial levelling up of business income was found, but the more marked overall effect among borrowers was of income polarisation. To gain a full picture, more research is needed into the wider impact of the big gainers not only on their competitors, customers and employees, but also on political tolerance of inequality.

Datta, D. (2004). "Microcredit in Rural Bangladesh: Is It Reaching the Poorest?" *Journal of Microfinance*, Vol 6, No.1.

Abstract: During the last decade microcredit has exploded in Bangladesh, as well as in a large part of the third world. Empirical studies give strong evidence that microcredit has had positive effects on two vital areas of national development; namely, the alleviation of poverty and the empowerment of women. Despite these positive impacts, some critics question the efficacy of microcredit in reaching the extreme poor. Some argue that while microcredit has contributed positively to the well-being of the poor in general, it has failed to reach the poorest of the poor. This paper explores the reasons why microcredit programs rarely reach the poorest of the poor in rural Bangladesh. The reasons have been divided into five categories: (1) supply, (2) demand, (3) NGDOs' norms and social issues, (4) voluntary and involuntary dropouts, and (5) sustainable financial services. This paper also argues that microcredit alone is not necessarily the best way to help the poorest of the poor.

Diagne, A. (1998). "Impact of Access to Credit on Income and Food Security in Malawi". *IFPRI FCND Paper* No. 46.

Abstract: The paper departs from the standard practice that takes the estimated marginal effects of either the amount of credit received or membership in a credit program as measures of the impact of access to credit on household welfare. The marginal effects of the formal credit limit variable on household welfare, controlling for the credit limit from informal sources as well as the credit demanded from both sources, measure the marginal effects of access to formal credit. The main finding of the paper is that access to formal credit, by enabling households to reduce their borrowing from informal sources, has marginally beneficial effects on household annual income. However, these effects are very small and do not cause any significant difference between the per capita incomes, food security, and nutritional status of credit program members and noncurrent members. Moreover, the beneficial substitution effect reflects only the fact that reduced borrowing from informal sources makes informal loans play a lesser role in the negative impact that borrowing (from formal or informal sources) has on net crop incomes. The marginal effects on household farm and nonfarm incomes resulting from mere access to formal credit (without necessarily borrowing) are positive and quite sizable, but not statistically significant. Land scarcity and unfavorable terms of trade for the smallholders' farm products remain by far the factors that most constrain per capita household income growth in Malawi. The paper concludes that the necessary complementary resources and economic environment are not yet in place for access to formal credit to realize its full benefits for Malawi's rural population.

Diagne, A. (2000). "Design and Sustainability Issues of Rural Credit and Savings Programs: Findings from Malawi." Rural Financial Policies for Food Security of the Poor. *Policy Brief* No. 12.

Abstract: Joint liability group lending is currently the lending technology of choice of microfinance institutions because of the success of the Grameen Bank, which is using the technology to successfully lend to millions of poor Bangladeshi women. It is widely believed that the incentives for peer-selection, peermonitoring, and peer pressure resulting from the joint liability clause are responsible for the high repayment rates of the Grameen Bank and other similar microfinance institutions. The analysis and findings presented in this brief are the results of research undertaken by the International Food Policy Research Institute (IFPRI) and Bunda College of Agriculture on the practice and performance of joint liability group lending in Malawi. This research provides evidence on the extent to which peer selection, peer monitoring, and peer pressure are taking place in the credit groups affiliated to the Malawi Rural Finance Company (MRFC), the main microfinance institution in Malawi, and their impact on the joint liability on loan repayment. The empirical findings of the study contrast with the conventional wisdom and assumptions regarding the informational advantage of the joint liability and its implications for incentives for peer selection, peer monitoring, peer pressure, and loan repayment. In particular, the findings do not support the widely held presumption that joint liability is responsible for the high repayment rates of the successful group lending programs. In fact, the study finds a negative impact of the joint liability clause on the repayment outcomes of MRFC credit groups. The main findings and policy implications of the report are summarized below.

Diagne, A.; Zeller, M. & Sharma, M. (2000). "Empirical Measurements of Household's Access to Credit and Credit Constraints in Developing Countries: Methodological Issues and Evidence". *IFPRI, FCND Paper* no. 90.

Abstract: This paper presents a new methodological framework for measuring the level of household access to credit. It provides an analytical framework for examining the determinants of household credit limits and derives implications on information needed to examine the extent to which households are credit constrained. Empirical application of this method involves directly eliciting credit limit information in household surveys. Illustrations are provided using data from Bangladesh and Malawi.

Dreze, J.; Lanjouw, P. & Sharma, N. (1997). "Credit in Rural India: A Case Study". *The Development Economics Research Programme. Working paper*. London: London School of Economics.

Abstract: This paper presents a case study of credit transactions in Palanpur, a north Indian village. Drawing on detailed informtion from all borrowers and lenders in the village, we examine a number of issues related to the functioning of rural credit markets. These include the segmentation of the credit market, the achievements and failure of public lending institutions, the role of interest-free lending, the lending strategies of village moneylenders, social inequalities in access to credit, and the politics of rural credit, among others. An attempt is also made to relate these findings to those of other studies of credit in rural India.

Errunza, V.R. *et al.* (1981). "Rural credit: A micro synthesis of the Salvadorean Experience". *Journal of Development Economics*, Volume 8, Issue 2, April 1981, Pages 227-239.

Abstract: Discriminant analysis is applied to distinguish non-defaulted and defaulted loans in a practical context at the Agricultural and Cattle development bank in El Salvador. The results suggest that implementation of such a model will reduce administration costs and lower default rates.

Evans, D.B. (1986). "The credit market and rural development : A model of a Land Resettlement Scheme". *Journal of Development Economics*, Volume 24, Issue 2, December 1986, Pages 317-329.

Abstract: Many markets in developing countries are imperfect, and governments often attmept to eliminate imperfections. The policy implications of completing an incomplete market have not, however, been considered theoretically in the literature. This paper fills the gap, using a model of

the credit market in a land resettlement scheme. The major conclusion contradicts a common assumption of the credit rural literature, namely that freely available credit will achieve development objectives. Opening the credit market will contribute to broad objectives such as increasing the options available to settlers, but it will not necessarily achieve narrower objectives such as raising the output of a particular crop.

Feder, G. (1990). "The Credit Market in Rural China". Working Paper. Stanford: Stanford University.

Fleisig, H.W. & De la Peña, N. (1996). "Creating a Legal and Regulatory Framework to Promote Access to Rural Credit," Center for the Economic Analysis of Law, Washington, DC.

Gaiha, R. (2002). "Microcredit and the rural poor: a review of the Maharashtra rural credit project". *Journal of Microfinance* 3:2.

Abstract: An attempt is made to review Maharashtra Rural Credit Project (MRCP)-a microcredit scheme-by focusing on the process of implementation and implications of targeting, empowerment of women, and trade off between the coverage of the poorest and sustainability of this scheme. Attention is drawn to the deficiencies in the design and implementation of this scheme that limit the participation of the poorest and the benefits accruing them. Moreover, it is argued that there is a risk of overstating the trade-off between the coverage of the poorest and sustainability of the MRCP if these deficiencies are over-looked.

Gine, X. (2005). "Access to Capital in Rural Thailand: An Estimated Model of Formal versus Informal Credit". *World Bank Policy Research Working Paper* No. 3502.

Abstract: The aim of this paper is to understand the mechanism underlying access to credit. Gine focuses on two important aspects of rural credit markets in Thailand. First, moneylenders and other informal lenders coexist with formal lending institutions such as government or commercial banks, and more recently, micro-lending institutions. Second, potential borrowers presumably face sizable transaction costs obtaining external credit. The author develops and estimates a model based on limited enforcement and transaction costs that provides a unified view of those facts. The results show that the limited ability of banks to enforce contracts, more than transaction costs, is crucial in understanding the observed diversity of lenders.

Goetz, A. & Gupta, R. (1996). "Who takes the credit? Gender, power and control over loan use in rural credit programs in Bangladesh". *World Development,* 24, no. 1: 45-63.

Abstract: Explores special credit programmes in Bangladesh from a gender perspective. States that credit institutions have dramatically increased the credit available to poor rural women since the mid-1980s. However, though they are intended to contribute to women's empowerment, few evaluations of loan use investigate whether women actually control this credit. Considers whether women's continued high demand for loans and their manifest high propensity to repay is often taken as a proxy indicator for control and empowerment. This assumption is challenged by exploring variations in the degree to which women borrowers control their loans directly, using recent research findings which reveals that a significant proportion of women's loans are controlled by male relatives. Concludes that a preoccupation with "credit performance" (measured primarily in terms of high repayment rate) affects the incentives of fieldworkers dispensing and recovering credit and may out-weigh concerns to ensure that women develop meaningful control over their investment activities.

Hannan, M. (1996). "Rural Credit: An Assessment of Sources and Types Available in Bangladesh". Post-Harvest Fisheries Project, Bangladesh. Department for International Development.

Abstract: This paper is based on a study sponsored by DFID-Post Harvest Fisheries Project and carried out in 1996. Its objective was to identify and record the sources of credit for the rural poor in Bangladesh. Institutions that provide facilities other than credit have also been mentioned in the paper. The paper discusses the policies, programmes, performance, strengths and weaknesses of

four types of credit institutions in Bangladesh, i.e., banks, semi-Government organizations, Government organizations and Non-Government organizations.

Hashemi, S.M.; Schuler, S.S., & Riley, A.P. (1996). "Rural Credit Programs and Women's Empowerment in Bangladesh." *World Development* 24 No.4: 635-653.

Abstract: This paper presents findings from a study of Grameen Bank and the Bangladesh Rural Advancement Committee (BRAC), two programs that provide credit to poor rural women in Bangladesh. The programs were found to have significant effects on eight different dimensions of women's empowerment. The authors use a combination of sample survey and case study data to argue that the success of Grameen Bank, is particular, in empowering women is due both to its strong, central focus on credit, and its skillful use of rules and rituals to make the loan program function.

Hossain, M. (1998) "Credit for the Alleviation of Rural Poverty: The Grameen Bank in Bangladesh" Research Report No. 65, IFPRI, Washington D.C.

Jain, P.S. (1995), "Managing Credit for the Rural Poor: Lessons from the Grameen Bank". *World Development* Vol. 24, No. 1, January.

Abstract: This paper, based on a detailed study of the Grameen Bank in Bangladesh, suggests that the credit policies of the Bank do not constitute a sufficient explanation for the Bank's success, and that its acclaimed policy of replacing individual collateral with group guarantee is in fact not practiced. The paper presents an alternate explanation for the success of the Grameen Bank. In addition, it explains how the Grameen Bank has been able to overcome typical problems of implementing development programs by sustaining good performance from its large work force, and keeping to a minimum the tendency of a few target beneficiaries to corner program benefits and flout organizational norms for their personal benefit.

Jackelen, H.R. & Rhyne, E. (1991). "Towards a more market-oriented approach to credit and savings for the poor". *Small Enterprise Development*, Volume 2, Number 4, December 1991, pp. 4-20(17).

Abstract: Over the last decade a number of similar initiatives to provide credit and savings to the poor have been evolving which treat the poor as commercial clients rather than 'beneficiaries'. These initiatives are proving in a variety of cultural settings that the poor are able to save and to repay loans made at unsubsidized rates of interest. This article argues that credit and savings services for the poor are provided on a scale appropriate to the market (loans and savings services in the range of $15-$1,000) on a sustainable basis (high recoveries, high mobilization of savings on a break-even or profitable basis), then the clients themselves have proven that the service is justified. A distinctive and universal characteristic of these programmes, however, is that it may take some years of operation before these programmes achieve a critical mass of operations which allows them to be self-sustaining financial entities. This is where donor and government support can play a critical promotional role. Finally, this paper suggests that if the early indications of success throughout the world continue, with appropriate support from donors and governments, it is conceivable that hundreds of millions of clients could be benefiting from these services by the end of the decade.

Kabeer, N. (1998). "Credit where credit's due: can't micro-loans do more for India's poor?" UK: UK DFID.

Abstract: Have micro-credit programmes succeeded in meeting the needs of the poor? Are non-governmental organizations (NGOs) such as aid charities or private credit unions, better than governments at reducing poverty by bankrolling grassroots enterprise? Though poor people tend to trust official schemes less, both types of credit programme in India have shown a tendency to overlook poor people's needs by failing to recognize how complex and variable a handicap poverty can be, especially for women. Analyzing how these schemes are designed and delivered, with a spotlight on how they define or profile poverty can learn a wealth of policy lessons.

Kabeer, N. (2001). "Conflicts over Credit: Re-Evaluating the Empowerment Potential of Loans to Women in Rural Bangladesh". *World Development,* Vol. 29, No. 1, January.

Abstract: This paper explores the reasons why recent evaluations of the empowerment potential of credit programs for rural women in Bangladesh have arrived at very conflicting conclusions.

Although these evaluations use somewhat different methodologies and have been carried out at different points of time, the paper argues that the primary source of the conflict lies in the very different understandings of intrahousehold power relations which these studies draw on. It supports this argument through a comparative analysis with the findings of a participatory evaluation of a rather different credit program in Bangladesh in which the impact of loans was evaluated by women loanees themselves.

Kannapiran, C. (1994). "Sustainable Rural Credit for Agricultural Development in PNG". *Papua New Guinea Journal of Agriculture, Forestry and Fisheries* 37, no. 1: 104-16.

Abstract: Viable rural finance services ensure that credit is accessible at market determined rates. Market failures, agricultural sector failures, structural weakness of farming, inappropriate and high cost delivery system, and non-availability of infrastructure and support services can affect the sustainability of rural financial systems. Possible policy options to address these problems include regulation of credit operations in the short to medium term, low cost institutional credit, rural savings mobilization, insurance and credit guarantee schemes, land reforms, and improved infrastructure and support services.

Karmakar, K.G. (1999). "Rural Credit and Self-Help Groups: Micro-finance needs and concepts in India". London, England: Sage Publications.

Abstract: The book reviews the existing rural credit system in India, analyses its strengths and weaknesses, and prescribes various strategies and innovations which will enable the existing credit delivery system to emerge stronger and more viable. In the first section the book reviews the problems and prospects for rural credit in the context of its ascribed role in rural development; traces the evolution and growth of the rural credit delivery system; analyses the problems associated with credit recycling and overdues; and discusses the recommendations of various committees. In part II, the book discusses the microfinance needs of various groups including tribals, the rural non-farm sector, rural women and micro-finance entrepreneurs. Part III focuses on the concept and functions of self-help groups with special reference to the BAAC system in Thailand and the Grameen Bank in Bangladesh. It is argued that these initiatives need to be replicated far and wide in order to ensure that the rural poor do not remain marginalized forever. The concluding section outlines strategies for developing a sustainable rural credit delivery system in developing countries.

Khan, R.A.R. (1992). "Role of Credit in Enhancing Productivity and Employment in Rural Sector". *Journal of Rural Development and Administration* 23, no. 4: 103-10.

Abstract: The objectives of rural finance provided by banks are to bring about improvement in the economic status of the rural poor, a good rate of repayment to the banks and increasing saving potential for further growth. In developing countries, the majority of the population depend on agriculture and rural activities, and is comprised of a large number of small farmers. There are few borrowers from the rural areas who can make good use of credit and derive benefits from it, because of their low level of literacy, consumption needs, poor access to various services and lack of marketing skills. They are often tempted to sell their assets due to urgent needs. Some credit requirements are given. Pakistan's economy relies on agriculture for 45% of its exports. However, employment possibilities in the rural areas are decreasing, particularly with seasonality. Credit is one of the inputs that can be used to achieve the objectives of agricultural development, although credit alone cannot act as the prime mover. The factors which impede productivity growth, coupled with the problems of unemployment and low labour productivity in Pakistan, are discussed. Banks and financial institutions have to provide finance by mobilizing local resources to transfer savings for investment, or the public sector needs to mobilize agricultural surpluses by fiscal and commercial policies to invest in both the agricultural and non-agricultural sectors.

Khandker, S.R. (1998). "Fighting Poverty with Microcredit: Experience in Bangladesh". Washington, D.C.: The World Bank.

Kilkenny, M. & Jolly, R.W. (2006). "Are Rural Credit Markets Competitive? Is There Room for Competition in Rural Credit Markets?" *Staff General Research Papers* 12634, Iowa State University, Department of Economics.

Abstract: Talk to a country banker these days and the first subject will likely be competition—cherry picking by the Farm Credit System, sneaky tax-free credit unions, captive finance

companies hawking credit as a loss leader, investment houses siphoning off deposits, and so on. It's a long list and an old refrain. But it reveals an important question: How hot is the competition in rural credit markets? If it's not hot enough, we could expect credit rationing that limits economic growth. If it is too hot, there is a risk of declining credit quality and failure of financial institutions, which would also limit growth. Our interest in this topic is motivated, to some extent, by the recent bid by Rabobank into the Western Corn Belt. That event suggested that profit opportunities might exist in rural credit markets. But there is a broader issue as well. Rural credit markets are often fraught with inefficiencies. Remoteness—frequently in association with poorly defined property rights, rule of law, and poverty— can make it difficult to extend credit to rural households, farms, or firms. This problem is widespread in developing and transitional economies. And, historically, it has been a problem in rural areas in the United States—one that has been dealt with by creating unique rural lending institutions, public policies, and other interventions. In this paper we attempt to take the temperature of the competitive forces in rural credit markets in 12 midwestern states. A recent review by economists at the USDA's Economic Research Service pointed out that the average rate of return on rural-headquartered bank assets has been systematically higher than the return on urban bank assets. The review presented a number of indicators suggesting that rural credit markets may be less than perfectly competitive. Rural banks charge higher interest rates on loans, pay lower interest rates on deposits, and take fewer risks.

Kochar, A. (1997) "An empirical investigation of rationing constraints in rural credit markets in India". *Journal of Development Economics,* Volume 53, Issue 2, August 1997, Pages 339-371.

Abstract: The literature on rural credit markets has generally assumed that households are rationed in their access to subsidized 'formal' credit. The validity of this assumption depends on the level of effective demand for formal credit, in turn a function of the demand for credit and its availability from 'informal' sources. This paper estimates the demand and the sector-specific costs of credit, and hence the extent of formal sector rationing, through an analysis of household participation in both the formal and the informal credit sectors. The results show that the extent of rationing is considerably less than what is conventionally assumed.

Kumar, A. (2004). "Reducing Default Rate in Rural Credit: How Effective is Enhanced Supervision Approach for Formal Financial Institutions?"

Abstract: Formal financial institutions viz. commercial banks are gradually shifting their priorities from rural credit due to many practical reasons. High default rate and non-viability of rural credit, and increasing pressure on these formal financial institutions, to be more profitable, are few of the basic reasons. This paper focuses on one probable approach of default mitigation, that is, enhanced recovery effort, lack of which is one of the potential reasons for high default rate in rural sector. The paper models a specific type of interaction between the regulatory and the institution and concludes that in a regulated competitive environment the institutions will not tend to increase effort for higher recovery of delivered credit unless the regulatory intervenes and directs the institutions to do so. Even after such intervention from the regulatory, the institutions will find it optimal to invest less in additional recovery effort in rural sector if rate of return is higher or the default rate is lower in alternative sectors of investment.

Kumar, A. (2004). "Declining Trend in Rural Credit Delivery in India: A Trend Break Analysis of Univariate Series".

Abstract: The basic analysis in this paper is to test Perron (1989) hypothesis on trend break in univariate series. This paper applies Perron's procedure to the data on rural credit delivery in India and concludes that the hypothesis, which states that most of the macro-economic time series, initially exhibiting unit root process, become trend-stationary if one allow one time trend break in it at some suitable time, does not hold good with this series. Instead, the paper concludes that the unit root in the data persists even after allowing one time trend break, despite the fact that the trend break was found to be statistically significant.

Latif, M.A.; Khandker, S.R. & Khan, Z.H. (eds.), (1996). "Credit Program for the Poor: Household and Intrahousehold Impacts and Program Sustainability", Volume II, Bangladesh Institute of Development Studies.

Ling, Z.; Zhongyi, J. & Von Braun, J.V. (1996). "Credit for the Rural Poor in China". Project Report to Deutsche Gesellschaft für Technische Zusammenarbeit. Washington DC: International Food Policy Research Institute.

Ling, Z.; Zhongyi, J. & Von Braun, J. (1998). "Credit Systems in the Economic Transformation of China: Institutions, Outreach and Policy Options". Paper presented at the international workshop on Innovations in Rural Micro-Finance for the Rural Poor: Exchange of Knowledge and Implications for Policy, organized by the International Food Policy Research Institute, held in Accra, Ghana, 9–13 November.

Lipton, M. (1976). "Agricultural Finance and Rural Credit in Poor Countries". *World Development*, 4(7): 543-53.

Abstract: Examines effect of policy intervention in agricultural finance by comparing two approaches: the mainstream institutional approach, which has involved creating extra rural credit through new, subsidised institutions and neo-classicism approach, which is tougher and market-orientated. Concludes that the latter may offer more hopeful solutions, both for institutions to be sustainable and for the poor to be accessible, because:

- The former has in most cases achieved little, at high cost.
- Inappropriate incentives, such as tolerated default and subsidised interest, benefit mainly the richer and less efficient users and suppliers of credit.

Emphasizes importance of in depth study of rural communities to reappraise their power structure, given borrowing and lending are set in the context of multiplex relations among rural groups, and between them and urban patrons.

Mahon, C. (1999). "Nicaragua Financial Services to Microentrepreneurs: A Study of Rural Credit Unions". *WOCCU Research Monograph Series*, No. 15.

Abstract: In Nicaragua, credit unions offer access to capital and savings mechanisms to poor, rural entrepreneurs. Capital enables the entrepreneurs to grow their businesses and savings mechanisms generate greater liquidity for the enterprises and the households. This paper is the result of a study by USAID and WOCCU who have been working to expand the financial services of Nicaragua's rural credit unions in a project which started in 1996. The experiences of six high growth credit unions with microenterprise financial services were reviewed. These credit unions offered flexible, customised lending to meet the needs of first-time and small borrowers. In particular they provided:

- Flexible collateral and capacity-to-pay lending criteria for loans of less than $500
- Monthly, bi-weekly, weekly or daily loan repayment plans
- Stepped or graduated lending to first-time loan applicants and those with limited capacity to pay.

It is interesting to note that more than 56% of the microenterprise loans were to women.The study found that these credit unions were filling an unmet need for rural micro entrepreneurs. Borrowers reported that the credit unions' services were more convenient and provided faster turnaround on loan requests than other agencies. They had been able to obtain discounts on purchases and "wait for their price" on non-perishable goods, as well as generate additional earnings on savings.

Mallorie, E. (2005). "Review of IFAD Experience with Rural Credit in Bangladesh". IFAD.

Abstract: This paper describes IFAD's policy and approach to rural credit, its experiences in Bangladesh and the impact of a series of recent projects. The paper outlines the performance of credit operations in these projects. Finally some of the challenges for future projects are described. IFAD (the International Fund for Agricultural Development) was established as an agency of the UN in 1977. IFAD focuses exclusively on rural poverty reduction and, in particular, targets the poorest and most deprived sections of the rural community. IFAD's approach is flexible and participatory, and projects involve partnerships with wide range organisations – other donors, government agencies, grass-roots organisations and NGOs. Although the major part of IFAD's work is in supporting projects with loans to governments (total disbursements are in the order of US$300 million per year), a small amount of grant funding is available for small research and training projects. In total IFAD activities have covered 115 countries and territories. IFAD's approach involves enabling the rural poor to overcome their poverty by fostering social development, gender equity, income generation, improved nutritional status, environmental sustainability and good governance. IFAD is concentrating its efforts on three strategic objectives:

- strengthening the capacity of the rural poor and their organizations (human and social assets);

- improving equitable access to productive natural resources and technology (productive assets and technology); and
- increasing access to financial services and markets (financial assets and markets). In addition, and cutting across these three strategic objectives, IFAD aims to address gender inequalities and increase women's capabilities, and also to reduce the vulnerability of many groups of the poor. For Asia and the Pacific, IFAD's regional strategy envisages focus on less favoured areas, and on women and marginalised minorities (indigenous people and other excluded groups).

McGregor, J.A. (1994). "Government Failures and NGO Successes: Credit, Banking and the Poor in Rural Bangladesh, 1970-90". *Poverty, Inequality, and Rural Development*, edited by Tim Lloyd and Oliver Morrissey. London: MacMillan Press. p. 100-121.

Mesbah, D. (1998). "The Role of credit unions in Salvadoran financial markets: Expanding and improving the delivery of financial services to the rural poor". *WOCCU Research Monograph Series* no. 16.

Abstract: This monograph presents survey information about members' practices and needs. More specifically, it provides marketing information to the fourteen project credit unions in El Salvador regarding members' and non-members' 1) demographic characteristics; 2) economic characteristics; 3) use of financial services; and 4) perceptions of credit union services. The information was used to guide credit union reforms; help credit union leaders evaluate and improve their services; monitor the economic well-being of lowand middle-income credit union members; and monitor the impact of the project over time on members (savings behavior, access to credit, production activities).

Meyer, R.L. & Nagarajan, G. (1995). "Evaluating Credit Guarantee Programmes in Developing Countries". Unpublished paper. Columbus, OH: Department of Agricultural Economics, The Ohio State University, November.

Meyer, R.L. & Nagarajan, G. (1996). "Credit Guarantee Schemes for Developing Countries: Theory, Design and Evaluation," Report prepared for the Office of Economic and Institutional Reform, Center for Economic Growth, USAID, Washington, DC.

Mishra, A. (2001). "Coordination Failure in the Rural Credit Market". *Journal of Microfinance*, Vol. 3, No. 1.

Abstract: This paper tries to explain the curious fact that while at the national level the rural sector saves more than what it invests in itself in India, at the micro level, credit constraint is reported to be the main binding constraint on the activities in the rural economy. The explanation lies in the phenomenon of coordination failure. The public sector rural banks mobilize huge amounts of savings, but because of low rates of interest and high default rates, they do not lend in equal measure. Indeed, in India the public sector rural banks mobilize as savings three times the amount they lend as credit for investment. Raising the rate of interest at which the rural banks lend will not only raise the savings but also the investment in the rural sector. This is because at the current low level of rate of interest the rural credit market is severely rationed. As the rate of interest is allowed to rise more banks become viable, banks increase their lending, more people are brought into the ambit of rural banks and away from the money lender. The poor especially benefit as this increased rate of interest is still only half the rate of interest that the moneylender charges. The policy suggestion is to allow the public sector rural banks to charge economically viable and market clearing rates of interest.

Mosley, P. (1999). "Micro-macro linkages in financial markets: The impact of financial liberalisation on access to rural credit in four African countries". Manchester, UK: Institute of Development Policy Management.

Abstract: Almost every programme of economic reform contains a financial liberalisation component; but little work has been done to assess the effects of financial liberalisation on access to credit in individual markets. Paper presents a model of this linkage, which predicts that conventional financial de-repression will have no significant effect on the price and availability of

credit in the informal sector, but that financial innovation in the informal sector will affect such availability considerably. Tests this proposition specifically against data for the period of financial reform in four African countries: Uganda, Kenya, Malawi and Lesotho. Such reforms had significant effects on interest rates, but except in Uganda these effects did not feed through into an increase in savings rates or in access to rural credit. Such access was, however, favourably influenced by institutional innovation on the supply side of the market for small-business and small-farm credit. Likewise, in two of the case-study countries - Malawi and Uganda - financial de-repression had insignificant effects on poverty and privatisation of the bottom end of the credit market on its own had disastrous effects, but expansion of the supply of smallholder credit had a highly positive poverty-reduction effect.

Nanda, P. (1999). "Women's Participation in Rural Credit Programmes in Bangladesh and Their Demand for Formal Health Care: Is There a Positive Impact?" *Health Economics*, 8: 415-28.

Abstract: Within the overall aim of poverty alleviation, development efforts have included credit and self-employment programmes. In Bangladesh, the major beneficiaries of such group-based credit programmes are rural women who use the loans to initiate small informal income-generating activities. This paper explores the benefits of women's participation in credit programmes on their own health seeking. Using data from a sample of 1798 households from rural Bangladesh, conducted in 1991-1992 through repeated random sampling of 87 districts covered by Grameen Bank, Bangladesh Rural Advancement Committee (BRAC) and Bangladesh Rural Development Board (BRDB), this paper addresses the question: does women's participation in credit programmes significantly affect their use of formal health care? A non-unitary household preference model is suggested to test the hypothesis that women's empowerment through participation in these programmes results in greater control of resources for their own demand for formal health care. The analysis controls for endogeneity due to self-selection and other unobserved village level factors through the use of a weighted two stage instrumental variable approach with village level fixed effects. The findings indicate a positive impact of women's participation in credit programmes on their demand for formal health care. The policy simulations on the results of this study highlight the importance of credit programmes as a health intervention in addition to being a mechanism for women's economic empowerment.

Navajas, S. (1999), "Credit for the Poor: Microlending Technologies and Contract Design in Bolivia". unpublished Ph.D. dissertation, The Ohio State University.

Navajas, S.; Schreiner, M.; Meyer, R.L.; Gonzalez-Vega, C. & Rodríguez-Meza, J. (2000). "Microcredit and the Poorest of the Poor: Theory and Evidence from Bolivia". *World Development*. Volume 28, No.2, 333-346.

Abstract: We construct a theoretical framework that describes the social worth of a microfinance organization in terms of the depth, worth to users, cost to users, breadth, length, and scope of its output. We then analyze evidence of depth of outreach for every microfinance organizations in Bolivia. Most of the poor households reached by the microfinance organizations were near the poverty line–they were the richest of the poor. Group lenders had more depth of outreach than individual lenders. The urban poorest were more likely to be borrowers, but rural borrowers were more likely to be among the poorest.

Okoye, C.U. (1998). "Assessing the participatory aspects of credit Programmes: Evidence from a village adoption scheme in Nigeria". *Development Policy Review* 16: 115-30.

Abstract: This paper draws on the experience of a rural credit programme (the Village Adoption Scheme (VAS) in Anambra state, Nigeria) to explore how participation can remove some of the acknowledged causes of failure in rural finance institutions and credit programmes. Under the VAS, eligible farmer groups are 'adopted' by lending institutions and other private sector organizations. In particular, the paper discusses: the concept and principles of participation; participation as a measure of success in credit programmes; how the VAS framework addresses rural finance institution and credit programme problems (screening of borrowers, monitoring, supervision and enforcement, information asymmetries, missing and incomplete markets); problems in the VAS approach (traditional participative ethics, rigidity of stakeholders' management ethics, higher risk from widening the scope of participation, and apathy). Lessons learned and recommendations are made.

Osmani, L.N.Khan. (1998). "Impact of Credit on the Relative Well-Being of Women: Evidence from the Grameen Bank". *IDS Bulletine*: Micro-credit: Impact, Targeting and Sustainability; Vol.29, No.4.

Abstract: This study examines the impact of credit on women's relative well-being in Grameen Bank's credit programme. Using a bargaining model of the household, as extended by Amartya Sen, well-being has been defined in terms of three sets of capabilities: (i) autonomy, (ii) control over decision-making within the family, and (iii) relative access to household resources. It is hypothesised that the relative well-being of women and men depends on their respective bargaining power, which in turn depends on three factors: breakdown position, perceived contribution to the family and perceived self-interest.

Padmanabhan, K.P. (1988). "Rural credit: Lessons for rural bankers and policy makers". 138 pp. Intermediate Technology Publications Ltd.

Park, A. & Sangui W. (1998). "Rural Household Credit in China's Poor Areas". Working Paper. Department of Economics. Ann Arbor: University of Michigan.

Park, A.; Brandt, L. & Gilesm, J. (2003) "Competition under Credit Rationing: Theory and Evidence from Rural China". *Journal of Development Economics,* Vol. 71, No. 2, August.

Abstract: We present a duopoly model of financial competition to describe the conditions under which competition leads to greater bank effort when repressed financial systems ration credit. The model features an entrant that freely sets its interest rate, and an incumbent that must charge a rate below that which is market clearing. Both players may exert costly effort to inform themselves about borrower types. Using data on rural financial institutions in China, we test empirically the effects of competition on deposit growth, loan portfolio composition, repayment rates, and other effort measures, finding positive effects of competition on effort and financial performance.

Pearce, D.H. (2003). "Buyer and Supplier Credit to Farmers: Do Donors have a Role to Play?" Paving the Way Forward for Rural Finance: An International Conference on Best Practices, Washington, D.C., June 2-4, 2003.

Abstract: Traders, processors, input suppliers, and exporters are the primary source (alongside moneylenders) of credit to poor agriculture-dependent households. These buyers and suppliers provide credit to farmers as part of input supply and product purchase transactions. They overcome key constraints to lending to farmers—for example, high operating costs, lack of client information, and risk associated with agricultural activities—by linking credit to the provision of other services, such as input supply (fertilizer, seeds etc) and technical advice. In many cases, they also tie credit to subsequent sale of produce. Even in those rural areas where financial markets are shallow and poorly developed, product-market credit may be widespread. Yet the range of financial products provided in product-markets by buyers and suppliers is narrow. It primarily consists of seasonal credit and short-term advances. Smaller or more remote farmers may have limited market options, may be dependent on a few traders with less favorable credit terms, or may not have access to product-market credit at all. Increased trader activity can lead to credit being provided on better terms. If financial service providers also enter the picture, then the range of financial services available to agriculture-dependent households will also be increased. For small farmers to be good credit risks, they need the technical services, inputs, and sales agreements that form part of the relationships of product market credit, however. If credit is offered by financial institutions rather than through the product-market, then those financial service providers will need to be sure their farmer clients still have access to those non-financial inputs and services. There is a case for donors to help address product and financial market failures that limit the access of the agriculture-dependent poor to the financial services that they need. Yet any donor intervention in product and financial markets risks distorting or damaging those markets. A complementary, and critical, area for donor support is improving the enabling environment for rural financial service provision.

Pender, J.L. (1996). "Discount rates and credit markets: Theory and evidence from rural India". *Journal of Development Economics*, Volume 50, Issue 2, August, Pages 257-296.

Abstract: Three models of credit markets - (1) the permanent income model, (2) upward sloping credit supply to individual borrowers, and (3) constrained credit due to imperfect enforcement -

are tested using credit market data and an experimental study of individuals' discount rates in south India. The permanent income model is rejected by both the discount rate and the credit market data. The discount rate data are consistent with either of the other two models, while the credit market data are consistent with a combination of these two models. Other explanations are found to be insufficient to explain the results of this study.

Pitt, M. & Khandker, S.R. (1998). "The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does the Gender of Participants Matter?" *Journal of Political Economy* 106 No. 5 (1998): 958-996.

Abstract: This paper estimates the impact of participation, by gender, in the Grameen Bank and two other group-based micro credit programs in Bangladesh on labor supply, schooling, household expenditure, and assets. The empirical method uses a quasi-experimental survey design to correct for the bias from unobserved individual and village-level heterogeneity. We find that program credit has a larger effect on the behavior of poor households in Bangladesh when women are the program participants. For example, annual household consumption expenditure increases 18 taka for every 100 additional taka borrowed by women from these credit programs, compared with 11 taka for men.

Rahman, Aminur. (1999). "Micro-credit initiatives for equitable and sustainable development: Who pays?" *World Development*, Volume 27, Issue 1, January 1999, Pages 67-82.

Abstract: There is a growing acknowledgement that micro-credit programs have potential for equitable and sustainable development. However, my anthropological research on the micro-credit program of the Grameen Bank shows that bank workers are expected to increase disbursement of loans among their members and press for high recovery rates to earn profit necessary for economic viability of the institution. To ensure timely repayment in the loan centers bank workers and borrowing peers inflict an intense pressure on women clients. In the study community many borrowers maintain their regular payment schedules through a process of loan recycling that considerably increases the debt-liability on the individual households, increases tension and frustration among household members, produces new forms of dominance over women and increases violence in society.

Rahman, R.I. (1986). "Impact of Grameen Bank on the Situation of Poor Rural Women." In Rahman et al., eds.: *Early Impact of Grameen: A Multi-Dimensional Analysis: Outcome of a BIDS Research Survey*. Dhaka, Bangladesh: Grameen Trust.

Rajshekar, D. & Vyasulu, V. (1990), "Rural Credit Delivery System: A Study in Pali District of Rajastan". *Economic and Political Weekly*, September 29, pp. A:125-A:134.

Rajshekar D. (1993), "Confusing Signals on Rural Credit". *Financial Express* August 25, 1993.

Rajasekhar, D. & Vyasulu, V. (1993), "Managerial Changes, Rural Credit and Economic Development: A Study in Orrisa, India" *Savings and Development*. Volume XVII, Number 2, pp. 183-208

Rajasekhar, D. (1994). "Agricultural Poverty and Rural Credit in India: Some NGO Experiences". Draft Paper. Bangalore: Institute for Social and Economic Change, 27 p.

Remenyi, J. (1991), "Where Credit is Due". London: IT Publications, 156 p.

Rose, El. (1999). "Gender Bias, Credit Constraints and Time Allocation in Rural India".

Abstract: This paper examines the impact of a child's gender on the time allocation of rural Indian households for the five-year period subsequent to its birth. A theoretical model generates

predictions for the effect of the birth of a boy relative to a girl (i.e., the gender shock) on household behaviour when the household is liquidity constrained and when it is not. The results from the empirical analysis are consistent with the case in which poorer households are liquidity constrained and less poor households are not. The interpretation of the finding that women in both groups of households work less subsequent to the birth of a boy relative to a girl differs in these two cases.

Rosenberg, R. (2006). "Aid Effectiveness in Microfinance: Evaluating Microcredit Projects of the World Bank and the United Nations Development Programme". CGAP.

Abstract: This note sets out the results of an in-depth evaluation of the microcredit portfolios of the World Bank and the United Nations Development Programme. The World Bank evaluation reviewed only "lines of credit", where project resources were used to fund microlending; thus, the study did not only include the Bank's activities in policy support for governments and technical assistance to MFIs. The UNDP evaluation covered all its microlending projects, but only two of those projects were policy orientated and none of them provided technical assistance only. The results provide a "disappointing picture". They show that less than a quarter of the projects that funded microlending were judged successful. The rest failed, or appeared unlikely, to produce long-lasting results – that is, retail institutions and programs that could continue offering clients quality financial services over the longer term without losing their capital and needing continuing infusions of money from governments or development agencies. The cause of the problem is not put down to weak staff at these agencies; instead the study suggests that agency environments and systems do not give their staff the right incentives, information, and resources for microcredit.The note begins by setting out the scope and methodology of the evaluation before providing an in-depth analysis of the findings. It then discusses in turn each of the root causes associated with the poor results – incentives, information and resources. Finally the note sets out the recommendations.

Schmidt, R.H. & Zeitinger, Claus-Peter (1996), "The Efficiency of Credit-Granting NGOs in Latin America". *Savings and Development*, Vol. 20, pp. 353-384.

Shams, M.K. (1992). "Designing Effective Credit Delivery System for the Poor - The Grameen Bank Experience". Dhaka: Grameen Bank, 34 pp.

Siamwalla, A. *et al.* (1989). "The Thai Rural Credit System: A Description and Elements of a Theory". Paper presented at the World Bank Conference on Agricultural Development Policies and Theory of Rural Organization, Annapolis, Maryland.

Singh, S. (1990), "Rural Credit: Issues for the Nineties". *Economic and Political Weekly*, November 17, pp. 2531-2535.

Steinwand, D. (1998). "KPM Study: Survey on Groups of Microentrepreneurs (KPM) Linked with Rural Credit Banks (BPR) in the Framework of PHBK". second draft. Project Linking Banks and SHG. Jakarta: Bank Indonesia, and Eschborn: Deutsche Gesellschaft für Technische Zusammenarbeit.

Stiglitz, J.E. & Weiss, A. (1981), "Credit Rationing in Markets with Imperfect Information" *American Economic Review*, Volume 71, Number 3, June, pp. 393-410.

Tacis (Technical Assistance for Central Asian Independent States by the European Union). (1996 & 1997). "Policy and Agro-Business Support Project: Input I & II Report of Rural Credit Specialist". Bishkek: Tacis Office.

Tacis (Technical Assistance for Central Asian Independent States by the European Union). (1997). "Terms of Reference for Support of Sustainable Rural Credit Services in Kyrgyzstan". Bishkek: Tacis Office.

UNDP. (1991). "Credit for the Rural Poor: Replicating Bangladesh's Grameen Bank". *Cooperation South*, December, pp. 3-7.

Vaessen, J. (2001). "Accessibility of Rural Credit in Northern Nicaragua: the Importance of Networks of Information and Recommendation". *Savings and Development*, Issue no. 1, 2001.

Abstract: Access and outreach are two sides of the same coin that currently receive much attention in the literature. This paper explores the accessibility of rural credit for the case of a rural bank in Northern Nicaragua. Both the point of view of the potential client and the bank are addressed. It is illustrated that local networks of information and recommendation are important low-cost screening mechanisms for the rural bank. It is also shown that individual access to these networks of information and recommendation related to existing clients or bank staff members is the principal factor that determines household access to the bank's credit. The evolution of the bank into a professional financial organisation has had a significant impact on outreach over the territory. Expansion in portfolio of the bank went hand in hand with geographical expansion and more dispersion of the clients over the territory. This development has affected poor households' access to the bank's credit, since they depend on dense and elaborate local networks of clients in order for information and recommendation effects as elements of social collateral to develop.

Varghese, A. (2005). "Bank-moneylender linkage as an alternative to bank competition in rural credit markets". *Oxford Economic Papers*, Vol. 57, Issue 2, pp. 315-335.

Abstract: This paper proposes a new method in which banks and moneylenders can link in rural credit markets. Banks and moneylenders, two of the major lenders in rural credit markets, differ in their information on borrowers and costs of funds. Due to information constraints, banks must deny further loans to borrowers who cannot repay a certain amount. In the linkage, these borrowers obtain loans from moneylenders, repay the banks, and have continuing access. We then evaluate conditions under which the linkage would be preferred to bank competition and find that the linkage dominates for a wide range of parameters. In light of recent proposals to liberalize Indian banking, the analysis provides a cautionary note to the limits of introducing banking competition in rural credit markets and provides an alternative.

Von Pischke, J.D. (1980). "Rural Credit Project Design, Implementation and Loan Collection Performance". *Savings and Development*, Volume IV, Number 2, pp. 81-91.

Von Pischke, J. D. (1991). "Finance at the Frontier: Debt capacity and the role of credit in the private economy". Washington, D.C.: The International Bank for Reconstruction and Development. The World Bank.

Abstract: This book discusses how to make good loans to individuals and firms at the "frontier." This frontier is not geographic, but market-based. The book also indicates how lending at the frontier can be remunerative to commercial banks, development banks, and other development finance agencies that retail credit and assume credit risk.

Vyasulu, V. & Rajshekar, D. (1991). "Management of Rural Credit: Reflections on Themes Emerging from Field Work". *International Journal of Development Banking*, Vol. 9, No. 1, January, pp. 47-53.

Warning, M. & Sadoulet, E. (1998). "The Performance of Village Intermediaries in Rural Credit Delivery under Changing Penalty Regimes: Evidence from Senegal". *Journal of Development Studies*, 35(1): 115 – 138.

Abstract: This article concerns the use of village intermediaries to mitigate asymmetric information problems in rural credit delivery. We consider an example from Senegal and examine the intermediaries' screening of loan applicants. The results show that, when the intermediaries expected to incur a substantial penalty in the event of borrower default, they engaged in appropriate screening, allocating credit to borrowers likely to repay their loans. When the default penalty was lowered, however, the intermediaries engaged in opportunistic screening, emphasising political affiliation and consanguinity in their lending decisions. These results reveal both the

potential efficacy of village intermediaries in allocating credit and their extreme sensitivy to penalty regime.

Wickramanayake, J. (2004). "Financial Structure, Rural Credit and Supportive Institutional Framework in Sri Lanka: An Empirical Analysis". *Savings and Development*, Issue no. 4, 2004.

Abstract: This is a study on Sri Lanka's dualistic financial structure and changes in investment and financing arrangements in its informal (rural) sector. The paper uses both cross-section and time series data since mid-1950s to examine the supportive institutional aspects of financing (Stiglitz and Weiss 1981, and Stiglitz 1989). First part of the paper provides a descriptive analysis of Sri Lanka's dualistic financial structure, urban bias in finance and the degree of monetisation of the rural sector. The second part of the paper is devoted to an analysis of savings, investment and loan arrangements in the informal sector using the latest cross-section data available. The third part of the paper provides an empirical analysis of rural credit scheme for rice (paddy) production in the informal sector in Sri Lanka. This part of the paper involves use of regression analysis on time-series data for the rural credit scheme for the period 1980-2001. The results of the regression analysis show that the level of credit extended is positively related to the number of rural bank branches and the level of repayments under the credit scheme. The analysis also shows that the level of credit repayments is positively influenced by crop insurance, farm gate price of paddy and the level of credit extended. This paper indicates that gradual but considerable progress has been made since the early 1980s in overcoming financial dualism and improving the level of informal sector financing in Sri Lanka. The main policy implication of the empirical analysis is that formal institutional arrangements such as rural credit schemes, rice marketing, rural banking access and crop insurance should be continually reinforced to improve the economic conditions in the informal sector.

Zeller, M.; Sharma, M. & Ahmed, A.U. (1996) "Credit for the rural poor: Country case Bangladesh", Final report submitted to the German Agency for Technical Co-operation (GTZ). International Food Policy Research Institute, Washington, DC.

■ *Formal Finance*

❒ General

ACCION. (2003). "Market Intelligence – Making Market Research Work for Microfinance". *ACCION Insight* No. 7.

Abstract: As the microfinance market grows and the demand for different products evolves, MFIs will be required to better understand the changing needs and preferences of their clients. This paper highlights the need for MFIs to add "market intelligence" to their core competencies – it believes that MFIs have a wide-range of marketing needs that can be addressed, including the need to:

- Attract customers, often in the face of competition
- Strengthen loyalty of and retain customers, especially profitable ones
- Build brand awareness and image
- Refine existing products and introduce new ones
- Improve customer service and product delivery
- Develop sustainable competitive strategies and strengthen positioning
- Penetrate new markets and deepen reach in existing ones

The paper suggests that market intelligence is the ability of an MFI to collect data in a systematic and objective fashion, to analyse and interpret this information and to apply it in order to develop strategic recommendations and action plans. In particular, it stresses the latter point as the key differentiator from pure market research. As such, this paper aims to guide readers through the processes necessary to implement a successful market intelligence program at an MFI. It is based around the activities and tools that ACCION has developed for each phase of the market intelligence process. It also discusses two ACCION technical assistance projects, one in Latin America and the other in Africa, to demonstrate further how these market intelligence tools have been applied in practice.

Bankakademie. (2000). "Marketing for Microfinance Depositories". GTZ.

Abstract: This toolkit details the aspects of a comprehensive marketing programme necessary for microfinance institutions to become fully client-oriented. In order to ensure the relevance of the content, the toolkit highlights the marketing approaches of several financial institutions currently operating in Africa, Asia, the Caribbean and Latin America. The toolkit is divided into the following Chapters:

1. Marketing basics.
2. Strategic marketing - covering company objectives, market research and market segmentation.
3. Operational marketing - covering product policy, pricing policy, distribution policy and promotion policy.
4. Exercises and checklists.

Bhatt, V.V. & Meerman, J. (1978). "Resource mobilization in developing countries: Financial institutions and policies". *World Development*, Volume 6, Issue 1, January 1978, Pages 45-64.

Abstract: Discussion in this paper of the areas and scope for domestic policy action aimed at improving the process of domestic resource mobilization, allocation and use is developed in several stages. First, the authors assess the progress made by LDCs in raising their rates of saving and investment over the past 25 years. Next, government policies — government tax expenditure and pricing policies, in particular — and their effect on public savings are discussed. This is followed by treatment of the issues of private saving performance and allocation, i.e. how to stimulate and make better use of household savings. Institutional and policy measures are suggested as means of promoting a more active role of the banking system. Brief reference is made to the role of development banks in project preparation and in tapping the capital market.

Binswanger, H.P. & Khandker, S.R. (1995). "The Impact of Formal Finance on the Rural Economy of India". *Journal of Development Studies*, 32(2): 234-262.

Abstract: Expanding the availability of agricultural credit has been widely used in developing countries as a policy to accelerate agricultural and rural development. However in most cases credit and credit institutions were heavily subsidised Empirically evaluates costs and benefits of agricultural credit programmes. Results show that:

- Rapid expansion of commercial banks in rural areas has had a substantially positive effect on rural non-farm employment and output
- Output effects of rural finance has been much smaller in agriculture than in the non-farm sector
- Overall impact of rural credit on rural wages has been positive, as creation of non-farm employment has added more to total employment than has been subtracted by substitution of capital for labour in agriculture. Therefore even agricultural wages have risen modestly

Yet there have also been high costs to the Government from this policy created by factors such as poor repayment. In fact, the analysis implies that government costs of providing credit could have exceeded net agricultural benefit.

Brown, W.; Green, C. & Lindquist, G. (2000). "A Cautionary Note for Microfinance Institutions and Donors Considering Developing Microinsurance Products." USAID Microenterprise Best Management Practices Project.

Abstract: The paper states that protecting poor clients from risks, reducing microfinance institutions (MFIs) loan defaults, and earning additional income for MFIs loan portfolio are some of the reasons for the flood of initiatives by MFIs to develop insurance products (microinsurance) for the low-income market. It highlights the reasons why most MFIs should not provide insurance themselves and identifies alternatives that are more appropriate for MFIs but still address clients? need for improved risk management. It discusses the potential market for microinsurance, how to respond to client demand through partnership, and insurer capabilities. It concludes that

- although the poor are highly vulnerable to a variety of risks, this vulnerability does not necessarily translate into a demand or need for insurance
- The vast majority of MFIs lack the expertise required to price products effectively, do not have the resources to support an insurance product, and are too small to achieve sufficient pooling of risk.

Cécile, L. (2000). "The Role of the State in Promoting Microfinance Institutions". IFPRI.

Abstract: This paper from the International Food Policy Research Institute tackles the huge and complex issue of government intervention in the development of microfinance institutions (MFIs). It will be of interest to economic theorists as well as policy-makers and persons seeking a concise overview of the history of the role of the State in promoting MFIs around the world. The author begins by setting out her terms of reference, and then moves on to provide a brief history of government intervention in microfinance in the 1960s and 1970s. For some, this will prove one of the most useful sections of this ambitious paper. From the birth of public agricultural banks in the 1960s to their increasing rate of failure in the 1970s and 1980s, the author looks very briefly at different countries' experience of government experiments in rural microfinance before moving on to the ways these institutions developed, learned, or collapsed in response to economic crises and other problems. The example of the Bank Rakyat Indonesia (BRI), which went from being an unsuccessful credit institution in the 70s and early 80s to a successful MFI with a high rate of loan repayment in the late 80s and 90s is cited as a success story, though other experiments, particularly in French-speaking West Africa, did not end so happily. The author then identifies three current models of the role of the State in the financial system: integration, as exemplified by the Indian National Agricultural Bank for Agriculture and Rural Development (NABARD), in which microfinance institutions are integrated within the public sector; complementarily, in which the State and the private sector are complementary and do not exclude each other, as in the case of BRI: and an alternative model, in which MFIs develop as an alternative to the deficient role of the State and the market, as in Madagascar's ambitious but so far limited agricultural public bank, BTM. The paper concludes with a discussion of the necessary role of the State to promote MFIs, stressing the utility of a state-enforced minimum banking structure in rural areas, state subsidization of microfinance with start-up capital and innovations, and investing in complementary services such as infrastructure, health, and education. The author stresses the necessity of governments developing a clear and flexible regulatory structure for MFIs, giving enforcing agencies real powers, and ends by suggesting that efficient governance is more or a determinant in the success or failure of an MFI than the distinction of ownership by the public or

the private sector. This paper is strongly prescriptive in nature, rather than acting as a study; a useful chart on p.30 summarizes the author's views of the alternatives in regulation of MFIs in comparison with commercial banks. While some of her conclusions are a little too vague (for instance, she says that "because of the complexity of regulating microfinance institutions, some 'rules of the game' should be disseminated and implemented beyond the strict enforcement of the regulatory frame", but does not explain how), her analysis of the role of the State in MFIs is generally convincing.

CGAP. (1998). "Cost Allocation for Multi-service Micro-finance Institutions". Occasional Paper No. 2.

Abstract: Using examples from the field and an actual MFI (BRAC), the paper explores alternative answers to a series of questions that MFI managers should ask themselves regarding the allocation of costs and assets among cost centers and the impact of cost allocation on the financial statements of multi-service MFIs.

CGAP. (2004). "Financial Institutions with a "Double Bottom Line": Implications for the Future of Microfinance". Ocassional Paper no. 8.

Abstract: This paper begins with an important clarification of data citing over 750 million savings and loan accounts in financial institutions that focus on clients that are generally below the level served by commercial banks. The authors notes read "A correct statement of this paper's main conclusion is that there are over 750 million accounts in various classes of financial institutions that are generally aimed at markets below the level of commercial banks, and that some substantial fraction of these institutions' clients are probably poor or near-poor, This message is not that the task is nearly done (anyone with field experience knows this to be untrue), but rather that these institutions represent an important potential opportunity". The paper refers to institutions that have a "double bottom line" as those that focus to some extent on providing financial services downward from the economic level of the traditional clients of commercial banks. As well as a financial objective, they also have a developmental or social objective. The paper suggests that the managers of these institutions would class the latter objective as primary and that sound financial performance was there to merely enable the institutions to achieve this. This paper refers to these institutions as "alternative financial institutions" (AFIs). Specialised MFIs are distinguished from other AFIs by the reasoning that they tend to be more specifically focused on the poor and near-poor, not just the unbanked. The research reported in this paper suggests that specialised MFIs account for a relatively small proportion of the total savings and loan services delivered by AFIs. It argues that while governments, donors, and other interested in the outreach of microfinance should continue to foster the growth of high-performing MFIs, these stakeholders also need to think about the opportunities and challenges presented by the other AFIs. Yet despite their vast outreach, the paper notes that AFIs probably serve only a minority of the unbanked clientele they were created for, and many suffer significant limitations. This paper reports the results of the CGAP survey of the global outreach of AFIs, then discusses in more details the characteristics of the types of institutions that were surveyed, and finally suggests some strategic implications for those who want to help develop financial systems that work for poor people. The annex discusses methodology, as well as some key limitations of the data used.

CGAP, (2005). "Confianza in Peru Overcomes Adversity by Diversifying Loan Portfolio". *Agricultural Microfinance: Case Study* No 1.

Abstract: Confianza is a small regulated microfinance institution in central Peru that today provides agricultural loans alongside a range of rural, urban, small business, housing, and consumer loans to low-income clients. From its beginnings as an Inter-American Development Bank-funded NGO program in 1993 until becoming a regulated microfinance provider in 1999, ConfianzaÕs loan portfolio was almost exclusively devoted to solidarity group loans for agricultural purposes. When a combination of factors, including plunging commodity prices, led to an arrears rate of over 50 percent in 1999, Confianza was forced to make a set of swift, substantial changes in order to survive: The MFI altered its lending methodology, instituted stricter lending requirements and monitoring, and added urban and individual loans to diversify its portfolio. Its non-agricultural port-folio flourished, and Confianza also maintained a focus on agricultural lending (about a quarter of its total portfolio), with lending to agriculture almost quadrupling in volume over the next few years. By year-end 2002, Confianza had become financially sustainable, lending more than $4 million annually, with a respectable arrears rate (portfolio at risk >30 days) of less than 4 percent and a 19 percent adjusted return on equity. Notably, its agricultural arrears rate has remained consistently lower than that of the portfolio as a whole.

CGAP, (2005). "Building Capacity for Retail Microfinance". Donor Brief No. 24.

Abstract: Retail financial institutions remain the backbone of financial systems that serve low-income clients. They need complex skills to offer poor people quality financial services on a permanent basis. In most countries, inadequate retail capacity is the main bottleneck to scaling up microfinance. This brief addresses how funding agencies - public donors, international NGOs, private foundations, and investors - can help meet the challenge of developing retail capacity.

CGAP, (2006). "Graduating the Poorest into Microfinance: Linking Safety Nets and Financial Services". *Focus Note* No. 34.

Abstract: Does microfinance reach the poorest? Some MFIs are finding ways to team up with existing safety net programs in hopes of making themselves at least indirectly useful to the poorest. Some safety net and grant programs are deliberately providing financial training and information to their clients so that their clients can subsequently link with MFIs. In other words, people who benefit from safety net programs may "graduate" to become full-fledged microfinance clients. This Focus Note discusses two basic models of linkages between MFIs and safety net programs.

CGAP. (2006). "Safe and Accessible: Bringing Poor Savers into the Formal Financial System". Focus Note No. 37.

Daru, P.; Churchill, C. & Beemsterboer, E. (2003). "The Prevention of Debt Bondage with Microfinance-led Services". ILO.

Abstract: Millions of the poorest and most vulnerable workers in South Asia are bonded to their employers as they strive, often in vain, to repay loans. The root causes of this bondage include: interlinked and monopolistic labour and credit markets, deeply entrenched social exclusion, and asymmetric information particularly regarding legal rights. The International Labour Organization, together with its social partners and other relevant stakeholders, is currently pilot testing microfinance-led prevention strategies in India, Pakistan, Nepal and Bangladesh. This paper describes this initiative and summarises the early findings of this effort.

DeGennaro, R.P.; Lang, L.H.P. & Thomson, J.B. "Troubled Savings and Loan Institutions: Turnaround Strategies under Insolvency". (Available online: April 25,2003).

Abstract: Unexpected increases in interest rates during the early 1980s and decreases in asset quality in the late 1980s caused massive losses throughout the savings and loan industry. Insolvency was common. But because of bureaucratic forbearance, funding constraints, and federal deposit insurance, hundreds of insolvent thrifts continued to operate. This is because regulatory agencies were unwilling or unable to close thrift institutions immediately upon insolvency. Instead, they progressively reduced the thrift capital requirement and later refrained from enforcing that requirement in the hope that the industry would recover. Coupled with deposit insurance and the expanded investment and lending powers granted to the industry in the early 1980s, this regulatory forbearance gave thrift managers the opportunity to pursue strategies to turn around their firms, to regain profitability and to restore adequate capital levels. Did the thrift industry seize this opportunity? Did managers of successful thrifts adopt different strategies to turn around their firms than managers of their unsuccessful counterparts? Or did they select the same strategy and simply enjoy good fortune? Our results show that when the crisis surfaced in the early 1980s, recovering thrifts operated in a fashion similar to failing thrifts. However, in the mid-1980s, recovering firms pursued risk-minimizing strategies while non-recovering firms pursued riskier, and on average, higher-growth strategies. The asset growth of unsuccessful thrifts is consistent with a speculative growth strategy, while that of recovered thrifts is more consistent with the natural market growth associated with successful firms. Perhaps surprisingly, given media attention to fraud and managerial misconduct, we find no evidence of excessive perquisite consumption in unsuccessful thrifts. We find that only 24 percent of the 300 thrifts in our sample eventually did recover between the end of 1979 and the end of 1989, while 55 percent fail or merge. The others survive as independent institutions, but with less than the three percent capital requirement of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989; that is, they not only failed to rebuild their capital to the previous five percent requirement, they did not even meet the much less stringent hurdle in place by the end of the decade. Even with continued regulatory forbearance, we find no evidence that their condition improved. These results have important implications for both thrift managers and supervisory agencies. Our results suggest that successfully turning around poorly capitalized thrifts during the 1980s was neither easy nor likely. Those managers that were successful tended to concentrate on more traditional thrift activities

involving lower-risk assets and liabilities. Regulatory agencies and thrift supervisors charged with monitoring the industry cannot ignore the recovery rate for our sample thrifts of a mere 24 percent, and further, our evidence suggests that identifying firms which would eventually recover would at best have been very difficult. Although other studies have shown that it is relatively easy to distinguish risky thrifts from safe ones, pinpointing which of the insolvent institutions will ultimately recover may not be possible using only financial data.

Development Finance Forum. (2004). "Capital Plus - The Challenge of Development in Development Finance Institutions".

Abstract: This paper is an executive summary of a position paper written by members of the Development Finance Forum (the Forum), a group of practitioners that has met for a week each year since 1997. The Forum members use the term "development finance institutions" (DFIs) to refer to diverse institutional forms, customer strategies, and products, which include microcredit, loans to small and medium sized businesses, and investments in housing projects and community facilities.The paper is aimed at other practitioners and socially-minded investors and donors. Its aim is to set out, from a practitioner's perspective, some of the pressing issues facing DFIs that choose to have a "double bottom line" – of profitability *and* social impact – and to offer thoughts about how best to approach these issues. To survive and be useful they must be sustainable. And to be useful developmentally they must work towards social and economic impact. The authors see the tool of capital as the glue around which other tools – technical assistance, information services, environmental remediation, sectoral interventions, and more – adhere. They argue that not only are these other tools attracted to capital, they are made more effective by it.

Dichter, T. (2005). "Hype and Hope: The Worrisome State of the Microcredit Movement". SAIIA NepadProject.

Abstract: This article which was published in eAfrica, provides a challenging critique of the prevalent belief that microcredit leads to economic development and is a certain route out of poverty. It is a wake-up call at the end of the International Year of Microcredit during which stories of how small loans have helped microentrepreneurs to grow thriving businesses have flourished. The author draws on history to point out that the development of the advanced industrial countries did not depend on the average middle class or poor person having access to credit. The rise of the middle class depended on economic growth which created jobs and increased buying power. Nowadays in advanced economies most of us are not entrepreneurs and most of us use credit for consumption. Dichter asks, therefore, why those working in development presume that the poor are all budding entrepreneurs and will use credit only for income-generating activities. Much of microcredit use in sub-Saharan Africa fits the old saying 'all dressed up and no place to go.' The reality is that Africa offers an infertile context for borrowing as the only customers available to the poorest are other very poor people. In such a context, the people at the bottom are by definition the ones who 'need' credit the most, but can do the least with it. The author provides a number of graphic examples from his own field notes to illustrate this point. All the evidence points to the fact that credit certainly helps the poor meet consumption needs during periods of cyclical or unexpected crisis but it rarely enables people to start or expand viable business activity. Dichter is of the view that "microfinance evangelism" has made the prospect of microcredit being made available to solid enterprises that can expand to create jobs, growth and underpin widespread economic development less likely. "This is the paradox of microcredit: the poorest people can do little productive with the credit, and the ones who can do the most with it are those who don't really need microcredit, but larger amounts with often longer credit terms." He considers that the informal sector in much of Africa is in fact a default mode, a function of failing economies. It is not the incubator of economic growth but a holding action where everyone (including government employees) is forced to go since little else is available to them. Women who are repackaging spice or selling single cigarettes or teabags are not standing at the threshold of participation in the wider economy. "What would permanently help these women, and if not them, their children, are governments that get their acts together and provide structures, laws, and institutions under which people's evident interest in getting ahead in the world could be transformed into reality." Dichter observes that such interventions would require a far larger and more coordinated effort, such as organised efforts to train farmers, buy their produce, and certify, package and find export customers for it. The hype of microcredit, he thinks, is a diversion and that the microcredit movement has become a victim of its own propaganda. Dichter believes that the microcredit movement has shied away from rigorous studies of impact. Many would argue that if microcredit plays a role in staving off worse poverty, then it is not a bad thing. He believes, however, that it is a bad thing, if microcredit gets in the way of grappling with solutions to the problem of poverty that are genuinely promising. "Development is the current frontier of the microcredit movement, and the toughest challenge of all. In the end it is easy to give out microcredit, and using best practices developed over the years, even relatively easy to get the money repaid. But the marginal developmental returns from microcredit simply don't warrant the enthusiasm nor the money spent

so far." He concludes: "And so we come again to the familiar territory of the development industry.... Since the 1970s, time and again our industry ignores complex and contextual approaches to development (institutional, legal, governance, and other reforms) in favour of superficial feel-good solutions that produce at best marginal changes, but satisfy the need to be perceived as 'doing something for the poor.' The tough question needs to be asked: Is the goal to ease the pain or to cure the disease?"

Dowla, A.U. & Alamgir, D. (2003) "From microcredit to microfinance: evolution of savings products by MFIs in Bangladesh", *Journal of International Development*, Vol. 15, No. 8, pp. 969-988.

Abstract: This paper chronicles how the microfinance industry in Bangladesh has evolved from its initial focus on credit, disbursing standardized loan products and collecting obligatory savings to the development of flexible savings products. We describe the process through which the industry gradually moved away from compulsory savings and introduce flexible savings. We provide detailed descriptions of various savings related products used by MFIs in Bangladesh. We point out the numerous problems that can arise when MFIs collects savings especially from non-members without a proper legal framework. We conclude the paper by suggesting prudent regulation of MFIs to ensure the security of the meager savings of the poor.

Dowla, A.U. (2004). "Micro-Leasing, the Grameen Bank Experience". *Journal of Microfinance*, Vol. 6, No. 2.

Abstract: Grameen Bank was the first microfinance institution (MFI) to introduce microleasing on a large scale. This paper provides a preliminary evaluation of Grameen's leasing program. Instead of providing a full-fledged impact assessment study, we examine the terms and conditions of the leasing program and evaluate its success in terms of outreach, repayment rate, and asset ownership. Analysis of program level data shows that the program is successful in terms of outreach and repayment performance. Through the program, poor men and women have become owners of power tillers, power looms, shallow machines, cellular phones, and even computers. The success of leasing suggests some important lessons for MFIs. It shows that poor people have diverse credit needs and that to help the poor borrowers to graduate out of poverty, MFIs have to provide different and flexible products.

Fisher, T. & Sriram, M.S. (2002). "Beyond Micro-Credit: Putting Development Back into Micro-Finance". Oxfam in association with New Economics Foundation, London.

Abstract: Microfinance is fast growing as a major development strategy and international industry. It seems to provide a practical and workable tool to address the deep-seated challenges of poverty. But can it really fulfill this promise? All too often the development goals of microfinance are lost, either behind technical and managerial solutions in pursuit of financial sustainability, or behind a narrow focus on the poorest. This book analyses Indian microfinance in depth to explore how development can be put back into microfinance. It sets out how microfinance can be designed in practice to contribute to a wide range of developmental objectives, including providing social and economic security, promoting livelihoods, building peoples' organizations, empowering women and changing wider systems within society. The analysis covers the great diversity of microfinance practice in India and its many innovative products and organizational features. It looks in detail at the fast expanding movement of savings and credit or self-help groups in India and compares and contrasts these with groups promoted by the Grameen Bank in Bangladesh. It explores social entrepreneurship in the SHG movement in India and how to rise to the challenge of scale in Indian microfinance. The book challenges much conventional wisdom in microfinance, especially the dominant framework of financial sustainability and outreach to the poor. It demonstrates how current analysis of efficiency in microfinance is simplistic, ignoring a range of real economic costs. It breaks new ground by drawing on the disciplines of organizational development and entrepreneurship to focus on the many organizational challenges and dilemmas that confront microfinance practitioners and how these can be managed in practice. Most importantly it puts development back at the heart of microfinance. Without doubt this book provides the most comprehensive analysis available of microfinance practice in India and should be read widely by microfinance practitioners, NGOs and funding agencies. It will be of significant interest to those engaged in development studies, economics and sociology and should serve as a valuable supplementary text for courses in development, poverty studies and development economics.

Gonzalez-Vega, C. (1998). "Microfinance: Broader Achievements and New Challenges". Rural Finance Program, Department of Agricultural, Environmental, and Development Economics, the Ohio State University.

Abstract: This is the author's opening statement at the Second Annual Seminar on New Development Finance. It contains three parts. The first part assesses dimensions of recent achievements in microfinance. It defines achievements in terms of six dimensions of outreach (quality, cost, depth, breadth, length, and variety) and of its relationships with sustainability. A rigorous definition of expansion of the frontier is also provided. The second part discusses the reasons for gaps among current achievements, potential supply, legitimate demand, and political expectations. A distinction is made between gains in technical efficiency and innovation, and the determinants of each type of improvement are examined. Threats from unwarranted political expectations are also identified. The third part discusses recent changes in the microfinance field due to systemic risk, increasing competition, improper regulation, and attempts of return by the state to development finance. This section evaluates threats emerging from these changes.

Grant, W.J. & Coetzee, G. (2005). "The Role of Membership Based Financial Services in Reaching the Underbanked, Primarily in Rural Areas". ECIAfrica.

Abstract: This paper has been prepared for the Second African Conference on Microfinance. It suggests at the outset that most challenges of access to financial services for the poor in urban areas have been met, or progress is promising, while the challenges of rural areas, and still the majority of poor people (in most settings) remain unanswered. It aims to highlight the optimal roles for member-owned financial institutions (MOFIs) to develop the financial sector in weak markets – in doing so it reviews some of the different issues surrounding the gaps in the financial system and the places where MOFIs may be best suited to fill those gaps. The framework presented has been prepared as a guide to financial institutions as they look at expansion opportunities or to donors who wish to fund financial service development in targeted areas. The paper begins by briefly setting out generic challenges faced by MOFIs. It then discusses the concept of carrying capacity and considers the question "what institutional typology is the most appropriate in which setting?" This section starts with a look at different settings (usefully summarised in a market characteristics matrix) and what types of institutions have worked best (to date) in those settings. The section concludes with a representation of the relationship between market potential and the cost of service delivery, which it calls the "Carrying Capacity Curve" for financial markets – this shows the acceptable level of cost of delivering the needed services in order to remain sustainable in different markets. The paper then looks at defining the different types of institutions, their products, and their characteristics before moving on to address the challenges faced by different typologies. The paper sees the largest gaps in the financial system in areas with high incidence of poverty, not able to carry high cost institutions, have low population densities, and have tenuous links with financial systems of urban areas.

Hashemi, S.M. & Rosenberg, R. (2006). "Graduating the Poorest into Microfinance: Linking Safety Nets and Financial Services". CGAP.

Abstract: This paper considers the questions of whether microfinance reaches the poorest and whether microfinance can be linked to safety net programs. It notes that today there is much debate about whether microfinance is for the poorest. Even in the case of MFIs that focus on reaching very poor clients, there are substantial numbers of people who are too poor to participate. For example, in Bangladesh, where MFIs are strongly focused on serving the very poor, MFI concentration is highest among the second poorest quintile group; it is lowest among the poorest quintile. Microfinance services are not aimed at the poorest communities. The first section considers why this may be so. Following on from this, the paper states that microfinance is not the only way to help people. It notes that there are other services and institutions, such as "safety net programs," that are usually better suited to the circumstances and needs of the poorest. One approach to helping the poorest gain access to appropriate financial services may be to start with safety net programs that will eventually help the poorest gain access to financial services. This Focus Note explores a few cases where the poorest participate in grant-funded safety net programs, where they receive non-financial support, such as employment, food aid, training, etc., as well as support to graduate from their existing levels of poverty to a level where they can make good use of access to appropriate financial services. These examples raise the questions: Can microfinance help the poorest? If so, how? And can people "graduate" from being recipients of grants to becoming full-fledged microfinance clients?

Hirschland, M. (2003). "Serving Small Rural Depositors: Proximity, Innovations and Trade-offs." Paper presented at the U.S. Agency for International Development-World Council of Credit Unions conference, "Paving the Way Forward for Rural Finance: An International Conference on Best Practices," Washington, DC, 2–4 June.

Abstract: This paper will examine how four organizations deliver convenient, financially sustainable deposit services: the Bangladeshi NGO ASA that provides 360,000 depositors with a voluntary service, the Nepali cooperative VYCCU that provides two services specifically for members who live far from its office; the CVECAs, a network of over fifty village banks in the Malian Sahel; and over 2000 Kupfuma Inshungu groups in rural Zimbabwe that provide a contractual product to about two-thirds of the women in their villages. The paper will then cull from these cases a menu of delivery options and staffing strategies that make these systems sustainable. Finally, after assessing the strengths and challenges of these delivery options, the paper will highlight the trade-offs inherent in making deposit services convenient for small rural depositors.

Hossain, M. & Diaz, C.P. (1997). "Reaching the Poor with Effective Microcredit: Evaluation of a Grameen Bank Replication in the Philippines". Los Baños, Philippines: *International Rice Research Institute*.

IFAD. (2003). "Ghana—Women's Access to Formal Financial Services." Rome, Italy.

Abstract: Most rural people in Ghana do not have access to a bank, credit union or similar financial service. It was estimated that access by small clients, such as the rural and urban poor, was around 8% in 1998. Access is particularly low for rural people and in certain parts of the country. Needs for both savings and credit access are most urgent among micro and small rural entrepreneurs, many of whom are women. They require such services to escape from the low investment–low production–low returns cycle. Informal mechanisms such as the *susu* and moneylenders sometimes fill the gap, but they have drawbacks. Generally, small and often semi-formal credit schemes have been more successful than the formal system in reaching such women. The Bank of Ghana promoted the establishment of *rural banks* in the seventies, with the idea of encouraging banking habits among rural households and mobilizing rural savings for agriculture, fishing, forestry and other agro-based industries. In 1998, there were 132 rural banks in Ghana. Since then, many of these banks have been closed, for a variety of reasons. Rural banks are very unequally distributed, with the fewest in the upper east, upper west and northern regions. The ownership of rural banks is broad based, and the banks are usually managed and operated by residents of the locality who know the local conditions and people. But *most rural women do not have physical access to these banks*. For instance, in the north, the ratio of banks to rural clients is 1:100 000, compared with the national average of 1:16 000 to 1:26 000. One bank can serve an area of over 50 000 km^2. For the majority of poor farmers, the cost of a trip to the bank is too high, particularly since the process involved in bank loans often requires several trips. Clearly, the best solution is to bring financial services closer to rural areas and rural women. But women-targeted financing programmes are not always a panacea. Excluding men has been found to produce a 'boomerang effect', resulting in hijacking of loans, partial 'payoffs' to keep peace in the family, loss of men's or children's help in the woman's small business, refusal to release women's labour from other chores and even domestic violence. The best 'gender-sensitive' approach to microfinance is one that takes account of the needs of both men and women in designing and delivering financial services.

Izumida, Y. (1992). "The Kou in Japan: A Precursor of Modern Finance," in D.W. Adams and D.A. Fitchett, eds., Informal Finance in Low-Income Countries. Boulder, Colorado: Westview Press, pp. 165-180.

Kabeer, N. & Matin, I. (2005). "The wider social impacts of BRAC's group-based lending in rural Bangladesh: Group dynamics and participation in public life", *Monographs, BRAC*, Series No. 25, March.

Abstract: In a context in which dominant relationships which govern the lives of the poor tend to be vertically organized - explicitly or implicitly – as patron-client relationships, the group-based strategies promoted by microfinance and other non-governmental organizations represent a form of association based on horizontal principles and, moreover, one that they can 'choose' to belong to instead of having membership imposed on, or ascribed to them, by their gender or their poverty. However, not all microfinance groups embody the same internal dynamics and external

interactions. How does Brac's microfinance with its focus on groups and processes of empowerment fare with respect to women's participation in public life?

Kaboski, J. & Townsend, R.M. (2005). "Policies and Impact: An Analysis of Village Level Microfinance Institutions." *Journal of the European Economic Association* 3 No. 1(2005): 1-50.

Abstract: This paper uses variation in policies and institutional characteristics to evaluate the impacts of village-level microfinance institutions in rural Thailand. To identify impacts, we use policies related to the successful/unsuccessful provision of services as exogenous variation in effective financial intermediation. We find that institutions, particularly those with good policies, can promote asset growth, consumption smoothing and occupational mobility, and can decrease moneylender reliance. Specifically, cash-lending institutions-production credit groups and especially women's groups-are successful in providing intermediation and its benefits to members, while buffalo banks and rice banks are not. The policies identified as important to intermediation and benefits: the provision of savings services, especially pledged savings accounts; emergency services; and training and advice. Surprisingly, much publicized policies such as joint liability, default consequences, or repayment frequency had no measured impacts.

Kochar, A. (1997). "Does Lack of Access to Formal Credit Constrain Agricultural Production?: Evidence from Land Tenancy Market in Rural India". *American Journal of Agricultural Economics* 79(3): 754-764.

Lapenu, C. (2000). "Worldwide Distribution and Performance of Microfinance Institutions". *Rural Financial Policies for Food Security of the Poor*. Policy Brief No. 6.

Abstract: How many microfinance institutions (MFIs) exist in the developing world? How well are they performing? What is their role in household economies? Are they using their funds efficiently? In 1999, the International Food Policy Research Institute (IFPRI) conducted a survey on MFIs in Asia, Africa, and Latin America to offer a new in-depth analysis of the distribution and performances of MFIs at the international level. This brief summarizes the results of the survey.

Ledgerwood, J. (1998). "Microfinance Handbook: an institutional and financial perspective". The World Bank.

Abstract: This handbook is one of the major products of the World Bank's Sustainable Banking with the Poor Project. It gathers and presents up-to-date knowledge directly or indirectly contributed by leading experts in the field of microfinance. The book has three parts:

1. Issues in Microfinance Provision. This part addresses the broader considerations of microfinance activities, including the supply of and demand for financial services, the products and services that an MFI might offer, and the institutions and institutional issues involved. Part I requires no formal background in microfinance or financial theory and is likely to be of most interest to donors and those considering providing microfinance.
2. Designing and Monitoring Financial Products and Services. This part addresses more specific issues in the design of financial services and the development of management information systems. It will be of most interest to practitioners who are developing, modifying or refining their financial products or systems and donors or consultants who are evaluating MFIs or the services they provide. Readers of Part II need a basic understanding of financial management.
3. Measuring Performance and Managing Viability. This part provides the tools for evaluating the financial health of an MFI and a means of managing operational issues. The focus is on financial intermediation not social intermediation. It is the most technical part of the book and will be of primary interest to practitioners and consultants. Some understanding of financial statements and financial analysis is required.

Littlefield, E. (2003). "Building Financial Services for the Poor" *Finance for the Poor,* Manila: ADB, June 2003, Vol. 4, No.2, pp.2-4.

Abstract: About a billion people lack access to convenient, affordable, and appropriate financial services. The Microcredit Summit estimates that microfinance institutions (MFIs) delivermicrocredit to 38 million poor people and savings-deposit services to 65 million. While the figures are staggering, the market penetration is still insignificant, compared with the large number of poor

and low-income households that need financial services. Moreover, growth is very slow; microcredit outreach has increased by only around 4% among institutions that have been reporting to the Microcredit Summit for the past several years. The urgent need is to remove barriers and thereby scale-up more rapidly promising microfinance institutions. To reach the hundreds of millions of people who need financial services, other delivery channels that can complement MFIs must also be identified. The ultimate aim of expanding microfinance outreach is to reduce the vulnerability of the poor by helping them increase incomes, build assets, and chart their own paths out of poverty—with selfrespect, self-determination, and sustainability. The microfinance industry has talked, for years, about scaling up. The starting point is to have a vision that every poor country's financial system works for the majority—the poor. The Economist and the International Labour Organization cite that nearly 60% of Latin America's and two thirds of Africa's nonagricultural employment are in the informal sector. In India, 9 out of 10 workers are in the informal sector, contributing 60% of net domestic product and 70% of income. Scaling up microfinance means looking beyond the status quo of a financial system that caters only to a minority of the population while the majority remains unserved. It will require repositioning financial services for the poor as a far more significant business than it has been perceived, operating not on the margins of the formal financial systems or as a specialty niche within them—but being at the core. Virtually in all developing countries, the collective productivity of the poor is the core of countries' wealth, employment, and labor. Throughout the 1980s and 1990s, microcredit bucked conventional wisdom about financing the poor. First, MFIs showed that poor people, especially poor women, repay their loans. Near perfect repayment rates were common among the better programs—unheard of in most formal financial sectors and in the many failed subsidized credit schemes of the 1970s. Second, the poor were willing and able to pay interest rates that allowed MFIs to cover their costs, and even to profit. Third, these two features—high repayment and cost recovering interest rates—permitted well-managed MFIs to achieve long-term sustainability and to reach large numbers of clients. As a strategy combining massive outreach, farreaching impact, and financial sustainability, microfinance is unique among development interventions.

Littlefield, E. & Rosenberg, R. (2004). "Microfinance and the Poor: Breaking Down Walls Between Microfinance and Formal Finance". *Finance and Development*, Vol. 41, No. 2. pp. 38-40.

Abstract: There is a dawning understanding that developing countries' financial systems need to be more accessible to poor people and that there are practical ways to make this happen. All kinds of financial institutions--regulators, mainstream rating agencies, commercial and state banks, insurance companies, and credit bureaus--are starting to play a part in developing sound, inclusive financial systems that serve the majority of poor countries citizens.

Matin, I. & Christen, R.P. (2001). "ASA's Culture, Competition, and Choice: Introducing Savings Services into Microcredit Institutions" Kampala: MicroSave-Africa.

Martokoesoemo, S.B. (1994). "Small-scale Finance: Lessons from Indonesia". In *Indonesia Assessment 1994: Finance as a Key Sector in Indonesia's Development*, edited by R. H. McLeod. Canberra: Australian National University. p. 292-313.

Mauri, A. (1998). "A New Approach to Institutional Lending and Loan Administration in rural Areas of LDCs". International review of economics and Business (RISEC), Vol. XLV, No. 4, 1998.

Abstract: In most low-income economies, agriculture represents the main sector since it contributes substantially to GDP, sustains a great share of total population and is an important earner of foreign exchange. The lack of adequate financial services seems to be one of the major constraints in expanding agricultural output. With particular reference to the institutional sector of rural financial markets, given that collateral is not often available and/or not easily enforceable, credit risk evaluation represents the core problem faced by banking industry doing business in a peasant milieu. Conventional methods for assessing credit worthiness, mainly based on the analysis of financial quantitative data are seldom applicable to a large segment of potential customers, as these borrowers are mostly smallholders, belong to the informal sector of the economy and are totally unable to provide adequate accounting evidence. Furthermore, in many instances these potential small borrowers are not in a position even to make available the very basic financial information to lending institutions. It is, therefore, clear that banks which intend to

extent their business to rural credit markets in LDCs have to design and adopt new methods in loan administration, and particularly in loan appraisal. The increase in depth of creditworthiness analysis does not represent, however, a workable solution in such a context because it is too costly to predict and determine the extent of default risk for each borrower in relation to the average size of rural loans in the segment of the market represented by smallholder farmers. Financial institutions involved in this business should rather develop and implement new, more suitable, methods and take full advantage of the available information, which is easy to be collected and quite unexpensive to be handled because of its very simple nature. The paper introduces an evaluation model of repayment capacity based on symptomatic information, which could replace, when necessary, conventional information on profitability and customer's financial equilibrium. The symptomatic information is mainly of qualitative nature and it is based on gathering of data such as the kind of activity carried out by the customer, the location and the size of the farm, the level of technology used, output dependence on climatic conditions, the flexibility of productive structure towards technological innovation and market change. To some extent the symptomatic model recalls the lender's decision making process which most likely occurs in the informal market.

Miller, H. (2003). "Why microfinance institutions in Bolivia have virtually ignored savings". *Small Enterprise Development*, No. 14:3. ITDG Publishing.

Abstract: The benefits of savings mobilisation to both the institution and client are many, most importantly they provide a sustainable source of funding for a financial institution and offer clients a safe and liquid means in which to save. This paper examines Bolivia's four main regulated MFIs – BancoSol, Caja Los Andes, FIE and Prodem – and finds that they have mobilized few deposits compared to banks, or compared to similar institutions elsewhere. It suggests that the availability of cheaper and easier donor funding is a disincentive to raising capital from depositors, and explains the internal obstacles to savings mobilization on the part of the MFIs. This paper is extremely useful in landscaping the financial and political environment of MFIs in Bolivia and proposes realistic recommendations to institutions, government and donors that will encourage savings mobilisation in MFIs to the end that they may become robust deposit-taking microfinance banks. At institution level there must be a commitment to capture savings and diversify away from soft money and concessionary loans towards deposits in the capital base of the MFI. MFIs must also invest in human and financial resources in market intelligence, more sophisticated cost accounting systems, risk and liquidity management, training and incentives. Government level reforms that loosen the reserve and reporting requirements in rural areas, support strategic alliances between regulated and non-regulated entities, eliminate the value-added tax on interest earned, reduce the I.D. requirement to open an account and allow minors to open savings accounts will create an enabling environment for the mobilisation of savings by regulated MFIs. Donors are advised to channel subsidies away from recapitalisation of loan portfolios towards institution building and especially to assist MFIs in their capacity building efforts. Subsidies should be used to support policy dialogue and regulatory reform and to develop strategic alliances between regulated and non-regulated institutions. There is also a need for the Donor community to improve coordination in both the development of donor strategy as well as monitoring the impact of donor interventions.

Nagarajan, G. (1998). "Microfinance in the Wake of Natural Disasters: Challenges and Opportunities". Washington D.C.: Development Alternatives Inc., Prepared for MBP funded by USAID, March.

Abstract: Many microfinance organizations (MFOs) now working in disaster-prone countries have been caught up in natural disasters as they have occurred and have become active players in post-disaster situations. This paper documents the experiences and experiments of MFOs that have found themselves on the front line in natural disaster situations. The author synthesizes the lessons learned from such situations and makes recommendations for donors, policy makers, and MFOs. The information presented in this paper was collected through an extensive review of the literature and targeted discussions with representatives of existing programs. The review placed special focus on Bangladesh, India, Burkina Faso, and South Africa.

Robinson, M.S. (2001). "The Microfinance Revolution: Sustainable Finance for the Poor". New York and Washington, DC: Open Society Institute and World Bank.

Abstract: This book offers readers: a detailed overview of the development of microfinance during the 1980s through the 1990s; a global view of microfinance in the developing world; a thesis on the future path of microfinance; a coherent theory about microfinance; details on a number of important microfinance topics, such as informal moneylending and savings; a study of Indonesia,

with detailed analysis of Bank Rakyat Indonesia; and brief studies of many other microfinance institutions in Africa, Asia, and Latin America.

Rutten, L. (2001). "Innovative Vehicles for Mobilizing Domestic Funds for Agricultural Development". ESCAP/ADB Joint Workshop on Mobilizing Domestic Finance for Development.

Abstract: Agricultural production, processing and trade are generally relatively low-margin operations, and at the same time, perceived by financiers as very risky. Physical collateral such as land or real estate is often of little use in mitigating financiers' risks – such collateral tends to be very difficult to enforce. Not surprisingly, finance for agriculture can be difficult to find, and if found, is expensive. Structured finance makes it possible to go directly to the roots of the problem by isolating the various risks involved in the provision of a financing, and systematically mitigating these risks. The changes as proposed under the Basel II agreement will make this more and more relevant in the years to come. With Basel II (planned for 2005), solvency requirements for "risky" exposures will increase dramatically. Most credits to emerging countries fall in this category, unless when structuring techniques are used to mitigate the risks. As far as conventional bank loans are concerned, after Basel II, there will be less lending to non-investment grade countries, and what arrives will be more costly and more pro-cyclical. There are many possible applications of structured finance for developing countries, from project- to pre-export finance, from financing oil imports to using migrant remittances to obtain low-cost funds for agricultural lending. If banks are at all interested in exploring the possibilities of structured finance for agricultural commoditie s, they tend to focus on the financing of export crops, where they can capture offshore revenues to ensure loan reimbursement. Some are willing to consider financing imports, tying this in with an export chain (e.g., finance for the import of cotton yarn, reimbursable through the export of textiles), or using physical possession coupled to confiscation insurance (in other words, they give up control over the commodities only once they are paid for, eventually in up-country warehouses). While there are certainly many possibilities in these areas, it leaves one area largely overlooked: the possibility to mobilize domestic funds for agricultural development.

Wright, G.A.N. (1999). "The Case for Voluntary Open Access Savings Facilities and Why Bangladesh's Largest MFIs Were Slow to React". CGAP Working Group on Savings Mobilization, Eschborn, Germany: GTZ.

Abstract: Recently savings have risen to the top of the international development community's agenda. There has been a sudden realization of, and interest in, the savings side of financial intermediaries. Previously MFIs typically extracted savings from clients through compulsory mechanisms, as there was a prevalent and powerful perception that the poor cannot save. Compulsory savings systems often required members to deposit small token amounts each week and levied more substantial amounts, usually expressed as a percentage of the loan taken, at source from loans. These compulsory savings were then often "locked-in" until – or, in the case of Grameen Bank until 1995, even if - members left the organization – thus denying them access to their own money. Until recently, compulsory, locked-in savings systems, in one form or other, were an extremely prevalent model throughout Asia, and the dominant one in Bangladesh. For a detailed description of BRAC's and Grameen Bank's savings policies. However, these compulsory, locked-in savings systems came under increasing pressure not only from the professionals involved in financing, managing and reviewing MFIs but also from the clients themselves. As the Consultative Group to Assist the Poorest (CGAP) in its Note 2 of October 1995 stressed: "Possibly the greatest challenge in microenterprise finance is to expand the provision of savings services to the poor." This is driven by the fact that, in the words of Marguerite Robinson (1995), "there is substantial evidence from many parts of the world that: (1) institutional savings services that provide the saver with security, convenience, liquidity and returns, represent a crucial financial service for lower-income clients; and (2) if priced correctly, savings instruments can contribute to institutional self-sufficiency and to wide market coverage."

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Adams, D.W. (1995). "Reforming Development Banks". Unpublished paper. Department of Agricultural, Environmental, and Development Economics. Columbus: The Ohio State University.

Adams D.W. & Marthans J.J. (1997). "The Rise and Fall of An Agricultural Bank in Peru". Abstracted from Benefits and Costs of Liquidating An Agricultural Bank in Peru. Unpublished paper prepared for the Agency for International Development by IMCC, Washington D.C.

ADB. (1997). "Report and Recommendations of the President to the Board of Directors on a Proposed Loan to BAAC for the Rural Enterprise Credit Project in the Kingdom of Thailand". Manila: ADB.

Abstract: The Eighth National Economic and Social Development Plan (1997-2001) recognized that low income in the rural sector arises from low land and labor productivity. The Government, therefore, sought to upgrade agricultural technology, encourage high-value crops and livestock, increase agricultural productivity, and help farmers to diversify into new enterprises. One of the key constraints in promoting rural enterprises was the availability of medium- and long-term loans. Accordingly, the BAAC Act was amended to enable the financing of rural enterprises owned by farm families.7 The SFCP was the first ADB project in support of BAAC's rural enterprise lending, and its implementation was considered successful.8 BAAC emerged as the most appropriate agency to promote rural enterprises in view of its (i) country-wide network, (ii) significant outreach, (iii) in-depth knowledge of farm families' income patterns, and (iv) ability to adapt products and services to client demand. These provided the rationale to continue ADB support to BAAC for the expansion of its enterprise loan portfolio. Similar to the SFCP in objective, scope, and design, the RECP was expected to build on the momentum by expanding BAAC's enterprise loan portfolio toward creating employment in line with the Government's efforts to improve the living standards of the rural people. A loan of $200 million to BAAC for the RECP was approved by ADB from its ordinary capital resources on 18 September 1997 for onlending to enterprises. Specific objectives of the RECP were to (i) provide term loans to 54,000 rural enterprises, including 20,000 new and 34,000 existing enterprises owned by farm families; and (ii) improve loan processing, supervision, and customer services by BAAC for its rural enterprise clients. An advisory TA (footnote 5) was approved to complement the second objective. The RECP became effective on 26 November 1997 and was due for closing on 26 November 2002, but was closed about three years ahead of schedule on 11 October 1999 after 47 percent utilization. BAAC requested the closure due to weak credit demand, high liquidity, and the higher interest cost of ADB funds.

BAAC (Bank for Agriculture and Agricultural Cooperatives). (1998). "Annual Report 1997". Bangkok: BAAC.

Bastiensen, J. (2000). "Institutional Entrepreneurship for Rural Development: the Nitlapan Banking Network in Nicaragua". In Ruerd Ruben, and Johan Bastiaensen, *Rural Development in Central America: Markets, Livelihoods and Local Governance.* pp. 151-70. New York: St. Martin's Press, Inc.

Abstract: It is noted that alternative financial organization-building has been thought of as an instrument of social innovation. It is in the light of this hypothesis that the paper undertakes an analysis of the experiences of Nitlapan (a banking network in Nicaragua) in building a more 'democratic' and entrepreneurially viable financial organization that serves small and medium sized producers. The first section develops a brief tentative interpretation of the rural institutional crisis and the need for institutional change. Subsequently, Nitlapan's financial network and its governance structure are described. The concluding sections relate this governance structure and its historical genesis to the inherited institutional environment and makes some comments on the possibilities for institutional change by means of financial organization-building.

Barbieri, C. (2006). "Italian Cooperative Credit Banking Model: A New Approach to International Cooperation for Development". *Savings and Development*, issue 1.

Abstract: The article describes the Italian Cooperative Credit Banks experience in exporting a traditional rural and development banking model to Ecuador in the most versatile way. This original cooperation is based on a constant dialogue between the relative players with a view to enrich the model with new activities and new partners. The scheme also sets an example of the potentialities generated by a public-private and/or bi-multilateral approach within an international Cooperation. The article describes the Italian Cooperative Credit Banks experience in exporting a traditional rural and development banking model to Ecuador in the most versatile way. This original cooperation is based on a constant dialogue between the relative players with a view to enrich the model with new activities and new partners. The scheme also sets an example of the potentialities generated by a public-private and/or bi-multilateral approach within an international Cooperation.

Berkhoff, A. (2003). "Microfinance in Rural India: Linking Self-Help Groups to Cooperative Banks and Primary Agricultural Credit Societies". unpublished diploma thesis, IWW Universität Karlsruhe.

Bhatt, N. & Thorat, Y.S.P. (2001). "India's Regional Rural Banks: The Institutional Dimension of Reforms". *Journal of Microfinance*, Vol. 3, No.1.

Abstract: Efforts to reform India's failing Regional Rural Banks (RRBs) have had limited impact, because reformers have paid little attention to the institutional dimensions of the problems facing the banks. Few efforts were made to redesign the perverse institutional arrangements that gave rise to incompatible incentive structures for key stakeholders, such as political leaders, policy makers, stockholders, bank staff, and clients. We recommend that the next leg of reforms focus on aligning the incentives of these stakeholders by giving greater importance to the RRBs' internal organizational contexts and larger policy environments.

Bouman, F.J.A. (1988), "Pawnbroking as an Instrument of Rural Banking in the Third World" *Economic Development and Cultural Change*, Volume 37, Number 1, October, pp. 69-89.

Boyer, D. & Dyer, J. (2003). "Country Case Study - Agricultural Bank of Mongolia". USAID / BASIS.

Abstract: The Agricultural Bank of Mongolia (Ag Bank) is the main provider of financial services in the rural areas of Mongolia. It has the largest branch network in the country with 356 locations and provides deposit and loan products in each location. Although in receivership in 1999 and facing possible liquidation, this former state bank has been completely turned around and was privatized through international tender to a major Japanese company in March 2003. Turnaround efforts have resulted in the Bank disbursing more than 500,000 loans to date while maintaining an arrears rate consistently below 1 percent and becoming the second most profitable bank in Mongolia. This turnaround identified and mobilized the strengths of an existing institution to rapidly disseminate desperately needed financial services to the rural areas as well as protect access to the few existing financial services that many rural Mongolians already relied upon. This paper describes the results and impact of the reform process, its loan and deposit strategies and the challenges faced during the reform. It concludes with a review of the lessons learned and recommendations for others involved in a similar process. One key lesson learned by Ag Bank was the importance of marketing: focused research, strong brand promotion, and products responsive to customer demand to provide an income stream to sustain the organization. Ag Bank's managers used a combination of local knowledge from their branch managers, formal market surveys, and experience from working in other developing countries.

Burgess, R. & Pande, R. (2004). "Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment". *CEPR Discussion Paper* No. 4211.

Abstract: Lack of access to finance is often cited as a key reason for why poor people remain poor. This Paper uses data on the Indian rural branch expansion programme to provide empirical evidence on this issue. Between 1977 and 1990, the Indian central bank mandated that a commercial bank could open a branch in a location with one or more bank branches only if it opens four in locations with no bank branches. We show that, between 1977 and 1990, this rule caused

banks to open relatively more rural branches in Indian states with lower initial financial development. The reverse was true outside this period. We exploit this fact to identify the impact of opening a rural bank on poverty and output. Our estimates suggest that the Indian rural branch expansion programme significantly lowered rural poverty, and increased non-agricultural output.

Carree, M.A. (20023). "The Evolution of the Russian Saving Bank Sector During the Transition Era". ERIM Report Series Reference No. ERS-2000-27-STR.

Abstract: Following the 1988 banking reform in Russia there was an enormous increase in the number of (registered) commercial banks. The Russian savings bank sector went through a period of shakeout after the August 1995 interbank crisis. Large banks were able to expand their market shares in the deposits market as a result of scale advantages and advertising. Entrants unsuccessfully sought to gain market share by having high deposit rates.

CGAP. (1997). "State-owned Development Banks in Micro-finance". Focus Note No. 10.

Abstract: A state-owned village banking system in Indonesia (Bank Rakyat's desa unit) is transformed into a successful microfinance institution. Success of the transition is traced to several key factors, the absence of which would seriously constrain the reform of a similar, state-owned development finance institution

Charitonenko, S.; Patten, R.H. & Yaron, J. (1998). "Indonesia, Bank Rakyat Indonesia – Unit Desa 1970-1996. Case Studies in Microfinance. Sustainable Banking with the Poor". Washington DC: World Bank.

Choudhuri, A.H.M., *et. al.* (1996). "Interlinkage Between Banks, NGOs and Informal credit Sectors for Rural Development", *Bangladesh Bank Parikrama* Volume xxi, Nos.1 & 2, March and June.

Choudhury, T.A.; Roy, M.K. & Rafiquddin, Q. (1994). "A Study on Anatomy of Rural Bank Branches". BIBM.

Clarke , G.R.G. & Cull, R. (1999). "Why Privatize? The Case of Argentina's Public Provincial Banks". *World Development*, Volume 27, Issue 5, May 1999, Pages 865-886.

Abstract: This paper analyzes detailed data on the pre- and post-privatization performance of publicly-owned provincial banks in Argentina. It estimates fiscal savings associated with privatization and describes the technical process that was used. The process included the creation of residual entities for the liabilities that private buyers found unattractive. The paper argues that the Fondo Fiduciario, which was created to convert the short-term liabilities of the residual entities into long-term obligations, helped make these privatizations politically feasible. Given the substantial number of state-owned banks in developing countries, this paper provides insight into the desirability and feasibility of future privatizations.

Conroy, J.D. (2004). "International Leadership in Microbanking: APEC As a Forum for BRI." Paper presented at BRI International Seminar, 1 December, Bali, Indonesia.

CD, (Co-operation for Development), (1995). "An NGO perspective on designing credit schemes involving banks". UK,

Cull, R. & Demirguc-Kunt, A. (2006). "Financial Performance and Outreach: A Global Analysis of Leading Microbanks". *World Bank Policy Research Working Paper* No. 3827.

Abstract: Microfinance contracts have proven able to secure high rates of loan repayment in the face of limited liability and information asymmetries, but high repayment rates have not translated easily into profits for most microbanks. Profitability, though, is at the heart of the promise that microfinance can deliver poverty reduction while not relying on ongoing subsidy. The authors examine why this promise remains unmet for most institutions. Using a data set with unusually

high quality financial information on 124 institutions in 49 countries, they explorethe patterns of profitability, loan repayment, and cost reduction. The authors find that institutional design and orientation matter substantially. Lenders that do not use group-based methods to overcome incentive problems experience weaker portfolio quality and lower profit rates when interest rates are raised substantially. For these individual-based lenders, one key to achieving profitability is investing more heavily in staff costs - a finding consistent with the economics of information but contrary to the conventional wisdom that profitability is largely a function of minimizing cost.

Deschamps, Jean-Jacques. (1999). "Rural Banking in Emerging Markets: Can it Work?" *Agricultural Finance and Credit Infrastructure in Transition Economies: Proceedings of OECD Expert Meeting, Moscow, Feb. 1999.*, 148-58. Moscow: O.E.C.D.

Abstract: Rural banking poses an inherently difficult set of challenges in emerging markets. This paper points to lessons of experience drawn from successful (and mostly private) models that have arisen as alternatives to direct government intervention in the sector over the past two decades. It also outlines areas where government support to private initiative can still be helpful.

Desrochers, M. & Lamberte, M.B. (2003) "Efficiency and Expense Preference in Philippines' Cooperative Rural Banks". *PIDS Discussion Pape*r No. 12; CIRPEE Working Paper No. 03-21.

Abstract: This paper attempted to test whether efficient cooperative rural banks (CRBs) have a better control of their agency costs. We used two different concepts of efficiency, namely, cost efficiency and alternative profit efficiency, and found somewhat different results from both approaches. Using Stochastic Frontier Approach and Distribution Free Approach, we tested two different propositions. The first proposition is that an adequate corporate governance scheme should improve efficiency of CRBs. We failed to find very conclusive evidence that corporate governance theories apply to the Philippines' CRBs. However, the results confirmed managers' compensation theory and large stakeholders theory. The second proposition is that agency costs should reduce efficiency of CRBs, and we found a much clearer relationship on that issue. As expected, most efficient CRBs are characterized by a better control of agency costs. These results are in accordance with previous studies on shirking behavior among mutual financial intermediaries. We also found that rural CRBs are most profit-efficient, despite their somewhat regular cost-efficiency, a manifestation that they are able to charge higher fees for the quality of services they offer. Large CRBs are not able to pass their higher costs to customers through higher fees. We found that small CRBs might have a better interest rate policy, that is, they offer lower rates on both loans and deposits.

DeYoung, R.; Hunter, W.C. & Udell, G.F. (2003). "The Past, Present, and Probable Future for Community Banks". *FRB of Chicago Working Paper* No. 14.

Abstract: The large majority of banks and savings institutions are small and community-based. But advances in information technology, new financial instruments, innovations in bank production processes, deregulation, and increased competition have created a less hospitable environment for community banks. The number of community banks is shrinking, along with their shares of loan and deposit markets. By some measures both the number and market share of community banks in the U.S. have approximately halved since 1980. Given these trends, it is natural to wonder if the community bank business model will continue to be viable in the future. The specter of a declining, or perhaps a disappearing, community banking sector has potentially serious implications for local communities, small businesses seeking credit, and by extension the U.S. economy. This paper presents a comprehensive view of the community banking sector in the U.S. in three parts. Each of these three sections includes numerous citations to the recent academic literature, and each is supported by a variety of data from the U.S. banking industry. First, we review the past three decades of change in the U.S. banking system, with a special focus on how deregulation, technological advance, and increased competitive rivalry have affected the size and health of the community banking sector. Second, we use a strategic map approach to develop a theory of how deregulation and technological change have affected the competitive viability of community banks. The theory suggests that this change (a) has exposed community banks to intensified competition that is likely to force many more of them out of the industry, but (b) has also left well-managed community banks with a potentially exploitable strategic position. We show that U.S. banking data over the past three decades supports these theoretical conclusions. Third, we consider the number of community banks that will remain viable in the future. Projecting the future number and size distribution of commercial banks after the U.S. banking industry has fully adjusted to deregulation is a treacherous exercise, and we do not pretend to be able to make

accurate point estimates. Rather, we consider the recent financial performance of community banks relative to large banks, and, based on straightforward market principles, suggest which types of community banks, and how many of each type, are most at risk and least at risk going forward.

Dressen, R.; Dyer, J. & Northrip, Z. (2002). "Turning around state-owned banks in underserved markets". *Small Enterprise Development*, Volume 13, Number 4, 1 December 2002, pp. 58-67(10).

Abstract: Many state-owned retail banks in developing countries do not operate profitably and are reliant on repeated financial bail-outs from their governments and from donors. Given this situation, donors are often more inclined to invest in new MFIs than to attempt to revive problematic old ones. However, this article describes how external teams may be brought in to manage the restructuring of state-owned retail banks with some success. Two cases are described, Microfinance Bank of Tanzania and the Agricultural Bank of Mongolia. In both cases the banks' wide branch network was seen as a useful asset through which profitable new products and services could be sold to rural clients. The article describes the restructuring in each case, outlines the pre-conditions for successful restructuring of this kind (including a commitment on the part of the government to privatization of the bank), and discusses the lessons learned.

Dugan, M. (2004). "Can a Government Loan Work for Microfinance? IFAD's Funding of the Agricultural Cooperative Bank of Armenia". *Case Studies in Donor Good Practices*, No. 15.

Abstract: This Donor Good Practices note provides a case study documenting how the International Fund for Agricultural Development creatively used a government loan to support the Agricultural Bank of Armenia, enabling the institution to expand in rural provinces, strengthen its capital base, and become the largest bank in Armenia. In late 1996, the International Fund for Agricultural Development (IFAD) initiated the Northwest Agricultural Services Project (NWASP) in Armenia. The objective of the four-year project was to develop sustainable agricultural support services for 40,000 people living in three rural provinces of northwest Armenia. At about the same time, the Agricultural Cooperative Bank of Armenia found itself at a critical juncture. Founded with European Union support, the bank had been operating with moderate success for just a year and was ready to implement a strategic expansion. The objectives of the donor and the retail institution aligned beautifully. The two organizations persuaded the Armenian Ministry of Finance to accept a creative use of an IFAD loan that made sense for a growing microfinance operation. As a result, a US $4.5 million credit line was restructured into a loan and a grant for ACBA, allowing the bank to get its footing, reach self sufficiency, and expand nationwide. By 2000, ACBA had earned the distinction of "Bank of the Year in Armenia" from the Financial Times. As of December 2003, the bank had 32,640 customers and eight branches throughout the country - the largest geographical coverage of any bank in Armenia. Of US $21 million in its outstanding portfolio, US $8.8 million were agricultural loans. (In the rural provinces, 95 percent of ACBA's clients are farmers.) ACBA had total assets of approximately US $31 million, total equity of approximately US $9.5 million, and a US $ 0.8 million profit for 2003. This short paper includes a discussion on the four main reasons for the success of IFAD's funding of ACBA – ACBA found a creative way to make the IFAD loan work for sustainable microfinance and the Government of Armenia, the priorities of IFAD and ACBA were aligned, ACBA followed commercial practices, and ACBA's use of the cooperative structure in credit delivery, ensured high portfolio quality.

Egger, P. (1986), "Banking for the Rural Poor: Lessons from some Innovative Savings and Credit Schemes". *International Labour Review*, Vol. 125, Number 4, July-August, pp. 447-462.

Firpo, J. (2006). "Banking the Unbanked: Technology's Role in Delivering Accessible Financial Services to the Poor". SEMBA Consulting.

Abstract: How can microfinance have macro impact in the world such that billions of today's urban and rural poor gain access to financial services? By undertaking 3 pilot studies in Uganda, a consortium of private and public actors sought to determine the role technology could play in increasing the reach of microfinance. This paper discusses the findings of the studies.It begins by highlighting the problem and considering the question: What are the problems keeping the industry from achieving greater scale? The study concludes that the key issues relate to over-dependence on donor funds for wholesale finance and operating costs, the absence of consistent, sector-wide operating standards and business practices, fragmentation within the sector, technical challenges and high transaction costs, and the need for flexibility to offer diverse financial services

that meet local needs and priorities.The paper sets out how the actors involved in the study then designed a technological solution in an attempt to overcome these issues identified. The technology was designed to process loan payments, savings deposits, withdrawals and transfers, based on a combination of smart-cards, point-of-sale terminals, a transaction server and connectors that send data directly to the MFIs' accounting and general ledger systems. Three key lessons that were drawn from the study are discussed in detail by the paper: 1. Technology combined with business process change brings the greatest return; 2. Emerging markets require innovative, appropriate technologies that are designed for scale; 3. The costs associated with building the infrastructure to support this enabling technology is too high for MFIs to go it alone.

Fitchett, D. (1999). "Bank for Agriculture and Agricultural Cooperatives (BAAC), Thailand". GTZ - CGAP Working Group on Savings Mobilisation.

Abstract: BAAC has come to be internationally recognised as one of the few specialised, government-owned rural finance institutions which has been successful in carrying out its mandate without government subsidies. Its loan outreach to Thailand's rural poor and its savings mobilisation performance are impressive. This case study reviews the macroeconomic and financial sector context of the bank and undertakes a substantial institutional analysis. Exploiting the comparative advantage of its branch network and the already close links it had developed with its client population through lending programmes, BAAC developed its deposit base remarkably quickly, providing both standard and tailor-made savings instruments to its clients. BAAC has demonstrated to other Thai institutions that lending in rural areas can be a profitable activity, thus encouraging an increase in lending by other banks. The author suggests that the focus of BAAC's management on the "bottom"line and a corporate culture that recognises and rewards cost effectiveness and efficiency are principal elements in accounting for BAAC's relative success as a financial institution despite its character as a state-owned bank.

Gonzalez-Vega, C. & Graham, D.H. (1995). "State-Owned Agricultural Development Banks: Lessons and Opportunities for Microfinance". Rural Finance Program, Department of Agricultural Economics, Ohio State University, Colombus, Ohio.

Abstract: Examines the potential role of state-owned agricultural development banks as providers of microfinancial services. It Finds that:

- successful restructuring of development banks can only occur in an environment of structural adjustment, with macroeconomic and financial liberalisation
- a healthy and dynamic agricultural sector facilitates the emergence of a reformed rural development bank
- most successful development bank reforms have begun with the shift from outside (donor) to internal (deposit-based) funding
- decision-making should be decentralised to the branch level, to take advantage of local information for screening and monitoring
- portfolio diversification should be sequential to decentralisation and deposit mobilisation
- an important legal change required to implement delegated decision-making and performance-based remuneration for branch managers and loan officers is the ability to hire, promote, and fire staff free from civil service regulations
- eliminating the role of any non-financial ministry on the board appears to be a necessary though not a sufficient condition to avoid strategic behaviour at the board level
- recapitalization should be considered following partial or complete cleaning up of the balance sheet

Concludes that:

- strategic implementation issues would have to reflect initial conditions in each country
- it is important to understand the political economy context of the transformation
- unless strong coalition favours restructuring, nothing can be accomplished. An important task for donors is to promote and nurture such coalitions
- once agreement has been reached, the donors most important contribution would be technical assistance for the upgrading of policies, technologies and organisational design.

GTZ. (1997). "BAAC's Joint Liability Group: Access to Reach the Poor". Paper presented at the Regional Workshop on the Linkage Program, Focus: Assessment of Linkage Projects in Asia, sponsored by APRACA and GTZ, Denpasar, Indonesia, 3-6 December.

Haberberger, M.L.; Wajananawat, L. & Kuasakul, N. (2003). "The Challenge of Sustainable Outreach: The Case of Bank for Agriculture and Agricultural Cooperatives (BAAC)." Eschborn, Germany: GTZ.

Abstract: Every three to four years it is not only interesting, but also useful, to step back from the day to day work to rethink the case of the Bank for Agriculture and Agricultural Cooperatives (BAAC). In 1992, Jacob Yaron from the World Bank identified BAAC as one of the three most successful rural finance institutions in the world, while in 1999, Klaus Maurer analysed the BAAC within the context of agricultural bank reform for an IFAD working paper. Now, for a third time, the case of BAAC is addressed, but now, in the context of sustainable outreach. This third case study is jointly prepared by GTZ's Marie Luise Haberberger and, from the BAAC, Luck Wajananawat and Nipath Kuasakul. Previous studies were of great help and have served as important reference material for the current assessment. The BAAC is a "front rider" in outreach: 92% of farm households in Thailand have been reached directly and indirectly by BAAC. But outreach is only meaningful, if it remains sustainable. This case study addresses critical issues that present an on-going challenge to maintaining sustainable outreach and to face the future.

Hashemi, S.M. (1997). "Building up Capacity for Banking with the Poor: The Grameen Bank in Bangladesh". in Hartmut Schneider (eds): *Microfinance for the Poor?*

Heussen, H.; Breuer, B. & Wellman, L. (1987). "Promotion of Self-Help by Savings Banks: A Dialogue Programme". Bonn: Deutsche Stiftung fur internationale Entwicklung (DSE), 143 p.

Hossain, M. & Shahiduzzaman, M. (2002). "Development of Non Bank Financial Institutions to Strengthen the Financial System of Bangladesh". *Quarterly Journal of Bangladesh Institute of Bank Management*, Vol. 28, No. 1, March.

Abstract: Non-bank financial institutions (NBFIs) represent one of the most important parts of a financial system. In Bangladesh, NBFIs are new in the financial system as compared to banking financial institutions (BFIs). Starting from the IPDC in 1981, a total of 25 NBFIs are now working in the country. As on June 30, 2001 the total amount of paid up capital and reserve of 24 NBFIs stood Tk.6901.8 million (BB, 2002). The NBFIs sector in Bangladesh consisting primarily of the development financial institutions, leasing enterprises, investment companies, merchant bankers etc. The financing modes of the NBFIs are long term in nature. Traditionally, our banking financial institutions are involved in term lending activities, which are mostly unfamiliar products for them. Inefficiency of BFIs in long-term loan management has already leaded an enormous volume of outstanding loan in our country. At this backdrop, in order to ensure flow of term loans and to meet the credit gap, NBFIs have immense importance in the economy. In addition, non-bank financial sector is important to increase the mobilization of term savings and for the sake of providing support services to the capital market. The focus of this paper is to highlight the necessity and importance of NBFIs to strengthen the financial system for rapid economic development of the country.

IFPRI. (2002). "Banking on the Poor: Unleashing the Benefits of Microfinance".

Abstract: This policy brief is designed to help policymakers and practitioners understand the financial services needed by the poor. It is framed within lessons learned from a five-year IFPRI research program that examined, among other issues, the roles government should play in providing financial services to meet the needs of the poor. Insights presented here are based on a series of detailed household surveys conducted in nine countries of Africa and Asia: Bangladesh, Cameroon, China, Egypt, Ghana, Madagascar, Malawi, Nepal, and Pakistan. Microfinance, once a colossal leap of faith for many governments and donors, is now considered a viable business. IFPRI's research shows that it is most successful when designed with a tight and mutually reinforcing fit between the larger financial environment, the mechanism of service design and delivery, and the particular needs of the poor that microfinance institutions serve.

Ikpeleu, I. (2002). "The Nigerian Agricultural and Cooperative Bank Limited" in Gerhard Coetzee (ed.) *Agricultural Development Banks in Africa: The Way Forward*, Nairobi: African Rural and Agricultural Credit Association.

Jackelen H.R. (1999). "Building banking from below in Bangladesh". *Small Enterprise Development*, Volume 10, Number 3, 1 September 1999, pp. 29-37(9).

Abstract: In Bangladesh, a poorly performing formal financial sector runs parallel to a burgeoning and innovative microcredit industry run by NGOs. The success of the group-based microcredit formula originating with Grameen Bank is well-known; the expansion of Bangladesh's microcredit industry is also partly the result of the supervisory system created by the apex organization, PKSF. As concern increases about how to cater for the financial needs of the poorest, who are unable to benefit from microcredit, attention is focused on savings accounts to provide poor people with security. This article proposes the establishment of a savings guarantee foundation in Bangladesh which would have the function of regulating savings accounts with NGOs, guaranteeing people's savings with certified NGOs, and researching appropriate savings and insurance products for poor people.

Kamewe, H. & Koning, A. (2003) "The Experience of Savings Banks". *The MicroBanking Bulletin*, Issue No. 9, July 2003, pp. 37-42.

Ketkar, K.W. (1993). "Public sector banking, efficiency and economic growth in India". *World Development*, Volume 21, Issue 10, October 1993, Pages 1685-1697.

Abstract: This paper develops a framework that integrates Harrod-Domar growth model and McKinnon-Shaw Hypothesis via Molho's dynamic adjustment mechanism. The model is used to determine the impact of bank nationalization through aggressive bank branch expansion programs and priority sector credit allocation on India's financial savings, investment, productivity and GDP. The empirical findings indicate that the bank nationalization policy has been a mixed blessing. The aggressive bank branch program since 1969 resulted in an increased in savings, investment, productivity of capital and GDP, however, the priority sector credit allocation policy did not fully achieve its desired goals.

Khalily, M.A.B. (1991). "An Analysis of Rural Banks in Developing Countries: The Case of Bangladesh", Unpublished Ph.D Dissertation, The Ohio State University, USA.

Khalily, M.A.B.; Huda, R. & Lalarukh, F. (1997). "On the Behavior of Agricultural Credit in Bangladesh: The Role of Bangladesh Bank". *Dhaka University Journal of Business Studies* 18(1): 131-152.

Khalily, M.A.B. (1997) "A Note on the Autonomy and Merger of BKB and RAKUB", *mimeo,* February

Krahnen, J.P. & Schmidt R.H. (1994). "Development Finance as Institution Building: A New Approach to Poverty- Oriented Banking". Westview Press Boulder, Colorado.

Kropp, E.; Marx, M.T.; Pamod, B.; Quinones, B.R. & Seibel, H.D. (1989). "Linking Self-help Groups and Banks in Developing Countries". Eschborn, GTZ, & APRACA, Bangkok.

Lepp, A. (1996). "Financial products for MSEs - the municipal savings and loan banks of Peru". *Small Enterprise Development*, Volume 7, Number 2, June 1996, pp. 15-25(11).

Abstract: What small business people and microentrepreneurs often find to be lacking in conventional banking services are, among other things, quick and simple procedures, and access to loans for household uses. The municipal savings and loan banks of Peru have products that go a long way to meeting both needs. This article describes the structure of the MSE sector in Peru, and then outlines the financial products of the savings banks that have been designed to meet the needs of this sector. The article then describes the take-up of these services by the target group of MSEs, and suggests that these services can be provided on a cost-covering basis.

Levy Yeyati, E.; Micco, A. & Panizza, U. (2005). "State-Owned Banks: Do They Promote or Depress Financial Development and Economic Growth?" background paper prepared for the conference Public Banks in Latin America: Myths and Reality, Inter-American Development Bank, Washington, D.C., Feb. 25, 2005.

Abstract: This paper surveys the theoretical and empirical literature on the role of state-owned banks and also presents some new results and a robustness analysis. After having discussed whether there is a theoretical justification for the presence of state-owned banks, the paper focuses on their performance. Three basic facts emerge: (i) state-owned banks located in developing countries are characterized by lower profitability than comparable privately owned banks; (ii) there is no evidence that the presence of state-owned banks promotes economic growth or financial development; and (iii) the evidence that state-owned banks lead to lower growth and financial development is not as strong as previously thought. The paper concludes that we still do not know enough to pass a final judgment on the role of state-owned banks and hence more research is needed.

Madeley, J. (1984), "Giving Credit where it's Due: Banking on the Landless in Bangladesh". Ideas and Action, Volume 6, No.159.

Maurer, K. & Seibel, H.D. (2002). "Agricultural Development Bank Reform: The Case of Unit Banking System of Bank Rakyat Indonesia (BRI)." Rural Finance Working Paper No. B5, Doc. No. 48881, Rome: International Fund for Agricultural Development.

Maurer, K. 2004. "The Role of BRI Units in Capital Accumulation and Rural Savings Mobilization". Paper presented at BRI International Seminar, 1 December, Bali, Indonesia.

Mushinski, D. (1999). "An Analysis of Offer Functions of Banks and Credit Unions in Guatamala". *Journal of Development Studies* 36, no. 2: 88-112.

Abstract: Economists have sought to identify institutions, which might fill the gap in household access to credit arising from rationing by formal lenders. Credit unions have been identified as institutions, which might use informational and monitoring advantages to fill that gap. Using information on household perceptions of their access to credit, this article analyses the impact of certain credit unions on the access to credit unions in Guatemala. Regression results indicate that credit unions serve markets unserved by formal lenders and that information on household perceptions of their access to credit is important in making inferences about lender lending activities.

Muraki, T.; Webster, L. & Yaron, J. (1998). "Thailand, BAAC – The Thai Bank for Agriculture and Agricultural Cooperatives," Case Studies in Microfinance. Sustainable Banking with the Poor. Washington, DC: World Bank. April.

Muraki, T.; Webster, L. & Yaron, J. (1998). "The Thai Bank for Agriculture and Agricultural Cooperatives (BAAC): Outreach and Sustainability through 1996". Unpublished paper. Washington DC: World Bank.

Mutunhu, T.E. (2002). "Agribank of Zimbabwe" in Gerhard Coetzee (ed.), *Agricultural Development Banks in Africa: The Way Forward*, Nairobi: African Rural and Agricultural Credit Association.

Nelson, C.; MkNelly, B.; Stack, K. & Yanovitch, L. (1996). "Village Banking: The State of Practice". Seep Network.

Abstract: This book begins with a summary of the historical evolution of village banking, including a statistical profile of featured programs. It then examines the methodology in detail, comparing the original model to its numerous adaptations. Organizational development issues and challenges for village banks, implementing agencies and northern NGOs are discussed with a special focus on self-sufficiency. The book also includes an analysis of the impact of village banking based on existing evaluation techniques. The final section presents the principles and standards that the practitioner community has adopted in an effort to establish guidelines that will best serve the long-term needs of their clients.

Outtara, K.; Gonzalez-Vega, C. & Graham, D.H. (1999). "Village Banks, Caisses Villageoises, and Credit Unions: Lessons from Client-Owned Microfinance Organizations in West Africa". USAID Microfinance Best Practices Case Study.

Abstract: This case study is a component of the research project on *Client-Owned Microfinance Organizations: Lessons from West Africa*, conducted by the Rural Finance Program at The Ohio State University (OSU) under the Microfinance Best Practices (MBP) Program. The main objective of the study has been to assess the strengths and weaknesses of *mutualist* financial organizations in the delivery of microfinance services, both loans and deposit facilities, in comparatively poor countries. The common thread that binds several types of *mutualist* financial organizations is that they are client-owned institutions. Some of them are financial cooperatives developed along traditional credit union designs; others are village-banking systems sponsored by international nongovernmental organizations (NGOs), and still others are village-owned savings and credit associations, including the *caisses villageoises* that operate in several African countries. The present case study conducts a preliminary comparative analysis of these three institutional forms.

Owens, J. & Agabin, M.H. (2006). "Experiences of the Philippines' Rural Banks in Microfinance". *Finance for the Poor*, Vol. 7, No. 2.

Abstract: The Philippines has a total population of about 85 million people with per capita income of $1,271 in 2005. According to the Asian Development Bank's estimates, about 36 million Filipinos, or 49% of the country's total population were living below the $2-a-day poverty line in 2003.1 A large percentage of the poor are engaged in microenterprises to support themselves and their families. The Government of the Philippines (GOP) has emphasized microfinance as one of the important tools for helping reduce poverty. As part of this initiative, the GOP has been encouraging the private sector, including the formal banking sector, to introduce and offer microfinance services. Since the 1990s, the GOP and regulatory authorities continue to introduce policy reforms in support of establishing and maintaining an appropriate enabling environment for the private sector, especially banks, to actively offer commercial microfinance services.

Painter, J. & MkNelly, B. (1999). "Village Banking Dynamics Study: Evidence from Seven Programs". *Journal of Microfinance*, Vol 1, No.1.

Abstract: The primary question examined in this study is whether client loans grow or stagnate over time. Loan growth is important to financial sustainability and is also a proxy for positive impact. The relationship between loan growth and a variety of factors—program loan and savings policies, site selection, membership dynamics-are explored in the context of seven village band programs. The study concludes that on average, loan size did not stagnant but increased steadily, although at a rate lower than the original village bank model projections. Only programs that allowed non-poverty level loans (loans above US$300) approached the original loan growth rate. Other factors positively associated with more rapid loan growth were urban site selection and restricted internal fund policies. Membership turnover—influx of new clients and drop-out of original clients—was also evident across all programs, dampening loan growth rates by approximately 25%. While factors external to the program affect these dynamics, program policies can play an important role in stemming the drop-out rate. In early loan cycles, initial program promotion and orientations need to clearly articulate program requirements and terms. In later loan cycles, policies pertaining to savings access, meeting frequency and membership requirements may require flexing to enhance clients' incentives to remain.

Patten, R.H. & Rosengard, J.K. (1991_. "Progress with Profits: The Development of Rural Banking in Indonesia". California, USA: International Center for Economic Growth and Harvard Institute for International Development.

Patten, R.H.;Rosengard, J.K. & Johnston, D.E. Jr. (2001). "Microfinance Success amidst Macroeconomic Failure: The Experience of Bank Rakyat Indonesia During the East Asian Crisis". *World Development*, Volume 29, Issue 6, June 2001, Pages 1057-1069.

Abstract: The Bank Rakyat Indonesia (BRI) unit system is recognized as one of the largest and most successful microfinance institutions in the world. Indonesia has been more drastically affected by the East Asian monetary crisis than other countries in the area. It is therefore worthwhile looking at the BRI experience during the crisis—not only the experience in microenterprise credit, but also in small, medium and corporate credit and in savings mobilization. The comparative performance of different parts of BRI during the East Asian crisis suggests essential features in the future design of sustainable microfinance institutions, products, and delivery systems.

Peachy, S. & Roe, A. (2006). "Access to Finance – What Does it Mean and How Do Savings Banks Foster Access". *World Savings Bank Institute*, Perspectives No. 49.

Abstract: The purpose of this study is to give an overview of the importance of access to finance for all and to record the main obstacles to access in different parts of the world. It also attempts to create a coherent framework for analysing the available data on access and to link this through to indicators of wider economic development. Having surveyed the nature and dimensions of access (or lack of it), the study goes on to review public and banking sector initiatives to improve access to finance and then looks at the critical role of the savings bank movement – socially committed retail banks, like savings banks, postal savings banks and community banks – in the provision of financial services to all strata of the population in urban and more remote areas. Finally, a policy agenda is developed for both the financial institutions that must deliver access and the public sector that must create the right environment for doing so. The study concludes with the following viewpoints:

- Access is an important issue but it has to be understood differently from the related issue of exclusion, as the solutions are different.
- The savings bank movement has an instinctive sympathy for improving access and this study shows how important the movement is to sustaining what access there already is.
- At newly identified levels of supply, savings banks account for three quarters of the 1.4 billion accessible accounts provided across developing and transition economies.
- Moreover an economy is very unlikely to be approaching full access unless it has a strong savings bank movement or other proximity banking presence.
- Regulators need to recognise that the governments they serve may have more at stake in improving access than commercially run banks. Regulation should be fine-tuned accordingly.
- As always the performance of banking systems cannot be understood in isolation from the systems of political economy within which they operate. Governments are likely to do more to improve access by improving the foundations of civil society than by trying to mandate access and interfere with product design.

Poapongsakorn, N.; Siamwalla, A. & Charoenpiew, P. (1998). "The Rural Finance Market in Thailand and the Role of the Bank for Agriculture and Agricultural Cooperatives". In *The Rural Finance in Thailand*, edited by Nipon Poapongsakorn et al. Bangkok: Thailand Development Research Institute. p. 1-42.

Quinones, B.R. (1997). "Evaluation of the Linkage Banking Programme in India". Unpublished Paper. Bangkok: Asia Pacific Rural and Agricultural Credit Association.

Rao, G. (1995). "Reaching the Poor: Strategies of Canara Bank". Paper presented at the NABARD-APRACA International Seminar on Development of Rural Poor Through the Self Help Groups. Bangalore, India.

Reille, X. & Gallman, D. (1998). "The Indonesia People's Credit Banks (BPRs) and the Financial Crisis". Paper presented at the Second Annual Seminar on New Development Finance, Goethe University of Frankfurt, 21-25 September.

Reijmerink, J. (2003)."The Agricultural Cooperative Bank of Armenia: The Success Story of Cooperative Rural Finance". Unpublished paper, IFAD.

Robinson, M.S. (2005). "Why the Bank Rakyat Indonesia has the World's Largest Sustainable Microbanking System".

Abstract: This paper, which was first presented at BRI's International Seminar in December 2004, outlines the Bank Rakyat Indonesia's journey from failed credit provider to successful microbanking institution, a passage of over three decades. It provides an overview that will be of interest to other finance institutions, and especially those which have their roots in government initiatives. BRI began in 1970 as part of an Indonesian government plan to intensify rice cultivation. Composed of 3,600 units which acted as branches under a supervising branch, they provided subsidized credit to rice farmers and other agricultural enterprises. While the rice intensification program succeeded, the credit component failed: this was due to bad planning and poor thinking, mingling government-mandated loan terms and ceilings with inefficiency, a high loan default rate, a badly trained and uninterested staff, and a system prone to abuse and corruption. Calls to shut BRI down were not heeded by the government, which instead transformed BRI into a commercial microbanker. Various preconditions aided this transformation. First, Indonesia had enjoyed two decades of economic and political stability, second, oil wealth had been spread around in rural areas in the 1970s, leading to increasing demands for banking for the rural population, and third, the economics team of the Ministry of Finance began to acknowledge the importance of microfinance. Perhaps a more important precondition, however, was the government's correct forecast of a decline in oil prices in the early 1980s, which set the stage for a greater private-sector role in savings and investment. In 1983, these factors came together to produce a new strategy for BRI which would transform it into a large-scale microbanking institution: recognising that its 3,600 units could form the nucleus of a banking system if properly managed and with skilled and committed management, with a commercial loan portfolio funded by public savings whose profits would built BRI's longterm viability as a microbanker. By 1986 commercial microbanking (loans and savings services) were being offered at all units throughout Indonesia, with increased outreach and growing profits. The government spurred this change in part with a wide-ranging financial deregulation in 1983, which permitted state banks to set their own interest rates, and in part by guaranteeing unit funding for only two years, after which, if the unit had not become profitable, it would be closed. Units were given a fresh start, with some new cash equity and unburdened with liabilities, which were transferred to the supervising branches. A new corporate culture was introduced, emphasising cooperation among staff members, good staff training, and performance-based incentives. Strong leadership from the chief administrative figures was a key element in the successful transition. The over twenty-year-long life of BRI as a microbanking institution receives the bulk of the author's remaining attention. She stresses that the institution continued to grow, even during the difficult years following the start of the east Asian financial crisis in 1997. As many of BRI's clients did no business abroad, they were only indirectly affected by the massive devaluation of the Indonesian rupiah. Moreover, the almost fifteen years of BRI's successful functioning as a microbanker gave it such client confidence that new clients actually deserted their failing banks during the crisis, to transfer their money to BRI. Another reason for this institution's success is its emphasis on savings rather than on loans, which ensures it has a strong basis upon which to mobilise funds. From here the author then speculates about the emerging global microfinance industry, and compares BRI favourably with Bangladesh's famous Grameen Bank. This history of the BRI provides salutary lessons for successfully reforming a financial institution:

- give strong leadership;
- cultivate an awareness of the importance of microfinance;
- train staff and encourage them to get involved in the spirit of the enterprise; when appropriate, stress savings so as to provide stability for loans; and
- strive to migrate from government financial support to viable economic independence as soon as possible.

Sacay, O.J.; Randhawa, B.K. & Agabin, M. (1996). "The BAAC Success Story". Financial Sector Development Department, World Bank, Draft, Washington, D.C. 1996.

Sankaranarayanan, R. (1998). "A Study of the Problems of Over Dues and Recovery Performance of RRBs in Tamil Nadu State".Unpublished Ph.D. Dissertation. Tamil Nadu: Gandhigram University.

Satish, P. & Gopalakrishna, C.K. (1997). "Viability of Rural Banking". *Economic and Political Weekly*: 2711-16.

Abstract: The article considers the viability of rural banking and looks at the macro-level components of the financial structure of rural banking institutions. The profitability of rural commercial bank branches is studied using a sample of branches in four districts of Maharashtra. It is concluded that there is nothing intrinsically non-viable about rural banking operations or rural finance institutions. Suggestions are made for making rural banking operations or existing non-viable institutions or units viable.

SBP - World Bank. (1998). "FINCA: Insights from a unique approach to village banking [in Costa Rica]".

Abstract: FINCA Costa Rica has been both a leader and a non-conformist in village banking. As one of the first village banking examples in Latin America, the program offers valuable lessons to other village banking institutions. While still retaining the FINCA name, FINCA Costa Rica has split from FINCA International, the US-based NGO that is credited with developing the village banking methodology. Some of the unique features of FINCA Costa Rica include: a minimalist approach to microfinance, a predominantly male, literate, agriculturally based target group, individual loans, a legal ownership structure of each village bank with voting based on percentage ownership of equity shares, relatively larger and longer loans, and legal penalties for default. The program leadership has shown a great willingness to adapt the methodology as problems have surfaced over the years. Given FINCA Costa Rica's history and willingness to adapt, it offers unique insights into the problems and potential of village banking. The following paper presents an overview of FINCA Costa Rica1 and examines ten lessons that can be learned from FINCA's unique approach to village banking.

Schrieder, G.R. & Theesfeld. I. (2000). "Improving bankability of small farmers in northern Vietnam". *Savings and Development* 24, no. 4: 385-403.

Abstract: Access to financial services has proven to be important for poverty reduction in developing countries. Clearly, it is the poor who face considerable rationing with respect to the financial market. The reasons are manifold and can be associated with the demand and supply side of financial intermediation. They all result in higher transaction costs (TCs) or a reduced risk-bearing capacity. TCs include the noninterest expenses incurred by both lenders and borrowers in making (obtaining), servicing (implementing), and collecting (repaying) loans. The term 'risk-bearing capacity' describes the borrowers' capacity in terms of income, wealth and skill to cope with the risk of loosing the transaction costs if the credit application is refused or a failing of the debt-financed investment. The term 'bankability' has entered the arena of development economics. Advocators of the notion that access to financial services reduces poverty claim that improving bankability supports credit access. From the perspective of the potential client, the term bankability comprises all aspects that increase the risk-bearing capacity and/or reduce the costs of acquiring a financial service, particularly credit. One finding in this paper is that a large proportion of the population in rural Vietnam refrains from becoming indebted not because of the TCs but because of their low risk-bearing capacity. Employing participatory research tools, one solution developed by small-holders in rural northern Vietnam was to set up an insurance fund to increase the risk-bearing capacity while being indebted and thus become bankable.

Seibel, H.D. & Schmidt, P. (2000). "How an Agricultural Development Bank Revolutionized Rural Finance: The Case of Bank Rakyat Indonesia". Cologne, Germany: University of Cologne.

Abstract: The case of BRI is evidence that, in a deregulated policy environment, a government-owned agricultural development bank can (a) be transformed into a highly profitable, self-reliant financial intermediary, and (b) turn into a major microfinance provider, offering carefully crafted microsavings and microcredit products to low-income people at market rates of interest. Making

good use of government seed money and a World Bank loan during an initial phase, it has now fully substituted savings deposits for external loans as its source of funds. With an outreach to 25.1 million saving accounts and 2.6 million borrowers (July 2000) through a network of 3,700 village units operating as profit centers, BRI covers its costs from the interest rate margin and finances its expansion from its profits. With non-targeted loans from $5 to $5000 at rural market rates of interest and unrestricted deposit services, the BRI Microbanking Division has weathered the Asian financial crisis well, making BRI the only profitable government bank in Indonesia. Several lessons can be drawn from BRI's experience:

· Financial sector policies work and are conducive to financial innovations

· With attractive savings and credit products, appropriate staff incentives, and an effective system of internal regulation and supervision, rural microfinance can be profitable

· The poor can save; rural financial institutions can mobilize their savings cost-effectively

· If financial services are offered without a credit bias, demand for savings deposit services exceeds the demand for credit by a wide margin

· Incentives for timely repayment work

· Outreach of a financial institution to vast numbers of low-income people and financial selfsufficiency (including viability and self-reliance) are compatible

· Average transaction costs can be lowered, and both the profitability of a financial institution and the volume of loanable funds can be increased by catering for both the poor and the non-poor with their demands for widely differing deposit and loan sizes

Within a six-year period, 1984-90, BRI became a model case in Asia of the transformation of an ailing government-owned agricultural development bank into a viable and self-sufficient financial intermediary with ever-increasing financial resources and numbers of customers, competing successfully with an array of other local financial institutions. Further strength was added to BRI's microfinance operations during the Asian financial crisis: When the Indonesian banking system collapsed, BRI's Microbanking Division remained profitable, with profits amounting to $150 million in 1999. At the peak of the crisis, 6-8/1998, it attracted 1.29 million new savers during that three-month period alone, while demand for credit, because of perceived uncertainties, stagnated. This has generated excess liquidity of US$1.45 billion (July 2000) – a recurrent challenge during the 100-year history of BRI and its predecessors. Since the onset of the Asian financial crisis, the division's 12-month loss ratio has been continually dropping to 1.35% (July 2000), substantially below its already low long-term loss ratio of 2.1% (1984-1999). Inspired by the success of BRI and some other institutions in the region, governments and donors may focus their resources on the transformation of agricultural development banks into viable, selfsustained microfinance intermediaries, instead of closing them down.

Seibel, H.D. (2000). "Reforming Agricultural Development Banks". Washington DC: IFAD.

Abstract: The author states that agricultural development banks (AgDBs), which are not viable, should either be closed, or transformed into self-reliant, sustainable financial intermediaries. Experience shows that reform is possible. Among the prominent cases are Bank Rakyat Indonesia (BRI) and Bank for Agriculture and Agricultural Cooperatives (BAAC, Thailand) as well as ADB/Nepal, which has been transforming its small farmer credit program into financially self-reliant local financial intermediaries owned and managed by the poor. In Africa, many AgDBs have gone into liquidation; but there are some promising cases of reform, among them BNDA/Mali. Once the political will to reform has been generated, many more AgDBs have the potential of contributing to poverty alleviation through sustainable financial services.

Seibel, H.D. (2000). "Agricultural Development Banks: Close Them or Reform Them?" *Finance and Development*: Vol. 37, No. 2. IMF.

Abstract: Agricultural development banks were established to extend credit and other financial services to customers not considered creditworthy by commercial banks. Although frequently unprofitable, they can play an important role in the fight against rural poverty. This article discusses the question of whether agricultural banks should be closed or revamped. The author notes that despite the difficulties that have beset agricultural development banks in most parts of the world, they have continued to provide important financial services through their branch networks. In regions where these banks have been closed, their market share has generally not been filled by other financial institutions. The experiences of the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand and Bank Rakyat Indonesia (BRI) are examined and used to support the contention that reforming agricultural development banks is feasible but only if certain preconditions exist to facilitate their rehabilitation. In many cases, reform will mean financial and organisational restructuring, including staff retraining and cleaning up any portfolio of bad debts. Then the banks must concentrate on demand-driven financial products tailored to the needs of rural customers.

Seibel, H.D. (2003). "Centenary Rural Development Bank, Uganda: a flagship of rural bank reform in Africa". *Small Enterprise Development*, Volume 14, Number 3, 10 September 2003, pp. 35-46(12).

Abstract: Centenary Rural Development Bank is a commercial bank providing deposit, credit and money transfer services to poor clients in Uganda. Established by the Catholic Church as a trust fund in 1983, it developed strengths in savings mobilization but performed poorly as a financial intermediary. This article describes Centenary'sprogress since reform in the early 1990s when it was transformed into a commercial bank. With donor support, the bank introduced a highly effective individual lending technology, including a computerized loan-tracking system, and staff and customer incentives encouraging timely repayments. This has resulted in an impressive portfolio-in-arrears ratio of around three per cent. Since 2002, the bank has started to overcome its quality-vs-productivity dilemma, by shifting incentives from repayment towards disbursement, and adding mesofinance for small and medium entrepreneurs. This move has substantially contributed to both the bank'ssustainability and its outreach to poor savers.

Seibel, H.D. (2004). "Report of the AFRACA Workshop Sustainability of Agricultural Banks". September 13-15, 2004, Harare, Zimbabwe.

Seibel, H.D.; Giehler, T. & Karduck, S. (2005). "Reforming Agricultural Development Banks". Eschborn, Germany: GTZ.

Abstract: The structure of this paper is as follows. In the introductory chapter, we have given an overview over the background and the crucial issues. This is followed by a confidence building section (with the evidence presented only in chapter 5). After briefly listing the flaws and ills of the old world of agricultural credit, we outline the new consensus on rural finance, which overlaps with that on microfinance, and list the major lessons taught by international experience in a condensed format. Finally, we deal with the issue whether agricultural finance is really as risky and unprofitable as it is usually depicted, particularly by those who stay away from it. In chapter 3, we present some puzzling insights into agricultural finance from both a supply-side and a demand-side perspective, pre-empting some of the evidence given in chapter 6. There is the usually reported lack of funds in banks and lack of finance among the potential investors (such as farmers, microentrepreneurs, commodity processors and traders) in some cases; but also the abundance of funds and shortage of investment opportunities in others. In chapter 4, we set the scene for the subsequent presentation of data, coming back to the basic issue of the introduction: ignoring, closing or reforming agricultural banks. In Chapter 5 we present the statistical facts as given in the *AgriBank-Stat* inventory of agricultural banks, amply illustrated by presentations of pre-reform, reforming and reformed agricultural banks in Chapter 6. In the final chapter, we present the new recent initiatives at agricultural bank reform, the role played by the agricultural bank associations, and a planning framework for policy and decision makers.

Seibel, H.D. (2006). "Linkages between Banks and Microfinance Institutions in Mali: A Case Study". FAO.

Abstract: Over the last 20 years microfinance has evolved rapidly in Mali. As of 2003, the microfinance sector consisted of 41 networks with 752 local microfinance institutions (MFIs) and a total outreach of 612,000 clients. Since the mid-1980s, the government-owned agricultural bank, Banque Nationale de Développment Agricole (BNDA), has been the main intermediary offering financial services to MFIs. From the beginning BNDA acted primarily as a channelling bank on behalf of donors until the mid 1990s when it began to act more as a channeling bank. This paper discusses and compares the financial linkages that BNDA has with the two of the 41 MFIs networks in Mali. First it looks at the liquidity balancing linkages with Kafo Jiginew, a federation of regulated savings and credit cooperatives, which is based on self-reliance through savings mobilization, using bank linkages mainly for liquidity balancing. The second case describes BNDA's financial linkage with the CVECAON (Caisses Villageoises d'Epargne et de Crédit Autogerées-Office du Niger) network. This linkage is geared to credit expansion more than liquidity balancing, with a significantly lesser emphasis on savings mobilization. Given the striking difference in strategy between the two networks, the question is posed whether donor generosity leads to MFI complacency.

Shah, D.P. (2003). "Reforming an Agricultural Development Bank". Rural Finance Nepal project, Working Paper No. 4.

Abstract: This Working Paper is about the reform attempts of the management of the Agricultural Development Bank of Nepal (ADBN). It is describing in detail the two main reform packages of the Bank in 1997 and 2001 and suggests lessons learned. In a sense, this report is unique since it has been written by an ex CEO of the Bank, responsible for guiding the bank for five years from June 1997 to August 2002. His views on the bank's relationships with donors, on the bank's attempts to cope with the rural finance paradigm shift and on internal and external difficulties encountered during the reform process illustrate the challenges of public banks in any reform process.

Shylendra, H.S. (1996). "Institutional Reform and Rural Poor: A Study on the Distributional Performance of a Regional Rural Bank". *Indian Journal of Agricultural Economics* 51(3): 301-314.

Srinivas, P.S. & Sitorus, D. (2004). "The Role of State Owned Banks in Indonesia". Paper presented at the 6th Annual Financial Markets and Development Conference, World Bank and IMF, Washington, D.C., April 26-27.

Abstract: State owned banks have historically played a major role in the Indonesian financial sector. Even today, nearly half the assets of the banking system are controlled by state owned banks. This paper explores the evolution of their role in the economy over the years. Looking ahead, there is little economic justification for Indonesia to continue to have state owned banks. Full privatization should therefore be the desired policy objective. However, given the likely political difficulties in achieving this in the short run, steps should be taken to strengthen both the state owned banks and the Indonesian financial sector.

Srinivasan, G. (2002). "Linking self-help groups with banks in India". Small Enterprise Development, Volume 13, Number 4, 1 December, pp. 47-57(11).

Abstract: India's bank-linkage programme has been running for 10 years and now provides savings and loan services to 7.8 million households. The system is based on self-help groups which organize loans and savings for their members, then deposit group savings or access group loans from the bank. The national development bank, NABARD, provides refinancing and NGOs help form and nurture the self-help groups. This article looks at how the groups are formed, what are the advantages of the bank-linkage system, the extent to which different players in the sytem can operate sustainably and future challenges.

Uddin, M. Salim. (2005). "Cost of Rural Credit Delivered by Formal Sector Banks: A Study of Chittagong Area". *Bank Parikrama* Volume XXX, No. 1,March 2005 (pp.87-104).

Abstract: Bangladesh economy to a great extend depends on the development of agriculture and rural sectors. Government of Bangladesh tries to support rural financial institutions to ensure sufficient flow of funds to these sectors. In this regard, loans are given at confessional rates in the rural priority sectors. However, the crux of the problem is that the real cost of loan is much higher than the official rate. The incidental cost of getting and repaying loan comprises expenditure relevant to compiling formalities, days lost in getting and repaying loans, pleasing officials and the like. The incidental cost of getting loan varies from 19.2 per cent for small size loan to 8.18 per cent for large loan. In a similar way the incidental costs of repaying loan vary from 5.35 per cent for small loan to 2.02 per cent for large size loan. This cost varies from 30.23 per cent to 21.20 per cent depending on the size of loan against 11 per cent official rate of interest. The lower the size of loan the greater found the absolute cost. This situation needs to be addressed so that real cost comes down which would help the desired target group. To this end, time limit for sanctioning and disbursement of loan need to be fixed, formalities need to be simplified, service oriented motto needs to be developed along with other measures which may reduce real cost to a significant extend.

Vogel, R.C. *et al.* (1997). "Approaches to Rehabilitating Insolvent Banks: Benefits and Costs of Liquidating an Agricultural Bank in Peru". Unpublished paper prepared by IMCC, Washington, D.C., October.

Vogel, R.C. & Llanto, G.M. (2006). "Successful Experience of Government-owned Banks in Rural and Microfinance: The Case of the Land Bank in the Philippines". USAID. *MicroREPORT,* No.56.

Abstract: The Land Bank is a universal bank owned by the Philippine government. The government established the Bank to provide financial services to a wide array of rural clients and to give special attention to promoting rural development, assisting small farmers, supporting rural infrastructure, and providing a variety of services to agrarian reform beneficiaries (ARBs). The Land Bank does this not only directly at a retail level but also at the wholesale level through a variety of financial intermediaries, including rural banks, credit cooperatives, and a few thrift banks. The performance of the Land Bank is remarkable considering it has survived for 40 years without requiring bailouts to avoid bankruptcy, and it continues to serve a large and diverse rural clientele. This study looks closely into the Land Bank and attempts to determine the factors that have driven its successful performance. This paper is organized as follows: The executive summary comprises section I. Section II presents the Philippine economic and political environment in which the Land Bank has operated. Section III discusses the institutional performance of the Land Bank and identifies the internal and structural factors that have driven it. Lessons, conclusions, and future challenges, are presented in the final section. The main areas of focus in recent years for the Land Bank have been mobilizing deposits, diversifying and expanding the loan portfolio, lending to small farmers and fisherfolk, and building capacity through technical assistance programs. In terms of financial performance the bank has done quite well, with 9% growth per annum in revenues (up to 21 billion pesos, approximately $382 million) and 51% growth per annum in profits (2 billion pesos in 2004). Total resources of the Land Bank have been increasing steadily at a yearly rate around 8%, capital funds stand at roughly 21 billion pesos, and deposits make up 72% of the liabilities. The Land Bank's Return on Equity (ROE) in 2004 was close to 11%, better than the industry average. Net interest margin in 2004, reported at roughly 5%, was also slightly higher than the industry average. Meanwhile the Land Bank's registered capital adequacy ratio has been at par with the industry standard of not less than 10% but still fell short of the industry average.

Vyasulu, V. & Rajashekhar, D. (1993), "Credit for Rural Development: Managerial Reforms in Indian Banks" *Development Policy Review,* Volume 11, Number 4, December, pp. 393-412.

Wadhva, C.D. (1979). "Rural banks for rural development: the Indian experiment". *Contributions to Asian Studies*, XII, pages 179-95.

Westley, G.D. (2004) "A Tale of Four Village Banking Programs: Best Practices in Latin America" Washington, D.C.: IADB, Sustainable Development Department Best Practices Series MSM-125.

Abstract: Employing a unique data set on client retention, we find that leading VBIs in Latin America have client retention rates significantly below a comparison group of individual and solidarity group lenders. Based on this fact and the substantial rigidities, transactions costs, and risks that village banking imposes on its clients, we argue that village banking needs to continue becoming more flexible and client-oriented in order to increase client satisfaction, retention, and impact. By improving client satisfaction and retention, VBIs will also facilitate increases in their own sustainability and scale. Most of the paper (Chapters 2-3) is devoted to deriving and discussing numerous best practice and policy recommendations, with many of these recommendations focused on the theme of increasing the flexibility and client-orientation of village banking. The paper analyzes the current practices of four leading Latin American VBIs: FINCA Nicaragua, Pro Mujer Bolivia, Compartamos (in Mexico), and CRECER (in Bolivia). By making a detailed examination and analysis of the major aspects of the village banking methodology employed by these leading VBIs, we aim to show what lies behind their success. Each VBI's practices are studied critically and compared with those of the other VBIs, all within the context of the village banking experience and literature worldwide and especially in Latin America. This allows us to analyze what appears to be working well and what appears to need improvement, that is, what are good, bad, and questionable VBI practices, with particular reference to Latin America. The remainder of this Executive Summary provides a brief digest of these best practice and policy recommendations. For readers without a background in village banking, this summary occasionally may be hard to follow, reflecting the fact that we are trying to summarize a great many conclusions in a small space. The text should elaborate on and clarify any difficult points. Readers who are totally unfamiliar with village banking may wish to read the first few pages of Chapter 1, including the section entitled, "What Village Banking Offers," in order to have a basic understanding of village banking.

Westley, G.D. (2004). "Village Banking: Joining the Mainstream". *Microenterprise Development Review*, Vol.7, No.1.

Abstract: Village banking has arrived. In a recent survey carried out by the IDB and the Consultative Group to Assist the Poorest of 176 of the largest and most sustainable microfinance institutions (MFIs) in 17 Latin American countries, 47 MFIs offer village banking. Their village bank loans collectively cover a total of 410,000 clients with $61 million in portfolio and an average loan balance of $150. The number of clients served through village bankingnow exceeds the number served through solidarity group lending (350,000). Village banking institutions (VBIs) range from NGOs offering only village banking to regulated commercial banks offering village banking alongside solidarity group and individual microloans.1 Geographically, the clients of VBIs range from remote rural regions to peri-urban and urban areas. However, the percentage of clients residing in rural areas is higher for village banking clients (29%) than for group or individual loan clients (17% and 8%, respectively). In addition to this greater rural focus, the target clientele of most VBIs are very poor microentrepreneurs (as shown by the low average balance of $150 for village bank loans, versus $329 for solidarity group loans and $980 for individual loans), and virtually all are women. One indicator of the more intense poverty focus of VBIs, taken from the MFI inventory cited above, is the low average balance of $150 for village bank loans, versus $329 for solidarity group loans and $980 for individual loans.

Yaron, J. (2006). "State-Owned Development Finance Institutions (SDFI): The Political Economy and Performance Assessment". *Savings and Development* Issue No. 1.

Abstract: The paper reviews the reasons for establishing state-owned development finance institutions (SDFIs) and evaluates their performance compared to original expectations. It highlights the lack of consensus regarding meaningful assessment criteria used in evaluation the SDFIs' performance. The paper further suggests, in the absence of a full cost-benefit analysis that is only rarely carried out to rely on an evaluation methodology based on two primary assessment criteria: the outreach to a well defined target clientele and the subsidy dependence of the SDFI concerned. It further recommends that the debate on whether SDFIs still have any development finance role to play should be shifted somewhat to focus instead on using this assessment framework that calls for estimating the cost, subsidies, and defining and evaluating the "products" delivered by SDFIs. The paper further describes the drastic transformation of a previously loss-making, poor performing profit center in SDFI in Indonesia about twenty years ago to a very successful one that provides financial services to the low-income rural population. This profit center succeeded in achieving subsidy independence, substantial outreach and high profitability as a result of implementing the 'best practices' in rural financial intermediation. There are many lessons to be learned from the experience gained in transforming a poor performing, loss-making SDFI into the world flagship of the rural micro-finance industry. This unprecedented success is better appreciated considering that it is very costly to serve low income and poor rural clients. The provision of low value loans and savings accounts with frequent installments for loan repayments and saving withdrawals entails relatively high administrative costs per $ outstanding loan portfolio (OLP). The lack of traditional collateral and reliable accounting data, as well as questionable creditworthiness and debt servicing capacity of these clients further adds to the financial risk involved. Many of the modes of operations that explain this successful performance can be applied in servicing other target clientele such as small and medium sized enterprises (SME) and urban poor, provided that necessary adjustments to the different socio-economic and cultural values of these clients are appropriately made.

Young, R. & Vogel, R.C. (2005). "State-Owned Retail Banks (SORBS) in Rural and Microfinance Markets: A Framework for Considering the Constraints and Potential". microREPORT, AMAP, January.

Abstract: This microREPORT provides a research framework for the United States Agency for International Development (USAID) from the Development Alternatives, Inc. (DAI) consortium's Financial Services Knowledge Generation (FSKG) research team on the constraints and potential in rural and microfinance markets for state-owned retail banks (SORBs—a term we use to refer to all state-owned, retail-oriented financial institutions including agricultural development banks, commercial banks, savings banks, and postal banks). The report that follows provides an update on research activities and findings to date and outlines the next stages, activities, and objectives of continuing this research. It is accompanied by a bibliography which lists documents, publications and web sites on SORBs for those interested in further reading, three summary case studies of different types of SORBs prepared from existing documentation for illustrative purposes, and

tables containing summary data collected during the survey of SORBs which were used for selecting cases for further field research.

Zappacosta, M. (2003). "Village Banks for Rural Communities in Costa Rica". *Savings and Development*, Issue no. 3, 2003.

Abstract: Costa Rica has a long-term experience in financial services for small peasants. Immediately after the achievement of the independence in 1821, small producers of coffee stared to manage loans proceeding from processing plants and import companies. At the beginning of the twentieth century, the central bank developed for the first time some special credit tools to support agriculture. For almost seventy years, Cajas rurales and Juntas de Crédito Agrícola financed the national production of both food and export crops. They were de facto operational until the end of the 1970s, when a rising inflation rate reduced drastically the availability of credit for small farmers. In these years, the Fundación Integral Campesina (FINCA), a local institution specialised in rural finance, began to promote the diffusion of an innovative form of financial intermediation called Bancomunales. Their structure and organisation are based on the Village Banking methodology, originally developed by the Foundation for International Community Assistance but then modified by FINCA to the national rural context. Costa Rican Bancomunales are a pioneer and successful experience in rural finance programs in Latin America. In fact, since their first establishment in 1984, the number of Bancomunales has continuously increased, reaching many rural and remote areas. This paper examines the interesting lesson of Costa Rican Bancomunales, analysing their structure, organisation and working mechanism. When addressing the reasons of their success, a special attention is given to methodology features and to the influence of the macroeconomic context. In conclusion, the paper proposes some methodological and institutional changes that may be useful to enhance Bancomunales future autonomy.

❒ Commercial Banks

AFRACA. (2003). "The Role of Commercial Banks in Rural Finance".

Abstract: This publication provides the results of the analysis of three case studies selected from the Africa Region (East Africa sub-region and French and English West African sub-regions) and their further discussion in four workshops organized by AFRACA (The African Rural and Agricultural Credit Association) in 2001 and 2002. The objective of the studies was to find out the reasons for commercial banks getting involved or not getting involved in rural finance, the organisational arrangements used by the banks in their rural operations, the products and services they offer and some information about their costs, outreach and profits. The report says that although the financial market policy environment has improved substantially in developing countries, there are still six major obstacles to banks engaging in microfinance activities. These include:

- The need for commitment at the highest levels of bank management so that microfinance is not considered a second class activity.
- Organisational design and the difficulty of integrating microfinance activities with conventional large scale banking.
- The radical departure from conventional financial technologies demanded by the microfinance market, e.g. short term, group based, simple, fast, no collateral, low minimum balance savings accounts, etc.
- The need for specialised staff training.
- The need to reduce costs and / or increase interest rates.

Banking regulations such as legal reserve requirements, loan classification and provisioning. There are interesting reviews of bank experiences from Nigeria, Ghana, Kenya, Gambia, Uganda, Tanzania, Burkina Faso and South Africa. The appraisal of rural and microfinance in Burkina Faso in particular gives a good overview of the issues and problems preventing commercial banks engaging significantly with non-formal financial service providers (FSP) in West Africa, together with a useful list of recommended solutions, relevant to central banks, ministries of finance and commercial bank policy-makers. The book concludes with a summary of all the workshop findings and lessons learnt. A core conclusion is that involvement of commercial banks in rural and micro finance operations is highly desirable. Without commercial bank involvement, rural finance tends to lack depth. When deciding to enter the microfinance market the best approach appears to be a phased process of introducing savings and loan products by targeting a limited number of branches at a time to allow for gradual expansion as the bank builds up its experience and

capacity for microfinance. Wholesaling to NGOs may create a "win-win" situation if managed carefully. Most importantly central banks are believed to have a vital role to play in enabling and stimulating the banking sector to provide financial services to the rural poor.

Ahmmed, I. (2004). "Rate of Interest in the Microcredit Sector: Comparing NGOs with Commercial Banks", pp.195-203, in Ahmed, S. and M. A. Hakim (eds.) "*Attacking Poverty with Microcredit*", The University Press Limited, Dhaka.

Abstract: The NGO savings and credit approach is a great financial service innovation for the poor which increases their economic security. In addition, the poor borrowers are now confident enough to face any sort of disasters and emergencies. Effectiveness of NGO credit is obvious. A poor borrower who started with a loan of Taka 3000 eight years ago is now borrowing Taka 30,000. NGO credit is demand driven, repeat borrowing clearly indicates this. NGO credit is demanded because of its low transaction costs and its other advantages (as mentioned in this paper) Over commercial bank credit.

Alvarado, J.; Galarza, F. & Wenner, M. (2003). "CRITECNIA, PERU: The Private Sector-Bank-Small Farmer Linking Approach", Promising Practices in Rural Finance: Experiences from Latin America and the Caribbean-Chapter 7.

Abstract: This chapter summarizes Critecnia Sociedad Anonima's (S.A.) linking approach of financing small-scale producers and commercial banks through a nonfinancial provate company. Critecnia, a family owned group with close ties to cotton production and trading, was formed to provide general advice services. The goal was to make trading more efficient by organizing supply. As a result of a business survey, the management of the company found out that the most efficient way to do so was to ensure financing and to develop economies of scale to costs and obtain better prices from cotton harvest.

Harper, M. & Singh, A.S. (2005). "Small Customers Big Market: Commercial Banks in Microfinance". ITDG.

Abstract: The editors assume that readers accept that efficient and profitable financial services are necessary for sustainable economic development, and that such services should be available not only to the elite but to the mass of the population. Instead they pose a number of questions at the outset:

- Why should donors, governments and other institutions or individuals who want to extend financial services to poorer people, to 'reach the unreached', spend so much money, time and effort on building entirely new institutions, when there are thousands of banking outlets already in place?
- What is microfinance, other than extension of profitable banking to a new market that has not been properly served before?
- Who could be better qualified to provide banking services to this new market than institutions which are already offering such services to large numbers of customers in the same towns and even the same villages?

The authors suggest that times have changed since the 'new paradigm' microfinance first made an appearance. They argue that donors and policy makers should look beyond MFIs, and should try to encourage and assist banks and other formal financial institutions to replace them, to take them over, or to initiate microfinance themselves in places where there are no existing MFIs. They suggest that more directly, bankers themselves should look more closely at what MFIs and a few other banks have achieved, and should seriously consider entering this market themselves, with or without subsidy or other external support. The book provides 18 case studies, from 15 different countries, which show how commercial banks have successfully engaged in microfinance. In identifying these case studies, microfinance was defined loosely as 'the provision of financial services to poorer people who have previously not had access to them'. Both public and private sector institutions were deliberately included in the definition of commercial banks, and are 'for-profit full-service regulated financial institutions'. The cases cover a wide variety of ages and types of institutions, which also have a diversity of strategies for entry into microfinance, with each case demonstrating a number of different factors. Each case study is followed by 3 or 4 'discussion questions', which are sometimes deliberately contentious, designed to encourage readers to question some assumptions, and to confirm, or revise, their own opinions. The book ends with a summary of some of the conclusions and lessons the authors believe can be drawn from the case studies.

Hokenson, M. & Markson, T. (2003). "What Works: ICICI Bank Innovations In Rural Finance".

Abstract: ICICI Bank, India's second largest banking institution, has discovered a large under-served market of potential customers—the 700 million mostly poor inhabitants of rural India. Furthermore, ICIC considers business strategies for accessing this market as critical to the future of the company. The bank also sees its efforts to develop viable commercial models and distribution systems as having an important social mission—that of enabling the poorest of the poor to become active and informed participants in socio-economic processes. In a relatively short period, the company has established a significant presence in rural India as a direct provider of financial services, helping to organize village self-help groups to whose members ICICI provides micro-loans. To extend its reach, the company has also established indirect distribution channels, becoming a lender to, and sometimes an investor in, some of the largest microfinance organizations in India and partnering with several ventures to offer financial services over their rapidly growing networks of Internet kiosks.

Khan, M.H. (1997). "Credit for Poverty Alleviation in Bangladesh: Performance of Public Sector Banks", pp. 203-216, in Wood, G. and I. Sharif (eds.) "*Who Needs Credit? Poverty Finance in Bangladesh*", The University Press Ltd., Dhaka.

Abstract: Banks have been being condemned time and again in various discussion forums/seminars for their inability to meet the national need to increase efforts directed at poverty alleviation. Such observations are not based on facts as is evident from the above discussion. The banks have a clear and ambitious program for lending in the rural sector. But they also have problems, which need to be looked at. Their efforts should be directed towards improving credit delivery and their monitoring mechanism. There is a growing tendency among some experts to propose the establishment of new conduits for channelling micro-credit, leaving the 'problematic' existing institutions to one side. This is an expedient solution, since addressing problems within the existing institutions is a more than Herculean task. But Bangladesh, as a resourcepoor nation, should think twice before agreeing to such experiments. There have been a score of Rural Development Projects with a credit component for poverty alleviation implemented since Independence, involving the banks in dispensing micro-credit. But none of the projects addressed the institutional deficiencies of the Participating Credit Institution (PCI). The result has been that projects have folded and the Bangladesh Bank has withdrawn the temporary refinance facility allowed to the PCI against project lending. Everyone involved in the process has washed their hands of it, but the banks are left having to use depositors' money to carry the burden of huge, overdue project loans. That a little institutional development support to the lending banks can do magic has been proved by the performance of the SIDA/NORAD-assisted Productive Employment Project of the Agrani Bank, and the ADB-assisted Rural Poor Cooperative Project of the Sonali Bank. The former targets beneficiaries through informal pre-cooperative groups and the latter targets beneficiaries through the cooperative structure. The projects' success in maintaining a 100% recovery rate belies the common notion that formal banks as well the cooperative sector are not capable of handling poverty alleviation credit programs efficiently. The problem lies elsewhere, and demands the thorough scrutiny of the experts.

Micco, A. & Panizza, U. (2005). "Public Banks in Latin America". Background paper prepared for the conference Public Banks in Latin America: Myths and Reality, Inter-American Development Bank, Washington, D.C., Feb. 25, 2005.

Abstract: The lack of strong evidence on efficiency gains by privatization in Latin America, along with low economic growth and a decline in bank credit to the private sector after 1998, have raised concerns about the reforms introduced to the banking sector in the last decade. Critics of privatization argue that domestic financial systems have gained in neither depth nor stability with the closure or sale of public banks in the 1990s. Moreover, following the "development" view of government participation in financial markets,5 critics argue that segments of the market previously covered by public institutions now do not have access to financial services because private banks are mainly oriented to wealthier segments and are not interested in small clients.6 Due to the prevalence of government-owned banks in the region and the increasing debate about the policies that countries should follow in terms of public ownership in this market, there has been an increasing interest among economists in providing both evidence about the effects of government ownership on financial markets and a conceptual framework for evaluating the performance of these institutions. This paper tries to contribute to this literature in four different aspects.

Pearce, D.H. (2004). "Financial Services through State Bank". CGAP, World Bank, Agriculture Investment Sourcebook.

Abstract: State banks, particularly recently privatized state banks with large rural branch networks, have the potential to offer low-cost access to a range of financial services on a wide scale. This Agricultural Investment Note from the World Bank explores ways in which these institutions can best be taken advantage of, in terms of their infrastructure, systems and services, to provide improved access to a range of viable, demand-driven and low-cost financial services to rural populations reliant on agriculture. State-owned banks that may have extensive networks of rural branches include agricultural development banks, regional development banks, savings banks and postal banks. The Note does not advocate a return to unqualified support for state banks or putting lines of credit through state banks. It proposes three main options for engaging with these types of banks and gives recommendations on how the options can best be pursued. They are: 1.A management-led turnaround of the bank – which is the most ambitious and costly proposal. It assumes the complete reform of the bank, such as took place in the Agricultural Bank of Mongolia (AgBank) and the National Microfinance Bank (NMB) of Tanzania. The turnaround in these banks was achieved by contracting a consulting firm to provide temporary foreign senior management, intensive technical assistance, systems and infrastructure improvement, together with new product development and marketing aimed at diversifying the financial services and improving branch viability. 2. The creation of a specialized, autonomous micro or rural finance unit within a state bank structure, that utilizes state bank branches and systems but is insulated from political interference and can be given the freedom to operate on the lines of internationally accepted good practice. Cited examples are Banco do Nordeste in Brazil and Bank Rakyat in Indonesia. 3.The creation of linkages with other financial providers to improve access to a better range of financial services for agriculturally dependent populations. An agreement with a postal savings bank, for example, may allow a financial institution to provide money transfer services to their customers and NGOs that are not allowed to offer deposit services could negotiate access to savings schemes through a state bank. The Note goes on to review the benefits of these ways of improving state bank operations and assesses a number of policy and implementation issues. The authors recommend that that donors should only consider working with state banks if there is sufficient long-term protection from government influence. They also suggest that it is important to proceed ambitiously but cautiously.

Sobhan, R. & Fatmi, N.E. (1990). "Role and Problems of Public Financial Institutions in the Recovery of Loans; Case Studies of Nationalized Commercial Banks", *Research Report* No. 111, Bangladesh Institute of Development Studies.

Steinwand, D. & Wiedmaier-Pfister, M. (eds.) (2003). "The Challenge of Sustainable Outreach: How Can Public Banks Contribute to Outreach in Rural Areas? Five Case Studies from Asia". Eschborn: Germany: GTZ.

Abstract: As early as the 1960s Gurley and Shaw (1960) and later McKinnon (1973) stressed the importance of a functioning financial system for development and criticised so-called *financial repression*, i.e. the strict regulation of the financial sector, which was common at that time. Throughout the 1960s and 1970s, most Third World governments, following traditional growth theory, intervened in their economies on a massive scale. A cornerstone of this growth strategy was the channeling of domestic and - even more importantly - donor money through specialised development banks at concessional rates to priority areas such as the agricultural sector. *Outreach* was the challenge here, with *sustainability* of little concern. The famous Spring Review, research funded by USAID in South Korea and Taiwan in the 1970s, influential publications like "Undermining Rural Development with Cheap Credit" (Adams et. al. 1984) and tighter development aid budgets finally resulted in a shift in policy. From the mid-1980s, target lending programmes were gradually replaced by a financial systems approach focussing more on the *sustainability* and *viability* of the financial system and its institutions rather than on the number of priority clients served. International Finance Institutions (IFIs) pushed structural adjustment programmes (SAP) in partner countries and capped their refinancing lines for development banks. Many of the notorious loss-making development banks, particularly in Latin America and Africa, were closed down. It was hoped that lending business would be taken over by commercial banks. This development is well documented in literature and does not need to be discussed in more detail here. At the same time a new star was born. First experiences in Indonesia, Bangladesh, Bolivia and some other countries demonstrated that banking with the poor is not only viable, but indeed has a strong positive developmental impact on clients (income, employment, health, etc.). This was the beginning of what M. Robinson (2001) recently called the *Microfinance Revolution*. Within a decade microfinance projects mushroomed all over the world, leading to a large and diverse microfinance industry by the end of the century. Although there are thousands of different players active in the field of microfinance, each with their own strategies and beliefs, it is still

possible to roughly separate them into two groups. The first group, we might call the "sustainability fraction". It perceives the existence of microfinance services as an integral part of a strategy for financial systems development which gives priority to the viability and sustainability of its institutions. The other group is the "outreach fraction", which has poverty alleviation as its main agenda, the number of poor gaining access to microfinance services its main criteria for success. Although there are now many successful examples of microfinance institutions (MFI) which have achieved sustainability, some of which also have impressive outreach in terms of both quantity and quality, from a global perspective *sustainable outreach* - particularly to rural areas -remains an unsolved problem.

Steinwand, D. & Kanathigoda, S. (2003). "The Challenge of Sustainable Outreach: How Can Public Banks Contribute to Outreach in Rural Areas? An overview". Eschborn: Germany: GTZ.

Abstract: The following article provides a summary of the synopsis report "The Challenge of Sustainable Outreach" which is based on case studies of five Asian public banks1 conducted in preparation for the GTZ-APRACA Conference on Sustainable Outreach, which took place in Colombo, Sri Lanka, in January 2003. With the re-emergence of rural finance as a key theme amongst developing country governments and the international development community, this article looks at current problems with providing financial services to rural areas and addresses how five state-owned development banks in Asia have re-engineered themselves to achieve financially sustainable outreach on a significant scale.2 Finally, the future challenges facing these public banks and rural finance in general are briefly discussed.

Valenzuela, L. (2001). "Getting the Recipe Right: The Experience and Challenges of Commercial Bank Downscalers". *Microenterprises Best Practices*.

Abstract: This Working Draft notes that commercial banks and other regulated actors continue to enter the microfinance world - in a process it calls *downscaling*. In theory downscaling is a good solution to microentrepreneurs' lack of access to credit. Banks have plentiful resources and a large infrastructure to reach out to thousands of clients. Surveys and anecdotal evidence collected for paper chapter, however, indicate that downscaling is a difficult endeavour. It suggests that the experience of these new entrants in microfinance has been mixed. A few commercial actors have succeeded, others are struggling and some have simply given up. This parallels the experience of microcredit non-governmental organizations (NGOs). But unlike the NGOs which are buttressed by a strong sense of mission as well as donor funds, most commercial banks usually make their decision to exit the market quickly. For this reason, there are already a number of well-known cases of bank exit.

Wampfler, B. & Baron, C. (2001). "Microfinance, agricultural banks, commercial banks: what potential partnerships could finance family agriculture?" CIRAD.

Abstract: This paper from December 2001 was presented at an international workshop in Dakar, Senegal, in January 2002. It looks at the issue of partnerships between different financial institutions in order to assist family agriculture, particularly in West Africa. It is primarily a policy paper, of interest to theorists and upper MFI and bank managers. Drawing on examples from West Africa, the authors underline the two very separate courses that traditional banks and microfinance institutions (MFIs) follow: often in competition with each other, and often simply ignoring and working around each other. Inset boxes give small case studies. In some cases, which are the main focus of this paper, partnerships develop between banks and MFIs. These can take different forms. The first is a financial partnership, in which a bank lends to an MFI, with loans often underwritten by a guarantee fund. The MFI often invests in the bank's insurance funds or other products. This form of partnership is not extremely close, in that it does not require or build a strong confidence relationship between the two members. A closer relationship can develop, in which the bank functions as the central bank for the MFI. A second type of partnership is the technical partnership, in which the bank provides services for the MFI in the form of training, transfer of funds, audit, and control. A third type of partnership is the institutional partnership, a much closer form of association in which the bank can play a determining role in setting up the MFI, the bank helping to define the institutional model of the MFI chosen by the operator. This association can be long-term and can include the bank directing or influencing a wide range of choices for the MFI. The paper then considers what benefits accrue to both banks and MFIs when they enter into partnerships. For banks, a partnership with an MFI can mean increased bank access in remote areas otherwise unreachable by the banks, which are constrained by their centralised structure. MFIs can provide external channels of credit otherwise inaccessible by the banks. MFIs, meanwhile, can benefit from a bank's centralised structure, and can derive extra financial credibility from such an association. Banks can also help make MFIs more professional.

Sponsors, like international agencies, are often very interested to promote these partnerships. So what obstacles impede partnerships between banks and MFIs? First, MFIs are still fragile institutions, and the sector is still undergoing its own internal development, learning to improve its services, training, and efficiency. Moreover, an MFI's success often depends on its understanding and responsiveness to specific local conditions, whereas banks tend to be less specifically focused on local issues and less responsive to poor clients. Bank loans to MFIs can be quite expensive, which is also an impediment to financial partnership. A, is another barrier. Finally, banks' confidence in MFIs can be very fragile, which, given the power imbalance between the two types of institution, with banks exercising far more authority than MFIs, can be fatal to a partnership. The paper concludes with a brief consideration of methods to strengthen the possibility of such partnerships, pointing out that the emergence of professional associations that could act as mediators is a very positive sign. Banks want to see that MFIs are solvent and viable before they will enter into a partnership.

❒ Agricultural Finance

Adams, D.W. & Graham, D.H. (1981). "A critique of traditional agricultural credit projects and policies". *Journal of Development Economics*, Volume 8, Issue 3, June 1981, Pages 347-366.

Abstract: Authors critique the results, assumptions, and policies commonly associated with agricultural credit projects in low income countries. A summary of new views on these projects is present. These views emphasize voluntary savings mobilization and positive real rates of interest. Several explanations are given for why few of these new views have been adopted by policymakers.

ADB. (1993). "Agricultural Credit Policy Paper". Draft. Manila: ADB.

AFC (Agricultural Finance Corporation) Limited. (1988). "Agricultural Credit Review: Role and Effectiveness of Lending Institutions". Vol. V. Bombay: AFC, India.

Ahsan, S.M.; Ali, Ahsan & Kurian, N. (1982). "Toward a Theory of Agricultural Insurance." *American Journal of Agricultural Economics* 64: 520-529.

Alvarado, J.; Galarza, F. & Wenner, M. (2003). "Financiera Trisán, Costa Rica: Innovative Agricultural Credit Cards". Promising Practices in Rural Finance: Experiences from Latin America and the Caribbean-Chapter 8.

Andrews, M. Sr. (2006). "Microcredit and Agriculture: How to Make it Work". Mennonite Economic Development Associates, Canada.

Abstract: This paper discusses the challenges to ad factors affecting the success of institutions providing financial services for agricultural activities. The World Bank definition of rural finance is adopted here – the provision of a range of financial services such as savings, credit, payments and insurance to rural individuals, households, and enterprises, both farm and on-farm, on a sustainable basis. It includes financing for agriculture and agro processing. Agricultural finance is defined as a subset of rural finance dedicated to financing agricultural related activities such as input supply, production, distribution, wholesale, processing and marketing. And the term microfinance is considered the provision of financial services for poor and low income people and covers the lower ends of both rural and agriculture finance. Section 1 of this document provides readers with an overview of recent research in the area of rural and agriculture finance, and sets out the commonly held opinions. The following section then provides a discussion of the main challenges in the provision of financial services in rural areas – the paper amalgamates different lists from various sources that may constrain both supply and demand. Section 3 then points to what is working. It notes, of course, that there is not one clear model or set of guidelines that an institution can follow to ensure absolute success. However, the similarities amongst institutions that have achieved "success" in the provision of rural financial services are discussed, as well as some characteristics that can contribute to well performing portfolios within agricultural finance

providers. The final section discusses what is being learnt – including a summary of the lessons from urban microcredit that can be applied to rural areas.

Argent, N. (2000). "Whither the lender of last resort?: The rise and fall of public farm credit in Australia and New Zealand". *Journal of Rural Studies*, Volume 16, Issue 1, January 2000, Pages 61-77.

Abstract: Public farm financial institutions were established in 20th Century Australia and New Zealand to facilitate agricultural and rural economic development. This arrangement reflected agriculture's economic importance, and rural society's political importance to both countries until the early 1980s. With both countries' adoption of monetarist principles (including financial deregulation and the drive for smaller government) from the mid-1980s these public farm credit providers were seen to distort the allocation of farm credit and to be an inefficient use of public resources. Deregulation would, according to its many proponents, remove these distortions and create a free market for farm credit which would deliver the most appropriate loan packages for both countries' farm sectors. The extensive literature on the New Zealand experience of farm sector restructuring and primary research into the South Australian farm crisis of the late 1980s and early 1990s show that the commercialisation and/or abolition of public farm credit providers in both countries has fundamentally restructured the farm credit market but failed to address many farm families' demand for concessional, long-term finance. The research also demonstrates the continuing need for local and regional case studies of the impacts of and responses to major institutional restructuring that are both theoretically informed and scale sensitive as a means to building a genuinely international literature on contemporary rural and agrarian change.

Asian Productivity Organization. (2001). "Agricultural Credit in Asia and the Pacific". Report of the APO symposium on Agricultural Credit held in Tokyo, from 8 to 14 September 1999. Tokyo: Asian Productivity Organization.

Abstract: This book is a compilation of the papers presented at the Symposium on Agricultural Credit that was organized by the Asian Productivity Organization (APO) in September 1999. Part I presents a summary of the findings of a regional survey on the subject in 1998 in 13 APO member countries. Part II presents 2 regional reports that deal with agricultural credit in APO member countries and the impact of financial deregulation on farm credit. Part III contains 2 resource papers about rural finance in Asia. 16 country reports are presented in part IV.

Bass, J. & Henderson, K. (2000). "Leasing: a new option for microfinance institutions". *Innovations in Microfinance: Technical Note*, No.6. Microenterprise Best Practices Project.

Abstract: This Technical Note is one of a series designed to showcase innovative microfinance programmes from the February 2000 conference on "Advancing Microfinance in Rural West Africa" conference held in Bamako, Mali. The Note presents leasing as a type of business financing that is well suited to the microfinance industry, providing clients with access to medium term capital for fixed assets. There is an excellent section describing the basic principles of lease agreements, the different types of leases and the comparative advantages and disadvantages of leasing. There is also a useful summary of the differences between leasing and lending and a checklist of the characteristics of clients for whom leasing might be suitable. Some guidance is given on determining leasing costs and the minimum legal framework that is required for implementing leasing contracts. The Note includes brief summaries of leasing programmes that have been implemented in Kenya, Madagascar and Bangladesh and reaches the general conclusion that leasing does provide MFIs with new opportunities to reach borrowers and expand into existing, untapped markets.

Bhandari, M.C. (1997). "Agricultural Finance Revisited: Using Policy to get Results, a Case of India". Working paper. Rome: Food and Agriculture Organization of the United Nations.

Binswanger, H.P.; Khandker, S.R. & Rosenzweig, M. (1993). "How infrastructure and financial institutions affect agricultural output and investment in India". *Journal of Development Economics* 41: 337-66.

Abstract: This paper has sought to quantify the inter-relationships among the investment decisions of government, financial institutions and farmers and their joint effects on agricultural investment and output. Empirical results using district-level time-series data from India confirm the

importance of input and output prices in the determination of aggregate crop output, but also confirm that aggregate outout supply elasticities are low. Education infrastructure availability and the rural banks play an overwhelming role in determining investment, input and output decisions. Availability of banks is a more important determinant of fertilizer demand and aggregate crop output than interest rates. While farmers respond to infrastructure, the governments in turn allocate their infrastructure investments in response to the agroclimatic potential of the districts and banks locate their branches where the agroclimate and the infrastructure are favorable to their operation. Agricultural output is therefore determined in a complex interactive process where farmers, government and intermediaries respond to the same factors. This sharply affects the econometric techniques which have to be used to analyze output supply.

Bjønskov, J.C.C. (2002). "Counting in Social Capital When Easing Agricultural Credit Constraints". *Journal of Microfinance*. Vol. 4, No.1.

Abstract: International trade liberalization often implies increased potentials for export production. In order to invest in increasing capacity in agriculture, farmers need to have credit access. However, farmers in Central Europe and East Africa, among other places, are credit constrained, due to collateral reasons. Ad mode illustrates the additional producer gains from having access to credit; the gains are composed of a price effect, an investment effect, and a social-capital externality. The model and empirical findings suggest that improvements of agricultural credit can be achieved by relying on existing social structures, such as farmers' social capital. The paper concludes that such externalities need to be addressed when designing optimal agricultural credit institutions.

CGAP. (2005). "Bai Tushum Financial Foundation, Kyrgyzstan". *Agricultural Microfinance: Case Study* No 2.

Abstract: Bai Tushum Financial Foundation (Bai Tushum) began agricultural credit operations in Kyrgyzstan in 2000, after assuming the foundering, three-year-old portfolios of several small agricultural credit associations. With the support of numerous international donors, Bai Tushum overcame a difficult macroeconomic environment, an unfavorable legal climate for microfinance, and lack of an indigenous credit culture to become a strong, local institution serving the needs of a range of rural and urban borrowers. Today, Bai Tushum offers a mixture of crop, livestock, agro-processing, trade, and mortgage loan products. The MFI achieved 230 percent operational self-sufficiency in its first year of operation. By February 2004, its active portfolio had grown to 1,543 loans valued at US $2.5 million, with a reported portfolio-at-risk ratio (PAR > 30 days) of 4 percent. Although agricultural loans result in lower returns for Bai Tushum than its non-agricultural loans, Bai Tushum's commit-ment to agricultural lending appears to supersede profit maximization, with trade and other loans occasionally cross-subsidizing the agricultural portfolio.

CGAP. (2005). "Managing Risks and Designing Products for Agricultural Microfinance: Features of an Emerging Model". *Occasional Paper* No. 11.

Abstract: Renewed emphasis on poverty reduction has put rural populations, particularly agricultural households, back in the spotlight of development efforts. Agricultural development programs often include credits for agricultural production, which have renewed the debate about how to provide finance in rural areas. This paper offers a model (agricultural microfinance), for providing financial services to poor, rural farming households, which combines the most relevant and promising features of traditional microfinance, traditional agricultural finance, and other approaches.

Christen, R.P., & Douglas, P. (2005). "Managing Risks and Designing Products for Agricultural Microfinance: Features of an Emerging Model". CGAP Occasional Paper, No. 11. Washington, D.C.: CGAP, August.

Abstract: The paper begins by highlighting that agricultural finance has been characterised by poor loan repayment rates and unsustainable subsidies. Accordingly, agricultural credit from some donors and multilateral development banks has dropped dramatically in recent decades and is now often considered too risky. Agriculture is widely considered more risky than industry or trade. The purpose of this paper is to provide practitioners, policymakers, and donors with a thorough overview of agricultural microfinance. It aims to provide them with information to expand the access of farming-dependent households to sustainable financial services on a large scale. This paper sets out a model, termed *agricultural microfinance*, for providing financial services to poor, rural farming households. The model aims to combine key features of traditional microfinance, traditional agricultural finance, and other approaches – including leasing, area-based insurance, and contracts with processors, traders and agribusinesses – into a hybrid defined by 10 main

features. The analysis in this paper suggests that successful agricultural microfinance lenders rely on various combinations of these features to mitigate the risks associated with lending to farming households, although in no experience were all 10 features present. It contends that the presence of a substantial number of these features appears to contribute to a well-performing portfolio, in diverse combinations, in a variety of circumstances – in general, the first few features are found in most successful experiences, while those that come later on the list have proven important in addressing particular risks or situations found in lending to specific types of agricultural activities.

1. Repayments are not linked to loan use
2. Character-based lending techniques are combined with technical criteria in selecting borrowers, setting loan terms, and enforcing repayment
3. Savings mechanisms are provided
4. Portfolio risk is highly diversified
5. Loan terms and conditions are adjusted to accommodate cyclical cash flows and bulky investments
6. Contractual arrangements reduce price risk, enhance production quality, and help guarantee repayment
7. Financial service delivery piggy-backs on existing institutional infrastructure or is extended using technology
8. Membership-based organisations can facilitate rural access to financial services and be viable in remote areas
9. Area-based index insurance can protect against risks of agricultural lending
10. To succeed, agricultural microfinance must be insulated from political interference

The paper is based around a discussion of each of these features – outlining the key elements, giving examples and highlighting the challenges that still need to be addressed. Case studies from leading organisations are also provided.

Coffey, E. (1998). "Agricultural Finance: Getting the Policies Right". FAO / GTZ.

Abstract: Policies are powerful tools, but as this paper contends, they are so basic that they are often overlooked in the search for better ways of pursuing objectives. This publication aims to clarify the process of policy making for agricultural and rural finance, focusing especially on the mechanisms involved. It is directed towards those responsible for formulating, managing and tending the rural financial system - policy makers, donors and managers of rural finance institutions. Key issues are set out as well as a methodology to aid in the evaluation of the comprehensiveness of a given policy making system at national level. Case studies are also provided as further illustration.

Dorward, A. *et al.* (1998). "Commercial Financing of Seasonal Input Use by Smallholders in Liberalized Agricultural Marketing Systems". ODI, *Natural Resource Perspectives*, Volume 30.

Faruqee, R.R. *et al.* (1998). "Strategic Reforms for Agricultural Growth in Pakistan". Washington, DC: IBRD.

Abstract: Papers assess the past performance of Pakistan's agricultural sector, analyze the major issues and constraints facing the sector in recent years, and propose a strategy for accelerating and sustaining growth in the coming decades. The seven papers are as follows: 'Agriculture in Pakistan - its role, performance, and constraints' (Faruqee, pp.1-22); 'Removing policy distortions and redefining the role of government' (Faruqee, pp.23-44); 'Phasing out public enterprises in agriculture' (Faruqee; R. Ali; Y. Choudhry, pp.45-68); 'Reforming the agrarian land market' (M. Mahmood, pp.69-86); 'Improving irrigation and drainage' (M. Ahmad; Faruqee, pp.87-108); 'Improving rural finance' (S. Qureshi; I. Nabi Faruqee); and 'Developing a comprehensive strategy for reform' (Faruqee, pp.143-148).

Feder, G.; Lau, L.; Lin, J. & Luo, X. (1989). "Agricultural Credit and Farm Performance in China". *Journal of Comparative Economics* 13: 508-526.

Abstract: This paper utilizes data obtained from recent farmer surveys in China's provinces of Jilin and Jiangsu to describe credit transactions of agricultural households. The data indicate that while informal credits are significant, they are not profit-motivated, and most are not fungible. The bulk of the fungible credit is provided by institutional sources. In Jilin province, authorities provide ample supply of credit and inputs to agriculture. The majority of farmers there were observed to borrow. In Jiangsu the incidence of borrowing is much lower. However, the extent of unsatisfied

demand for credit is highest in Jilin, because inputs are more readily available for purchase in the free market. In the Jiangsu study areas, demand for credit is low because input supplies are limited.

Fleisig, H.W. (1995). "The Right to Borrow: Legal and Regulatory Barriers that Limit Access to Credit by Small Farms and Businesses". In *Viewpoint*. Washington DC: World Bank.

FAO (Food and Agriculture Organization of the United Nations). (1964). "New Approach to Agricultural Credit". Rome: FAO.

FAO & CARIPLO (Cassa de Risparmio della Provincie Lombarde). (1975). "Agricultural Credit for Development". Rome: FAO.

FAO & GTZ (Deutsche Gesellschaft für TechnischeZusammenarbeit). (1998). "Agricultural Finance Revisited: Why?" Rome: FAO.

Abstract: This publication reviews experiences with agricultural credit programmes in the last decades and the shift from directed credit towards a new approach based on rural financial system development. It sets out the special market environment of the agricultural sector in developing countries and the unique features of agricultural finance. These particular conditions still require special government attention but in a different manner from that followed under the directed credit approach.

Fries, B. (2001). "Basic Guidelines for Effective Rural Finance Projects: The Guide to Developing Agricultural Markets & Agro-Enterprises". Washington, DC: World Bank.

Abstract: The findings and principles laid out in this paper form a basis for designing and implementing projects that expand access to financial services in rural areas, by fostering a rural financial market characterized by a conducive legal and regulatory environment where competing firms and institutions can deliver these services profitably. The author reviews the constraints to rural finance and presents options for overcoming these. A broad range of financial institutions and the fundamental practices central to the sustainability of these is discussed. The criteria and specific steps for designing effective programs in this field are reviewed and suggestions are offered for monitoring and evaluation. Examples of innovative programs and best practices are mentioned.

Harper, M. (2005). "Farm credit and microfinance - is there a critical mismatch?" *Small Enterprise Development Journal*. Vol. 16, No.3. ITDG Publishing.

Abstract: "New paradigm" micro-finance has largely replaced old style rural finance, which was mainly subsidised low-cost farm credit. The "old paradigm" rural development finance institutions have in some cases disappeared, and in others they have been converted into what are effectively specialist micro-finance institutions (MFI). This article asks if new paradigm micro-finance effectively address the needs of farmers. The author constructs an interesting table which compares the features of five possible uses of credit in a rural household - health needs, petty trade, milking cows, crop loans and minor irrigation - with the characteristics of typical microfinance loan products. He concludes that there is an increasing mismatch in suitability as one moves from health needs and petty trade to crop loans and irrigation. He then goes on to examine one particular feature in more detail - the mismatch of microfinance interest rates with on-farm rates of return. Professor Harper believes that MFIs should consider their clients' rates of return as well as their own costs when setting interest rates. He argues that if interest rates are higher than the clients' returns, the long-term impact will be to impoverish them and not to enrich them. Studies of many microenterprises have established that their rates of return can be very high. One study of 215 microenterprises produced an average annual return of 847% (see online lesson number 2 in the RFLC for an explanation of rates of return). However, examination of limited data about returns for farm investments showed the highest figure was 160% and most were below 100%. To conclude the article the author asks if the low or negative margin between the cost of micro loans and returns from farm investments matters. He cites arguments for and against the issue being a problem and explores some trends which may help to render microfinance products more suitable for farmers, notably the increasing competition amongst MFIs and from commercial banks which will help to drive interest rates down. Microfinance staff seem largely unaware of the potential unsuitability of their products for farming and the author recommends that those who

advise, finance and train MFIs should encourage their staff to investigate the situation and address the problem if there is one.

Hazell, P.B.R.; Pomareda, C. & Valdes, A. (1986). "Crop Insurance for Agricultural Development: Issues and Experience". Baltimore: The John Hopkins University Press.

Hazell, P.B.R. (1992). "The Appropriate Role of Agricultural Insurance in Developing Countries". *Journal of International Development* 4: 567-581.

Hazell, P.B.R. & Reardon, T. (1998). "Interactions Among the Rural Nonfarm Economy, Poverty, and the Environment in Resource-Poor Areas". Paper presented at the International Food Policy Research Institute Conference on Strategies for Stimulating Growth of the Rural Nonfarm Economy in Developing Countries, Arlie House, Virginia, 17-21 May.

Hollinger, F. (2003). "Financing term investments in agriculture: A review of International Experiences", Paving the Way Forward for Rural Finance: An International Conference on Best Practices Case Study.

Abstract: This paper discusses the main findings of research conducted by FAO on term finance for agriculture. It summarises the main lessons from a number of case studies of providers of term loans, leasing and equity finance for small- and medium-scale farm related investments. The first section briefly introduces the background of the research and highlights the main challenges and hot spots for providing agricultural term finance. The subsequent section illustrates the financial technologies used by the case study institutions to manage risks and transaction costs. The final section points to the crucial role of donors in supporting rural financial institutions and their clients to expand the financial frontier for term finance in rural area, and highlight some avenues for support.

IFAD. (2003). "Agricultural Marketing Companies as Sources of Smallholder Credit in Eastern and Southern Africa".

Kalia, S.K. (1996). "Transactions Costs of Farm Credit in India". Report presented at the Asian Productivity Organization (APO) seminar held in December 1993. Tokyo: APO.

Kane, E.W. (1984). "Political Economy of Subsidizing Agricultural Credit in Developing Countries" in Adams, Graham and Von Pischke eds., *Undermining Rural Development with Cheap Credit,* 1984, Westview: 166-182.

Khandker, S.R. & Faruqee, R.R. (1999). "The Impact of Farm Credit in Pakistan". *World Bank Policy Research Working Paper* No. 2653.

Abstract: The Agricultural Development Bank of Pakistan (ADBP), which provides most formal loans in Pakistan's rural areas, lends to largeholders far more than to smallholders, although the impact of credit is greater for the smallholders. Targeting credit to smallholders would make ADBP's credit scheme more cost-effective. To reach poor farmers and farmers without assets - in other words, to reduce poverty-stringent collateral requirements should be relaxed and outreach should be broadened. Both formal and informal loans matter in agriculture. But formal lenders provide much more in production lending than do informal lenders, often at a higher cost than what they can recover. The Agricultural Development Bank of Pakistan (ADBP), for example, providing about 90 percent of formal loans in rural areas, incurs high costs on loan defaults. Like other governments, the Government of Pakistan subsidized the formal scheme on the grounds that lending to agriculture is a high-risk activity because of covariate risk. Because farm credit schemes are subsidized, policymakers must know if these schemes are worth supporting. Using recent data from a large household survey from rural Pakistan, Khandker and Faruqee estimate the cost-effectiveness of the ADBP loans. To estimate credit's impact, they use a two-stage method, which takes into account the endogeneity of borrowing. Clearly, formal lenders are biased toward larger farmers with collateral. Large landowners, who tend to represent only 4 percent of rural households, get 42 percent of formal loans. Landless and subsistence farmers, who represent

more than 69 percent of rural households, receive only 23 percent of formal loans. ADBP loans improve household welfare but, although large farmers receive most of the ADBP finance, the impact of credit is greater for small farmers than for large farmers. Large landowners use formal loans unproductively. Because the ADBP scheme is subsidized, it is not cost-effective for delivering rural credit. It would be more cost effective if small farmers were better targeted instead. This paper - a product of Rural Development, Development Research Group - is part of a larger effort in the group to understand the cost-effectiveness of alternative credit delivery systems and their impact on rural poverty.

Meyer, R.L.; Roberts, R. & Mugume, A. (2004). "Agricultural finance in Uganda. The way forward" Financial Systems Development Programme, Bank of Uganda, GTZ/KfW/Sida, Kampala, October.

Abstract: This report presents the findings of a study commissioned by the Bank of Uganda (BoU)/GTZ/Sida Financial System Development Program and KfW that was designed to investigate the development of selfsustainable agricultural finance in Uganda. The objective of the study is to identify the major bottlenecks and draft a medium-term strategy for the support of agricultural finance. It was undertaken against the backdrop of success that the government has achieved, working in conjunction with several international donors, in strengthening microfinance services for the poor.

Nair, A. & Kloeppinger-Todd, R. (2006). "Buffalo, Bakeries, and Tractors: Cases in Rural Leasing From Pakistan, Uganda, and Mexico". *Agricultural and Rural Development Discussion Paper*, No. 28. World Bank.

Abstract: This discussion paper builds on a previous on previous work from the same series that assessed the relevance and potential of rural finance leasing as a financing tool. The previous paper suggested that the enhanced use of leasing in rural areas could be supported, because this practice would overcome some of the existing constraints in providing rural credit for investment financing. This current paper reinforces the case for supporting the development of leasing services in rural areas by presenting the case studies of three leasing companies. Examples of areas of support at the institutional level are provided and results that project managers can expect are also discussed. The three firms analysed in the case-studies are:

- Network Leasing Corporation Limited (NLCL)
- Development Finance Company Uganda (DFCU)
- Arrendadora John Deere (AJD)

Finance leases are said to be close substitutes for loans as asset financing tools. In finance leases, the lease amortises most of the asset cost, usually cannot be cancelled during the lease-term, and maintenance and insurance costs rest with the lessee. Nearly all risks associated with owning an asset are transferred to the lessee without actually transferring the title. At the end of the lease period, the lessee has the option to purchase the asset for a token price. The most significant benefit to the clients of the case-study firms that was noted is access to the formal financial system. The case studies suggest, however, that lease financing only partially overcomes the typical constraints to credit financing. Two of the three case-firms take additional collateral (unlike traditional leasing where the asset itself is usually considered security). The security deposit or down-payment required by all three companies is also higher than typically demanded in developing countries. Five lessons specific to rural leasing are drawn from the case studies:

1. In rural areas leasing is a means to acquire productive assets
2. Rural enterprises of different sizes benefit from leasing, but a provider may not be able to serve enterprises of all sizes
3. Non-farm enterprises account for a significant proportion of rural leases
4. Rural leasing can be profitable, but jump-starting rural leasing may require government and donor support
5. A rural leasing company may not be viable.

Rozner, S. (2006). "Rural Leasing". USAID.

Abstract: This paper notes that in rural areas enterprises access to long-term finance is often limited by a lack of acceptable collateral. It points to leasing as a financing tool that has the potential to address this market failure in rural credit. While traditionally, more common in urban centres, leasing overcomes many of the constraints to accessing medium and longer-term financing in rural areas. Leasing can allow businesses with limited collateral, cash and credit

history to acquire productivity-enhancing equipment, while providing lessors with the comfort they need to take on rural and agricultural clients. The value of an asset from leasing is assumed to come from its use as opposed to lending where the value of an asset stems from its ownership. Leasing is defined here as a contractual arrangement between two parties, where the provider (the lessor) owns the asset and lets the client (the lessee) use the equipment in exchange for periodic payment. Leasing comes in two main forms: finance leases and operating leases – finance leases are seen as close substitutes for term loans for financing asset acquisition whereas operating leases are similar to rental agreements. This paper from the Rural and Agricultural Finance Initiative explores the benefits that developing leasing markets can bring to farmers and rural businesses – it discusses accessibility, duration, flexibility, processing time, taxes, ownership and regulation. It also addresses the constraints that must be overcome in developing a viable leasing industry, and interventions that can help overcome those constraints, drawing on the leasing literature as well as recent donor experience in this sector.

Ruben, R. & Van den Berg, M. (2000). "Farmers' Selective Participation in Rural Markets: Off-Farm Employment in Honduras". In Ruerd Ruben, and Johan Bastiaensen, *Rural Development in Central America: Markets, Livelihoods and Local Governance*, 189-209. New York: St. Martin's Press, Inc.

Abstract: The paper analyses the importance of the off-farm employment component of family income, and discusses the relevant farm and household characteristics that give rise to engagement in the rural labour market. While considering off-farm employment as a compensating device for limited access to rural financial and land markets, linkages between off-farm income, the use of credit and the mobilization of savings are highlighted. Moreover, expenditure effects are addressed through the discussion of the implications of off-farm income for household food security. Instead of looking at off-farm employment of small peasant households as only a secondary component, the paper focuses attention on wage income as a major element of the rural livelihood strategy that permits the maintenance of a survival strategy based on the combination of a number of complementary activities. This enables small farmers better to overcome limitations in the access to markets and favours the adoption of risk-sharing strategies that are considered typical for resource-poor households operating under conditions of selective market failure. The paper begins with a brief historical review of the structure of agricultural employment and the development of the rural factor and commodity markets in Honduras. Empirical evidence is presented, focusing on the internal farm and household characteristics that explain the relative importance of off-farm income in the process of household income formation.

Skees, J. (1999). "Agricultural Insurance in a Transition Economy". Agricultural Finance and Credit Infrastructure in Transition Economies: Proceedings of OECD Expert Meeting, Moscow, 233-49.

Abstract: Availability and cost of credit are influenced by risk. Well-functioning risk sharing markets can improve availability of credit and reduce cost. One source of risk is from adverse weather that can greatly reduce crop yields. Thus, it is desirable to have effective multiple peril yield crop insurance. However, nearly all attempts by governments around the world to support crop insurance have failed, primarily due to several unique problems that accompany offering multiple peril crop insurance. This paper reviews those problems and offers an alternative that is largely free of the problems. The alternative holds promise for improving the availability of risk sharing markets.

Temu, A.E., Mwachang'a, M. & Kilima, K. (2001). "Agriculture Development Intervention and Smallholder Farmers Credit in Southern Tanzania: An Assessment of Beneficiaries". *Savings and Development* African Review of Money, Finance and Banking, no. Supplement: 119-41.

Abstract: Despite many failures of agricultural credit schemes in Low Income Countries, small farmers finance remains an important component of agricultural development projects. The failures of the supply led credit, and the need to ensure institutional efficiency and sustainability of the credit programmes call for continued studies to evaluate credit delivery initiatives by development projects. This paper focuses on the credit issued by the Southern Highlands Extension and Rural Finance Project to small farmers in Tanzania. Analyses anchor on regression and discriminant models using field survey data from 71 borrowers and 49 non-borrowers. Together with some institutional design faults, the study has identified important socioeconomic variables that influence farmers' demand and eligibility for credit. The general conclusion from the study is that there has been an overemphasis on institutional weaknesses due to the ignorance of limitations on the demand side. The recipients' lack of business orientation, acumen and

entrepreneurial drive has a big hand in the ineffectiveness of credit projects. The paper recommends that, credit projects should place great importance on identifying viable borrowers based on their commercial orientation and business acumen. The projects should include training (on business and debt management) components in their programmes.

Tillette de Mautort, A. (1999). "Mozambique: Options to Support Grain Marketing Credit". Food security in Malawi and Mozambique.

Abstract: As part of its Food Security Programme in Mozambique the European Commission (EC) has programmed a marketing credit facility which is intended to facilitate the marketing of agricultural produce. This paper explores two financial options: a)? a credit line to enable traders to purchase additional quantities of produce; b)?a guarantee facility accessible to lending institutions in the event of traders defaulting on marketing loans. The paper identifies the target group and risks faced by lending institutions before examining in detail the practicalities of the financial options. The paper includes a case study developed to demonstrate the impact of factors like interest rate and loan defaulting on the sustainability of the credit line in the absence of subsidies. It also assesses the number of beneficiaries that could benefit from it. This is compared with a similar (although not as detailed) model of a guarantee scheme. The paper concludes that under the present circumstances a comparison between a marketing credit line and a credit guarantee fund comes down in favour of the credit line for the following main reasons: a) a marketing credit line could be put in place more quickly than a guarantee scheme; b) the functioning of a credit line is more easily understood institutionally and by borrowers; c) lending institutions are likely to be more diligent in making and recovering loans under a credit line; d) a guarantee scheme adds yet another set of procedures to be completed before a loan can be approved, resulting in delays.

UNCTAD Secretariat. (2002). "Farmer and Farmers' Associations in Developing Countries and their use of Modern Financial Instruments". United Nations Conference on Trade and Development.

Abstract: This paper begins by noting that since the beginning of the 1990s, with the liberalisation of commodity trading and pricing in developing countries and countries with economies in transition, the burden of risks has been shifted from Governments to farmers. In most of these countries, farmers, previously largely insulated from the day-to-day vagaries of the world market, now bear most of the brunt of volatile and unpredictable prices. The paper also suggests that when farmers receive prices that are unstable and uncertain, they run price risks from the moment they decide to plant a crop, and every time that they buy and apply inputs such as fertilisers or pesticides, or use paid labour. Furthermore, farmers' associations too may run price risks: if they advance their members credits which are to be reimbursed through future deliveries of crops, they run the risk that, at the moment that the crop is sold, prices have fallen to levels too low to enable loan reimbursement. Following this, the paper argues that whilst risk management markets are not a panacea for farmers' problems – they do not exist and are never likely to exist for all commodities, and can only give temporary reprieve from a secular fall of prices – they could, nevertheless, greatly help developing country farmers to improve their lives. In addition, the paper points out that transfer of price risk is not the only facility that financial mechanisms and techniques can offer to farmers. Financial techniques can also be used to reduce farmers' counterparty risk – to shift the risk of lending from the farmer (a credit risk) to the crop (a performance risk). This paper looks at the practical applications of "new" financial techniques for enabling farmers to manage price risk and facilitating their access to credit. The first chapter provides an overview of farmers' attitude towards risk, and the possible role of farmers' associations in helping farmers cope with price risk and in facilitating agricultural financing. The next chapter describes various applications of financial techniques for price risk management and agricultural finance. The final chapter focuses on possibilities for farmers' associations to enhance their use of these techniques, including through the use of modern communication and information technologies.

USAID. (2006). "Rural Leasing". *RAFI Notes* (Rural and Agricultural Finance Initiative) Issue 11.

Abstract: RAFI Note #11 explores the benefits that developing leasing markets can bring to farmers and rural businesses. It also addresses the constraints that often must be overcome in developing a viable leasing industry, and interventions that can help overcome those constraints, drawing on the leasing literature as well as recent donor experience in the leasing sector. The note concludes by highlighting the implications for USAID programming in rural and agricultural finance.

Von Pischke, J.D., & Adams, D.W. (1983). "Fungibility and the Design and Evaluation of Agricultural Credit Projects." in J.D. Von Pischke, D.W. Adams and G. Donald (eds.) *Rural Financial Markets in Developing Countries,* Baltimore and London: Johns Hopkins University Press.

Wenner, M. & Rodolfo Q. (2000). "Agricultural Credit Card Innovation: The Case of Financiera Trisan". Best Practices Series ed. Washington, DC: Inter-American Development Bank.

Abstract: Credit cards are ubiquitous in the industrialized countries and becoming more commonly used by the urban middle and upper classes of developing countries. In the rural areas of developing countries, however, they are less common due to the greater seasonality in income flows and the higher rates of poverty. Financiera Trisan, a finance company in Costa Rice, has introduced a rural credit card, targeting agricultural input suppliers and farmers. The promise of this product is that it can dramatically reduce transaction costs for clients and merchants accepting the card. This paper analyzes the experience of Financiera Trisan in developing and expanding its credit card program. The principal findings are that the credit card is a viable and profitable product; and that infrastructural and legal obstacles present in the country require creative solutions.

Wenner, M.D. (2005). "Agricultural Insurance Revisited: New Developments and Perspectives in Latin America and the Caribbean". Inter-American Development Bank (IADB).

Abstract: The introduction to this paper states that agricultural insurance is emerging as a topic of interest to farmers, policy makers, insurance companies, and development finance institutions in Latin America and the Caribbean after a long hiatus – with agricultural insurance being more widespread in Latin America and other developing regions of the world during the 1960s and 1970s. During the intervening period, financial difficulties encountered meant most of the programs were either scaled back or completely closed. This paper focuses on production risk management, explaining key concepts, understanding why crop insurance markets have been slow to develop, and making recommendations about how to build sustainable markets in developing country contexts. The challenge, noted in the paper, is to overcome obstacles and deliver efficient and sustainable agricultural insurance products. The principle obstacles highlighted and discussed in the paper are lack of quality information, inadequate regulatory frameworks, weak supervision, lack of actuarial expertise, lack of professional expertise in designing and monitoring agricultural insurance products, a mass of low-income, dispersed clients, who may not be willing or able to pay actuarially sound premiums for multiple peril products, and the tendency of governments to undermine market development through inappropriate use of subsidies and disaster relief funds. Case studies on Uruguay, the Dominican Republic, and Peru are used to show how crop insurance products are evolving and/or what government-supported initiatives are under the way to expand coverage. Recommendations of how to build markets step-by-step and the importance of applying new technology to lower costs are also made. The author states that the purpose of this paper is to provide Bank staff interested in agricultural yield insurance market development, public officials responsible for financial market policy formulation and supervision, and insurance industry practitioners in Latin America and the Caribbean with a basic primer on the topic, an overview of previous experiences, and a set of guidelines and recommendations on how to develop viable and sustainable agricultural yield insurance markets.

Westley, G.D. (2003). "Equipment Leasing and Lending: A Guide for Microfinance". Washington, D.C.: IADB, Sustainable Development Department Best Practices Series, Micro, Small and Medium Enterprise Division.

Abstract: This paper describes how to do equipment finance—leasing and lending—for mainstream microentrepreneurs, that is, for those microentrepreneurs needing approximately $50 to $2500 to purchase equipment. Specifically, this paper examines the pros and cons of the two major financing alternatives, loans and leases. The paper also provides a series of best practice recommendations for microfinance institutions (MFIs) to use in their equipment leasing and lending programs. Although much has been written about equipment leasing for small, medium-scale, and large enterprises, little is avail able on how to lease to mainstream microentrepreneurs. Similarly, little has been written on how to do equipment lending to the same target group.

Westley, G.D. (2003). "Microleasing: The Unexplored Financing Instrument". *Microenterprise Development Review*, Vol.6, No.1.

Abstract: In microfinance, leasing is an unexplored instrument. A few Latin American microfinance institutions (MFIs) have indeed given it a try, but they can be counted on one hand. Lease financing is used to support equipment purchases, which in turn allows the entrepreneur to expand production, improve product quality and increase revenues. So, if lease financing is an attractive way to provide medium-term financing for equipment purchases, why isn't it more commonly used among MFIs? Is the lack of leasing in microfinance due to a lack of knowledge among MFIs (and thus a great unexplored opportunity), or are there in fact some features that make it less than an obvious proposition in the context of microfinance? To answer these questions, and provide some recommendations for interested MFIs, the concept of leasing must first be sorted out.

Wieland, R., *et al.* (2003). "A Comparative Study of Fertilizer Credit in Bangladesh", Paving the Way Forward for Rural Finance: An International Conference on Best Practices Case Study.

Abstract: This presentation provides a snap-shot of credit delivery in a liberalizing market for fertilizer. For seven years prior to the study that it is based on, the Government of Bangladesh, with assistance from the US Agency for International Development1, had been taking steps to extricate public agencies from their central roles in importing and distributing fertilizer and to allow a larger role for private enterprises in these activities

World Bank. (1993). "A Review of Bank Lending for Agricultural Credit and Rural Finance (1948-1992)". The World Bank, Operations Evaluation Department, Washington D.C.

World Bank. (1998). "Kyrgyz Republic: Agricultural Support Services Project, Staff Appraisal Report". Washington DC: World Bank.

World Bank. (2004). "Agriculture Investment Sourcebook, Module 8: Investments in Rural Finance for Agriculture."

Abstract: The module focuses on the provision of financial services for agricultural activities and to agriculturally dependent households, though most services do not exclusively provide financing for agriculture. They also provide financial services to nonagricultural rural and, in some cases, urban communities. Service providers include formal, semiformal and informal institutions, ranging from full-service banks to specialized agricultural finance institutions, microfinance institutions (MFIs), financial cooperatives), credit unions, savings and loan associations, traders, and processors.

Yazdani, S. (2005). "An Evaluation of Agricultural Credit System in Iran". *Savings and Development*, Issue no. 2.

Abstract: The adoption of the Islamic credit system and the socio economic impact of this innovation on the agricultural sector is a development of considerable potential interest to economists in Iran. The Islamic credit system offers the prospect of lifting part of the risk off the shoulders of farmers through the provision of profit and loss sharing loans. In this way such loans not only totally avoid the magnification of risk associated with debt financed investment under a western style interest based credit system, but they also carry a share of the production risk. Therefore it is reasonable to conclude that the introduction of the Islamic credit system should result in wider credit use to finance productive investment in agriculture. An examination of the performance of the Agricultural Bank supports a hypothesis that funds would shift towards financing productive investment (as compared to consumption) under the Islamic system. The evidence available fails to support a proposition that credit will be redistributed towards small farmers under the Islamic system. Analysis of attitudinal data suggests that the majority of small farmers prefer credit provided in the form of profit and loss sharing loans under the Islamic credit system to interest bearing loans under conventional credit systems. Farmers' preferences for taking out loans from an Islamic credit system were found to be related to a number of factors. Risk sharing and religious acceptability of the profit and loss sharing loans over the interest based loans were two significant reasons. In spite of small farmers' preferences to borrow using the profit and loss sharing system, the evidence available fails to support the proposition that credit will be redistributed towards small farmers under the Islamic system.

❒ Savings Mobilization

Abdullah, T.; Rutherford, S. & Hossain, I. (1995). "BURO, Tangail Rural Savings and Credit Program - Mid Term Review", Manuscript, Dhaka.

Adams, D.W. (2002). "Filling the Deposit Gap in Microfinance". Paper Presented for the Best Practices in Savings Mobilization Conference, Washington D.C. USA.

Abstract: Dale Adams notes that AID's experience with small farmer credit programs, the World Bank's funding of development banks, and the Inter-American Bank's efforts to channel funds into financial cooperatives through a regional organization all discouraged deposit mobilization efforts. He wonders if all of the donor and government money given to the microlending industry hasn't had the same result. He makes a number of recommendations to donors and governments about how they can avoid this and promote more innovation and outreach in deposit taking.

Agency for International Development (A.I.D.). (1991). "Mobilizing Savings and Rural Finance: The AID Experience". Washington, D.C.: USAID Science and Technology in Development Series, Agency for International Development.

Alam, M. (2002). "Institutionalization and Development of Saving Habits through Bai-Muajjal Mode of Islamic Banking Finance (A unique means of mobilizing rural savings towards productive sources)". London, UK: Alternative Finance. 2002.

Abstract: The rural-based industrial sector in developing nations contributes greatly towards economic development by generating employment opportunities and mobilizing rural savings towards productive sectors. The Bai-Muajjal mode of financing used by Islamic banks is a unique means of developing saving habits among rural entrepreneurs. The article includes the outcome of the author's research process developed to discover how the Bai-Muajjal mode of Islamic banking finance serves to institutionalize the saving habits of rural-based small industry owners and to what extent this lending technique successfully mobilize rural savings towards productive and profitable projects. The article consists of three different sections. Firstly, it highlights the methodological and theoretical aspects used for the research. The second section includes a brief description of different financing modes of Islamic banks and an empirical, study-based discussion as to how different Islamic banks lend funds to the rural-based small industry owners in Bangladesh. The final section of the article represents an analysis of the research result showing to what extent the Bai-muajjal mode of Islamic banking finance contributes to developing savings habits among rural entrepreneurs and mobilizing the savings towards productive projects.

Allen, H. (2002). "CARE International's Village Savings and Loan Programmes in Africa: Microfinance for the Rural Poor that Works." Tanzania: CARE International.

Abstract: Over the past decade, CARE International in Niger has developed and implemented Mata Masu Dubara (MMD), a self-managed system of the purest form of financial intermediation. MMD is now a membership based programme servicing approximately 162,000 rural women in one of the poorest countries in Africa. MMD is not a single institution but an amalgamation of nearly 5,500 stand-alone groups, each with about 30 members, operating in almost identical ways. This paper tells the story of MMD and highlights a few of its sister programmes in other African countries. The basic principles of CARE's village savings and loan programmes are:

- savings based financial services with no external borrowing or donations to the loan portfolio
- self-management
- simplicity and transparency of operations
- flexibility in loan sizes and terms
- low group management costs met through group earnings
- earnings retention in the group and local community

In addition CARE avoids the complexity of creating VS&L apex institutions and more formal intermediary structures. CARE believes that this methodology offers a solution to the problems of sustainability and institutional instability that for years have bedevilled practitioners who have

attempted to create rural financial intermediaries. The paper seeks to draw conclusions about the strengths and weaknesses of the methodology and its potential for broader worldwide application.

Amimo, O.; Larson, W.; Bittencourt, M. & Graham, D.H. (2004). "The Potential for Financial Savings in Rural Mozambican Households". *Savings and Development*, Issue no. 2, 2004.

Abstract: Many policy makers and businesses erroneously believe that rural populations, particularly in Africa, have no margin for savings over consumption needs. This study examines the potential for financial savings in rural Mozambican households by looking at the determinants of savings behavior. An econometric model for a household's saving behavior was estimated using data from 113 rural households from Nampula province in Mozambique. Results indicate that income, physical wealth, household size, and years of schooling affect a household's savings behavior. The results of this study show evidence of a high potential for household financial savings in rural areas of Mozambique. The study also finds that Mozambican rural households use their own grassroots associations for many financial services due to the lack of access to formal financial intermediaries. The study concludes that existing economic and financial policies have led to the neglect of the mobilization of savings in general and in rural areas in particular. More specifically, rural households do not have adequate opportunity to save with formal financial intermediaries. Financial policy reform is needed to increase domestic savings for development and to reduce the country's dependence on foreign donor funds.

Andrews, M.A. (2006). "Don't Drown the Seedlings: Lessons for Savings and Credit Union Development from the Experience in East and Central Asia". ADB.

Abstract: This paper is intended to provide practical insights into the nature of SCUs and their supporting infrastructure, and draw conclusions that will be helpful to policy-makers and development partners. Individual SCUs and their related apex organizations can vary widely in size and structure, just as banks, microfinance institutions and specialized rural finance organization come in many forms and sizes. Despite this divergence, there are common principles that can guide policy-makers and development partners. This paper draws on the experience with SCU development in selected countries and the literature on SCUs, microfinance and financial sector development to suggest key points to be considered if projects to support SCU development are to be successful.

Aryeetey, E. & Udry, C.R. (2000). "Savings in Sub-Saharan Africa". *CID Working Paper* 38. Cambridge, Mass.: Harvard University, Center for International Development.

Abstract: Gross domestic savings in Africa averaged only 8 percent of GDP in the 1980s, compared to 23 percent for Southeast Asia and 35 percent in the Newly Industrialized Economies. Aside from being generally low, saving rates in most of Africa have shown consistent decline over the last thirty years. These savings figures must be considered tentative, because they are derived as a residual in the national accounts from expenditure and production data that are themselves quite unreliable. Notwithstanding the problems of measurement, it is clear that savings are dominated by household savings. Survey evidence in turn shows that household savings are primarily in the form of non-financial assets. Financial savings are predominantly directed to informal markets and institutions. The paper documents these trends and provides a simple model of portfolio allocation to guide future research. It is suggested that an array of transaction costs associated with formal financial markets, coupled with the risk management strategies and production activities of households in Africa account for the patterns of saving and portfolio allocation observed in the data.

Ashe, J. (2002). "A Symposium on Savings-Led Microfinance and Rural Poor". *Journal of Microfinance*. Vol. 4 No. 2.

Abstract: Microfinance has achieved much in the twenty years since it became recognized as an important tool of development, but the demand for credit and savings services far exceeds the current institutional capacity. While microfinance institutions effectively deliver services to cities and densely populated rural areas, they have had limited success serving rural areas more than a few kilometers from urban centers. In only a few countries— Indonesia, Bangladesh, and Bolivia, for example—has microfinance reached a sufficient number of clients to make a difference on a national scale. How can the rest be reached? The answer may be already before us. The programs from Nepal, Niger, India, Mexico, and Bangladesh profiled in this symposium on "Savings-Led Microfinance" are accomplishing exactly that. Instead of creating new microfinance institutions, locally controlled self-help groups are being trained to mobilize their own savings, manage their

own accounts, and make loans at interest to their members. Since the issue is defined as group strengthening, not credit delivery, the standard microfinance paradigm has been turned inside out. In addition, savings-led programs build equity within the group rather then debt to an MFI and the interest paid on the loans contributes substantially to building the group's fund. When a woman leaves her group, she takes her savings and the interest her savings generated with her. All this is occurring in rural settings where a $30 loan is substantial, where a dollar a day would represent a tripling or more of per capita income, and where literacy rates are very low.

BAAC & GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit). (1998). "Savings Mobilization in the BAAC: Analysis of Past Trends, Assessment of Performance and Recommendations for the Future". Bangkok: Bank for Agriculture and Agricultural Cooperatives.

Bedard, G. *et al.* (1986). "The Importance of Savings for Fighting Against Poverty by Self-Help". *Volume I & II*. Report of a Workshop held in Bonn, June 18-20, 1986. Bonn: Deutsche Stiftung fur internationale Entwicklung (DSE), 116 pp.

Blanchet, T. (1986). "Rural Women, Savings and Credit: An Anthropological View". Monograph prepared for USAID, Dhaka.

Bouman, F.J.A. & Hearteveld, K. (1976). "The Djanggi, Traditional form of Saving and Credit in West Cameron". *Sociologia Ruralis*, 16, 1-2, 103-119

Branch, B. & Klaehn, J. (eds) 2002. "Striking the Balance in Microfinance: a practical guide to mobilizing savings". Pact Publications; WOCCU.

Abstract: This book grew out of the Savings Best Practices project, which aimed to capture and share the best practices learned from credit union savings mobilisation programmes in Latin America. The vast majority of microfinance institutions continue to be lending institutions and it is thought to be important to introduce a more balanced approach now that emphasises the centrality of savings in self-sustainable institution development. This book shows in a step-by-step fashion how to mobilise savings to create more stable and robust MFIs and financial markets. However, it also made clear that not all MFIs should engage in savings operations. Any MFI that cannot assure the safety of deposits made with them has no business raising savings from the public. Topics covered in the book include:

- Institutional preconditions: testing readiness and achieving sustainability
- Savings product management
- Product development and marketing: meeting the local demand
- Costing savings mobilization and ideas for lowering costs.

BURO, Tangail, (1996). "Sustainable Rural Savings and Credit Programme, Project Document, Phase IV (1997-2001)", BURO, Tangail, Dhaka.

Campion A. (2001). "Mobilizing small, medium and large savings - motivations and financial risks". Small Enterprise Development, Volume 12, Number 3, 1 September 2001, pp. 11-19(9).

Abstract: There are considerable obstacles – regulatory, organizational and financial – for MFIs contemplating offering savings accounts for the first time. Once an MFI makes the effort to develop savings products and the operational capacity to manage them, however, it stands to gain in terms of expanding its financial services while building a more stable and diverse capital base from which to fund its loan portfolio. This article describes the different types of savings account that may be offered, and how each account may benefit the MFI and its clients. It outlines how NGOs, converted banks and credit unions approach savings, and the primary reasons MFIs and their clients are becoming more interested in savings products. Finally the risks are described that must be managed by MFIs offering savings products. If managed well, savings can offer MFIs a chance to expand their operations, improve their reputations among the target clientele and increase their returns.

Carroll, C. & Weil, D. (1994), "Saving and Growth: A Re-interpretation", Carnegie-Rochester Conference Series on Public Policy, vol.40.

Carroll, C.; Rhee, B. & Rhee, C. (1994), "Are There Cultural Effects on Saving? Some Cross-Sectional Evidence", Quarterly Journal of Economics 109(3), pp. 685-99.

Abstract: Why are there such large differences in saving rates across countries? Conventional economic analyses have not been successful in explaining international saving differences, so economists have sometimes suggested that national saving differences may be explained by cultural differences. This paper tests the hypothesis that cultural factors influence saving by comparing saving patterns of immigrants to Canada from different cultures. Using data from the Canadian Survey of Family Expenditures, the authors find no evidence of cultural effects on saving.

CGAP, (1997). "Introducing Savings in Microcredit Institutions: When and How?" *CGAP Focus Note,* no. 8 (April).

Abstract: This synopsis of a paper by Marguerite S. Robinson looks at the ways microcredit institutions can mobilize voluntary savings from the public, potentially the largest and the most immediately available source of finance for some MFIs.

CGAP and GTZ. (1998). "Savings Mobilization Strategies: Lessons From Four Experiences". Washington, DC: Consultative Group to Assist the Poorest (CGAP).

Abstract: Around the world, poor households save in various forms and for various purposes. Although empirical evidence suggests that the poor would deposit if appropriate financial institutions and savings facilities were available, little progress has been made to establish MFIs as full-fledged financial intermediaries. In fact, today most micro-finance institutions (MFIs) offer only credit, and savings mobilization remains the forgotten half of micro-finance. The CGAP Working Group on Savings, formed in 1996 and chaired by GTZ (representing Germany), has recently completed case studies of four deposit-taking MFIs and a related comparative paper. This note represents a synopsis of these studies.

CGAP Savings Mobilization Working Group (GTZ). (2001). "Developing Savings Services for the Poor: Preliminary Guidance for Donors".

Chowdhury, N. (1987), "Household Savings Behaviour in Bangladesh; Issues and Evidence", in *The Bangladesh Development Studies,* XV.

Cuevas, C.E. & Campos, P. (2001). "Rural Finance: Savings Mobilization Potential and Deposit Instruments in Marginal Areas in Mexico". World Bank.

Abstract: This paper discusses the role of financial markets and the potential of non-bank financial intermediaries in mobilizing savings in the rural areas of Mexico. The paper:

- Documents and analyzes the extent and modalities of savings (physical and financial) practiced by rural households and enterprises;
- Identifies and analyzes the factors that limit the mobilization of rural savings;
- Sets forth guidelines for pilot interventions aimed at expanding sustainable savings mobilization in rural areas.

It concludes that:

- Successful rural savings mobilization needs to include a strong effort to complete and perfect the reform of the legal and regulatory framework for non-bank financial institutions;
- Capacity building for financial intermediaries expanding into rural areas should consider piloting of innovative institutional arrangements and linkages.

Deaton, A. (1989), "Saving in Developing Countries: Theory and Review" Proceedings of the World Bank Annual Conference on Development Economics, World Bank, Washington DC

Deaton, A. (1991). "Household Savings in LDCs: Credit Markets, Insurance and Welfare", Woodrow Wilson School of Public and International Affairs, Research

Program in Development Studies, Discussion Paper no. 153, 1991. Also published in *Scandinavian Journal of Economics*, 94(2), 1992, pp.253-273.

Dufhues, T.; Geppert, M. & Buchenrieder, G. (2003). "Combining Quantitative and Participatory Methods in Conjoint Analysis – Designing of Microsavings in Northern Vietnam". *Savings and Development*, Issue no. 3, 2003.

Abstract: More and more microfinance institutions have come to recognize the need to provide microsavings services both, as a much-valued service by their clients, and as a long-term source of refinancing capital for themselves. This has led to growing interest in savings, referred to by (Vogel 1984) as the 'forgotten half' of microfinance. Empirical research has shown that the rural poor save financially. Nevertheless, savings services must be designed appropriately to respond to the poor's demand characteristics. Savings in Vietnam were boosted during the last decade. However, this development has bypassed rural areas. The Vietnam Bank for Agriculture and Rural Development (VBARD) is the only supplier of savings schemes in rural areas. However, savings services of the VBARD are not attractive to rural clients. Yet, Vietnam's rural population has a true demand for microsavings services; they need to be still further developed. The development of demand driven microfinance services requires the involvement of the rural poor by participatory research methods. Conjoint Analysis (CA) is a marketing research method that combines quantitative and qualitative aspects and requires involving the potential clients in a participatory process at different stages of the research process. The stages and intensity of target group involvement in the CA will be analyzed and policy recommendations for the design of demand driven micro-savings schemes will be discussed. The results of this paper strongly support the view that rural households in developing countries, even the poor and poorest, demand microsavings services. This finding contrasts the Vietnamese government's and the formal financial sector's views.

Elser, L.; Hannig, A. & Wisniwski, S. (1999). "Comparative analysis of savings mobilization strategies". GTZ.

Abstract: This paper will provide a brief overview of the state-of-knowledge of savings in the context of microfinance. Section two of the paper will focus on the depositor, presenting the main factors that determine depositor demand for savings facilities and savings capacity, with special emphasis on transaction costs.
Section three will concentrate on MFIs and discuss the following topics:
· Institutional requirements for deposit-taking and the effects resulting from it;
· Requirements for cost, liquidity and risk management and their consequences on the financial institution;
· The regulatory framework and the necessity of self-regulatory measures;
· Forced savings in contrast to voluntary savings;
· The socio-cultural dimensions of financial intermediation;
· Savings compared to other sources of financing; and,
· Timing and sequencing of savings of savings mobilization.
Section four will concentrate on the macroeconomic context and section five will outline suggestions for further research and donor assistance.

Fiebig, M.; Hannig, A. & Wisniwski, S. (1999). "Comparative analysis of savings mobilization strategies". GTZ.

Abstract: Several papers have recently underlined the importance of savings mobilization in the context of microfinance. Few analyses have been produced, however, that take an in-depth look at the savings mobilization strategies employed by various institutions and then compare the results. The CGAP1 (Consultative Group to Assist the Poorest) Working Group on Savings Mobilization has noted the neglect of savings in microfinance and endeavored to establish a conceptual framework for the mobilization of microsavings. To address this concern, the Working Group commissioned several case studies to gain empirical knowledge of different areas pertaining to the subject. This paper analyzes the savings mobilization strategies of six institutions from Africa, Asia and Latin America. Through this paper, GTZ hopes to contribute to the important work of perfecting effective savings mobilization strategies that can be replicated in microfinance institutions across the globe. The paper will first outline the problem and the respective working hypotheses. It will then provide a brief overview of the institutional profiles of the selected financial institutions. In a next step, the results of the comparative analysis in the areas of governance, savings products and technologies, management capacity, external and internal regulation and supervision, and costs are summarized. Finally, we will identify remaining information gaps and present the conclusions.

Fitchett, D. (1997). "Comparative Analysis of Savings Mobilization Strategies: Case Study, Bank for Agriculture and Agricultural Cooperatives". Eschborn, Germany: GTZ.

Goodwin-Groen, R.; Ruth P. with input from CGAP staff. (2002). "Savings are as Important as Credit". *CGAP Donor Brief,* no. 4 (June).

Goodwin-Groen, R. (2003). "Success in Rural Savings: How One Donor Led the Way". CGAP Direct Donor Information Centre. Case Studies in Donor Good Practices, No. 1.

Abstract: This Donor Good Practices note provides a case study of German Technical Cooperation (GTZ) in collaboration with the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand. The short paper highlights that as of December 31, 2002, more than 2.3 million rural Thais held average savings deposits of 83 euros. These savers were attracted by a new financial product called "Save and Get a Chance" (Om Sap Thawi Choke). The program rewards savers who open and maintain savings accounts with prize drawings and parties that celebrate saving. Six years earlier, when the Bank for Agriculture and Agricultural Cooperatives (BAAC) launched the product, there were almost no small savers. "Save and Get a Chance" had such phenomenal success because it was designed specifically for low-income clients. Technical support from Deutsche Gesellschaft für Zusammenarbeit (GTZ) significantly contributed to this success. For the 24 months it took to develop the product, the German government, through GTZ, paid the salary of one international financial expert and one local expert, and contributed 50,000 euros in technical cooperation. The 191 million euros held by rural Thais in savings at BAAC yielded an impressive return on investment for GTZ and provided BAAC with a sustainable source of refinance. This case demonstrates good donor practice for developing savings services in nearly every respect, showing that savings products for the poor benefit both institution and client. The paper focuses on the keys for project success - be sure the institution can provide safe and secure savings services, design products that match customer requirements using careful market research, find ways for the donor and local institution to share costs, and allow sufficient time to do it right. Furthermore, it suggests internal preconditions for donor success as well as considering the project benefits for BAAC and its clients.

Hannig, A. (1999). "Mobilizing microsavings: The millennium challenge in microfinance". Sixth consultative meeting of CGAP. Abidjan, 21-24 June. GTZ.

Abstract: Microfinance has expanded enormously in the 1990s. In fact, most policy makers, donors, scientists and practitioners around the world emphasize the role of microfinance as a powerful tool for poverty alleviation. However, microfinance practice and discussion almost entirely focus on credit delivery, although almost everywhere poor households save in various forms and for different purposes. Little progress has been made in building up microfinance institutions (MFIs) as full-fledged financial intermediaries. The CGAP1 (Consultative Group to Assist the Poorest) Working Group on Savings Mobilization has noted the neglect of savings in microfinance. To address this concern, the Working Group commissioned several case studies to gain empirical knowledge. Considerable efforts were made to disseminate and discuss the findings. In February 1998, the first Regional Conference on Savings in the Context of Microfinance was held in Kampala, Uganda (CGAP Working Group on Savings Mobilization, 1998). Further regional conferences on microsavings will be supported by the CGAP Working Group in Latin America and Asia. In this document, we look first at some elements characterizing the current mainstream of microfinance policy and practice, underlining the limited role of savings in this debate. Second, the conceptual framework on microsavings addressing the clients' as well as the institutional perspective will be discussed. Third, the conceptual issues identified are analyzed in a comparative analysis of seven case studies from Latin America, Africa and Asia. Finally, some conclusions are presented and future areas for research are suggested.

Hirschland, M. (2002). "Savings Operations for Very Small or Remote Depositors: Some Strategies." Summary of discussions from the virtual conference, April 29-May 17.

Hirschland, M. (2005). "Savings Services for the Poor – An Operational Guide". Kumarian Press, USA.

Abstract: In *Savings Services for the Poor*, Madeline Hirschland and other leaders in the microfinance field provide practical guidance for developing and managing sound savings operations for small and rural depositors. Drawing on experiences from across the globe, this book

addresses two types of institutions: microfinance institutions that want to develop savings operations and mainstream financial institutions that seek to go "down-market". Forty single-page cases illustrate the key technical and management issues faced by banks, cooperatives, microfinance institutions, and self-help group programs. Practical tools are also provided for managers to assess an institution's capacity to mobilize deposits, analyse the market for savings, develop financial projections and cost saving products, manage liquidity and interest rate risk, review its internal controls, and develop an incentive scheme for staff dealing with savings mobilisation. While the book is directed towards financial institutions working on their small-balance savings operations, its attention to alternative delivery channels should be of interest to anyone concerned with microfinance for poor and rural markets. J.D. Von Pischke writing in DevFinance said of this book: "I highly recommend this work as well-structured, authoritative, comprehensive, issue and solution oriented, and readable. Its three parts include an overview and sections on services and systems by 20 authors whose names are generally familiar to microfinance professionals. The subtitle — An Operational Guide — defines the book well, but content goes far beyond formulas and the possibly mundane reading associated with many handbooks. Is this sort of thing for everyone in the field? By analogy, several years ago at a Boulder MFT course supply and demand were not balanced. Some core courses were embarrassingly oversubscribed while others had few takers. The organizers had a bit of a problem on their hands, and some participants ended up far from where they expected to be. One in particular, with considerable seniority in an MFI, was assigned to a week-long course on controls, which she feared would be utterly boring. But at the end of the week she said, "I thought at the beginning of the week that I could never stay awake in a course about accounting procedures and controls. By the end of the week I wondered whether I would ever be able to go to sleep." To summarize: an education in microfinance is no longer complete without a look at this book."

Hospes, O. (1996). "People That Count: Changing Savings and Credit Practices in Ambon, Indonesia". Amsterdam: Thesis Publishers, 299 p.

Huddle, D.L. (1979) "An analysis of the saving behaviour of a group of colombian artisan entrepreneurs". *World Development*, Volume 7, Issues 8-9, August-September 1979, Pages 847-864.

Abstract: This study shows that an important low income, Colombian subgroup - the artisan - has high and rising marginal saving rates. This unexpectedly high saving behaviour is explained by 'own' investment opportunities of the artisans and high rates of return on simple capital equipment inventories and educational services. By contrast, the normal low income worker has little opportunity for 'own' investment while the rate of return on bank savings is frequently even less than the rate of inflation. Saving in this study referred to cash and financial savings, but also to inventories, equipment, and educational expenditures.

Hyun, K.N. *et al.* (1979). "Rural Household Savings Behavior in South Korea, 1962-76". *American Journal of Agricultural Economics* 61(1979): 449-454.

Jellicoe, M.R. (1968). "Indigenous Savings Associations in Eastern Africa and the Mobilization of Domestic Savings." U.N. Economic Commission for Africa E/CN 14 HOU/21.

Khalily, M.A.B.; Meyer, R.L. & Hushak, L.J. (1987). "Deposit Mobilization in Bangladesh: Implications for Rural Financial Institutions and Financial Policies". *The Bangladesh Development Studies* 15(4): 85-107.

Abstract: Rural deposit mobilization has been given increased emphasis in Bangladesh. This study examines the pattern and trends in bank deposits with emphasis on rural branches. A simultaneous equations model was estimated to explain rural deposits. One equation was designed to explain district deposits and the second explained bank branches. Permanent income and inflation indirectly influenced deposit through their effect on bank branches. The availability of roads and vehicles directly affects deposit through their impact on transaction costs. Inflation and literacy also affect deposit mobilization. Several suggestions are provided for a strategy for rural deposit mobilization.

Klaehn, J.; Branch, B. & Evans, A.C. (2002). "A Technical Guide To Savings Mobilization Lessons from the Credit Union Experience". WOCCU.

Abstract: This guide is intended as an instructional reference for savings institutions interested in designing, marketing, managing and protecting voluntary savings products. Find out how to:

- Determine if an institution is ready to mobilize savings
- Prepare to capture savings and protect them once captured
- Provide what savers most value: safety, convenience and returns
- Develop savings products and conduct marketing campaigns
- Set market-driven interest rates with real rates of return
- Manage savings, ensure liquidity and improve efficiency

Lacoste, J-P. (2001). "What kind of savings products do poor women need? The experience of SHDF". *Small Enterprise Development*, Volume 12, Number 3, 1 September 2001, pp. 59-63(5).

Abstract: SHDF's savings clubs have been operating in Zimbabwe for almost 40 years, allowing poor women to place their savings in one bank account held by the club. They are popular for their simple and transparent saving stamp system; however, the average balances in the accounts are very small. This article examines why women tend to save more in kind than in savings accounts in Zimbabwe's current economic climate, and also identifies the limits of the current savings stamps system compared to other types of financial savings. Finally, the author assesses the need for a new voluntary type of savings, and makes some recommendations to SHDF.

Latif, M.A. (2001) "Microcredit and Savings of Rural Households in Bangladesh", *The Bangladesh Development Studies*, Vol. XXVII, March, No 1.

Abstract: Households in Bangladesh This paper attempts to analyse the effect of microcredit on household savings. There are over 850 Government and Non-Government Micro Finance Institutions (MFIs) operating at national or various local levels which provide the rural poor who are landless or functionally landless with group-based small credit with the objective of increasing self-employment and income and thereby alleviating poverty. The paper hypothesizes that this microcredit has positive effects on savings of the participated households. The analysis is done with the data derived from a sample survey of 2599 households relating to the financial year 1998/99. The households include both programme participants and non-participants. The hypothesis is tested statistically by controlling for such variables as income and land-ownership which also influence saving, and found that microcredit has statistically significant independent effect on household savings. The policy implications that follow from the analysis are to continue with the programmes and formalize them beyond the land-poor.

Lopez-Murphy, R. & Navajas, F. (1998), "Domestic Savings, Public Savings and Expenditures on Consumer Durable Goods in Argentina", *Journal of Development Economics*, 57(1), pp. 97-116.

Abstract: This paper shows that when aspects related to public savings and consumer durables are explicitly measured, there is a considerable reduction in the recent cycle of savings in Argentina. Both public savings and investment are responsible for sharp changes in domestic savings between decades, while a great deal of the cycle in private savings is explained by decisions on consumer durables. An examination of the saving–investment correlation, implicit in an econometric error correction model, shows a drop over time in both the short run correlation and the speed of correction of any difference between both aggregates. However, a gap between savings and investment in Argentina is not a long-term phenomenon, as it is implied in the data and considering recent observations. Finally, an econometric analysis of expenditures on durables suggests that both an intertemporal optimization response by economic agents to new economic conditions as well as elements of exaggerated optimism and pessimism might explain the sharp cycle in the consumer durables spending that is behind the corresponding cycle in private savings.

Maimbo, S.M. & Mavrotas, G. (2004). "Savings Mobilisation in Zambia: The Role of Financial Sector Reforms". *Savings and Development*, Issue no. 4, 2004.

Abstract: The paper explores the relationship between financial sector reforms and savings mobilization in Zambia. Although there exists an extensive literature on financial sector development and savings levels in developing countries, there does not seem to exist satisfactory work on the above nexus for sub-Saharan African countries, particularly Zambia. Along these lines, the paper examines the linkages between the financial reforms of the early 1990s and savings mobilization. It considers the characteristics of banks and non-bank financial institutions, especially micro finance institutions, and savings levels and identifies problems associated with the relatively poor performance of savings in recent years and concludes with a set of policy guidelines for strengthening savings mobilization, highlighting the expected effect on poverty-reducing growth.

Masson, P.; Bayoumi, T. & Samiei, H. (1995), "Saving Behaviour in Industrial and Developing Countries", *IMF Working Paper* No.51.

Maurer, K. (1999). "Comparative Analysis of Savings Mobilization Strategies – Case Study of Bank Rakyat Indonesia". Eschborn: Deutsche Gesellschaft für Technische Zusammenarbeit. GTZ.

Abstract: Bank Rakyat Indonesia (BRI) is one of five state-owned foreign exchange commercial banks in Indonesia, with primary responsibility for providing rural banking services and, in particular, for promoting the development of the agricultural sector. Established in 1968, BRI is the successor to De Poerwokertosche Hulp-en Spaarbank der Inlandsche Hoofden, founded in 1895. BRI has grown to become one of Indonesia's largest banks. As of December 1996, total assets were US$12 billion, including a net loan portfolio of almost US$11 billion. In terms of outreach, BRI's branch network is the most extensive of all banks in Indonesia and effectively covers the entire nation. In addition to four branches abroad, BRI has 320 branches that are located at the district or municipality level. There are only 296 districts/municipalities in Indonesia. Furthermore, the bank has an even more extensive network of 3,600 retail outlets at the sub-district level, known as BRI village units (Unit Desa).5 Although both branches and units are part of the same organization, the Unit Desa System (UDES) can be clearly distinguished from the branch network in terms of target groups, services and mode of operation. The branches' commercial operations cater to well-to-do private and corporate customers in and around district towns. In addition, BRI branches still administer government-sponsored program loans - some at concessional interest rates – to priority sectors and target groups, such as farmers, cooperatives, etc. UDES operates on a full commercial basis, with each unit acting as a semiautonomous entity serving micro and small customers, predominantly in the rural areas. It is the UDES that has gained national and international reputation as a success story in microfinance.

Mauri, A. & Calmanti, A. (1983). "A Note on the Role of LDCs Security Markets in Savings Mobilization". *Journal of Development Studies,* Vol. V, pp. 41-50.

Abstract: A widespread debate among development economists and policy makers focuses on the issue whether setting up securities markets in less developed countries can and will increase their savings rates and, by this way, generate substantial economic benefits. The paper attempts to contribute to the debate. The investigation encompasses relationship between development of securities markets in a backward context and improvement of savings mobilization process, the latter conceived in terms both of increase of gross private savings rate and of enhancement of the efficiency in allocating capital resources. The results of the analysis suggest that the opportunities to expand aggregate savings by establishing securities markets depend on a variety of conditions and limiting factors related to each socio-economic context. Given that most of these constraints exist, such opportunities are to be assessed on a case-by-case basis. In conclusion, according to the Authors, it should not be assumed that the introduction of this innovation in the financial scene of a less developed country will necessarily and significantly improve savings mobilization process. Indeed, with particular reference to the early stages of development, it might be observed that the establishment of security markets it is likely to affect only modestly private savings rates and resource allocation.

Mauri, A. (1983). "The Potential for Savings and Financial Innovation in Africa". *Savings and Development*, Vol. VII, No. 4.

Abstract: The paper examines the first experiences in savings mobilization achieved in Africa by specialized financial institutions during the 60s and the structural changes brought about in financial systems during the 70s. Opportunities for financial innovations as well as institutional reforms to be implemented in the future are presented and suitable innovative proposals are discussed. More confidence on the part of the Africans themselves and more efficient mobilization of the continent's vast untapped potential of natural resources, manpower and savings will be the key factors in fostering its economic and social development. In this scenario savings and credit institutions can play a crucial role in mobilizing household savings and in financing productive investments. A prime objective of governments at the national level, and, on wider dimension, at international level, should be to encourage these financial institutions to multiply and strengthen in all African countries. The co-operation that can be provided by savings banks and other European financial institutions devoted to savings mobilization can be of greatest importance in this respect particularly as regards research, technical assistance and, above all, personnel training.

Mauri, A. (1985). "Institutional and Procedural Innovation in Savings Mobilization". *Journal of the Ghana Institute of Bankers,* Vol. 1, No. 1, pp. 6-18.

Abstract: At the moment when Less Developed Countries (henceforth referred as LDCs) need an increasing larger volume of resources to foster their economic growth, foreign borrowing proves to be more difficult and, on the other hand, generates dependence from lender countries. In the face of these changes in the international scene LDCs authorities have become aware that domestic resources, and expecially household savings, still largely unexploited of under-exploited, are of vital importance in the coming decades. But household savings are to be mobilized. The paper explores, therefore, financial innovations that have proved succesful in promoting household savings mobilization and concentrates on some significant institutional and procedural innovations. It concludes suggesting that models borrowed from other institutional context, however, have to be adapted to legal, cultural and economic domestic conditions of the country where are to be implanted.

Mauri, A. (1987). "The Role of Financial Intermediation in the Mobilisation and Allocation of Household Savings in Ethiopia: Interlinks Between Organized and Informal Circuits". Giordano Dell'Amore Working Paper No. 2.

Abstract: The paper summarises the results of a research on financial intermediation and savings mobilization undertaken in Ethiopia in mid-80s. It examines firstly financial system reforms brought about by the Ethiopian socialist regime with the focus on institutional changes and finds out that restructured formal financial sector proved to be inadequate in promoting and mobilizing household savings. On the other hand, the informal financial sector has shown itself to be much more successful in this task. Therefore the paper concentrates on the analysis of the informal financial sector and explores actual interlinkages between formal and informal financial circuits. The conclusion suggests feasible actions to be undertaken by authorities with the aim of improving financial intermediation and household savings mobilization

Matthews, B. & Ali, Ahsan. (2002). "Ashrai: A Savings-Led Model for Fighting Poverty and Discrimination". *Journal of Microfinance*, Vol. 4, No.2.

Abstract: Ashrai is getting results with a savings-led model among minority peoples in northwest Bangladesh. These people are mostly landless and illiterate, and earn about $50 a year per person. They are a vital population segment that microfinance institutions in Bangladesh and elsewhere are unable to serve successfully. Ashrai began its field work ten years ago by replicating Grameen Bank, but rapidly learned from its clients that they needed savings at least at much as loans, flexible loan repayment schedules structured around seasonal cash flow, and an easing of the requirement that loans be for productive purposes. Ashrai takes an innovative approach based on intensive capacity building to help clients build small, informal financial intermediaries. Savings mobilization,institution-building, and education/literacy interventions work together to support the efforts of some of the world's poorest people to build a base of economic power and self-respect.

Mavrotas, G. & Kelly, R. (2001). "Savings Mobilization and Financial Sector Development: the Nexus". *Savings and Development*, Issue no. 1, 2001.

Abstract: The paper seeks to shed more light on the important, though neglected so far,nexus between saving mobilisation and financial sector development and the significant implications for poverty-reducing growth in developing countries. This is done by critically evaluating the existing vast independent literatures on financial sector development and savings mobilisation with a primary focus on the channels and the mechanisms through which financial sector development affects savings and thus, the entire growth process. Aspects of the literature which have not been properly discussed before are also looked at. Furthermore, the paper discusses a new booming literature on savings mobilisation, namely social security reforms and the way they affect savings.Finally, we discuss the plethora of formal as well as informal institutions through which savings mobilisation is influenced in developing countries. The paper is of particular interest to those studying and/or trying to implement financial sector reforms for saving mobilisation and sustainable growth in developing countries.

Miracle, M.P.; Miracle, Diane S. & Cohen, L. (1980). "Informal Savings Mobilization in Africa" *Economic Development and Cultural Change*, Vol. 28, No. 4, July, pp. 701-724.

Mukherjee, J. & Wisniwski, S. (1998). "Savings Mobilization Strategies: Lessons Learned from Four Experiences". *CGAP Focus Note,* no. 13 (August).

Abstract: Around the world, poor households save in various forms and for various purposes. Although empirical evidence suggests that the poor would deposit if appropriate financial institutions and savings facilities were available, little progress has been made to establish microfinance institutions (MFIs) as full-fledged financial intermediaries. In fact, today most MFIs offer only credit, and savings mobilization remains the forgotten half of microfinance. The CGAP Working Group on Savings, formed in 1996 and chaired by GTZ (representing Germany), has recently completed case studies of four deposit-taking MFIs and a related comparative paper. This note represents a synopsis of these studies.

Osuntogun, A. & Adeyemo, R. (1981). "Mobilisation of Rural Savings and Credit Extension By Pre-Cooperative Organisations in South Western Nigeria." *Savings and Development* 5(4), Italy.

Otero, M. (1991). "Savings mobilization and microenterprise programmes". *Small Enterprise Development*, Volume 2, Number 1, March 1991, pp. 32-41(10).

Abstract: Microenterprise programmes can be excellent vehicles to foster savings among poor populations, with considerable benefits both for those saving and for the programmes themselves. The purpose of this article is to explore issues related to savings mobilization from the vantage point of projects that seek to reach poor people who are self-employed in productive activities. Microenterprise development projects in particular are the focus of this study. The first section provides background for the discussion, asking why people save, and what sort of savings schemes prevail among poor populations. The second section turns to examples of savings mobilization in microenterprise programmes to identify the factors that contribute to success. Finally, the article identifies the circumstances under which mobilizing savings makes economic sense, and provides some approaches for future microenterprise lending programmes.

Rahman, R.I. (1998). "Rural Households' Attitude Towards Savings and Demand for Savings Services". Save the Children USA, Bangladesh Field Office, Dhaka.

Richardson, D.C. (2003). "Going to Barricades with Microsavings Mobilization: A View of the Real Costs from the Trenches". *The MicroBanking Bulletin*, Issue No. 9, July 2003, pp. 9-13.

Robinson, M.S. (1992). "The role of savings in local financial markets: the Indonesian experience." GEMINI Working Paper No. 33. New York: PACT Publications.

Robinson, M.S. (1994) "Savings Mobilization and Microenterprise Finance: The Indonesian Experience", in Otero, M., and E. Rhyne, *The New World of Microenterprise Finance,* Kurnarian Press, West Hartford, and Intermediate Technology Publications, London.

Robinson, M.S. (1995). "Introducing Savings Mobilization in Microfinance Programs: when and how?" unpublished draft, November 1995

Robinson, M.S. (2001). "Savings and the New Microfinance". Chapter 7 in The Microfinance Revolution, Washington, D.C.: World Bank, 2001.

Rutherford, S. (1998). "The Savings of the Poor: Improving Financial Services in Bangladesh", *Journal of International Development*, Vol: 9, Issue: 3. London.

Abstract: The capacity of the poor of Bangladesh to save is surprizingly large - surprizing to observers, and surprizing to the poor themselves. This capacity has long been used, with modest success, as the basis for self-help savings-and-loan devices that the poor (like others) have used in the absence of formal banking services. But over the last twenty years an innovative form of financial service provision has been developed in Bangladesh by 'micro-credit institutions' (MCIs) such as the Grameen Bank, BRAC and ASA which has exploited this capacity to save, to the benefit

of millions of rural people, and at the same time brought profits to the MCIs. Splendid though this development has been, it could be more splendid. For under the systems adopted by the MCIs - who are fundamentally *lenders* rather than financial intermediaries - the poor can exploit their capacity to save only by going into debt. This paper argues that a shift in approach would allow the MCIs to offer a much better service to a broader range of customers (including the very poor), and bring surprizing benefits to themselves as well.

Rutherford, S. (1999). "Savings and the Poor: The Methods, Use and Impact of Savings by the Poor of East Africa", mimeo prepared for MicroSave-Africa.

Schreiner, M. (2005). "Measuring Savings". *Savings and Development*, Issue no. 1, 2005.

Abstract: Development depends on saving. But what exactly is saving, and how is it measured? This paper defines saving and describes several measures of financial savings in the context of Individual Development Accounts, a new policy idea that provides matches for poor people who save for home purchase, post-secondary education, and microenterprise. The proposed measures of savings take into account the passage of time and the three stages of saving: putting in (depositing), keeping in (maintaining a balance), and taking out (withdrawing). Together, the measures help describe how people move financial resources through time.

Sen, B. (1996). "Rural Savings and Investment: Trend and Determinants", in Rahman, H.Z.; Hossain, M. & Sen, B. (eds.) 1987-1994 '*Dynamics of Rural Poverty in Bangladesh*'. BIDS, Dhaka.

Tanzi, V. (1976). "Fiscal policy, Keynesian economics and the mobilization of savings in developing countries". *World Development*, Volume 4, Issues 10-11, October-November 1976, Pages 907-917.

Abstract: This paper argues that the uncritical transplanting of the basic Keynesian framework — which was developed for other situations and other institutions — to the developing countries has provided support and/or justification for policies which may have retarded the development of these countries. It is argued that the model implicit in those policies has been too aggregative, too simple, politically naive, and too oblivious to important interrelationships among macro variables. It is concluded that classical economics can still provide a useful framework for determining desirable policies in developing countries.

Tanzi, V. (1991). "Mobilization of Savings in Eastern European Countries: The Role of the State". IMF Working Paper No. 91/4.

Abstract: As the countries of Eastern and Central Europe transform their economies from centrally-planned to market-oriented, the question of the role that the governments should play in mobilizing savings to ensure a high growth rate must be addressed. This paper argues that the issue of a good allocation of savings must precede that of mobilization. Much evidence suggests that major distortions have, in the past, dramatically reduced the productivity of investment. The paper discusses some of the institutional changes that will be necessary to ensure a better allocation of savings.

United States Agency for International Development. (USAID). (1991). "Mobilizing Savings and Rural Finance: The AID Experience". Washington, DC.

Abstract: This book considers the innovations in rural finance that have accrued from years of research and experimenting within the Agency for International Development (A.I.D.), in relation to small farm credit. The chapters trace A.I.D.'s experience in the area of agricultural credit and the agency's endeavours to explore problems and solutions. To illustrate how A.I.D. innovations can be used to address country-specific financial problems, the book has four chapters which focus on A.I.D.'s Experimental Approaches to Rural Savings (EARS) projects. These chapters are case studies that explore the lessons learned from EARS projects in Honduras, the Dominican Republic, Bangladesh and Niger. The final chapter suggests guidelines for addressing rural financial issues with two specific project objectives in mind: strengthening rural financial markets and targeting credit to agriculture. Issues which need to be addressed include: the conduciveness of the macroeconomic environment to the setting up of financial markets; the basis for a rural financial market; the utilization of existing financial institutions; whether the target population needs credit; effective targeting; and ensuring the viability of rural financial institutions.

USAID. (2005). "Innovations in Rural Deposit Mobilization". *RAFI Notes* (Rural and Agricultural Finance Initiative) Issue 9.

Abstract: This Rural and Agriculture Finance Initiative (RAFI) Note summarizes several recent innovations to mitigate the common constraints to rural savings mobilization by drawing from experiences of USAID programs in Madagascar and the Philippines. It also highlights key lessons learned and their transferability to other country contexts.

Vogel, R.C. (1984). "Savings Mobilization, the forgotten half of rural finance". in Adams, Graham and Von Pischke, J.D. (eds.) *Undermining rural development with cheap credit*, Westview Press.

Vogel, R.C. & Burkett, P. (1986) "Deposit Mobilization in Developing Countries: The Importance of Reciprocity in Lending" *The Journal of Developing Areas* 20, July, pp. 425-438.

Vonderlack R.M. & Schreiner, M. (2002). "Women, Microfinance, and Savings: Lessons and Proposals". *Development in Practice*. 12(5): 602-612.

Abstract: Microfinance--both credit and savings--has potential to improve the well-being of poor women in developing countries. This paper explores practical ways to achieve that potential. Based on lessons from informal savings mechanisms that women already use, the paper proposes two savings services designed to address the development issues that confront women. The proposals call for safe-deposit boxes and for matched savings accounts for health care or education.

Waterfield, C. & Duval, A. (1996). "CARE Savings and Credit Sourcebook". CARE.

Wise, H.M. (2004). "Cajas Externas in Bolivia: A Stategic Alliance to Increase Savings in Under-Served Markets". Washington, DC: *SEEP*, Paper presented at the 2004 AGM SEEP Meetings at the Innovations in Rural Finance training session, October 26, 2004 (Presentation).

Wisniwski, S. (1997). Savings in the Context of Microfinance: Lessons Learned from Six Deposit-Taking Institutions. Eschborn, Germany: GTZ.

Wisniwski, S. (1999). "Microsavings compared to other sources of funds". Eschborn, Germany: GTZ.

Abstract: The case studies in this volume provide convincing evidence that the microfinance sector is by far not only a credit market. Against the widespread belief that poor people cannot save, there is a tremendous demand for savings products. Experience has shown, however, that it is not enough for a financial institution to design savings products and bring them on the market to successfully enter into the deposit business. In order to take full advantage of savings as a source of funds, microfinance institutions (MFIs) have to be aware of the implications regarding costs and risks involved with the deposit business. The following paper discusses the various aspects of savings as a source of funds compared to other sources of funds as equity, commercial loans, grants and others. Starting with an examination of the liabilities structure of traditional banks and non-bank financial institutions, the specific risks involved in funds management are reviewed in a second step. Finally, the differences between the funding strategy of MFIs and traditional financial institutions are examined to provide insights into the existing obstacles for commercializing and "popularizing" the sources of funds in MFIs.

Wright, G.A.N. *et al.* (1997). "Savings: Flexible Financial Services for the Poor" in Wood, G.D. & I. Sharif (eds.) *Who Needs Credit? Poverty and Finance* in *Bangladesh* UPL: Dhaka and Zed Books: London.

Abstract: The paper reviews some of the experiences of providing flexible financial services to the poor both in Bangladesh and abroad. In Bangladesh, the large MFIs are using compulsory savings as a source of capital for loans, but there is increasing pressure from the members' for access to their savings. This apparent dilemma may not be real, since experience suggests that open access and other flexible savings facilities may well increase the net savings deposited. BURO, Tangail has

implemented a programme that, in contrast to the large MFIs in Bangladesh, emphasizes savings instead of credit and provides its members with open access to their savings. The study carried out by the authors tried to determine and describe what contribution these savings facilities have made to providing important and valued financial services to the members, and to capitalizing the organization's activities. The authors conclude that the poor want and need flexible savings facilities. Government authorities and the large MFIs should be less concerned with reducing the rate of interest charged on loans, and more with providing secure, open access saving facilities to the poor. BURO, Tangail's programme suggests that voluntary open access savings can raise funds not dissimilar to those levied through the mainstream MFIs' compulsory savings schemes. More research is needed to see if indeed such schemes can attract even more savings deposits than the compulsory counterparts. The paper concludes that this could be the beginning of a new era in Bangladesh when the large MFIs provide a wider range of financial services to a broader spectrum of people and thus improve the indigenous capitalization of their systems. And, noting the risks when less well established MFIs begin savings mobilization, the paper makes a plea for the development of depositor protection schemes.

Wright, G.A.N. (ed.) (1999). "Savings in Africa: Remembering the Forgotten Half of Microfinance". MicroSave Africa.

Abstract: Savings have risen to the top of the microfmance community's agenda. Previously MicroFinance Institutions (MFIs) viewed 'savings' as the poor relation, Vogel's "forgotten half, and typically extracted savings from clients only through compulsory systems. There was a prevalent and powerful perception that "the poor cannot save", thus compulsory savings systems often required members to deposit small token amounts each week and levied more substantial amounts at source from loans. These compulsory savings were then often "locked-in" until members left the organization. However, these compulsory, locked-in savings systems have come under increasing criticism not only from the professionals involved with financing, managing and reviewing MFIs and but also from the clients themselves. This is driven by the fact that, in the words of Marguerite Robinson1 (1995), "There is substantial evidence from many parts of the world that: 1) institutional savings services that provide the saver with security, convenience, liquidity and returns, represent a crucial financial service for lower income clients; and 2) if priced correctly, savings instruments can contribute to institutional self-sufficiency and to wide market coverage." This book brings together a series of papers by leading microfmance practitioners and researchers to examine the need of poor people for savings services and how the lack of suitable savings programmes drives large-scale "drop-out" or "exit" of MFI clients. By examining how and why poor people currently save money - predominantly in the informal financial sector, the experts go on to make recommendations on how MFIs might offer savings services for poor people. The book is a timely attempt to bring together some of the "state of the art" research and thinking on this emerging issue for the microfmance industry.

Wright, G.A.N. (2003). "Designing Savings: Equity Building Society's Jilenge Savings Accounts". *The MicroBanking Bulletin*, Issue No. 9, July 2003, pp. 29-32.

Zaman, H. *et aI.* (1994). "Current Accounts for the Rural Poor: A Study of BRAC's Pilot Savings Scheme". *BRAC Research and Evaluation Division Report,* Dhaka.

Zapata, G. (2002). "Community Savings Funds: providing access to basic financial services in marginalised rural areas of Mexico". *Journal of Microfinance*, Vol.4, No.2.

Abstract: The Community Savings Funds (CSFs) promoted by the Ministry of Agriculture in Mexico seek to provide marginalized community groups with a simple mechanism that allows them to save and administer their own funds securely, efficiently, and profitably, according to their own needs and priorities. Specially trained promoters help set up CSFs for a period of one year—using a standardized Toolkit—after which they are expected to work autonomously. The CSF Project does not focus exclusively on providing credit for productive activities. People in marginalized rural areas have many consumption needs at different times of the year which often do not coincide with the times when returns from productive activities are available. In response to this need, the vast majority of CSFs have decided to grant credit for consumption requirements. This has proven very attractive to members—so much so that many members choose to take credit to meet consumption needs rather than withdraw from their savings. The Administrative Toolkit is a standardized, yet flexible, kit used by every CSF for adequate record-keeping. CSFs receive no seed capital or external financial support other than training. The main service a CSF provides is,

as its name indicates, savings collection. CSF members generally set a minimum amount of systematic savings that must be deposited by each member either weekly or fortnightly. Members themselves determine both the amount and the frequency of deposits. Keeping the cash safe is risky in a marginalized rural setting. Given that reliable financial intermediaries are generally not available in these areas, CSFs' surplus income is either lent out to non-members; kept in a safe deposit box with 2–3 different locks, for which an equal number of members have one key; deposited in a bank account whenever a member happens to go to the nearest town; or kept by the treasurer in case someone has a need for an emergency loan. The CSFs are currently outwith the provisions of the Popular Savings & Credit Law, passed in 2001, to regulate non-bank financial institutions that take deposits but reforms are underway. The Ministry of Agriculture realizes that it is short-sighted to pursue a strategy that promotes the unregulated proliferation of autonomous CSFs. So rather than promoting hundreds of CSFs in remote villages—whose follow-up by individual promoters would be very difficult—the new strategy envisages the creation of CSFs networks by linking new or existing CSFs to each other to form a formal financial intermediary in its own right, particularly in areas where no such services exist. Another option is to work through already established farmer organizations with an interest in providing financial services to their members, subsequently constituting themselves as a formal financial intermediary if they are willing and able to do so, or identifying existing formal financial intermediaries that are interested in incorporating CSFs as clients or members or turning them into a branch or service desk.

❒ Sustainability

Brand, M. & Gerschick, J. (2000). "Maximizing Efficiency in Microfinance: The Path to Enhanced Outreach and Sustainability". ACCION International.

Abstract: This long paper, from September 2000, ambitiously sets out to provide a framework by which microfinance institutions (MFIs) can identify and improve efficiency in their operations. The authors point out that as the microfinance market diversifies, customers become increasingly knowledgeable and interested in improved service, which is natural. This paper aims to assist MFI managers and policy-makers at this second stage of development. The authors set out methods of enhancing efficiency (though this is not a manual of operational accountancy), offering a brief but concise overview of the current state of affairs and the challenges confronting MFIs in increasingly crowded and competitive markets. Chapter two offers a primer on understanding and calculating administrative and operational costs, and suggests a method of calculating efficiency. It considers the benefits and flaws of financial analysis, and ends with a discussion of ways of allocating costs and revenues for ongoing efficiency evaluation. Chapter three considers different approaches to improving efficiency, and uses a number of different examples, mostly from Latin America, to illustrate how MFIs can be successful. The authors introduce their main efficiency-increasing tool - "Alignment Theory" - in this chapter. This is a way of looking at an MFI with a focus on how well-aligned the different functions of the MFI are in terms of mission, target market, strategy, and deployed resources. Methods of decreasing cost in delinquency management, payment collection and underwriting are described and evaluated. The chapter concludes with a look at technologies which may make the difference between an MFI's sustainability and its failure. The fourth chapter focuses on reengineering – retooling an MFI to improve efficient function – and provides three detailed case studies of success stories, from ACCION New York, BancoSol in Bolivia and Mibanco in Peru. The final chapter reviews the key concepts of the paper and offers a practical hands-on guide to putting the ideas of the authors into practice to improve efficiency. The authors themselves identify the third chapter as the "heart of the paper", but many readers will find the last two chapters more useful: the first three chapters establish the theoretical structure of the authors' ideas but chapters three and four provide the necessary illustration and step-by-step advice about how to restructure and improve MFI efficiency. Each successive chapter refers to the chapters before, and the paper builds a complex and nuanced argument in favour of its methods for increased efficiency. Most of the authors' suggestions are sensible and the paper's no-nonsense approach makes its explanations clear and brief.

CGAP. (1995). "Maximizing the Outreach of Microenterprise Finance: The Emerging Lessons of Successful Programs". *Focus Note* No. 2.

Abstract: Eleven microenterprise finance programs are examined from two perspectives, outreach and financial sustainability. Based on James Fox's summary an in-depth study of the same name authored by Robert Peck Christen, Elisabeth Rhyne, Robert C. Vogel, and Cressida McKean.

CGAP, (1996). "Financial Sustainability, Targeting the Poorest, and Income Impact: Are There Trade-offs for Micro-finance Institutions?" *Focus Note* No. 5.

Abstract: Thirteen MFIs in seven countries examine the trade-offs they made between sustainability and poverty outreach. It is a summary of David Hulme and Paul Mosley, Finance against Poverty.

CGAP. (1996). "Microcredit Interest Rates". *Occasional Paper* No. 1, revised December 2002.

Abstract: This paper explains how an MFI should estimate the interest rate on its loans if the institution wants to become sustainable; how to calculate the effective interest yield on loans; and what different loan and repayment methods are used to determine the true rate of interest income received by an MFI. The paper also discusses evidence that MFI clients are capable of paying high interest rates, concluding that MFIs should charge clients a rate high enough to ensure their own sustainability.

CGAP. (2002). "Making Sense of Microcredit Interest Rates". *Donor Briefs* No.6.

Abstract: This donor brief highlights some of the key issues related to microcredit interest rates and the role of donors. As interest rate subsidies are often a part of financial policy, this brief addresses when and how subsidies are appropriate.

CGAP. (2003). "Scoring: The Next Breakthrough in Microcredit?" *Occasional Paper* No. 7.

Abstract: Scoring is a new way to judge the risk of whether the self-employed poor will repay their microcredit debts as promised This paper discusses how scoring works, what microlenders can expect from it, how to use it, and what its implications are for microcredit.

CGAP. (2004). "Interest Rate Ceilings and Microfinance: The Story So Far". *Occasional Paper* No. 9.

Abstract: This paper outlines the rationale for higher microcredit interest rates, the historical performance of subsidized lending, and the impact of interest rate ceilings on microfinance clients. It includes recommendations for fostering lower microcredit interest rates through competition and consumer protection without imposing interest rate ceilings.

CGAP. (2006). "Competition and Microcredit Interest Rates" CGAP *Focus Note* No. 33, February.

Abstract: Abstract: Does competition result in lower interest rates to microcredit customers? To address this question, this Focus Note analyses the experiences of Uganda, Bangladesh, and Bolivia, home to some of the early regional and even global pioneers of microcredit.

Christen, R.P.; Rhyne, E. & Vogel, R.C. (1994). "Maximising the Outreach of Microenterprise Finance: the Emerging Lessons of Successful Programs". IMCC/USAID paper.

Dermirguc-Kunt, A. & Huizinga, H. (1999). "Market Discipline and Financial Safety Net Design." *Policy Research Working Paper* # 2183. The World Bank.

Abstract: It is difficult to design and implement an effective safety net for banks, because overgenerous protection of banks may introduce a risk-enhancing moral hazard and destabilize the very system it is meant to protect. The safety net that policymakers design must provide the right mix of market and regulatory discipline - enough to protect depositors without unduly undermining market discipline on banks. There has been little empirical work on the effectiveness of safety nets designed for banks, for lack of data on safety net design across countries. Demirgüç-Kunt and Huizinga examine cross-country data on bank-level interest expense and deposit growth for evidence of market discipline in individual countries. In addition, using cross-country information on deposit insurance systems, they investigate the impact of explicit deposit insurance (and its key features) on bank interest rates and market discipline. They find that:

· Many countries retain some degree of market discipline, regardless of the type of safety net.
· The existence of explicit deposit insurance lowers banks' interest expenses and makes interest payments less sensitive to bank risk factors, especially bank liquidity.
· Higher explicit coverage, broader coverage, and the existence of an earmarked insurance fund increase required-deposit rates and reduce market discipline.
· Government provision of funds lowers deposit rates but also reduces market discipline.
· Private (especially joint) management of insurance schemes lowers deposit rates and improves market discipline.

Duquet, S. (2006). "Improving MFI Performance in Competitive and Saturated Environment". Planet Finance.

Abstract: The paper suggests that the profitability rationale (the establishment of commercial, profit-making microfinance models) has led to an increase in the number of sustainable MFIs and has often driven the same microfinance institutions towards more easily-accessible economic activities and zones in order to limit operational expenses. It notes that rural zones in particular have been neglected for urban areas where operational expenses are lower. It is argued that this is especially true as a high concentration of competition in some geographic zones and in a number of countries has led to a gradual observation that the diversity of MFI programmes in very competitive markets yields both positive effects (low interest rates, diversification of offer, proximity, etc) and negative effects (higher risk, overindebtedness, occasional unfair competition and profit search geared towards profitable clients). An environment is said to be saturated and competitive according to a number of factors. These include the presence of many MFIs in one geographic zone, a range of financial services for local microentrepreneurs, MFIs difficulty in accessing new clients or retaining existing ones (high desertion rate), competition between MFIs for new clients, clients committing to multiple MFIs, etc. There are a number of indicators, but the paper points out that the central point is that in such an environment , the offer of financial services, especially loans, is higher than the actual microentrepreneurs' demand. In setting out how the performance of MFIs can be improved in a competitive and saturated environment, this paper is based around the following 4 main topics:

- Ensuring fair competition
- Controlling the effects of competition on the interest rates
- Avoiding cross indebtedness: the cause of overindebtedness
- The consequences of regulation: implementing a suitable legal context

Duval, A. (2004). "The Impact of Interest Rate Ceilings on Microfinance". CGAP *Donor brief* No. 18.

Abstract: This donor brief notes that interest ceilings are found in many countries throughout the world. With the expansion of microfinance in developing countries, many legislators and the general public have found it difficult to accept that small loans to poor people generally cost more than normal commercial bank rates. The brief argues that though meant to protect consumers, interest rate ceilings almost always hurt the poor. The first question considered is whether is whether interest rate ceilings are an effective way to protect the poor? The discussion includes anecdotal evidence from Nicaragua, West Africa and South Africa. Given the conclusion mentioned above, the brief then moves on to look at alternative ways to protect consumers, where it discusses consumer protection laws or schemes, public disclosure of loan costs, and efficiency, scale and competition. Finally, the discusses the actions donors can take in relation to interest rate ceilings – set a good example, inform and educate policy makers, support transparency and standard reporting, including an emphasis on efficiency and to foster growth and competition.

Fernando, N.A. (2004). "Microfinance Outreach to the Poorest: A Realistic Objective?" *Finance for the Poor*: Vol. 5 No. 1. ADB.

Abstract: This article from the Asian Development Bank newsletter 'Finance for the Poor' identifies three camps of thought on the issue of financial services for the poorest. The different assumptions and arguments of each camp is examined to see if they are valid. The core issue is whether it is realistic to expect that microfinance services can be provided to the poorest on a sustainable and large-scale basis. This article does give a useful overview of the problems faced in providing financial services for the poorest and makes the crucial point that financial services do not create economic opportunities; they only allow people to take advantage of economic opportunities created by other interventions. The author concludes that to reach the poorest, it is necessary to design appropriate products and innovative delivery mechanisms that can enable financial services to be provided at affordable prices. Strong institutions are also needed, together with adequate investment in social and physical infrastructure. This is a good quotation, which is cited in the

article: "Credit should be a lubricant for the engine of feasible and profitable activities; if the lubricant is mistaken for the engine, the borrower may end up in a debt trap."

Fernando, N.A. (2006). "Understanding and Dealing with High Interest Rates on Microcredit". ADB.

Abstract: In this brief document, Nimal Fernando defends the high interest rates currently charged by microfinance institutions and cautions against policy interventions (such as an interest rate ceiling). His main points are summarized below:

- Just like any business, MFIs must charge prices high enough to cover their costs
- Concessional funds (donor funds) cannot be seen as a permanent source of funding for MFIs and provision must be made through interest rates to sustain the lenders' operations
- Because of the vast difference in transaction costs and sizes of microfinance loans it is inappropriate to compare them to conventional loans
- A rate ceiling will prevent lenders from recovering costs and cause a flight of lenders form the markets, depriving microfinance customers of adequate service providers
- Empirical evidence shows that liberal interest rate policies breeds strong growth in the microfinance industry, whereas interest rate regulation does not

In conclusion, Fernando states: Microcredit interest rates are high because microlending remains a high-cost operation. The key to reducing these rates in a sustainable manner is to reduce costs through improved market competition, innovation, and efficiency. Interest rate ceilings are not an appropriate intervention, and there are no quick solutions or shortcuts. To provide affordable finance to poor households in Asia and the Pacific, policy makers need to recognize, and rectify impediments such as a lack of physical, human, and financial infrastructure, promote competition and efficiency, and be proactive in providing an enabling environment for MFIs to develop in a sustainable manner.

Gobezie, G. (2004). "Subsidizing Microcredit Interest: How Important Is It to the Poor?"

Abstract: Ethiopia is characterised by a high degree of poverty among the population. Although Government strategy identifies microfinance as a good entry point for achieving development objectives and there are 23 licensed MFIs in operation, only a small proportion of people have access to their facilities. Thus the rural financial landscape remains dominated by informal mechanisms. The Amhara Credit and Savings Institution (ACSI) was established in 1997. By September, 2004 it had over 337,000 active loan clients but the estimated potential market in the region is about 2.9 million clients. This paper, which has been written by the Head of the ACSI Planning and Monitoring Department, explores how reaching out to more clients in remoter areas will increase operational costs, particularly in light of the level of support that the poorest clients need. However, ACSI has continued to commit itself to a low interest rate, namely 12.5%, even though the transaction costs of providing microcredit in remote and isolated areas are much higher than those for providing standard commercial loans. The author questions this policy and observes that subsidising the interest paid by clients usually has a counterproductive role by reducing the very "access" by the poor that it sets out to promote. In conclusion this paper suggests that while setting a realistic interest rate should not be a licence for higher costs and inefficiency, if an MFI is to offer its financial services to poor and marginalised people living in remote and peripheral rural areas (with non-existent, inadequate or defective infrastructure) and who require very small loan sizes and hence high transaction costs, interest rate capping should not constitute a bottleneck.

Gonzalez-Vega, C. (1983). "Arguments for Interest Rate Reform". In ed. *Rural Financial Markets in Developing Countries*, J. D. Von Pischke, D. W. Adams, and G. Donald. Baltimore, Md.: The Johns Hopkins University Press, 1983.

Khalily, M.A.B. (1996). "A Note on the Sustainability of Small and Medium NGOs in Bangladesh", prepared for the *World Bank, mimeo,* January.

Khandker, S.R.; Khalily, M.A.B. & Khan, Z.H. (1996). "Grameen Bank: Performance and Sustainability". In *Credit Program for the Poor: Household and Intrahousehold Impacts and Program Sustainability*, edited by Shahidur R. Khandker, M.A. Baqui Khalily, and Zahed H. Khan. Dhaka: Bangladesh Institute of Development Studies. p. 11-134.

Abstract: The Grameen Bank, in Bangladesh, has attracted worldwide attention by providng small loans to the rural poor and recording high repayment rates. It has over two million members spread over 35,000 villages, 94 percent of whom are women. The paper discusses what the Grameen Bank is, what it does for the rural poor and at what costs,its sustainability as well as its potential for expansion and replicability. The Grameen Bank's success as a bank is only sustainable if it is institutionally, economically and financially viable, and also if it generates sustainable benefits to borrowers that help reduce poverty. Subsidized funds and grants were instrumental for outreach and institutional development of the Grameen Bank. However, over time it has demonstrated its ability to operate with resources from the market, relying less on subsidized funds. The Grameen Bank has recorded loan recovery rates above 90 percent consistently and has had a positive impact on rural wages and poverty reduction, which indicates that the benefits to its borrowers from program participation must be sgnificant and sustainable. The long-run sustainability of the Grameen Bank in Bangladesh ultimately depends on its ability to expand its lending for more growth-oriented activities and achieve cost efficiency on a sustained basis. The Grameen Bank's achievements has led to its many replications in over forty countries and the World Bank has taken the initiative to sponsor Grameen-type schemes. Successful replications would depend not only on subsidized resources initially, but also on committed and dynamic leadership that is able to carve out market niches.

Khandker, S.R. & Khalily, M.A.B. (1996). "The BRAC's Credit Program: Performance and Sustainability". In *Credit Program for the Poor: Household and Intrahousehold Impacts and Program Sustainability*, edited by Shahidur R. Khandker, M.A. Baqui Khalily, and Zahed H. Khan. Dhaka: Bangladesh Institute of Development Studies. p. 135-246.

Meyer, R.L. (2002). "The Demand for Flexible Microfinance Products: Lessons from Bangladesh". *Journal of International Development* 14, no. 3: 351-68.

Abstract: This paper examines literature that shows the decline in horizontal expansion of microfinance in Bangladesh. Dropouts, overlaps and delinquencies appear to be rising, many of the poor refuse to use microfinance institution products and informal sources continue to be important for poor households. In order to combat these challenges, MFIs need to re-engineer their products and policies, based on careful market research and pilot testing, and focus on quality of service rather than quantity of outreach. Possible changes in policy and products include: a) adjustment of repayment schedules, b) adjustment of loan sizes, c) differential loan pricing and d) expansion of product line. Impediments to these changes may result from any of the following: commitment to the status quo, cost and complexity of change and innovation, competition and the financial system. While the MFIs in Bangladesh have enjoyed a reputation as leaders in the microfinance industry, they now need to move into the next phase of supplying demand-driven financial services.

Micro-Credit Ratings International Limited. (2005). "Client Drop-Out Rate".

Abstract: This short technical note begins by stating that the client drop-out rate is a major factor affecting the sustainability and growth of MFIs. The rate is a reflection of the relationship between the MFI and its clients. Monitoring the trend in the drop-out rate could yield valuable insights on an MFIs performance and credibility, as drop-outs could be a cause as well as an effect of factors internal and external to the organisation. The purpose of this note is to suggest a working definition of the phenomenon of client drop-out rate which has field relevance and is operationally convenient for MFIs rather than based on detailed research and needing elaborate methodologies to establish and measure. The note proposes a formula to calculate the drop-out rate from the simple records that MFIs generally maintain. For the purpose of reaching a definition and to derive a working formula, various definitions and calculation methods are discussed in the note. As such, the note comments on various methods for calculating client drop-out and arrives at the formula adopted by M-CRIL.

Morduch, J. (2005). "Smart Subsidy for Sustainable Microfinance". *Finance for the Poor*, Volume 6 Number 4.

Abstract: This article begins by noting that worries about the dangers of excessive subsidisation have driven microfinance conversations since the 1980s. It suggests that from this time the goal of serving the poor has been twinned with the goal of long-term financial self-sufficiency on the part of microbanks. The starting point for the article in considering smart subsidies is recognising that the same forces driving efficient outcomes in free markets – i.e. hard budget constraints, clear

bottom lines, and competitive pressure – can also be deployed in contexts with subsidies. Furthermore, it argues that if deployed well, there are circumstances in which subsidies can increase the scale of microfinance outreach, access to commercial finance, and depth of outreach to the poor. At the same time, however, the article does highlight that over reliance on subsidies and poorly designed subsidies can limit scale and undermine incentives critical to building strong institutions. The concept of a "smart subsidy" stems from the proposition that subsidies are neither inherently useful nor inherently flawed. The article states that a smart subsidy maximises social benefits while minimising distortions and poor targeting. The article begins by setting out three reasons for an opening to broader deployments of subsidies. Firstly, it notes that use of subsidies remains an ongoing part of the financial strategies of many microfinance institutions (MFIs). Secondly, it points to the argument that subsidisation is unlikely to end soon. Finally, the article sets out a number of analytical concerns. The discussion then moves on to suggest that smart subsidies should "crowd in" funding from donors rather than "crowd out". The article also considers the importance of subsidies in the start-up phase, both for institutions as well as for customers. For institutions, the article presents the argument that start-up subsidies have the relative advantage of being for a limited time-period and relatively transparent, thus reducing the fear of dependency. However, the paper does also put forward the case that the notion of a "start-up" subsidy could be expanded to incorporate major expansions. From the customers perspective, the article points to the example of BRAC (in Bangladesh) subsidising potential clients, through its Income Generation for Vulnerable Group Development (IGVGD) program, who were not yet ready to borrow from microlenders at "market" interest rates. The conclusion stresses that in general, subsidies should be time-limited and rule-bound. It also notes though that if smart subsidies are deployed in the hope of producing demonstrable social impacts, those impacts should be measured using rigorous statistical analyses.

Pagura, M. (2003). "Examining Client Exit in Microfinance: Theoretical and Empirical Perspectives". Dissertation, Presented in Partial Fulfillment of the Requirements for the Degree Doctor of Philosophy in the Graduate School of The Ohio State University.

Abstract: Repeat borrowing is critical for the long-term viability of microfinance organizations (MFOs), which provide invaluable financial services to low-income households in developing countries. Repeat borrowers reduce MFO administrative costs, lower risks, and increase organizational productivity. In practice, however, several MFOs worldwide are experiencing high borrower exit, *i.e.*, termination of the lender-client relationship, which hamper organizational and financial sustainability. This dissertation sets out to determine and analyze the factors that influence borrower/client exit. A choice theoretic dynamic model and duration methods are developed and used to accomplish this goal. In the choice theoretic dynamic model, a firm wants to maximize profits over her life cycle by investing in her business on an on-going basis. To do this she strives to establish a long-term relationship with a formal bank; however, she lacks the necessary physical collateral required by the bank to obtain loans. Instead, she engages in a sub-optimal strategy of group-lending in which she is jointly liable for her own repayment as well as her co-members' payments in the event they cannot repay their loan shares. However, if the group demonstrates good repayment behavior, *i.e.*, never defaults, after *n* loan cycles, then the members are rewarded with an admission into an individual loan program. There are two types of firms in this economy, *high* and *low* ability. Her rewards are greater if she picks a high ability type partner than if she chooses a low ability type since high types succeed more often than low types. Due to uncertainty about fellow partner ability type, *i.e., high* or *low,* the optimizing firm forms a belief about her partner's type and uses Bayes' Rule to update this belief each period based on business outcomes that she observes. Each period the firm has an option to stay in the borrowing relationship with her partner or exit, *i.e.*, terminate the relationship and use self-financing. An optimizing agent chooses an optimal stay/exit policy for the life of the contract. The outcomes of this model are as follows. Each period there exists a critical probability value that her partner is of high ability. If her subjective belief is greater than that value, she remains in the contract, otherwise she exits. In the beginning of the contract, this critical value is low, demonstrating the optimizing agent's willingness to remain in and learn about her partner. However, this critical probability value increases with time, reflecting an unwillingness of the optimizing agent to remain in the contract in the later periods since new information has little additional value. In addition, critical probability values are affected by the terms of the contract, risk aversion, and loan return. Namely, the iii critical probability value is an increasing function of loan size, interest rate, and relative risk, and a decreasing function in loan return. When end rewards are explicitly accounted for in this model, the optimizing agent's behaviors change. In other words, reward scheme prompt an optimizing agent to stay in the borrowing contract when she would not have done in the absence of the scheme. A duration model is used to empirically examine the factors that affect the borrowing relationship length. Two field surveys conducted on 260 microfinance clients from one MFO in Bamako, Mali make up the data set. It is found that loan return, income shocks, and

borrower's dependency ratio decrease client exit rates. Group member repayment behaviors, education, and excessive MFO growth increase client exit in this setting.

Porteous, D. (2006). "Competition and Microcredit Interest Rates". CGAP Focus Note No. 33.

Abstract: This article focuses on helping microfinance institutions, policy makers and donors assess the stage of development of competition in a particular market and determine whether appropriate conditions are in place to foster sustained interest rate reduction. The article then uses its initial paradigm to analyze the condition of the MFI markets in Bolivia, Bangladesh and Uganda. The article outlines four stages of competition through market development phases:

1. Pioneer: In this initial stage firms are few, growth is slow, and the market is concentrated in small areas.
2. Take-off: At this point the success of the idea causes rapid take growth and expansion in the market. Firms begin to compete in product characteristics and service. The market remains quite fragmented although leaders begin to emerge.
3. Consolidation: The market growth slows and the numbers of firms reduce as competition drives the market to consolidate with clear leaders emerging. Firms compete on price.
4. Mature: Steady, natural growth of the established market leaders dominates this market. Firms compete mainly on brand and price.

The article finds that Uganda is at the end of the take-off phase and expects within the next few years to be in the phase of consolidation. Bangladesh seems to have reached the consolidation phase, although the market continues to grow rapidly. Bolivia is entering the maturity phase. The article concludes with a number of policy and donor recommendations. The recommendations are to require transparent comparable pricing structures by providers, promote consumer financial literacy, collect and assess credible market-level information, and develop reliable consumer credit bureaus.

Ravicz, R. M. (1998). "Searching for Sustainable Microfinance: A Review of Five Indonesian Initiatives". World Bank Policy Working Paper No. 1878.

Abstract: Lessons about the implementation of microfinance operations from five initiatives in rural Indonesia. Expanding the microfinance market can promote economic growth and reduce poverty in many countries. But expanding this market is advantageous only if the increased activity is sustainable. Ravicz draws lessons from five Indonesian microfinance initiatives in rural areas and proposes ways for governments and donors to support the microfinance sector. Those programs demonstrate that microfinance initiatives can provide a valuable service to low-income people at a temporary, affordable cost to governments or donors. Incentives for customers and staff are key features of successful microfinance operations that enable them to operate with low subsidies or on a self-sustaining basis. Programs should also charge adequate real interest rates, aggressively pursue repayment, and achieve a significant volume of business. To accelerate progress toward self-sustainability, programs can track the subsidies they receive, and their supporters can impose hard budget constraints and declining subvention support. Government-owned microfinance initiatives are vulnerable to political pressures that undermine their commitment to sound banking practices. Granting these institutions autonomous status, imposing hard budget constraints, and privatizing them when they are financially sustainable, can reduce their susceptibility to political influences. Alternatively, governments and donors could support the sector through temporary subsidies to private sector initiatives to help them defray start-up costs. Supervision can be improved if a country's microfinance industry, assisted by its central bank, establishes industrywide standards. Microfinance institutions could contract for supervision services from commercial banks. The central bank could monitor supervisors to ensure that they exercise due diligence. This study finds that institutions can efficiently reach clients in remote areas through subdistrict-based units and field staff. They need not rely on group lending techniques, savings requirements, or intermediary organizations between banks and borrowers to boost efficiency. Initiatives can serve female borrowers without targeted marketing if loan products meet women's needs and are accessible to them. Governments could increase the usefulness of microfinance to agriculture by encouraging state-owned microfinance institutions to develop and pilot-test loan products that meet smallholders' need. This paper - a product of the Development Research Department - is part of a larger effort in the group to analyze the characteristics, performance, and poverty alleviation implications of microcredit institutions.

Schreiner, M. (2000). "Ways Donors Can Help the Evolution of Sustainable Microfinance Organizations". *Savings and Development*, Issue no. 4.

Abstract: This paper suggests ways donors can help the evolution of sustainable microfinance organizations. Sustainability is good because it helps microfinance organizations help more poor people than otherwise. Sustainability is hard because it requires balancing outreach and sustainability with prices the poor can afford yet high enough to cover the costs of the microfinance organization. Donors are like genetic engineers whose job is to speed the evolution of sturdy microfinance organizations. Technical assistance is the best way to strengthen microfinance organizations.

Sharma, M. & Zeller, M. (1999). "Placement and Outreach of Group-based Credit Organizations: The Cases of Asa, Brac, and Proshika in Bangladesh". *IFPRI, FCND Paper* No. 59.

Abstract: Bangladesh has witnessed major strides in providing financial services to the rural poor. These services are provided largely through innovative group-based credit programs of several nongovernmental organizations. The implicit but widespread assumption has been that they are indeed placed in special poverty-stricken areas. Is this assumption valid? If not, what factors actually affect programs' placement across communities? This paper uses an unique *thana*-level data set to analyze the placement of three group-based credit programs in Bangladesh. Analysis of branch placement indicates that, unlike commercial banks, nongovernmental institutions do respond to general conditions of poverty. However, it appears that NGO services are located more in poor pockets of relatively well-developed areas than in remoter, less-developed regions. Client density of the established branches, however, did not exhibit such a feature and actually tended to be better in less advantageous locations.

Shrader, L.W. (2003). "Sustainable Expansion Strategies: Case Studies of 18 Regional Leaders in Microfinance." Research Study. Warsaw, Poland: Microfinance Centre.

SOS FAIM. (2003). "Interest rates in the field of microfinance: a technical or political choice?" ZOOM Microfinanzas No.9.

Abstract: How to establish appropriated interest rates has been a common discussion in the rural finance field. This debate in many ways reflects the controversy of rural finance: how to be sustainable and reaching the poor at the same time. The debate has been recently fed by two perspectives. The first one states that interest rates should be fixed by market mechanisms, which in a way allows the sustainability of the service (even though costly). The second one argues that is still necessary to subsidize interest rates, in order to create incentives for rural development, and having in mind the needs and real capacities of repayment of agriculture activity. The authors argue that it would be necessary to revise some common arguments, as well: subsidy policies are an archaism, and high rates of interest are justified in order to provide sustainable financial services, like some experts argue. Nevertheless, it would be necessary to revise what an interest rate means from the perspective of both clients and suppliers of financial services. From the financial institutions' perspective, high interest rates are justified in order to cover costs such as money cost, failure-to-pay risks' cost related to the loan, and loan management cost. From the clients and rural development policy makers' perspective, it is argued that in order to foster macroeconomic growth, the price of money should be reduced. However, what is more important, the price of the service or sustainable access to the service? Two approaches arise from this debate: - to develop an interest rate policy based on institutional sustainability; or – a political interest rate should be fixed. In order to conceal both approaches, the authors provide the following recommendations:

- Scale economies, technical innovations and more professionalism can reduce interest rates.
- Differentiated interest rates should be applied based on the use of the loan.
- To find ways to align farmers' logic and bankers' logic.
- In savings and loans networks, reasoning based on differentials is essential.
- To favour alliances between decentralized financial services and farmers' and producers' organizations.

This article is recommended for financial service providers, policy makers, and managers of cooperatives and producers' organizations.

Swaminathan, M. (1991). "Segmentation, Collateral Undervaluation, and the Rate of Interest in Agrarian Credit Markets: Some Evidence from Two Villages in South India". *Cambridge Journal of Economics* 15: 161-178.

Von Pischke, J.D. (1996) "Measuring the Trade-off between Outreach and Sustainability of Microenterprise Lenders". *Journal of International Development*, Vol. 8, No. 2, pp. 225-239, 1996.

Abstract: The research and the conference for which this paper has been prepared arise from concerns about cooperative capital formation that have been developed since 1992. Observers in FAO, COPAC, ILO, the World Bank and other agencies had noted that capital formation is at times a major challenge for cooperatives, which often appear to be undercapitalized. Many cooperatives and even entire movements may lack the financial base required for growth and sustainability: a condition that appeared especially serious in agricultural cooperatives. Undercapitalized societies face an additional disadvantage in surviving and prospering in an environment that includes commercial, political and public policy risks. Liberalization of markets through structural adjustment is changing the competitive environment in which cooperatives operate. At the same time it was increasingly clear that donor funding for cooperative development is likely to diminish. Cooperatives have the capacity to create infrastructure that in many cases appears unlikely to be constructed by others, at least within a reasonable time horizon. Inattention to member capital formation can retard or preclude such development. These converging concerns and observations led COPAC to develop a series of open fora on cooperative capital generally and to commission empirical research on capital formation and its relation to the overall well-being of cooperation, which clearly requires member participation. These activities were inaugurated in the COPAC Open Forum on "Revitalising Cooperatives in Developing and Transitional Economies: The Role of Members' Capital" convened in Rome, 2-3 March 1993. A second COPAC Open Forum, "Revitalising Cooperatives in Developing and Transitional Economies: The Role of Members' Capital - Review of Progress and Future Developments," was held in Geneva on 5 October 1993. A research design proposed at the earlier meeting had been field tested and reviewed by the Institute of Rural Management at Anand (IRMA) in India. Its discussion led to a call for further work, which is embodied in the three studies that form the basis for the present review at this Technical Workshop. This paper summarizes research on cooperative capital formation in developing country agricultural cooperatives, based on fieldwork in Guatemala, India and Kenya. This research was commissioned by COPAC (the Committee for the Promotion and Advancement of Cooperatives) with financial and technical support from FAO's People's Participation Service.

Women's World Banking. (2002). "Policies, Regulations and Systems that Promote Sustainable Financial Services to the Poor and Poorest".

Abstract: The variety of institutions operating in the microfinance industry has become increasingly more diverse over the years. The microfinance landscape now also includes private mainstream commercial banks, finance companies and insurance firms, and NGOs that have "transformed" into regulated, for-profit structures, owned and governed by shareholders. This represents a movement beyond the traditional organizations and development actors that have been involved in microfinance. Although there have been initiatives by the leading actors in the microfinance industry to build performance indicators and standards over the years, the increased range of institutional types now involved calls for a comprehensive set of policies and regulations to encourage further growth in the microfinance sector. The demonstration of strong performance, transparency and accountability to both the financial sector and to international donors and commercial lending agencies is a key motivation for properly regulating microfinance.

❒ Repayment Behavior

Boakye-Dankwa, K. (1979), "A Review of the Farm Loan Repayment Problem in Low-Income Countries". *Savings and Development*, Volume III, Number 4, pp. 235-252.

Bolnick, B.R. (1988). "Evaluating loan collection performance: An Indonesian example". *World Development*, Volume 16, Issue 4, April 1988, Pages 501-510.

Abstract: This paper discusses the evaluation of loan collection performance in a specialized term-credit program introduced in Indonesia to promote the development of small-scale enterprises. After outlining pertinent characteristics of the credit program, the available collection performance indicators are described and appraised. It is shown that program managers and bankers had access to quite a lot of data on collection performance, but none that provided meaningful information for evaluating loan recovery. The paper then examines sources of the evaluation problem, and suggest methods for developing more accurate and less ambiguous indicators of portfolio quality, loan recovery rates, and ultimate bad debt costs.

CGAP. (2003). "Scoring: The Next Breakthrough in Microcredit?" *Occasional Paper* No. 7.

Abstract: Scoring is a new way to judge the risk of whether the self-employed poor will repay their microcredit debts as promised This paper discusses how scoring works, what microlenders can expect from it, how to use it, and what its implications are for microcredit.

CGAP, (2005). "Due Diligence Guidelines for the Review of Microcredit Loan Portfolios".

Abstract: MFI portfolio reviews are critical for management, as well as regulators and the growing number of commercial investors in microfinance. External audits, ratings, and evaluations generally fail to accurately quantify the primary risk facing investors? Misrepresentation of microcredit portfolio quality. This loan portfolio review tool evaluates the accuracy of reported levels of repayment and the extent to which the MFI employs sound loan management practices. It has three, gradually deepening, levels of review that give increasing degrees of certainty about the quality of loan portfolios, regardless of how they are reported. It is flexible enough for different uses and requirements for confidence in reported loan portfolio quality, and does not require specialized audit or financial analysis skills.

Chaudhury, I. & Matin, I. (2002). "Dimensions and Dynamics of Microfinance Membership Overlap - A Micro Study from Bangladesh", *Small Enterprise Development*, Vol. 13, issue 2, 2002, pp. 20-28.

Abstract: The microfinance market of Bangladesh is getting rapidly crowded. In certain areas there is also quite high incidence of households taking loans from a number of microfinance providers. Why is this happening? How does it affect the providers? What should be done? These are some of the questions that this paper begins to address based on data collected from BRAC's operations in Tangail. We find that a number of crises often gives rise to an urgent need for lump sums of cash, and this is why households often need access to several loan sources. Though repayment irregularity is found to be on the increase, somehow it is being managed from turning into a major default problem, suggesting a level of in-built resilience of the system. This needs further research. In terms of what should be done, we chalk a broad agenda consisting of better information-sharing mechanisms and developing better risk-responsive financial products. In this sense, the phenomenon of multiple microfinance membership is as much an opportunity as it is a challenge.

Galor, Z. (2004). "Comments on Microcredit for the Poor".

Abstract: This short paper identifies one of the problems of micro credit – that of repayment. The author points out that many development banks and projects failed because they could not secure repayment of credit that clients had received. He connects this to a failure of the "essential triangle of production" which suggests that unless each side of the triangle – representing credit, input supply and marketing – is completed, repayment will be difficult. The author points out that traditional moneylenders can usually ensure repayment as they often provide one or even both of the other sides of the triangle, whereas financial institutions, occupying only one side, cannot. The paper argues that co-operatives can overcome this problem, so long as they retain the classic co-operative principles. A member-owned cooperative can provide the three elements of the triangle in the best interests of the members. The author then focuses on savings and credit cooperatives and argues that unless they follow correct methods of calculation on interest to be paid on member deposits and charged on member loans, the members are not receiving the best possible service and, in consequence, may fail. He believes member education is, therefore, crucial. Finally this paper addresses the issue of rural development and microcredit and suggests that raising the

productivity of farmers is insufficient to redress rural poverty. The creation of non-agricultural employment is also important and credit is needed for non-farm enterprises.

Godquin, M. (2004). "Microfinance Repayment Performance in Bangladesh: How to Improve the Allocation of Loans by MFIs", *World Development Volume 32, Issue 11* , November 2004, Pages 1909-1926.

Abstract: The aim of this article is to produce a comprehensive analysis of the performance of microfinance institutions (MFIs) in terms of repayment. We focus the analysis on the impact of group lending, nonfinancial services and dynamic incentives on repayment performance. We test for endogeneity of loan size and use instrumental variables to correct for it. In the second section of the paper, we use a comparative analysis of the determinants of the repayment performance and of loan size in order to make policy recommendations on the allocation of loans by MFIs.

Khalily, M.A.B. & Meyer, R.L. (1993). "The political economy of rural loan recovery: Evidence from Bangladesh". *Savings and Development,* Vol. 17, No. 1, pp. 23-38.

Matin, I. (1997). "Repayment Performance of Grameen Bank Borrowers: The 'Unzipped' State", *Savings and Development,* 22(4): 451-72.

Paxton, J.A. (1996). "Determinants of Successful Group Loan Repayment: An Application to Burkina Faso". Dissertation, Presented in Partial Fulfillment of the Requirements for the Degree Doctor of Philosophy in the Graduate School of The Ohio State University.

Abstract: The success of the Grameen Bank in Bangladesh has shown that it is possible to provide a large number of low-income people with financial services using a group lending methodology. As a result, group-lending programs funded by international donors have proliferated at a rapid pace throughout the world. The mechanisms of group lending, such as peer pressure and group solidarity are touted as instruments to attain favorable repayment rates. However, repayment rates vary dramatically from one program to another, suggesting an inherent instability in the financial technology. Based on the work of Besley and Coate, a model for group lending repayment has been devised. The model incorporates stabilizing and destabilizing determinants of group loan repayment. Influences that can increase the probability of loan repayment include the effective use of group dynamics (*ex ante* and *ex post* peer pressure and group solidarity) as well as other factors such as appropriate training and leadership. The degree to which pressure versus solidarity occurs is shown to be dependent on the reason given for the repayment problem and can be formulated as an "intragroup contract" for insurance purposes. Negative externalities can diminish the probability of successful group loan repayment. The "domino effect" occurs when one or more members of a credit group default due to the default of other members. Another negative influence on repayment occurs when the credit terms and conditions are no longer appropriate for each member as credit cycles continue, creating an inherent "matching problem" as group lending is repeated over time. In order to evaluate the prevalence of these positive and negative externalities, a survey of 140 groups was accomplished in Burkina Faso. A mean and covariance structural model was used to test the determinants of repayment problems arising and whether or not the loans were recovered. This econometric method allowed for the use of latent variables with multiple indicators, a more complex error structure, and non-metric categorical variables. The results indicated that urban, homogenous groups with good leadership and training and prior history of working in groups had the highest probability of repaying the loan. However, the domino effect and matching problem were significant factors influencing loan default, creating a destabilizing effect on overall repayment. The results of the empirical model suggest that modifications to project design could enhance loan recovery.

Pearl, D. & Phillips, M.M. (2001). "Grameen Bank which pioneered loans for the poor has hit a repayment snag". *Wall Street Journal,* November 27.

Sharma, M. & Zeller, M. (1997). "Repayment performance in group-based credit programs in Bangladesh: An empirical analysis". *World Development*, Volume 25, Issue 10, October 1997, Pages 1731-1742.

Abstract: This paper analyzes the repayment rates of 128 credit groups belonging to three group-based credit programs in Bangladesh: the Association for Social Advancement (ASA), the

Bangladesh Rural Advancement Committee (BRAC), and the Rangpur Dinajpur Rural Service (RDRS). Using TOBIT analysis, specific tests are performed on the following hypothesized determinants: group size, size of loans, degree of loan rationing, enterprise mix within groups, demographic characteristics, social ties and status, and occurrence of idiosyncratic shocks. The paper concludes that if basic principles of prudential banking are adhered to, repayment rates can be good even in poor and remote communities. The important thing for financial institutions is to tailor services such that it becomes worthwhile for the poor to establish a profitable long-term association. In addition, more freedom to members in the process of group formation is recommended.

Sobhan, R. & Ahmad, A. (1990). "Problems of Repayment to the DFIs in Bangladesh: Results of a Field Survey of Selected Enterprises" *Research Report* No: 112 Bangladesh Institute of Development Studies.

Zaman, H.; Rahman, S.; Hussain, S. & Rana, M. (1995). "Profitability of BRAC-financed Projects: a study of seven microenterprises in Matlab". *Working Paper No. 7, BRAC, Dhaka,* June.

Abstract: The basic objective of this study was to look at the profit rates made by VO members once they have made investments in projects financed through BRAC loans. BRAC's twin objectives of employment and income generation as part of its poverty alleviating strategy hinge crucially upon the success of its microcredit program. Although weekly loan repayments may originate from a variety of sources, the intended channel is via the profits made on their individual microenterprises. This study took a sample of seventy households divided equally amongst seven different microenterprises. The projects investigated were paddy cultivation, potato cultivation, goat rearing, bull fattening, grocery shop, net making and poultry. The profit rates were calculated using detailed structured questionnaires, which collected information on revenues and costs of the project. Information on time spent on the microenterprise was also collected in order to measure the opportunity cost of time. As for the results, we found that potato cultivation, poultry (mainly chick rearers in our sample) and net making were the activities that made the most substantial contribution to household income; over 1000 taka per month each. Grocery shops were the intermediate category, the economic profit being considerably lower than the accounting one due to the considerable amount of time the loanee spends on the activity although in terms of accounting profit this project tops the list. Goat rearing and paddy cultivation were found, in our limited sample, not to be significant contributors to household income making marginal amounts of profit. Bull fattening on the other hand was found to be a loss making activity. The impact of training was also analysed. The amount of profit made by those with relevant skill training was compared with average profit rates for those not trained; although the former was in most cases found to be higher this difference was not significant. However the small sample size analysed means that one cannot make any comment on the effectiveness of BRAC' s training programmes. The reasons for the variations in profits were also explored. The main reason behind the difference in the two agricultural crops was in terms of productivity; average potato output per decimal is 1.27 maunds while average paddy output is 0.48 maunds per decimal. Net making is a high value added activity; poultry's average profits are high but so is the risk involved due to potential illness outbreaks. Goat rearing's profitability is constrained by high mortality rates whereas bull fattening return's accrue in the long term especially since BRAC loan ceilings permit the purchase of only young bulls. Our recommendations are for BRAC to raise loan ceilings for selected activities eg net making, shop trading and bull fattening as it ought to raise borrower's profit rates. BRAC should also strive to ensure the timely delivery of inputs, particularly vaccination and marketing, as they are essential for the success of the project. Seasonal loans, like bull fattening loans three months before Eid, should also be encouraged. Finally we concluded that BRAC ought to pay closer attention to the potential profit rates made on projects instead of concentrating on mass disbursement only to meet set loan targets. After all, ultimately organizational sustainability will depend on borrower viability.

Zeller, M. (1996). "Determinants of Repayment Performance in Credit Groups: The Role of Program Design, Intra-Group Risk Pooling, and Social Cohesion in Madagascar". *IFPRI FCND Paper* no. 13.

Abstract: Group lending has received much attention in recent years because of its perceived potential in providing financial services to poor households that lack traditional collateral. The analysis in this paper focuses on the effects of program design, community and group characteristics on the repayment performance of groups, using a data set on groups from six different lending programs in Madagascar. The results show that socially cohesive groups pool risks by diversifying the members' asset portfolio so that their repayment performance is improved even in communities with high-risk exposure.

■ *Informal Finance*

❒ General

Adams, D.W. & Nazarea-Sandoval, V. (1992). "Informal Finance in Semi-Rural Areas of the Philippines," *Savings and Development* 16: 159-168.

Adams, D.W. & Delbert, A.F. (1992). "Informal Finance in Low-Income Countries". Colorado: Westview Press, Inc.

ADB. (1985). "Some Issues for the Regional Study on Informal Credit Market", Manila: Unpublished Preliminary Discussion Paper, Asian Development Bank, April 19, 31 pp.

ADB. (1990), "Informal Finance in Asia". Asian Development Outlook 1990, Manila: Asian Development Bank, pp. 187-215.

Aforka, C.I. (1990). "The Structure of the Informal Credit Market in Nigeria: Lessons from Akwa Town of Anambra State." *Savings and Development*, Supplementary Issue: 5-13.

Agabin, M. *et. al* (1989). "Intergrative Report on the Informal Credit Markets in the Philippines". Manila: Working Paper Series no. 89-10, Philippine Institute for Development Studies, June, 92 pp.

Aryeetey, E. (2005). "Informal Finance for Private Sector Development in Sub-Saharan Africa". *Journal of Microfinance*, Vol. 7, No.1.

Abstract: What can be done to make informal finance and microfinance suitable for financing growing small to medium size enterprises (SMEs) in Sub-Saharan Africa? First, I present the characteristics of informal finance, focusing on size, structure, and scope of activities. Informal finance has not been very attractive for the private sector. Indeed, the informal sector has considerable experience and knowledge about dealing with small borrowers, but there are significant limitations to what it can lend to growing microbusinesses. Second, I discuss some recent trends in microfinance. While externally driven microfinance projects have surfaced in Africa, their performance relative to small business finance has not been as positive as in Asia and Latin America. Third, I introduce some possible steps toward a new reform agenda that will make informal and microfinance relevant to private sector development, including focusing on links among formal, semi-formal and informal finance and how these links can be developed.

Bagachwa, M.S.D. (1995). "Financial Integration and Development in Sub-Saharan Africa: A Study of Informal Finance in Tanzania", Overseas Development Institute.

Bakht, F. & Mahmood, R.A. (1998). "Overseas Remittances and Informal Financing in Bangladesh. Studies on Informal Financial Markets in Bangladesh". Working Paper 5. Dhaka: Bangladesh Institute of Development Studies.

Banik, A. (2003). "Evolution of Rural Informal Financial Institutions in South Asia". *Savings and Development*, Issue no. 4, 2003.

Abstract: This paper examines the evolution of informal financial institutions in the farm sector in South Asia. The discussion is based on relevant literature and author's field works in the region. The study reveals that interlinkage is one of the most important mechanisms in South Asia through which the informal sector reduces its transaction costs and risk premia. The findings may lead to regional specific solutions as there is no standard blueprint in this respect.

Baydas, M.M. *et al.* (1995). "Informal Finance in Egypt: Banks within Banks". *World Development* 23: pp. 651-661.

Abstract: Policy makers often assume that individuals using informal finance are forced to do so because they lack access to formal financial services. Research in a large agricultural bank in Egypt, however, showed that many of its employees participated in informal finance. Interviews with villagers in a community with a branch of the bank also showed extensive involvement in informal finance. The popularity of informal finance among people with easy access to banks suggests that formal finance in Egypt may not be providing the types of financial services that people demand and they therefore, create these services informally.

Bell, C. (1990). "Interactions between Institutional and Informal Credit Agencies in Rural India". *World Bank Economic Review*, Volume 4, Number 3, pp. 297-327

BIDS (1986). "Informal Credit Market in Bangladesh - A Review of Literature and a Study Outline". Dakka: Unpublished Study Outline submitted to Asian Development Bank, Bangladesh Institute of Development Studies, 36 pp.

Bigsten, A.; Lundvall, K. & Kimuyu, P.K. (2004). "What to Do with the Informal Sector?" *Development Policy Review*, Vol. 22, No. 6, pp. 701-715.

Abstract: Kenyans of African origin manage almost all informal firms in the Kenyan manufacturing sector. Kenyans of both African and Asian origin run formal enterprises. These three groups are distinct in terms of experience, productivity and access to finance. Asian formal firms are the most efficient, while there is no significant productivity difference between informal and formal African firms. There are thus weak incentives for African informal firms to become formal. At the same time, Kenya needs higher investments and larger exports to achieve economic take-off, and this can only be achieved through an efficient formal sector. Therefore, policy should aim to integrate the sectors by improving infrastructure, capacity building, credit delivery, and supporting networks.

Bouman, F.J.A. (1990). "Informal rural finance: An Aladdin's lamp of information". *Sociologia Ruralis* 30, no. 2: 155-73.

Abstract: The one-sided emphasis on the flow of credit via formal financial channels is based, on the one hand, on the strong belief in the superiority of the formal sector and, on the other hand, on a series of misunderstandings of the nature, magnitude and role of the informal finance sector and the type of actors that predominate in this field. One of the consequences of this one-sided emphasis on credit rather than financial intermediation has been that project planning, as well as evaluation of results, has remained limited to an analysis of the process of lending focused mainly at the problems and peculiarities of lending institutions. Much less, if any, attention has been paid to the behaviour and peculiarities of savers and borrowers unless in terms of formulating their credit needs. Inherent in this is the concept of the moral and technical superiority of the formal over the informal sector in dispensing financial services to the poor. However, a rethinking of this conventional view was more or less forced upon aid agencies with the arrival of the oil crisis, which brought about a new realization of the necessity of generating domestic savings within the developing countries' own economy. The paper discusses the myth that informal finance is the exclusive domain of the village moneylender and argues that a close study of the financial behaviour of low-income rural households dispels such stereotypes and prejudices. An examination of the interest rates within the informal finance market argues that, in the main, cost and risk factors rather than monopoly positions and exploitation dictate the level of interest charged.

Bouman, F.J.A & Moll, H.A.J. (1992). "Informal Finance in Indonesia". In *Informal Finance in Low-Income Countries*, edited by Dale W Adams and D. A. Fitchett. Boulder: Westview Press. p. 209-223.

Buchenau, J. (1997). "Financing Small Farmers in Latin America," unpublished paper presented at the First Annual Seminar on New Development Finance, University of Frankfurt, September.

Buckley, G. (1997). "Microfinance in Africa: Is it either the problem or the solution?" *World Development*, Volume 25, Issue 7, July 1997, Pages 1081-1093.

Abstract: This article is based on research undertaken on microenterprises in the informal sector in Kenya, Malawi and Ghana. It seeks to provoke critical reflection on the uncritical enthusiasm that lies behind much proselytizing of microfinance for informal sector microenterprise. It questions whether the extensive donor interest in microenterprise finance really addresses the problems of microentrepreneurs or whether it offers the illusion of a quick fix. It suggests that the real problems are more profound and cannot be tackled solely by capital injections but require fundamental structural changes of the socioeconomic conditions that define informal sector activity and a fuller understanding of the "psyche" of informal sector entrepreneurs.

Buckley, G. (1998). "The application of sub-sector analysis: the case of informal sector tailors in Kenya". *Small Enterprise Development*, Volume 9, Number 2, June 1998, pp. 50-56(7).

Abstract: The article illustrates the utility of subsector analysis with reference to the case of informal sector tailors and dressmakers in Kenya. Particular attention is given to the training needs of tailors and dressmakers, who are classified into stars and laggards, the difficulties they experience in running their businesses and some policy implications of this methodology. It is argued that the subsector approach avoids the tendency to see the informal sector as though it were an undifferentiated mass of microenterprises, by focusing on the movement of a product or service through various stages and the linkages and participants at each stage. This is likely to lead to a detailed understanding of the opportunities and constraints incumbent on a given sub-sector and thereby provide a framework for appropriate policy interventions.

Carlton, A. & Hancock, D. (1998). "ISTARN - an approach to informal sector business support in Zimbabwe". *Small Enterprise Development*, Volume 9, Number 2, June 1998, pp. 41-49(9).

Abstract: There is renewed interest in ways to support small businesses using a broader range of activities than the now traditional credit programmes. This article looks at a project which is developing a range of integrated development services for informal sector businesses in Zimbabwe.

Chandavarkar, A.G. (1985). "Non-Institutional Financial Sector in Developing Countries". *Savings and Development*, Volume IX, Number 2, pp. 129-141.

Christensen, G. (1993). "The limits to informal financial intermediation". *World Development*, Volume 21, Issue 5, May 1993, Pages 721-731.

Abstract: The nature of informal financial intermediation has yet to be clarified, despite a growing interest in its potential contribution to economic development. This study establishes the preconditions which must be satisfied in order for informal financial intermediation to occur, and examines the extent to which these preconditions are met by various informal financial agents. Full informal financial intermediation does not take place although those financial agents able to operate in both the formal and informal financial sectors engage in partial financial intermediation. The relevance of these findings to the role of informal finance in economic development is then considered.

Das-Gupta et.al (1989). "Report on Informal Credit Markets in India: Summary". New Delhi: National Institute of Public Finance and Policy, August, 140 pp.

Dessy, S. & Pallage, S. (1996). "Taxes, inequality and the size of the informal sector". *Journal of Development Economics*, Volume 51, Issue 1, October 1996.

Abstract: In this note, we develop a simple heterogeneous-agent model with incomplete markets to explain the prevalence of a large, low-productivity, informal sector in developing countries. In our model, taxes levied on formal sector agents are used to finance the provision of a productive public infrastructure, which creates a productivity premium from formalization. Our model offers endogenous differentiation of rich and poor countries. Complete formalization is equilibrium only in

countries with the appropriate initial conditions. We discuss the existence of this equilibrium and highlight the ambiguous effect of taxes.

Donald, G. (1976). "Credit for Small Farmers in Developing Countries". Boulder: Westview Press.

Dorward, A., Kydd, J., Moyo, S. & Coetzee, G. (2001). "Seasonal Finance for Staple Crop Production: Problems and Potential for Rural Livelihoods in Sub Saharan Africa". Wye College, Agricultural Economics, Agrarian Development Unit.

Abstract: The paper states that agriculture is a source of poverty reduction in rural Africa, but insufficient access to seasonal finance is a constraint to agricultural productivity and incomes of the poor. It presents the sustainable livelihoods (SL) framework and its operational utility in a range of situations, particularly in encouraging coherence in understanding and addressing problems of access to seasonal financial assets by subsistence food crop producers and delivery of financial services to subsistence food crop producers. Specifically, it examines:

- Poverty in Africa from a livelihoods perspective;
- The role of agriculture in rural livelihoods in sub Saharan Africa and its potential for increasing the incomes and reducing the vulnerability of the rural poor;
- Theoretical and empirical arguments on the linkages of agricultural growth and poverty reduction;
- Issues and models in seasonal crop finance in smallholder agriculture;
- The impact of HIV/AIDS on rural livelihoods;
- The application of the SL framework.

Drawing from South Africa, the paper identifies lessons about the application of the SL framework, analyses the effects on policies, institutions and processes on access to financial assets and issues to be addressed in the design and implementation of SL framework. The authors conclude that:

- There is lack of viable institutional models for expanding seasonal finance access;
- The high incidence of HIV/AIDS in South Africa has very severe implications for rural livelihoods and access to and viability of financial services;
- The diversity of rural livelihoods leads to demands for a range of different financial services;
- Explicit attention needs to be paid to the integration of insurance, savings, lending and transmission in both rural livelihood strategies on the one hand and in product design and institutional forms for service delivery on the other.

Esguerra, E.F.; Nagarajan, G. & Meyer, R.L. (1991). "Applying Contestability Theory to Rural Informal Credit Markets: What Do We Gain?" Paper Presented at the XXI International Conference of Agricultural Economists. Tokyo, Japan, 22-29 August.

Fafchamps, M. & Lund, S. (2003). "Risk-sharing networks in rural Philippines". *Journal of Development Economics*, Volume 71, Issue 2, August 2003, Pages 261-287.

Abstract: Using original data on gifts and loans, this paper investigates how rural Filipino households deal with income and expenditure shocks. Results indicate that gifts and informal loans are partly motivated by consumption smoothing motives but do not serve to efficiently share risk. Certain shocks are better insured through gifts and loans than others. Mutual insurance does not take place at the village level; rather, households receive help primarily through networks of friends and relatives. Network quality matters. Risk is shared through flexible, zero interest informal loans rather than gifts. The evidence is consistent with models of quasi-credit where enforcement constraints limit gift giving.

Fernando, N.A. (1992). "Informal Finance in Papua New Guinea: An Overview". in Adams D.W. and Fichett D. (Ed), *Informal Finance in Low-income Countries*, Westview Press, Colorado, 1992

Ghate, P.B. (1988). "Informal Credit Markets in Asian Developing Countries". *Asian Development Review*, Vol. 6, No.1, pp. 64-85.

Ghate, P.B. (1990). "Informal Finance: Some Findings from Asia". Manila: Economics and Development Resource Center, Asian Development Bank, October, 170 pp.

Ghate, P.B. (1992). "Informal Finance. Manila". Asian Development Bank & Oxford University Press.

Gibson, B. (2005). "The transition to a globalized economy: Poverty, human capital and the informal sector in a structuralist CGE model". *Journal of Development Economics* Volume 78, Issue 1, October 2005, Pages 60-94.

Abstract: Recent econometric evidence suggests that trade liberalization has an elusive relationship to growth and income distribution. This paper provides an explanation for these results via numerical simulations of a dynamic structuralist CGE. The conclusion is that if families become too poor to finance human capital accumulation, or the state too stingy to supply it at a reasonable cost, exports of skill-intensive goods can become uncompetitive and the transition to openness may involve increasing poverty, unemployment and stagnation. The model design incorporates an informal sector as well as accumulation of human capital. The paper simulates two trajectories, a "green" path in which per capita income grows steadily with a rapid rate of human capital accumulation and a reduction in the level of economic informality. A second, or "red" path is also possible, however, with a growth rate that is much lower, an expanding informal sector and an inadequate rate of human capital formation.

Global MicroRate Africa. (2003). "Amhara Credit & Saving Institution". A Report prepared for USAID and SIDA, South Africa.

Gosh, A. (1989). "Informal Sector Saving Potential". *Economic and Political Weekly*, April 1, pp. 652-653.

Gupta, M.R.. (1997). "Informal sector and informal capital market in a small open less-developed economy". *Journal of Development Economics*, Volume 52, Issue 2, April 1997, Pages 409-428.

Abstract: A three-sector static model of a small open economy has been developed with special consideration to the urban informal sector and the informal capital market. Informal capital is mobile between the rural sector and the urban informal sector. Policy effects in this model appear to be different from those analysed in other three-sector models.

Hao, T.K. & Nguyen T.H. (1991). "The Organization of Tontine as an Informal Fund Mobilization in Vietnam". *Central Institute for Economic Management*; Hanoi, 1991.

Haque, F.R. & Atiq R. (1992). "Informal Financial Sector in Bangladesh". *Development and Change* Vol 23.

Hospes, O. (1992). "Evolving Forms of Informal Finance in an Indonesian Town". In *Informal Finance in Low-Income Countries*, edited by Dale W Adams and D. A. Fitchett. Boulder: Westview Press. p. 225-238.

Islam, R.; Von Pischke, J.D. & De Waard, J.M. (1994). "Small Firms Informally Financed: Studies from Bangladesh", *World Bank Discussion Paper* No. 253, Washington, D.C.: The World Bank, 1994, 250 pages.

Jodhka, S.S. (1995). "Who Borrows? Who Lends? Changing Structure of Informal Credit in Rural Haryana". *Economic and Political Weekly*, Sep 30th 1995, pages A-123 to A-130.

Jonakin, J. & Enríquez, L.J. (1999). "The Non-Traditional Financial Sector in Nicaragua: A Response to Rural Credit Market Exclusion". *Development Policy Review* 17 (2), 141–169.

Kabecha, W.W. & Thomas, T.H. (1995). "The quality of informal sector manufactures in Nairobi". *Small Enterprise Development*, Volume 6, Number 4, December 1995, pp. 43-49(7).

Abstract: The products of informal sector manufacturers are commonly thought to be suitable for consumers in developing countries on account of their low price and simplicity: they represent 'quality for the poor' rather than 'poor quality'. This article questions this assumption, and by surveying middle-class and poor consumers in Nairobi it reveals that typical informal sector products are regarded as of inferior quality and often more unreliable than imported or mass-produced goods. Clearly there will need to be significant improvements in design and production if informal sector products are to continue selling on domestic markets, let alone internationally.

Kashuliza, A.K. (1993). "Perception and role of informal rural finance in developing countries: the example of Tanzania". *Journal of Rural Studies*, *Volume 9,* Issue 2, April 1993, Pages 163-173.

Abstract: Negative perceptions on the value of informal rural finance or credit which are prevalent in a number of developing countries are compounded in the case of Tanzania because of the country's Ujamaa and socialist policies. Consequently, informal rural finance has been neglected both in terms of research and policy planning. This paper attempts to fill part of the research gap on informal rural finance in Tanzania, and to contribute to the growing body of knowledge on this subject in the developing countries. The paper briefly investigates the policy and perception scenario on informal rural finance in Tanzania in the last two decades. Based on empirical data collected through village surveys in three regions of the country, the paper describes the sources of informal credit for smallholder farmers in those areas, and assesses the use, repayment, terms and conditions of such credit.

Katzin, M.F. (1959). "Partners: An Informal Savings Institution in Jamaica". *Social and Economic Studies* VIII: 436-440.

Kobb, D. (1997). "Measuring informal sector incomes in Tanzania - some constraints to cost-benefit analysis". *Small Enterprise Development*, Volume 8, Number 4, December 1997, pp. 40-48(9).

Abstract: Roughly 600 informal sector entrepreneurs in Dar es Salaam, Tanzania, were surveyed in order to compare incomes of project beneficiaries with those of a suitable control group. The aim was to carry out a cost-benefit analysis and ultimately to gauge whether the project intervention could be justified in terms of increased incomes. However, the act of measurement significantly affected the results. It strongly mattered who asked the questions and how the questions were actually worded. Furthermore, project participation should not be considered a truly exogenous variable. In all probability it is systematically correlated with stated income and with the degree of truthfulness in the interviewee's response. In the light of these problems, a variation on willingness to pay is suggested as a more appropriate monitoring and evaluation indicator.

Kui, Ng Beoy. (1985). "Some Aspects of the Informal Sector in the SEACEM Countries". Staff Papers no. 10, Kuala Lumpur: SEACEN Research and Training Centre, South East Asian Central Banks, 46 pp.

Kranton, R.E. & Swamy, A.V. (1999). "The hazards of piecemeal reform: british civil courts and the credit market in colonial India". *Journal of Development Economics*, Volume 58, Issue 1, February 1999, Pages 1-24.

Abstract: The colonial experience of developing countries provides valuable evidence regarding the impact of legal and institutional innovations on economic growth. However, there has been little effort by economists to study colonial policies to gain theoretical insights into the process of institutional reform. This paper considers the introduction of civil courts in colonial India and its impact on agricultural credit markets in the Bombay Deccan. Drawing on historical records and a formal analysis of the credit market, the paper finds that the reform led to increased competition

among lenders. Ex ante, we expect that this would have raised farmers' welfare. But increased competition also reduced lenders' incentives to subsidize farmers' investments in times of crisis, leaving them more vulnerable in bad times.

Lamberte, M.B. & Anita, Abad-Jose. (1988). "The Manufacturing Sector and Informal Credit Markets: The Case of Trade Credits in the Footwear Industry". Manila: Working Paper Series no. 88-07, Philippine Institute for Development Studies, June, 132 pp.

Lava, A. *et al.* (1989). "Case Studies on the Monitoring of Informal Credit Markets". Manila: Working Paper Series no. 89-13, Philippine Institute for Development Studies, June, 59 pp.

Loayza, N.V. (1994). "Labor Regulations and the Informal Economy", *Policy Research Working Paper* No. 1335, Washington, D.C.: The World Bank, 48 pages.

Mansuri, G. (2006) "Credit layering in informal financial markets". *Journal of Development Economics*. (Available online 15 December 2006).

Abstract: Informal lenders with access to markets or capital often find it attractive to delegate loan provision to downstream lenders who have an information or enforcement advantage in dealing with particular borrowers. In this paper we examine the conditions under which such an arrangement is preferred by two informal lenders, a landlord and a merchant, who compete in loan provision to tenant farmers differentiated by wealth. We show that credit layering is preferred only when tenants are sufficiently poor. In this case, the trader lends to tenant farmers via a contract with their landlord. Otherwise, only the trader lends. As a consequence, a pattern of borrowing emerges in which relatively wealthy tenants borrow from merchants while poor tenants borrow mainly from their landlords. Interlinkage between land and credit thus arises only for a subset of tenants and purely as a consequence of credit layering. This pattern is shown to be supported empirically.

Mason, K. (1991). "Informal initiative among Zimbabwe's artisans". *Small Enterprise Development*, Volume 2, Number 4, December 1991, pp. 50-53(4).

Abstract: There is much contemporary debate among economists, planners and development workers about the so-called 'informal sector' and its role in the national economies of developing countries. Some observers believe this sector of the economy needs to be regulated and brought into the formal sector; others think that its dynamism and responsiveness to demand must be encouraged, and that its effectiveness as a generator of employment and income depends upon maintaining its informal status. What is clear is that the informal sector cannot be ignored when considering the social and economic development of the countries of the South. This article describes an initiative taken by a ENDA-Zimbabwe, which seeks to identify the promise and problems of working with informal sector artisans.

Mauri, A. (2000). "Informal Finance in Developing Economies". *UNIMI Economics Working Paper* No. 9.

Abstract: The financial systems and financial markets of developing countries have a common feature: the dualism. This means the co-existence and operation side by side of a formal or institutional financial sector and of an informal or non-institutional financial sector. The great diversity of informal financial activities makes difficult to evaluate the actual extent of informal finance in each economy, but empirical evidence in a number of less developed countries suggests that such extent is always relevant. Many examples bear witness of vitality of informal finance in filling the gaps left by operations of formal financial intermediaries: segments of the market neglected, credit rationing pursued through non-price allocation, exorbitant transaction costs shifted off to borrowers. The paper provides a comprehensive study of the role of informal finance in these economies, in rural as well as in urban areas, and of the main characters of the informal financial markets. Credit markets where heterogeneity of lenders faces heterogeneity of borrowers: different lenders may have different information about different borrowers. It investigates financial markets of developing countries highlighting crucial topics such as innovation capacity, effectiveness in personal savings mobilization, competition in funds rising and in credit supplying, personalistic relationship, interest rates charged, transaction costs inherent to financial intermediation, asymmetrical information, moral hazard, credit risk (arrears, delinquency, default),

market interlinkage. Various types of operators of the informal financial sector, both individuals (moneylenders, pawnbrokers, indigenous bankers, traders, deposits collectors) and mutual associations (Roscas and Ascras), are listed and analised. Finally due attention is given to interlinks between formal and informal financial circuits: large financial flows can take place, in fact, between formal and informal sectors. Furthermore a pronounced complementarity of the two sectors emerges: in many instances informal finance should not be seen as a substitute of institutional finance, as it has been often done in the past, but rather as a complement.

McMillan, J. & Woodruff, C.M. (1998). "Inter firm Relationships and Informal Credit in Vietnam".

Abstract: A survey of private firms in Vietnam is used in this paper to examine ongoing interfirm relationships; this survey gives detailed data on a firm's relationships with specific trading partners. We take as our measure of a firm's trust in its trading partner the amount of trade credit it grants. Bilateral relationships between trading partners are embedded in two kinds of networks: one based on pre-existing ties of family or friendship, the other on communication among manufacturers of similar types of goods. While we find that reputation is a workable basis for contracting in Vietnam, we also find some shortcomings of the informal mechanisms. Small firms rely more heavily than large firms on family connections and on gossip from the customer's other trading partners. Firms dependent on trading partners run by family members grow slowly. These observations suggest that to be successful, rather than just to survive, a firm must somehow escape its reliance on the family-based clientelistic links. Interfirm networks remain significant even for large firms, however, in that they use other manufacturers of similar goods as sources of information about new suppliers, suggesting that a network of firms in the same industry, being an open network, does not limit a firm's success in the way that a family network does. Our results are compared to the existing trade credit literature.

Meles, F. (2000). "Informal Financial Institutions: Impact Analysis of ACCORD's Credit Intervention Through Iddirs in Dire Dawa". M.Sc Thesis Addis Ababa University.

Meyer, R.L. & Nagarajan, G. (1992). "An Assessment of the Role of Informal Finance in the Development Process". In *Sustainable Agricultural Development: The Role of International Cooperation*, edited by G.H. Peters, and B.F. Stanton. Brookfield: Dartmouth Press. p. 644-654.

Monteil, P.J. *et al.* (1993). "Informal Financial Markets in Developing Countries: A Macroeconomic Analysis". Oxford: Blackwell and Co.

Morduch, J. (1999): "Between the State and the Market: Can Informal Insurance Patch the Safety Net?" *The World Bank Research Observer*, Volume 14, No. 2.

Abstract: Most households in low-income countries deal with economic hardships through informal insurance arrangements between individuals and communities rather than through publicly managed programs or market-provided insurance schemes. Households may, for example, draw on savings, sell physical assets, rely on reciprocal gift exchanges, or diversify into alternative income-generating activities. These mechanisms can be highly effective in the right circumstances, but most recent studies show that informal insurance arrangements are often weak. Poor households, in particular, have substantial difficulties coping with even local, idiosyncratic risks. Public policy can help reduce vulnerability by encouraging private, flexible coping mechanisms while discouraging those that are fragile or that hinder economic and social mobility. Promising policies include creating self-regulating workfare programs and providing a supportive setting for institutions working to improve access to credit, crop and health insurance, and safe and convenient saving opportunities.

Morduch, J. & Sharma, M. (2001). "Strengthening Public Safety Nets: Can the Informal Sector Show the Way?" IFPRI, *FCND Paper* No. 122.

Abstract: Helping to reduce vulnerability poses a new set of challenges for public policy. The most immediate challenge is to determine the appropriate for public action – if there should be a role at all. A starting point is the ways that communities and extended families try to cope with difficulties in the absence of government interventions. Coping mechanisms range from the informal exchange of transfers and loans within families and communities to more structures institutions

that enable an entire community to provide protection to their neediest members. This paper aims to systemize the main trade-offs that arise when evaluating policy options.

Murshid, K.A.S. (1986). "Informal Credit Markets in the Non-Farm Rural Sector". Dhaka: Unpublished Draft Proposal submitted to Asian Development Bank, Bangladesh Institute of Development Studies, 9 pp.

Mwega, F.M. (1991). "Informal entrepreneurship in an African urban area". *Small Enterprise Development*, Volume 2, Number 3, September 1991, pp. 33-37(5).

Abstract: This article reports the results of a survey on the socio-economic characteristics of enterprises and their operators in Mathare Valley, a major slum area in Nairobi. It describes their potential to generate profits, employment and to impart skills; the inter-linkages between these enterprises and other business areas; and the problems and constraints that they and their operators encounter.

Nagarajan, G.; Meyer, R.L. & Hushak, L.J. (1995). "Segmentation in the Informal Credit Markets: The Case of the Philippines". *Agricultural Economics* 12(2): 171-181.

Nayar, C.P.S. (1982), "Finance Corporations: An Informal Financial Intermidiary in India" *Savings and Development*, Volume VI, Number 1, pp. 5-39.

Nayar, C.P.S. (1992). "Strengths of Informal Financial Institutions: Examples from India". In *Informal Finance in Low-Income Countries*, edited by Dale W Adams and D. A. Fitchett. Boulder: Westview Press. p. 195-208.

Oladeji, S.I. & Ogunrinola, I.O. (2001). "Determinants of Informal Savings in South-Western Nigeria". *Savings and Development*, Issue no. 2, 2001.

Abstract: The paper discusses the determinants of informal savings in Southwestern Nigeria using the linear probability model and multiple regression technique. It utilizes cross-section data generated from a survey conducted by the authors between October and November 1989 on the savings habit and utilization in the informal sector. The empirical results revealed that savings behaviour in the informal financial sector is affected by income, age, occupation, education and region of residence. They showed that the self-employed, less educated and rural population identified more with informal savings and had a higher informal savings ratio. The two cardinal variables from economic theory (income and age) accounted for the bulk of the variation in the level of informal savings. The empirical results confirm that marginal propensity to save informally is positive, less than one; but the absolute income hypothesis that marginal propensity to save is greater than average propensity to save in the informal financial sector is contradicted. The result suggest that with a rising income, the average propensity to save informally declines while, presumably, the fraction of income saved increases in the formal sector. Evidence of people becoming more thrifty was also established, but savings of this kind was not really and could not have been motivated by the reason of saving-up towards retirement. In the process of capital accumulation, a conclusion of the paper is that savings policy should target the self-employed in the informal sector. Another conclusion reached by the paper is that any policy that succeeds in achieving increased earnings in the informal sector has a tendency of increasing the propensity to save in the formal financial sector, even at the expense of the informal one.

Olivares, M. (1989). "A Methodology for Working with the Informal Sector". ACCION International/AITEC.

Abstract: This document summarizes the most significant methodological aspects of ACCION's work with microenterprise development. It discusses issues that are significant to professionals who work with the informal sector and suggests various approaches based on lessons drawn from experience.

Onchan, T. (1992). "Informal Rural Finance in Thailand". In *Informal Finance in Low-Income Countries*, edited by Dale W Adams and D. A. Fitchett. Boulder: Westview Press. p. 103-117.

Rahman, A. (1986). "Informal Credit Markets in Rural Bangladesh" - Study Outline, Dakka: Unpublished Draft Proposal submitted to Asian Development Bank, Bangladesh Institute of Development Studies, 34 pp.

Rahman, A. (1992). "The Informal Financial Sector in Bangladesh: An Appraisal of its Role in Development". *Development and Change*, Vol. 23, pp.147-168.

Roth, J. (2001). "Informal microinsurance schemes - the case of funeral insurance in South Africa". *Small Enterprise Development*, Volume 12, Number 1, 1 March 2001, pp. 39-50(12).

Abstract: South Africa has an active informal insurance industry that profitably sells insurance to low-income consumers (microinsurance). This article is based on a case study of the informal funeral insurance industry in a rural township in South Africa. The study revealed that poor people often cover the very considerable funeral expenses from a number of sources, including informal credit, informal insurance, and friendly societies. The practices of informal township funeral insurers are contrasted with those of formal insurers. The products of informal insurers were much more popular among respondents than those of formal funeral insurers, because the products fitted the socio-economic contours of their clients' lives. A series of lessons can be drawn from the practices of informal insurers for the development of new microinsurance or the improvement of existing microinsurance products.

Rouse, J. (2004). "Absorbing informal sector operators into improved urban services". *Small Enterprise Development*, Volume 15, Number 2, 10 June 2004, pp. 11-19(9).

Abstract: Urban development for growing, modern cities may have adverse effects upon the inforal sector. This article is based on three case studies from Bangladesh, India and Ethiopia. The first two illustrate the challenges faced by informal sector workers resulting from developments in the transport sector in Bangladesh, and in the energy sector in Ethiopia. In both cases, the informal sector entrepreneurs are characterized by low incomes, vulnerability and high competition for limited markets, and the research suggests that their vulnerability was increased by urban development. The third case study is intended to show how the needs of informal sector workers can be accounted for in development processes. In it, waste-recycling entrepreneurs are employed by an organized waste collection service. The author considers what could have been done to avoid some of the adverse impacts, and asks what is now needed to address the hardship and vulnerability faced by displaced service providers. Recommendations are made for future projects aimed at practitioners and policy-makers.

Rutherford, S. (1996). "A Critical Typology of Financial Services for the Poor". ActionAid. UK.

Abstract: This paper explores the range of indigenous systems of financial service provision for the poor and demonstrates the diverse, ingenious and sometimes complex ways that have been devised to enable poor people to better manage their finances. Each example includes a boxed description of a real case and they are organised into categories, e.g.

- Informal user owned devices - neighbours, ROSCAs and savings clubs
- User owned devices - popular insurance, building societies and cooperative business finance
- Informal services for profit - deposit takers and lenders

The author also describes some NGO assisted schemes and a selection of formal services. Altogether almost 60 financial service devices are described in this paper, mostly from Asia, and it is an extremely revealing account. It highlights the need for practitioners to learn from financial services that already exist before designing new interventions, and to innovate and experiment with a wider range of services than savings and credit.

Rutherford, S. (1997). "Informal Financial Services in Dhaka's Slums" in Wood, G.D. and I. Sharif (eds.) *Who Needs Credit? Poverty and Finance in Bangladesh* UPL: Dhaka and Zed Books: London.

Abstract: The spotlight of public attention has shone so fiercely on Bangladesh's credit-giving NGOs that user-owned and other informal devices have received little attention. This paper describes some of the wealth, variety, complexity, strengths and weaknesses of informal finance 'samities' in some Dhaka slums. Then it examines what these schemes tell us about the demand for financial services among the urban poor, and it goes on to speculate about what NGOs might learn from all this. The conclusion reached is that the urban poor feel a pressing need for financial services that help them manage their cash resources-above all their capacity to save ---on a day-to-day basis. This suggests that NGOs would do well to reconsider whether they have been right to emphasise productive loans so strongly in their programmes.

Salas, A.; Wieland, R. & Stearns, K. (1991). "Informal finance in Kingston, Jamaica". *Small Enterprise Development*, Volume 2, Number 4, December 1991, pp. 40-46(7).

Abstract: In many developing countries new approaches are being sought by which to provide assistance for the small business and microenterprise sectors. Improved access to financial services and particularly credit is often an important part of this assistance. In the hope of avoiding the myriad problems that have faced small-farmer credit and other targeted lending programmes in the past, these newly developing programmes try to take into consideration the needs of borrowers and lenders in a microenterprise financial system. Except for a few well-discussed examples such as the several ACCION lending programmes in Latin America, the BKK in Indonesia and the Grameen Bank in Bangladesh, formal financial institutions do not typically provide services for microenterprises. Thus, in order to improve our understanding of the needs of borrowers and lenders in these markets, it is necessary to look at informal sources of finance. This article is the result of a study which sought to assess informal financial arrangements in Jamaica. It summarizes interviews with both providers and users of informal finance in Kingston undertaken in February, 1990. The objective of these interviews was to collect information regarding the terms and conditions of financial arrangements. The questions focused on client selection, sources of financing, costs of finance, appraisal methods, guarantees, duration of repayment, and loan amounts.

Sandartne, N. & Senanayake, S.M.P. (1989). "The Structure of Sri Lanka's Informal Financial Markets: Lessons of Experience" *Upanathi*, Volume 4, Numbers 1 and 2, pp. 125-160.

Sanderatne, N. (1992). "Informal Finance in Sri Lanka". In *Informal Finance in Low-Income Countries*, edited by Dale W Adams and Delbert A. Fitchett (Boulder, Colorado: Westview Press.

Sanderatne, N. "Informal Finance in Transition". *Sri Lanka Economic Journal*, Vol. 4. No. 2, pp. 31-57, December 2003.

Abstract: The perceptions of informal finance have undergone significant changes. Historically, informal finance was characterised as highly exploitative. This paradigm has changed owing to a better understanding of informal finance, the changes that have occurred in rural financial markets, economic developments and changes in financial systems. The paper discusses the evolution of rural financial markets as a transitional continuum and challenges the traditional paradigm of informal finance. Informal sources of finance continue to be fairly significant in spite of the increased penetration of financial institutions into rural areas and co-exist with institutional finance. Those borrowing from institutional sources simultaneously source funds from informal sources. Informal sources provide finance for a variety of purposes and persist due to their advantageous characteristics of flexibility, convenience and negligible transaction costs. Informal interest rates still range from zero to as much as 25 per cent per month. While the importance of professional moneylenders has declined, trade credit has grown in importance and cheetus (ROSCAS) continue to be an important financial service. While collateral is not the basis of most informal lending, new forms of security such as post-dated cheques and blank notes signed by the borrower have emerged. Despite over five decades of institutional agricultural credit, most credit for small-scale agriculture is from informal sources. Although country-wide data disclosed a significant decline in informal finance in rural areas, micro studies indicate the predominance of informal sources.

Schulz, M. (1995). "The informal sector and structural adjustment - strengthening collective coping mechanisms in Tanzania". *Small Enterprise Development*, Volume 6, Number 1, March 1995, pp. 4-14(11).

Abstract: Structural adjustment programmes have affected Tanzania more than most countries, and although the informal sector has grown in numbers of businesses, swelled by those who have lost their public sector jobs, the position of most urban small traders has become more precarious as public services crumble and frantic land-grabbing threatens their right to trade in a particular locality. As the centralized government has withdrawn from many activities, together with the protection it afforded the urban poor, small self-help organizations have come together spontaneously to provide their members with the very basics of health insurance, representation or land rights. This article describes some of these indigenous organizations, as well as the project which is providing advice and training to meet some of their limited objectives.

Seibel, H.D. (1989). "Finance with the Poor, by the Poor, for the Poor: Financial Technologies for the Informal Sector — With Case Studies from Indonesia". Social Strategies 3/2. Basel, Soziologisches Seminar der Universität.

Seibel, H.D. (2000). "Informal Finance: Origins, Evolutionary Trends and Donor Options". IFAD.

Abstract: Informal financial institutions (IFIs), among them the ubiquitous rotating savings and credit associations, are of ancient origin. Owned and self-managed by local people, poor and non-poor, they are self-help organizations, which mobilize their own resources, cover their costs and finance their growth from their profits. With the expansion of the money economy, they have spread into new areas and grown in numbers, size and diversity; but ultimately, most have remained restricted in size, outreach and duration. Are they best left alone, or should they be helped to upgrade their operations and integrate into the wider financial market? Under conducive policy conditions, some IFIs have spontaneously taken the opportunity of evolving into semiformal or formal microfinance institutions (MFIs). This has usually yielded great benefits in terms of financial deepening, sustainability and outreach. Donors may be able to build on these indigenous foundations and provide support for various options of institutional development, among them, e.g. incentives-driven mainstreaming through networking; encouraging the establishment of new IFIs in areas devoid of financial services; linking IFIs/MFIs to banks; strengthening NGOs as promoters of good practices; and, in a non-repressive policy environment, promoting appropriate legal forms, prudential regulation and delegated supervision. This paper is illustrated throughout with examples drawn from the author's experience and gives a useful introduction to the concept of Financial Services Associations (FSAs) which was pioneered by IFAD. FSAs provide a flexible model for the delivery of low cost financial services in rural areas by establishing village level financial structures that are initiated, owned and operated by villagers themselves. At the end of the paper there is a useful summary of the objectives donors may pursue in order to mainstream IFIs, together with a checklist of possible key results and outputs.

Shanmugam, Bala. (1991),"Socio-Economic Development Through Informal Credit Market". *Modern Asian Studies* Volume 25, Number 2, pp. 209-225.

Sharma, M. & Zeller, M. (2000). "Informal markets: What lessons can we learn from them?" IFPRI. Rural Financial Policies for Food Security of the Poor. *Policy Brief* No. 8.

Abstract: This policy brief examines the various informal markets that the rural poor have traditionally turned to for their financial needs. For example: Lending and Borrowing among relatives, neighbors and friends, The rotating credit and saving associations (ROSCAs), Informal moneylenders and Tied credit. Important lessons to be learned from the informal sector include: Building credible long-term partnerships, Tailoring financial services to specific demand patterns, Knowledge of local economy is important; therefore, so is decentralization of decision-making, Not all financial contracts are self-enforcing and adequate steps must be taken to enforce contract compliance

Sinha, S. & Matin, I. (1998). "Informal Credit Transactions of Microcredit Borrowers in Rural Bangladesh", *IDS Bulletin*, Vol. 29, Issue. 4, pp. 66-81.

Abstract: Through a detailed study of informal credit transactions in a village in northern Bangladesh, the research empirically establishes that increased access to credit from micro-finance institutions (MFIs) in Bangladesh has been unable to substitute for the higher-cost informal credit sources. The reason for this is that MFI lending technology is insensitive to variations in household conditions. Most MFIs put all households on a treadmill of continuously increasing loan size and insist on a fixed repayment schedule. While an easily accessible loan may seem attractive to a cash-starved poor household, its resource profile and the wider economic and policy environment impose limits on the marginal return to capital. Credit escalation under these circumstances increases the likelihood of cross-financing to sustain the MFI's line of credit. Target-group households, in particular, resort to extensive cross-financing of their loans. It is argued that cross-financing can have a deleterious effect on the household economy in the long-run if households continuously manage loan repayment without having the ability to repay. It is suggested that MFI lending technology be redesigned to be sensitive to household initial conditions. Only then can MFIs seriously compete with the informal lenders.

Srinivas, H. (1991). "Viability of Informal Credit to Finance Low-income Housing: A Case Study of Three Squatter Settlements in Bangalore City, India". Bangkok: Unpublished Master's Degree Thesis Report, Division of Human Settlements Development, Asian Institute of Technology, November, 225 pp.

Srinivas, H. (1991). "A Review of Informal Credit Market Studies: Final Report". Unpublished Special Study Assignment. Bangkok: Asian Institute of Technology, March 34 p.

Stearns, K. & Otero, M. (1990). "The Critical Connection: Governments, Private Institutions and the Informal Sector in Latin America". ACCION International.

Abstract: This monograph summarizes the results of an international conference held in Ecuador on the roles of the public and private sectors in microenterprise development. It reviews the progress of government involvement in the informal sector and the participation of private development organizations in microenterprise development. It also analyzes government and private sector approaches to microenterprise development in six Latin American countries.

Steel, W.F. & Aryeetey, E. (1994). "Informal Savings Collectors in Ghana: Can They Intermediate?" *Finance and Development,* March.

Steel, W.F.; Aryeetey, E.; Hettige, H. & Nissanke, M. (1997). "Informal financial markets under liberalization in four African countries". *World Development*, Volume 25, Issue 5, May 1997, Pages 817-830.

Abstract: This paper presents survey evidence from four countries on how informal financial agents serve market niches that banks cannot readily reach. Their methodologies are effective in keeping down transaction costs and default risk relative to banks, although informal agents exercise monopoly power in dualistic markets. Liberalization of repressive financial policies has had little effect on formal financial deepening, while informal finance has continued to grow. The paper concludes that informal financial institutions are an important vehicle for mobilizing household savings and financing small businesses, and it recommends that informal finance be better integrated into financial development strategies.

Straub, S. (2005). "Informal Sector: The Credit Market Channel". *Journal of Development Economics* 78 (2): 299–321.

Abstract: We build a model of firms' choice between formality and informality. Complying with costly registration procedures allows the firms to benefit from key public goods, enforcement of property rights and contracts, that make the participation in the formal credit market possible. In a moral hazard framework with credit rationing, their decision is shaped by the interaction between the cost of entry into formality, and the relative efficiency of formal versus informal credit mechanisms and their related institutional arrangements. The model is consistent with existing stylized facts on the determinants of informality.

Sundaram, K. & Pandit, V. (1984). "Informal Credit Markets, Black Money and Monetary Policy: Some Analytical and Emperical Issues" *Economic and Political Weekly*, Vol. XIX, No. 16, April 21, pp. 675-682.

Tang, Shui-Yan. (1995). "Informal credit markets and economic development in Taiwan". *World Development*, Volume 23, Issue 5, May 1995, Pages 845-855.

Abstract: Taiwan is a case which shows how informal credit markets help to compensate for the limitations of the formal financial system, especially in satisfying the needs of medium and small enterprises. Government regulations and policies affect the way participants in informal credit markets solve selection, enforcement and incentive problems. Recent changes demonstrate the continued resilience and relevance of informal credit markets during a process of financial liberalization.

Timberg, T.A. & Aiyer, C.V. (1984). "Informal Credit Markets in India" *Economic Development and Cultural Change* Vol. 33, No.1, October, pp. 43-59.

Tsai, K.S. (2004). "Imperfect Substitutes: The Local Political Economy of Informal Finance and Microfinance in Rural China and India". *World Development*, Volume 32, Issue 9, September 2004, Pages 1487-1507.

Abstract: Banking authorities in both China and India have attempted to limit most forms of informal finance by regulating them, banning them, and allowing certain types of microfinance institutions. The latter policy aims to increase the availability of credit to low-income entrepreneurs and eliminate their reliance on usurious financing. Nonetheless, the intended clients of microfinance continue to draw on informal finance in both rural China and India. This article argues that the persistence of informal finance may be traced to four complementary reasons––the limited supply of formal credit, limits in state capacity to implement its policies, the political and economic segmentation of local markets, and the institutional weaknesses of many microfinance programs.

Unnevehr, L.J. & Zain, D. (1986). "Marketing Effency, Informal Credit and the Role of Government Loan Programs: Cassava Trade in Indonesia" *The Journal of Developing Areas*, 20, April, pp. 369-378.

Wai, U Tun. (1992). "What Have We Learned about Informal Finance in Three Decades?" In Adams, Dale W, and Delbert A. Fitchett, "*Informal Finance in Low-Income Countries*". Colorado: Westview Press, Inc

Webster, L. & Fidler, P. (1995). "The informal sector and micro-finance institutions in West Africa". Washington: World Bank.

Abstract: High population growth rates, shrinking public budgets, urban migration, and negative economic growth have all increased the demand for jobs in West Africa. This increased demand cannot be met by the formal or public enterprise sector, and the informal sector has absorbed much of the shock of the economic contraction in the region. As a result, the informal sector in West African countries is quite large, accounting for roughly a third to a half of GDP and a third to three–quarters of employment. This study profiled the informal sector in 12 West African countries, identifying the characteristics of microentrepreneurs and their enterprises, key constraints to enterprise growth, and the types of assistance programs in place. The study also analyzed nine microfinance institutions recognized as effective and assessed their outreach and sustainability on the basis of recognized best practice. The 12 country studies were based primarily on desk studies, with field visits to Burkina Faso, Cape Verde, Guinea–Bissau, Mali, and Mauritania to verify and update information. The nine institutional appraisals were based almost entirely on field research by Bank staff and consultants, who spent considerable time at each institution talking with managers, visiting local branches, interviewing clients, and reviewing financial data. The country profiles confirmed that the West African informal sector is large and growing, particularly in urban areas, although the sectoral concentration in trade, services, and production varies across countries. Women are important informal sector participants in all 12 countries. Key constraints in the informal sector include saturated and stagnant markets, inadequate access to credit and savings services, weak technical skills, inadequate information, and poor infrastructure. Microentrepreneurs rely mainly on family, friends, moneylenders, and *tontines* for financial

services. Microenterprise assistance programs, although numerous, are unevenly distributed throughout the region and of varying quality.

Yotopoulos, P.A. & Sagrario L.F. (1991). "Transaction Costs and Quantity Rationing in the Informal Credit markets: Philippine Agriculture". *Markets in Developing Countries: Parallel, Fragmented, and Black.* Michael Roemer, and Christine Jones, 141-66. California: ICS Press.

Abstract: The study of credit markets has rightfully become an integral part of the study of economic development. Financial intermediation helps alleviate one of the two structural gaps in the development process, the disparity between savings endowments and investment opportunities, as well as helping meet consumption needs. The main focus of the literature on development finance has until recently been formal financial intermediation. This chapter examines the various mechanisms adopted by informal financial intermediaries to cope with structural distortions in a fragments market environment, with the informal credit market in Philippine agriculture as a case in point. Undoubtedly, both government assistance and government regulation are required to improve the performance of financial markets, especially in developing countries. But any rehabilitation policy package, whether it involves the formal institutions alone or includes the informal sector as well, must take into account the crucial impact that the general economic environment and the specific institutional infrastructure has on financial markets. For any proposed solution to have permanent effects, is must address the lenders' problems, including the lack of market information and of infrastructural support services that reduces transaction costs, and the problems faced by borrows that involve their economic viability and translate directly into their creditworthiness.

❒ ROSCA

Acharya, R.P.; Shrestha, P. & Shakya Jan, R. (2002). "Small Farmer Cooperatives Ltd. (SFCLs) in the Hills and Mountains". RUFIN/GTZ and ADBN.

Abstract: This paper describes the emergence of the Small Farmer Cooperatives Ltd. (SFCLs) in Nepal as sustainable grassroots organizations. A Small Farmer Cooperative Ltd. is a multi-service co-operative designed to deliver primarily financial, but also non-financial services to its members in mountain and other remote areas. SFCLs are civil society organisations, which pool their joint resources to meet basic needs and to defend their members' interests. They are member-owned and controlled and have an open membership policy towards "poor" farmers. The innovative mode of delivery of services allows the SFCLs to run on low transaction costs. This is one of the prime reasons why SFCLs can sustain their operations in the remote areas. Participatory management and democratic governance is the other asset on which the success of SFCLs is building.

Acharya, R.P. & RUFIN/GTZ of Nepal. (2003). "Models of Primary Cooperative Societies - From Single - tier to Multi-tier". RUFIN/GTZ.

Adams, D.W. & De Sahonero, M.C. (1989). "ROSCAs in Bolivia". *Savings and Development* no 3 XIII.

Allen, H. (2006). "Village Savings and Loans Associations — sustainable and cost-effective rural finance". *Small Enterprise Development*, Volume 17, Number 1, March 2006, pp. 61-68(8).

Abstract: MFIs and banks find it difficult to cover the costs of providing rural financial services – especially in Africa. In its large-scale Village Savings and Loans Associations (VS&LA) programmes in Africa, CARE is tackling these difficulties by encouraging the formation of village loan funds entirely composed of members' savings, keeping the time-bound savings and lending methodology very simple and limiting external involvement to a one-year training and follow-up period. This article describes how the methodology works in principle and practice and describes evaluation results from the CARE VS&L programme in Zimbabwe, where very high rates of inflation pose a challenge to any microfinance programmes. Finally the need for management information systems and better record keeping are identified as issues that need further development.

Allen, H.; Staehle, M. (2006). "Village Savings and Loan Associations". VSL Associates.

Abstract: The Village Savings and Loan (VS&L) model is a savings-based approach that has proven on a significant scale that it can substantially fill the gap between the needs of the poor for financial services and the ability of banks and MFIs to provide these services. It provides sustainable and profitable savings, insurance and credit services to people who live in places where banks and MFIs do not have a presence such as rural areas and urban slums. The model was originally developed by CARE in Maradi, Niger, in 1991 and has spread to 17 countries in Africa, 2 in Latin America and 2 in Asia, with over 600,000 participants. A VS&LA is a self-selected group of people, (usually unregistered) who pool their money into a fund from which members can borrow. The money is paid back with interest, causing the fund to grow. The regular savings contributions to the group are deposited with an end date in mind for distribution of all or part of the total funds (including interest earnings) to the individual members, usually on the basis of a formula that links payout to the amount saved. This lump sum distribution provides a large amount of money that each member can then apply to his/her own needs. This training guide describes the VS&L methodology and then provides detailed instructions on how to initiate and provide the training that groups will need. It covers group leadership, elections, developing policies and a constitution, record-keeping and procedures for managing meetings. The manual includes examples of stories and games that can be used in the training process and examples of all the forms that are required. A management and information system for field officers involved in promoting the groups is provided in an accompanying spreadsheet.

Ambec, S. & Treich, N. (2003). "Roscas as financial agreements to cope with social pressure". Working Papers 200301, Grenoble Applied Economics Laboratory (GAEL).

Abstract: In developing countries, traditional social obligations often press rich individuals to share their income. In this paper, we posit a "model of social pressure" in which people can sign binding financial agreements amongst themselves, thereby forming coalitions. These financial agreements may help them to alleviate their social obligations with respect to income sharing. In the above context, we show that there exists a stable structure of coalitions in which people form rotating savings and credit associations (roscas). We therefore provide a rationale for one of the most prevalent and puzzling financial institutions.

Anderson, S. and Baland, Jean-Marie, (2000). "The Economics of Roscas and Intra-Household Resource Allocation". CentER Working Paper No. 83.

Abstract: This paper investigates individual motives to participate in rotating savings and credit associations (roscas). Detailed evidence from roscas in a Kenyan slum (Nairobi) suggests that most roscas are predominantly composed of women, particularly those living in a couple and earning an independent income. To explain this phenomenon, we propose an argument based on conflictual interactions within the household. Participation in a rosca is a strategy a wife employs to protect her savings against claims by her husband for immediate consumption. The empirical implications of the model are then tested using the data collected in Kenya.

Anyango, E. (2006). "Village Savings and Loan Associations: experience from Zanzibar". DFID Financial Sector Deepening Project Uganda.

Abstract: This paper describes Village Savings and Loan Associations (VSLA) as a time-bound accumulating savings and credit association (ASCA). In it, 15 to 30 people save regularly and borrow from the group fund. Loans are repaid with interest, and have a period usually between one and three months. On a date chosen by the members, usually after about a year, all the financial assets are divided amongst the members in proportion to each one's savings. This payout is called the "action audit". The groups normally reform immediately and start a new cycle of savings ad lending. The VSLA methodology proposes that once mature, groups can function with no external support. Its proponents suggest that in the best programmes, 95% of the groups continue to function after two years and that the model reaches deeper into rural areas and serves poorer people than other microfinance models. The objective of this study was to examine the performance of VSLA groups in Zanzibar after several years of operation independent of CARE or other non-governmental organisations (NGOs). It also sought to understand the outreach of the programme to poorer members of the community, and its ability to provide useful services and produce change in the lives of users.

Ardener, S. (1964). "The Comparative Study of Rotating Credit Associations." *Journal of the Royal Anthropological Institute* 94(2): 201-229.

Ardener, S. & Burman, S. (eds.). "Money Go-Rounds: The Importance of Rotating Savings and Credit Associations for Women". Berg Publications Limited, Oxford, 1995.

Aredo, D. (1993). "The Informal and Semi-formal Financial Sectors in Ethiopia: A Study of Iqub, Iddir, and Saving and Credit Cooperatives". African Economic Research Consortium, Nairobi.

Aredo, D. (2004). "Rotating Savings and Credit Association: Characterization with Particular Reference to the Ethiopian Iqqub". *Savings and Development*, Issue no. 2, 2004.

Abstract: Informal Savings and Credit Association (ROSCAS) have remained popular in many developing countries for over a long period of time. In fact, in some countries, such as Ethiopia, they have become increasingly popular among almost all sections of society. However, their emerging features and flexibility are little understood by those interested in savings mobilization and credit provision in developing countries. Existing economic models of ROSCAs are based on the experience of a limited number of countries and, thus, have failed to fully explain the distinct characteristics and dynamism of this fascinating financial intermediary. On the other hand, interesting forms of ROSCAs, such as the Ethiopian iqqub, are little known. Using evidence from Ethiopia and other developing countries, this paper identifies the distinct characteristics of ROSCAs and discusses how they minimize risk arising from problems of adverse selection and of moral hazards. The findings of the study have generated interesting policy implications for the promotion of informal finance in developing countries.

Barton, C.G. (1977). "Rotating Credit Associations and Informal Finance: Some Examples from South Vietnam." Conference on Rural Finance Research, San Diego, organized by the A.D.C. and Ohio State University.

Besley T.; Coate, S. & Loury, G. (1992). "The Economic of Rotating Savings and Credit Associations". (Revised), Princeton University, 1992

Besley, T.; Coate, S. & Loury, G. (1994). "Rotating Savings and Credit Associations, Credit Market and Efficiency". *Review of Economic Studies*, 1994, 61, 701-719.

Abstract: This paper examines the allocative performance of rotating savings and credit associations (roscas), a financial institution which is observed world-wide. We develop a model in which individuals save for an indivisible good and study roscas which distribute funds using random allocation and bidding. The allocations achieved by the two types of rosca are compared with that achieved by a credit market and with efficient allocations more generally. We find that neither type of rosca is efficient and that individuals are better off with a credit market than a bidding rosca. Nonetheless, a random rosca may sometimes yield a higher level of ex ante expected utility to prospective participants than would a credit market.

Bouman, F.J.A. (1977). "Indigenous Savings and Credit Associations in the Third World: A Message?" *Savings and Development* 1: 181-220.

Bouman, F.J.A. (1979), "The ROSCA: Financial Technology of an Informal Savings and Credit Institution in Developing Economies". *Savings and Development*, Volume III, Number 4, pp. 253-276.

Bouman, F.J.A. (1994). "Rosca and Ascra: Beyond the Financial Landscape" in F.J.A. Bouman and Otto Hospes (eds.) *Reconstruction of Financial Landscapes: The Fine Art of Mapping Development*, Boulder, Colorado: Westview Press.

Bouman, F.J.A. (1995). "Rotating and Accumulating Savings and Credit Associations: A Development Perspective". *World Development* vol 23, no 3, 1995, pages 371-384.

Abstract: Financial self-help groups in low-income countries consist of two basic types, Rotating and Accumulating Savings and Credit Associations, or ROSCAs and ASCRAs. In the ASCRA, funds are not immediately withdrawn but are left to grow for loan making. Comparing the two groups, the author finds similarities and differences. Efforts to rectify the ROSCA's shortcomings have prompted many innovations, and given birth to a hybrid preserving the best of both types, in constant adaptation to changing environments.

Brundin, I. & Mikael S. (1992). "Savings and Credit in the Informal and Cooperative Financial Sectors in Kenya", Department of International Economics and Geography, Stockholm School of Economics, minor Field Study # 31.

Callier, P. (1990). "Informal Finance, The Rotating Saving and Credit Association - An Interpretation". *KYKLOS*, 1990, Vol 43, Fasc. 2, 273-276.

Calomiris, C.W. & Rajaraman, I. (1998). "The role of ROSCAs: lumpy durables or event insurance?" *Journal of Development Economics*, Volume 56, Issue 1, June 1998, Pages 207-216.

Abstract: The stylised representation of ROSCAs in recent theoretical work as a device driven by impatience for lumpy consumer durables misses the important insurance role of this pervasive informal financial institution in the developing world. That insurance role explains why ROSCAs with concurrent bidding are the dominant means of determining the sequence and pricing of allocations. In ROSCAs so structured, the recipient and the implied interest rate for each period's allotment are determined by competitive bids at the time of distribution. We use an example of an actual bidding ROSCA to demonstrate the extent of unpredictable needs for funds, as reflected in the volatility of interest rates implicit in winning bids.

CGAP. (2005). "Small Farmers in Mozambique Access Credit and Markets by Forming Associations with Assistance from CLUSA". Agricultural Microfinance: Case Study No 5.

Abstract: The Cooperative League of the USA (CLUSA) launched its Rural Group Enterprise Development Program in Mozambique in the mid-1990s, when the country was still overcoming armed conflict and settling into a market economy. The program organized 26,000 impoverished, isolated farmers in the northern provinces into associations that could market crops to commodities traders. These efforts led to higher farm gate prices and an 85 percent (inflation-adjusted) reported increase in average annual farm revenues. The CLUSA program assisted farmer associations to establish better relationships with the commodity traders and other agribusinesses. This enabled smallholder association members to access input credit and short-term crop advances from those agribusinesses, in return for the guaranteed purchase of their output. CLUSA also brokered a partnership with a local financial provider, GAPI, to offer solidarity group loans to the associations. As a result, associations supported by CLUSA established credit relationships that resulted initially in US $300,000 in agribusiness company credits and nearly $100,000 in loans from GAPI in 2003, with average repayment rates of close to 100 percent.

CGAP. (2005). "Working With Savings & Credit Cooperatives". Donor Brief 25.

Abstract: Savings and credit cooperatives provide financial services to millions, including poor and low-income people in many countries. Thus, donors who want to increase access to financial services, especially savings, often support savings and credit cooperatives. Working with these cooperatives offers many advantages, but, to be effective, donors must learn how to overcome several unique challenges.The latest Donor Brief Working with Savings & Credit Cooperatives provides guidance on how to address these challenges.

Elhiraika, A.B. (1999). "The Growth and Potential of Savings and Credit Co-operative Societies in Swaziland". *Development Policy Review* 17 (4), 355–374.

Galor, Z. (2003). "Saving and Credit Cooperatives: a New Conceptual Approach". The International Institute-Histadrut, Israel.

Abstract: In the view of the author, credit and saving cooperatives around the world are facing serious and fundamental problems. These include basic concepts relating to the nature and aim of the cooperatives, their structure and the principles under which they operate. Mr Galor explains his view of the nature of credit and savings cooperatives and how they should set interest rates, safeguard members savings, deal with surpluses and, if possible, provide marketing services to ensure loan recoveries. After describing how he thinks a savings and credit cooperative should work, the author continues to analyse problems that have arisen in other countries because they do not follow fundamental principles. He highlights issues such as failure to pay proper interest on savings, lack of incentive to reduce operating costs, misunderstanding of share capital and surpluses, interest charges on loans being too low, etc. He gives particular attention to the remuneration of the cooperative manager and recommends paying a percentage of the cooperative's revenue to provide motivation for good management, including adequate loan recovery. Mr Galor concludes this paper by reviewing his commitment to cooperatives playing a comprehensive role in rural development. He outlines different forms of cooperative, including multi-purpose societies and federations and the role each can play. He believes credit and saving cooperatives are a vital form of organization in the particularly in the developing countries of the world.

Geertz, C. (1962), "The Rotating Credit Association: A Middle Rung in Development", *Economic Development and Cultural Change*. Vol. 10, No. 3 (Apr., 1962), pp. 241-263.

Gingrich, C.D. (2004). "Community-Based Savings and Credit Cooperatives in Nepal: A Sustainable Means for Microfinance Delivery?" *Journal of Microfinance*, Vol. 6, No. 1.

Abstract: Savings and credit cooperatives (SCCs) provide a variety of microfinance services to households in three of Nepal's distinct regions—the Hills, Terai, and Kathmandu Valley. Nearly all Nepali SCCs are self-funded using member savings and equity. Most Nepali SCCs are also profitable, including those located in poor, remote areas of the Hills region. Key reasons for the SCCs' strong financial performance include reliance on member savings and control of administration costs. High-profit SCCs also show superior interest earnings on loans compared to low-profit SCCs. Nepali SCCs do not need concessionary funds, because they are already profitable and able to mobilize member savings. While savings-led microfinance in Nepali SCCs is a slow process, there is significant long-term outreach potential in local communities. The government and donors should pursue institutionbuilding strategies to strengthen Nepali SCCs and should not provide concessionary funding.

Gugerty, M.K. (2000) "You Can't Save Alone: Testing Theories of Rotating Savings and Credit Associations". Mimeo, Havard University.

Handa, S. & Kirton, C. (1999). "The economics of rotating savings and credit associations: evidence from the Jamaican 'Partner". *Journal of Development Economics*, Volume 60, Issue 1, October 1999, Pages 173-194.

Abstract: Using a unique sample of rotating savings and credit association (Rosca) members from Jamaica, we provide the first econometric tests of the recent theoretical advances in the literature on Roscas, and find considerable support for an economic theory of Roscas. We find, for example, that payments to the Rosca leader significantly enhance the sustainability of the Rosca, and that the contractual relationship between the leader and other Rosca members is 'transaction cost minimizing' — when the degree of asset specificity is higher the contract is more flexible. Other theoretical predictions we validate are the inverse relationship between size of Rosca and size of contribution, and the use of Rosca funds for durable goods purchase.

Harper, A. (1995). "The Management of Community Credit and Savings Groups". *Enterprise Development Centre*, Cranfield University, Bedford.

Harper, A. (1998). "Group-based management of savings and credit - the case of AKRSP in Pakistan". *Small Enterprise Development*, Volume 9, Number 2, June 1998, pp. 29-41(13).

Abstract: Using groups as forums through which to provide savings facilities and as channels for delivering credit is widely accepted as a successful way of overcoming many of the problems associated with providing microfinancial services to the poor. However, there is a danger of the approach being adopted with too little understanding of how groups can be used, and a lack of concern for some of the problems which may be faced. This article draws attention to the need for a greater understanding of operations in group-based microfinance, particularly where many management tasks are decentralized to the lowest level. It differentiates between the well-known Grameen Bank model and an alternative model based on larger and more flexible groups, in which a lender 'wholesales' a loan to a group, which is then left collectively responsible for on-lending smaller loans to the individual members. The potential advantages of this model over the 'Grameen' model and the potential disadvantages are explored. The article concludes that considerable lender support is required, and is likely to consist of training, advice services and monitoring, balanced with a flexibility which allows groups to develop their own systems to meet the particular needs and demands of their members.

Hospes, O. (1992). "People that count: the forgotten faces of ROSCAs in Indonesia". *Savings and Development* no 4 1992 XVII, pages 371-401.

Hoque, Hafiz Al Asad Bin & Khalily, M.A.B. (2002). "ROSCAs and ASCRAs in Bangladesh: Implications for Financial Market Development". *Savings and Development*, Issue no. 4, 2002.

Abstract: Like many other developing countries, in Bangladesh, informal finance plays a positive role in savings mobilization, capital formation, and investment. ROSCAs and ASCRAs are the popular sources of informal finance in developing countries. These informal organizations continue to flourish even in urban areas where density of formal financial and strong quasi-formal institutions is high. This paper examines the underlying reasons for existence of ROSCAs and ASCRAs in Dhaka, the capital of Bangladesh, through case studies and econometric analysis. The case studies revealed that restricted production technology of formal credit market, high demand for credit, limited types of formal loan products, high transaction cost of saving with formal banks, need for consumption or lumpy expenditures contributed to existence of ROSCAs and ASCRAs in the urban areas. By using member-characteristics an attempt has been made to econometrically evaluate the determinants of memberships of ROSCAs versus ASCRAs. We found that age, marital status, family monthly income level, occupation and education level have significant effect. Small businessmen tend to prefer ASCRAs for continuous flow of finance, while individuals with need for lumpy expenditures prefer ROSCAs. The findings have implications for development and integration of financial markets in Bangladesh.

Hulme, D. & Montgomery, R. (with Bhattacharya, D.). (1994). "Mutual Finance and the Poor: a Study of the Federation of Thrift and Credit Co-operation in Sri Lanka (SANASA)". *Universities of Manchester and Reading, working paper* 11.

Huppi, M. & Gershon F. (1990). "The Role of Groups and Credit Cooperatives in Rural Lending". *World Bank Research Observer-IBRD - World Bank* 5, no. 2: 187-204.

Abstract: The article indicates that successful group lending schemes work well with groups that are homogeneous and jointly liable for defaults. The practice of denying credit to all group members in case of default is the most effective and least costly way of enforcing joint liability. Another way to encourage members to repay is to require mandatory deposits that are reimbursed only when all borrowers repay their loans. The article points out that credit cooperatives that mobilize savings deposits are less dependent on external sources and increase the borrowers' incentive to repay. The success of credit cooperatives requires training of members as well as management. Experience suggests that credit cooperative should not expand their activities beyond financial intermediation until they develop strong institutional and managerial capabilities.

Johnson S.; Mule N.; Hickson R.; & Mwangi W. (2002). "The managed ASCA model – innovation in Kenya"s microfinance industry". *Small Enterprise Development*, Volume 13, Number 2, 1 June 2002, pp. 56-66(11).

Abstract: A model of microfinance has been operating in the Central Province of Kenya since the early 1990s largely unnoticed by donors. The model involves the mobilization of women into accumulating savings and credit associations by local NGOs that assist in the management of the fund in return for a management fee. The approach was developed in the early 1990s as a result of the withdrawal of donor support to traditional women"s group activities and the local NGOs are now entirely self-supporting. The outreach of the services is comparable to the main donorfunded initiatives and evidence suggests that depth of outreach to poorer people may in fact be better. This paper describes the model and explains its apparently successful performance. However, the analysis also suggests that the model has inherent weaknesses, especially in default management, that need to be addressed if its success is to continue.

Johnson, S.; Malkamaki, M. & Wanjau, K. (2004). "One Step Beyond: Tackling the Frontier of Microfinance Provision in Kenya (through SACCOs)" Nairobi, Kenya: Decentralised Financial Services (DFS), MicroSave.

Abstract: This paper examines the challenges and trade-offs for organisations seeking to provide financial services to more remote communities. It examines the depth of outreach of a variety of delivery models and reviews the relative sustainability, cost-effectiveness and security of each.

Kimuyu, P.K. (1999). "Rotating Saving and Credit Associations in Rural East Africa". *World Development*, Volume 27, Issue 7, July 1999, Pages 1299-1308.

Abstract: Theoretical arguments suggest that rotating savings and credit associations (ROSCAs) improve welfare by reducing the utility cost of saving for a consumer durable. Data from two communities in East Africa reveal major differences in the incidence of ROSCAs participation arising, conjecturally, from differences in the relative depths of market penetration and perceptions about the efficacy of alternative strategies for compensating for failures in the financial markets. Participation in ROSCAs in these communities is partly driven by the need to raise school fees, meet medical expenses and buy food. ROSCAs funds are also used to start or promote small businesses and acquire assets, including livestock. Households owning smaller landholdings and those enjoying higher expenditures are more likely to participate in ROSCAs. The number of schemes in which a household participates is closely related to the main uses of ROSCAs funds while contributions and value of receipts are determined by total expenditures and frequency of turns respectively.

Klonner, S. (2003). "Rotating Savings and Credit Associations When Participants are Risk Averse". *International Economic Review*, Vol. 44, pp. 979-1005, August.

Abstract: We model rotating savings and credit associations (Roscas) among risk-averse participants who experience privately observed income shocks. A random Rosca is not advantageous, whereas a bidding Rosca is if temporal risk aversion is less pronounced than static risk aversion. The payoff scheme of a bidding Rosca facilitates risk sharing in the presence of information asymmetries. The risk-sharing performance of a simple arrangement where a group of homogenous individuals runs several bidding Roscas simultaneously is as good as that of a linear risk-sharing contract, and is more enforceable because it carries a fixed rather than a variable contribution.

Klonner, S. (2003). "Buying Fields and Marrying Daughters: An Empirical Analysis of Rosca Auctions in a South Indian Village". *Yale University Economic Growth Center Discussion Paper* No. 854.

Abstract: A bidding rotating savings and credit association (Rosca) is modeled as a sequence of symmetric-independent-private-value auctions with price-proportional benefits to bidders. We estimate a structural econometric model which, by introducing an altruistic component into each bidder's utility function, allows for socially favorable deviations from the private information, non-altruistic bidding equilibrium. We find that bidding is more altruistic in groups managed by experienced organizers and in Roscas whose current members have already run through more than one Rosca cycle of the current group, implying that effective leadership and enduring relationships help mitigate the social cost of strategic behavior. When a bidder has to meet an unforeseen expenditure and this information is public, bidders act more altruistically than when

information is private and the Rosca funds are used for investment, indicating reciprocal risk sharing among Rosca participants.

Kovsted, J. & Lyk-Jensen, P. (1999). "Rotating savings and credit associations: the choice between random and bidding allocation of funds". *Journal of Development Economics*, Volume 60, Issue 1, October 1999, Pages 143-172.

Abstract: The performance and efficiency of random and bidding rotating savings and credit associations (roscas) are compared within a game theoretic model. Information about individuals return from investing the rosca pool is assumed to be asymmetric and imperfect, and rosca members are allowed to use funds raised outside the rosca to supplement the funds raised in the rosca. The conclusion is that although both types of roscas can improve individual welfare, the bidding rosca is preferred to the random rosca except when credit from other sources is costly and types of rosca members are not widely dispersed.

Kuo, Ping-Sing. (1993). "Loans, Bidding Strategies and Equilibrium in the Discount-bid Rotating Credit Association". *Academia Economic Papers*, 21:2, 261 – 303.

Kurtz, D.V. (1973). "The Rotating Credit Association: An Adaptation to Poverty." *Human Organization* 32(1): 49-58.

Levenson, A.R. & Besley, T. (1996). "The anatomy of an informal financial market: Rosca participation in Taiwan". *Journal of Development Economics*, Volume 51, Issue 1, October 1996, Pages 45-68.

Abstract: Little is known about informal financial markets in developing countries. This paper analyzes participation in rotating savings and credit associations using a national household survey from Taiwan. We find that participation is highest among high-income households. There is some evidence that income stability may play a role as well. Life cycle differences suggest a role in funding durables purchases. Our evidence indicates that roscas may be an alternative savings device to the formal financial sector.

Mule, N.; Johnson, S.; Hickson, R. & Mwangi, W. (2001). "The Managed ASCA Model: Innovation in Kenya's Microfinance Industry". MicroSave-Africa, Kenya, Nov.

Msewa, F.D. (1986). "How to Manage a Savings and Credit Cooperative". Lilongwe, Malawi: Malawi Union of Savings and Credit Co-operatives, 40 p.

MUSCCO. (1987). "Guide to Forming New Savings and Credit Co-operatives". Lilongwe, Malawi: Malawi Union of Savings and Credit Co-operatives, 12 p.

Olubiyo, S.O. & Hill, G.P. (2000). "The Operation of Co-operative Savings and Credit Associations in Kwara and Kogi States, Nigeria". *Savings and Development*, Issue no. 2, 2000.

Abstract: A large proportion of economic activities in many developing economies are not serviced by credit from formal institutional credit markets. Yet government policy and packages aimed at broadening the base of economic development are often channeled through this formal market. The operators of such markets are selective in their choice of enterprise to finance and in most cases the peasants, small scale and micro enterprises are not usually favoured. Hence, a large number of active entrepreneurs may not be able to take advantage of many government policy measures. These entrepreneurs must use the informal credit market to finance their business activities. However, the extent to which the informal credit market can effectively meet demand is limited. A common complaint of the formal institutional leaders concerning the finance provided to peasants and small-scale enterprises relates to the poor performance of the loans and their record of repayment. In order to encourage a broader range of enterprises in different strata of the economy, many governments have introduced credit insurance. In this way loans from the formal institutional credit markets are insured against defaults arising from natural causes. This paper, which is part of an on-going research project, examines the operation of one of the predominant

types of organised informal credit providers in Nigeria, namely Cooperative Savings and Credit Associations. The paper identifies possible ways such providers might benefit from a credit insurance programme implemented through the formal institutional credit market.

Owens, J. (2003). "The Partner Savings Plan of the Workers Bank, Jamaica: Lessons in Microsavings from ROSCAs". Chapter 9 in *Promising Practices in Rural Finance: Experiences form Latin America and the Caribbean*, Mark D. Wenner et al. (eds.), pp. 303-328.

Owoeye, T. & Adenuga, D.S. "Economic and Social Issues in Rural Informal Savings and Credit Association; Lessons for Reform in Rural Credit Schemes in Nigeria". (Available online: Jun18, 2005)

Abstract: Their institutional weakness and obvious lack of formal organizational structures notwithstanding, rural informal savings and credit associations persist and remain extremely popular among the very poor in the society. This paper hypothesis that this is because they are able to resolve the problems of asymmetry information, transaction costs, adverse selection, moral hazards and other related risk, that are associated with formal financial sector. The impressive capability of traditional savings and credit associations in coping with the above problems reveals a strong character trait of such association. This trait shows a strong linkage between social and economic factors, and how a better undertaking of such trait can give a deep insight into how formal rural credit scheme can be reformed. It also shows more importantly how the large informal sector can be brought into mainstream economic activities. Data for this paper originated from empirical studies of traditional rural savings and credit association in Ado Local Government Area of Ekiti State, Nigeria in 2004. This study shows that these associations appear to cope well with the risks associated with formal financial sector by exploring social relationships, using collateral substitutes and reducing the imbalance in information between the lender and the borrower. The study also investigates the more than proportionate participation of women in such association and reveal that this may be due to the fact, they are more likely to be shut-out of the formal financial sector because of social and economic factors. The paper concludes by showing that the informal savings and credit associations reveal more of our social and economic capability than the formal sector. A better understanding of this may eventually help us to development a better and more pragmatic rural credit scheme.

Rajasekhar, D. & Vyasulu, V. (1993). "Management Inputs and Credit Cooperatives: Lessons from a Field Survey of PACs". *Artha Vijnana*. Volume 35, Number 1, pp. 61-85.

Rajshekar D. (1993), "Savings and Credit Systems of the Poor As a Strategy of Economic Development: Some NGDO Experiences". Bangalore: Institute for Social and Economic Change.

Rogers, C. (2006). "Financing Rural Enterprise: The Use of Rotating Credit by a Village Community in Nepal". *Savings and Development*, Issue no. 2, 2006.

Abstract: The inability to obtain sufficient capital to finance the start up or operation of a small enterprise is often a constraining factor limiting engagement in income generating activities by residents of less developed countries where formal sources of credit are unavailable, inadequate, or unpopular due to rigid collateral requirements. This article describes the recent adoption of a bidding form of rotating savings and credit association (RoSCA) by villagers from the Nyishangte community in the Manang region of Nepal and analyzes the community's remarkably successful use of bidding RoSCAs to finance local business ventures. The proliferation of bidding RoSCAs in Manang since 1999 has effectively created a local market for capital where credit can be accessed at a price directly reflecting the local demand. By reducing the risk and raising the returns associated with investing capital and by lowering the trouble of accessing credit, the use of bidding RoSCAs has greatly facilitated the pooling of finance capital in Manang and made credit available to a large portion of the community, enabling widespread involvement in entrepreneurial ventures.

Rutherford, S. (1993). "Learning to lend: Informal Savings and Credit Schemes in Bangladesh". *SCF Working Paper* No. 5, Save the Children Fund, London.

Rutherford, S. (1995), "Self-help savings and loan groups". unpublished report for ODA's Urban Poverty Office, Delhi 1995.

Seibel, H.D. & Sherstha, B.P. (1988). "Dhikuti: The Small Businessman's Informal Self-help Bank in Nepal". *Savings and Development*, Volume XII, Number 2, pp. 183-198.

Seibel, H.D. & Schrader, H. (1999). "Dhikuti Revisited: From RoSCA to Finance Company". *Savings and Develoment*, 33/1:47-55

Shanmugam, Bala. (1989). "Development Strategy and mobilising savings through ROSCAs: the Case of Malaysia". *Savings and Development* No 4, XIII.

Simkhada, N.R. (2004). "A case study of four Savings and Credit Cooperatives Societies (SACCOs) operating in the hill of Nepal". Kathmandu: Paper presented at BWTPCMF workshop at Agricultural Development Bank of Nepal, RUFIN project funded by GTZ.

Staschen, S.J. (2001). "Financial Technology of Small Farmer Co-operatives Ltd. (SFCLs): Products and Innovations". Kathmandu: Agricultural Development Bank, Rural Finance Nepal project, Working Paper No. 2.

Abstract: Recent studies on the Small Farmer Co-operatives Limited (SFCLs) in Nepal have drawn a very positive picture of these small, member-based institutions, both in terms of impact and viability. The Small Farmer Development Programme (SFDP) of the Agricultural Development Bank of Nepal (ADBN) has been praised as exemplary for its successful reform of a mainly supply led and credit-driven programme into sustainable, poverty-oriented rural financial institutions. It has recently been placed on the same level as internationally renowned institutions such as the Bank for Agriculture and Agricultural Co-operatives (BAAC) in Thailand and Bank Rakyat Indonesia (BRI). Nevertheless, not much is known about how SFCLs use financial technology to achieve such impressive results. A number of questions regarding the "how" of their success still need to be answered:

- How do SFCLs admit new members?
- How do they design their savings, loan and insurance products?
- How are savings collected and their safety secured?
- How are loans delivered and their repayment ensured? And, most importantly,
- How do SFCLs innovate in all these areas?

There are presently 101 SFCLs operating in Nepal. Thus, this study on the financial technology of SFCLs does not claim to be comprehensive. Instead, a sample of six co-operatives that is comprised of some of the most developed SFCLs from the terai region (Nepalese plains, 4 SFCLs) as well as from the hills has been chosen.4 The study almost exclusively relies on semi-structured interviews conducted with the Institutional Managers and, in some cases, Chairpersons of different tiers of SFCLs (Main Committee, Inter-Group and Small Farmers Groups), and ordinary group members. Therefore, evidence stated should be considered only as indicative, not as representative or generally valid in all cases. Apart from the 6 SFCL-offices, one other group was visited at its regular meeting place and one farm was inspected. Despite its limitations, the study is in my view extensive enough to give a general picture of the financial technology and innovative procedures SFCLs use and the products they offer. It illustrates the diversity of SFCLs, and how imaginative some of them are. Innovative procedures and products are inserted as boxes throughout the text.

Turtiainen, T. (1999). "Rehabilitation of Rural Finance Institutions: The Case of Benin Savings and Credit Cooperatives and Lessons from Other Cases". *Africa Region Findings* 131 (ed.) Washington, DC: World Bank.

Abstract: Most attempts to develop financial markets and rural credit institutions in Africa have performed poorly, not satisfying the demand for savings and credit services in the rural areas. In many cases, however, the institutions continue to exist and could be revived, enlarged, or made more efficient if suitable programs to help them can be worked out. This note reviews the strategies and measures that can be used to rehabilitate rural finance institutions, based on the successful rehabilitation program in Benin and some other cases in Africa. Rehabilitation of a rundown rural finance institution takes several years, but it can be organized in phases, first

concentrating on emergency measures to save the institution from bankruptcy, and then planning and implementing the actions for a longer-term recovery process.

Van der Brink, R. & Chavas, J.P. (1997), "The Microeconomics of an Indigenous African Institution: the Rotating Savings and Credit Association", *Economic Development and Cultural Change*, pp.745-772.

Abstract: In light of current knowledge and the ambiguity of formal theory with respect to policy formulation and institutional design, more analysis on the performance of informal credit markets is needed. The objective of this article is to analyze from a microeconomic perspective a particular variant of financial intermediation that remains popular in many parts of the world, even where formal credit markets exist and are relatively well developed. In the Grassfields of Cameroon, it is known as the *njangeh*—a type of ROSCA commonly found in the rural and urban economies of much of sub-Saharan Africa. The organization of this article is as follows. In Section II, we present the basic structure of the *njangeh* as a particular type of rotating savings and credit association. In Section III, we develop a model in an attempt to refine the microeconomic foundations of ROSCAs. In Section IV, we examine some empirical evidence from ROSCAs in Cameroon. The analysis presented is based on fieldwork undertaken over a 6-month period in 1979–80 in a village in Cameroon named Big Babanki. The discussion will focus in large part on the ROSCAs found in this particular African village. Given the great diversity of ROSCAs around the world, it should be kept in mind that our analysis will not reflect some of the complexities of ROSCAs found in other locations. However, our case study should provide useful insights on the general role of ROSCAs as an alternative credit institution. Finally, a number of policy implications are suggested.

Vogel, R.C. (2002). "Key Issues in Regulation and Supervision of Credit Cooperatives". Finance for the Poor, Vol.3, No.4. ADB.

Abstract: This paper addresses some key issues in developing an appropriate regulatory environment for credit cooperatives. It begins from an underlying precept that regulatory agencies for banks and other deposit-taking institutions will find it problematic to become involved in regulating institutions that do not take deposits from the general public. However, it is not necessarily simple to define what it means to take deposits from the general public, especially in the case of credit cooperatives. Whether depositors at credit cooperatives are members of the general public depends, among other things, on whether the credit cooperative is closed (affinity-based) or open (community-based), the ease of becoming a member, and the size of the credit cooperative (what degree of internal surveillance can reasonably be expected). It can also include the way that share capital is defined and whether it can be withdrawn (or borrowed against) so easily that it effectively becomes a deposit substitute. Whether credit cooperatives take deposits from the general public or only from a restricted membership, what could be the most appropriate regulatory approach for those that do, and what if anything to do about those that does not, are issues that are not unique to one particular country? In fact, these issues have become more pressing in recent years with the increasing role of credit cooperatives in microfinance. In addition to the Philippines, this paper focuses on credit cooperatives in four Latin American countries and the current status of regulatory efforts in each country. The paper concludes with some observations and recommendations with respect to the characteristics of credit cooperatives that should be given priority when making decisions about their regulation.

Von Pischke, J.D. (1992). "ROSCAs: State of the Art Financial Intermediation". in Adams and Fitchett (eds) (1992) *Informal Finance in Low-Income Countries*. Westview Press.

Von Pischke, J.D. (1996). "Capital Formation in Agricultural Cooperatives in Developing Countries: Research Issues, Findings and Policy Implications for Cooperatives and Donors". FAO.

Abstract: The research and the conference for which this paper has been prepared arise from concerns about cooperative capital formation that have been developed since 1992. Observers in FAO, COPAC, ILO, the World Bank and other agencies had noted that capital formation is at times a major challenge for cooperatives, which often appear to be undercapitalized. Many cooperatives and even entire movements may lack the financial base required for growth and sustainability: a condition that appeared especially serious in agricultural cooperatives. Undercapitalized societies face an additional disadvantage in surviving and prospering in an environment that includes commercial, political and public policy risks. Liberalization of markets through structural adjustment is changing the competitive environment in which cooperatives operate. At the same time it was increasingly clear that donor funding for cooperative development is likely to diminish.

Cooperatives have the capacity to create infrastructure that in many cases appears unlikely to be constructed by others, at least within a reasonable time horizon. Inattention to member capital formation can retard or preclude such development. These converging concerns and observations led COPAC to develop a series of open fora on cooperative capital generally and to commission empirical research on capital formation and its relation to the overall well-being of cooperation, which clearly requires member participation. These activities were inaugurated in the COPAC Open Forum on "Revitalising Cooperatives in Developing and Transitional Economies: The Role of Members' Capital" convened in Rome, 2-3 March 1993. A second COPAC Open Forum, "Revitalising Cooperatives in Developing and Transitional Economies: The Role of Members' Capital - Review of Progress and Future Developments," was held in Geneva on 5 October 1993. A research design proposed at the earlier meeting had been field tested and reviewed by the Institute of Rural Management at Anand (IRMA) in India. Its discussion led to a call for further work, which is embodied in the three studies that form the basis for the present review at this Technical Workshop. This paper summarizes research on cooperative capital formation in developing country agricultural cooperatives, based on fieldwork in Guatemala, India and Kenya. This research was commissioned by COPAC (the Committee for the Promotion and Advancement of Cooperatives) with financial and technical support from FAO's People's Participation Service.

Wehnert, U. & Shakya Jan, R. (2001). "Are Small Farmer Co-operatives Ltd. (SFCLs) Viable Microfinance Organisations? A Comprehensive Financial Analysis of 33 SFCLs". Kathmandu: Agricultural Development Bank, Rural Finance Nepal project, Working Paper No. 1.

Abstract: Small Farmer Co-operatives Ltd. are emerging in Nepal as effective tools for poverty alleviation. However, to claim that such tools are a sustainable approach, SFCLs have to demonstrate both, the capacity to reach the poor (outreach) and to cover their costs by internally generated revenues (viability). In the past, many targeted credit programs in Nepal have failed due to their supply-led character and a resulting poor repayment performance. Interestingly, the Small Farmer Development Program was initially also a subsidized credit program. However, it recognized the shortcomings of this approach and succeeded in adopting a major policy shift towards an institution-building and more demand-driven approach of Small Farmer Co-operatives Ltd. (SFCLs). Today, microfinance organizations all over the world are struggling to serve poor clients in a sustainable manner. The case of the government-run Grameen Bank Replicators in Nepal demonstrates the big challenges experienced in this undertaking. A first report on the financial viability of Small Farmer Co-operatives Ltd. (SFCLs) was already produced during the second half of 1999. Some of the key findings of this study were:

- SFCLs show a strong trend towards reaching financial self-sufficiency;
- the best single performers are SFCLs with a predominantly female membership;
- the equity capital of many SFCLs is insufficient to cover their risks.

This report is a follow-up of the first financial viability study. This study intends to challenge and respectively validate earlier findings and to follow-up on the overall development path of SFCLs after completion of another fiscal year, i.e. 1999/2000. The number of samples discussed in this study has increased from 20 to 33 SFCLs. The regional distribution of SFCLs in our sample is now more even. SFCLs with predominantly female membership have also been added to our discussion, which now brings their total number to four.

Wehnert, U. & Shakya Jan, R. (2003). "Microfinance and Armed Conflict in Nepal: The Adverse Effects of Insurgency on Small Farmers Cooperatives Limited (SFCLs)". Kathmandu: Agricultural Development Bank, Rural Finance Nepal project, Working Paper No. 3.

Abstract: The purpose of this study is to provide an update on the development of the SFCLs by analysing the financial 2002 data of 77 SFCLs. It is thus a followup of RUFIN's Working Paper No. 1, which analysed the SFCL July 2000 data4. Now, two years later, the present study will revisit the SFCLs by focussing on the adverse effects of the Maoist insurgency on the financial performance of the SFCLs. The study team has also attempted to reveal some of the coping strategies of these grassroots organisations in relation to the conflict.

Wu, D.T.H. (1974). "To Kill Three Birds with One Stone: The Rotating Credit Associations of the Papua New Guinea Chinese". *American Ethnologist* 1: 565-583.

❒ Self-Help Group

Bansal, H. (2003). "SHG-Bank Linkage Program in India: An Overview". *Journal of Microfinance*, Vol. 5 No. 1.

Abstract: The formal financial institutions in India have ventured into microfinance in a massive way by adopting the SHG-Bank Linkage Program model.The present paper makes an attempt to review the performance of the program in different states of India and across three major institutions—commercial banks, cooperatives, and the regional rural banks.The study also presents vital information about the leading NGOs with major credit linkages in Indian states.

Bedard, G. (1988). "Savings and Credit as Instruments of Self-Reliant Development of the Poor". Proceedings of an International Workshop held in Feldafing, January 25-28, 1988. Bonn: Deutsche Stiftung fur internationale Entwicklung (DSE), 208 pp.

Chakrabarti, R. (2006). "The Indian Microfinance Experience - Accomplishments and Challenges".

Abstract: Microfinance is gathering momentum to become a major force in India. The self-help group (SHG) model with bank lending to groups of (often) poor women without collateral has become an accepted part of rural finance. The paper discusses the state of SHG-based microfinance in India. With traditionally loss-making rural banks shifting their portfolio away from the rural poor in the post-reform period, SHG-based microfinance, nurtured and aided by NGOs, have become an important alternative to traditional lending in terms of reaching the poor without incurring a fortune in operating and monitoring costs. The government and NABARD have recognized this and have emphasized the SHG approach and working along with NGOs in its initiatives. Over half a million SHGs have been linked to banks over the years but a handful of states, mostly in South India, account for over three-fourth of this figure with Andhra Pradesh being an undisputed leader. In spite of the impressive figures, microfinance in India is still presently too small to create a massive impact in poverty alleviation, but if pursued with skill and opportunity development of the poor, it holds the promise to alter the socioeconomic face of the India's poor.

Harper, M. (1996). "Self-help groups - some issues from India". *Small Enterprise Development*, Volume 7, Number 2, June 1996, pp. 36-41(6).

Abstract: In India, as in other parts of the world, the banking community is discovering that it can extend its services to the rural poor by lending to self-help groups (SHGs). By providing single, larger loans, and relying on the group, or NGOs, to monitor the on-lending of micro-loans, the bank's transaction charges are reduced, making the whole operation potentially profitable. This article comments on this new phenomenon, pointing to the advantages of these methods as well as the pitfalls that may be encountered.

Harper, M. (2002). "Grameen Bank Groups and Self-help Groups; what are the differences?" ITDG publishing.

Abstract: Most rural micro-finance clients are organised into groups of some sort. There are many forms of group intermediation, but the dominant models worldwide are the Grameen Bank system, which originated in Bangladesh, and the Self-help group system, which is most widely practised in India. Each system has its advocates, and much debate on this topic appears to focus on which of the two is 'the best'. This paper attempts to describe both systems, to analyse their respective strengths and weaknesses and to suggest which may be most suitable for particular types of clients, institutions and local environments. After reviewing where, by whom and why the two systems used, the author assesses each method in terms of sustainability, outreach to and impact on the poorest, empowerment and institutional feasibility. The pros and cons are usefully summarised in a table at the end. The tentative conclusion drawn is that the Grameen system is more expensive but may nevertheless be more suitable for poorer communities, particularly in places where there are few NGOs to develop the groups, and few bank branches whose staff are willing to serve them. SHGs, on the other hand, can evolve quite easily from existing ROSCAs or other traditional financial or non-financial groups, and any bank can do business with them, so long as its management are prepared to deal with this unfamiliar but potentially highly profitable market segment. If there are many pre-existing groups, and if there is a wide network of bank

branches, which need new business opportunities, the environment would seem to be ideal for the SHG system.

Karduck, S. & Seibel, H.D. (2004). "Transaction Costs of Self-Help Groups: a study of NABARD's SHG Banking Programme in India". GTZ.

Abstract: High transaction costs (TC) are one of the impediments to bank loans to the poor in low-income countries. As earlier studies have shown (Seibel & Dave 2002), bank TC can be lowered substantially by lending to self-help groups (SHGs) as financial intermediaries. Under the SHG Banking Program of the National Bank for Agriculture and Rural Development (NABARD) in India, over one million self-help groups with 16 million members (90% women), comprising some 90 million household members of the rural poor belonging to scheduled castes, were linked to 36,000 bank branches and financial cooperatives at commercial interest rates (March 2004). As the program, which in contrast to former programs is not mandatory, continues to grow rapidly, the question becomes all the more pertinent whether the success of financial intermediation by SHGs is due to overall lower TC or a shifting of TC to SHGs and their members. In Karnataka State, 78 SHGs with 1160 members were selected for a pilot study. TC of SHGs were found to be low, comprising real costs of 0.62% and opportunity costs of 0.60% of loans outstanding to members. Real costs of members were 0.04% and opportunity costs 2.3%. It is tentatively concluded that SHGs are an efficient intermediary for bank loans to vast numbers of the rural poor. The study provides a methodology that can be used in more representative national and local samples.

Maurer, K. (1997). "BAAC/GTZ, Project Linking Self-Help Groups to Banking Services, Thailand". Eschborn: Deutsche Gesellschaft für Technische Zusammenarbeit.

NABARD. (2003). "Banking with Self Help Groups: How and Why?" NABARD. Microcredit Innovations Department.

Abstract: This manual has been prepared for the branch managers of banks which are moving into the microfinance market using the self help group - bank linkage model. It has been written by the National Bank for Agriculture and Rural Development in India and is thus particularly directed at Indian bank managers. However, it provides an excellent description of what self help groups (SHG) are and how they are established, which could be applicable in any environment where this linkage model has been chosen as the means for a commercial bank to engage in microfinance. The manual describes the role of animators in group formation and the books that an SHG must learn to keep. Specimen pages from savings and loan account registers and a cash book are provided in an annex. The process of linking an SHG to a bank is described in details and a clear simple checklist is provided for a bank manager to use to determine whether an SHG is functioning well and is, therefore, creditworthy. Example values for each criterion in the checklist are given under the heading of very good, good and unsatisfactory. The final part of the manual explains clearly the advantages of doing business with SHGs and the importance of maintaining close contact with groups in order to maintain the quality of the SHG loan portfolio. Additional annexes provide copies of the agreement that must be executed by group members to authorise certain group members to be signatories for the bank account and a specimen application form and articles of agreement for use by banks while financing SHGs.

NABARD. (2003). "A Handbook on Forming Self-Help Groups (SHGs)".

Abstract: This handbook has been prepared for local animators or group promoters for helping the poor to form self-help groups (SHGs) that can be linked to a local bank. It has been written by the National Bank for Agriculture and Rural Development in India and is thus particularly focused on the Indian context. However, it provides excellent advice for the creation and function of SHGs, which can be applied in any environment where the establishment of SHGs are legally and culturally appropriate. All self-help groups are based on the fundamental principles of "helping each other" and "unity is strength". You can use this handbook to develop questions to ask potential SHG members in order to gain a sense of the feasibility of establishing a SHG in the area; and the methods to use in promoting SHGs. The handbook will help you assist the members in defining the division of responsibilities within their SHG. It will also help you to explain the purposes and different types of books that an SHG must learn to keep. Example pages from savings and loan account registers and a cash book are provided in an annex.

Nair, A. 2005. "Sustainability of Microfinance Self Help Groups in India: Would Federating Help?" *World Bank Policy Research Working Paper* No. 3516.

Abstract: This study from the World Bank, looks at Indian Self-Help Groups (SHGs), unregistered groups of 10 to 20 members involved principally in savings and credit activities. Members save periodically in the group and the savings are lent out to members who require loans at a fixed rate of interest. SHGs differ from other Accumulated Savings and Credit Associations (ASCAs) in that they are usually small, promoted among the poor by external agencies, and can obtain loans from banks. 90 percent of these groups in India are composed of only women members. This study looks at the success of SHGs in India, and considers the challenges they face, focusing particularly on the idea of federating groups to make larger units capable of providing more services to members. It is a useful theoretical study which will be of interest to policy-makers. It should be borne in mind that the three federations looked at in this study are not representative of all federations, but are best cases. The overall objective is to explore the potential of SHG federations in making SHGs financially and organisationally sustainable, and to recommend strategies to strengthen them. From 1995 to 2005, more than 700,000 SHGs obtained approximately 20 billion rupees in loans from banks under a program of the National Bank of Agriculture and Rural Development (NABARD). In cumulative terms this means that perhaps over 10 million people have benefited from such loans. The on-time repayment rate has been over 95 percent, and a conservative estimate sets savings in SHGs at at least Rs.8 billion. Despite this success story, the sustainability of SHGs is not clear. The small size of such groups means they tend to be dependent on the promoter agencies for several essential services, and in response to this weakness, SHG federations came into being, to take over those services. Such services, provided by federations (including financial services, but also publicity and literacy training of staff), help the SHGs gain economies of scale, obtain value-added services, reduce transaction costs and enhance empowerment, thus contributing to the overall sustainability of the SHGs. Thus the federations may serve to assist SHGs on the way to independence from promoter agencies. The author argues, using examples of SHG federations, that financial sustainability for such federations is easier to achieve than is organisational sustainability, i.e. effective governance, staffing, and information systems. A system of mutual accountability between member SHGs and their federations is suggested as a solution. The paper is open about its limitations and about its pro-federation argument, and suggests further reading.

Puhazhendhi, V. (1995). "Transaction Costs of Lending to Rural Poor: NGOs and SHGs of the Poor as Intermediaries for Banks in India". Working paper. Brisbane: Foundation for Development Cooperation.

Satish, P. (2001). "Institutional Alternatives for the Promotion of Microfinance: Self-Help Groups in India." *Journal of Microfinance*, Vol. 3, No.2.

Abstract: Microfinance is now an accepted institutional framework for taking financial services to the poor. It is but natural that microfinance should have had tremendous growth in India - the home to the largest concentration of poor. In India the microfinance technology that had a relatively higher growth in the last decade is the self-help group (SHG). This lays stress on thrift as well as credit and also on the linkage between informal groups and formal financial institutions. An important sine qua non in this technology is the institution that promotes the SHGs. In India, SHGs have been promoted by nongovernmental organizations (NGOs), banks and the government. This paper attempts to compare the role of these three institutional variants in promoting the SHGs, their strengths and weaknesses, and the best practices that could be copied from them.

Seibel, H.D. & Khadka, S. (2002). "SHG Banking: A Financial Technology for Very Poor Microentrepreneurs". *Savings and Development,* Issue no. 2, 2002.

Abstract: Reaching 100 million of India's rural poor with savings and credit by 2008 - this is NABARD's goal through its SHG banking program, leveraging the strength of the formal banking system and the flexibility of informal self-help groups (SHGs) in providing adequate financial services to very poor rural microentrepereneurs. Through NGOs, government agencies and banks, vast numbers of self-help groups have been established in recent years: as self-reliant autonomous local financial intermediaries. 85% of the members are women; in India, they have proven to be the better savers, borrowers and investors. Most of them are from the lowest castes and other disadvantaged groups. The SHGs mobilize their own savings, transform them into loans to members and plow their earnings from interest income back into equity. On that basis, SHGs and banks enter into commercial relations of mutual benefit, with low bank and client transaction costs and low risks. In the absence of interest rate restrictions and with repayment rates >99%, SHG banking is highly profitable - a message that has convinced hesitant bank managers in increasing numbers. SHGs are now forming local networks with their own cooperative financial

institutions. The program has turned into a social movement, with high expansion rates in recent years. Fuelled by competence and enthusiasm at all stakeholder levels, it expands rapidly throughout India, including marginal and tribal areas. It is probably the world's largest and most successful microfinance program for the rural poor - outstanding in its emphasis on self-reliance and local autonomy. NABARD is now facing the combined challenges of how to disseminate the approach throughout India and the region; and how to continue financing the incremental costs of technical and financial assistance to the participating agencies. This calls for a coordinated donor effort: with the objective of strengthening and mainstreaming the program in India and disseminating it throughout the Asia region.

Seibel, H.D. & Karduck, S. (2004). "Transaction Costs of Self-Help Groups in NABARD's SHG Banking Programme: A Study in Karnataka State". Mumbai: NABARD, June.

Sharma, M. (2004). "Community-Driven Development and Scaling Up of Microfinance Services: Case Studies from Nepal and India". *IFPRI FCND Paper* No. 178.

Abstract: This case study examines the scaling-up experiences of two microfinance institutions: the Nirdhan Utthan Bank Limited (NUBL) in Nepal and the Self-Help Group (SHG)-Bank linkage program of the National Agricultural Bank for Agriculture and Rural Development (NABARD) in India. Both NUBL and NABARD groups use self-regulation (peer selection, peer monitoring, and peer enforcement of contracts) as key to gaining access to services not otherwise available to them. There are two community-based drivers. First, loan products are closely driven by client preferences, as evidenced by strong demand to join the program, high repayment rates, and very low dropout rates. Second, the process of organizing clients into groups has a significant empowering effect, providing voice.and attendant bargaining power.to an impoverished class. Standardization of rules of conduct and basic service delivery mechanisms (and, in the case of NUBL, standardization of financial products themselves) was key to swift replication in both India and Nepal. In Nepal, where the density of commercial banking services was low, NUBL chose to provide financial services itself. In India, where the density was already very high, NABARD recognized the core advantages of group-based finance but adopted the .linkage. model that linked groups of poor women to preexisting commercial banks. The NABARD experience is government-led. NUBL, on the other hand, was established as an alternative to government action. In both cases, government policy in the form of mandatory .priority sector. credit played.and continues to play.a critical role in facilitating expansion. The subsidy content (explicit and implicit) of both NUBL and the NABARD program is quite high, and continued expansion of both programs is highly conditional on whether the policy regime of directed credit continues. Any change in this policy will deal a severe blow to both of these institutions. Provisioning group-based credit is costly, because it is highly staff time-intensive. In the case of NUBL, staffing requirements are so high that it has not been possible to scale-up services in more remote and sparsely populated mountainous areas of Nepal. In India, expansion of services in the more remote northeastern states has been hindered by the high cost of setting up and operating SHG-promoting institutions. One option in both countries is to induce the development of group federations that become self-financing and -regulating. Instances of well-functioning group federations are emerging in parts of India, and federations may well be the key to consolidating gains made so far in ensuring that the programs are primarily driven by the interests of clients and making the transition to an eventual end of subsidies. Finally, quality of the broader national environment is very important in facilitating growth of institutions. NUBL.s growth leveled off just as expansion of SHGs accelerated in India. This was not a coincidence. The Maoist insurgency in Nepal severely restricted development of the microfinance sector, while the supporting environment in India facilitated its own unparalleled expansion.

Srinivasan, R. (2003). "Self-Help Groups as Financial Institutions". *Journal of Microfinance*, Vol. 5, No. 1, Spring 2003.

Abstract: This paper uses a spreadsheet financial model to identify key financial policy parameters that influence the performance of self-help groups (SHGs)whose primary activity is microfinance.The focus is on long-run (ten-year)performance.There is bad news for those policy makers and practitioners who focus unduly on growth as measured by loan activity.A conservative financial policy that does not inject external funds into the SHG in the initial years and,when it does, does so with moderation,seems appropriate in the long run.Additionally, a high loan interest rate policy produces SHGs that are strong financial institutions.

Srivastava, P. (2004). "Scaling-up Access to Finance for India's Rural Poor". World Bank.

Abstract: This paper discusses ways to improve the financial scenario in rural India, and concludes that the "SHG (Self Help Group)- Bank Linkage", with certain improvements in infrastructure, is the best way.

The author argues that:

- The poor in India have very little access to formal finance;
- There is a strong need for innovative approaches to serve the financial needs of the rural poor.

The author states that:

- In the last decade, the "SHG - Bank Linkage" approach has effectively targeted the rural poor and has helped reduce vulnerability of its clients;
- Other institutional structures that have emerged for microfinance have not been able to meet the desired goals.

As per the paper, the success of the SHG - Bank Linkage model is because it:

- Is well aligned with Indian history and circumstances;
- Capitalizes on the country's vast network of rural branches;
- Has good policy, skillful and committed leadership;
- Has an enabling legal and regulatory framework; no governmental interference;
- Emphasizes on quality.

The author concludes that:

- While microfinance can be a quick way to deliver finance, the strategy should be to "graduate" microfinance clients to formal finance institutions, where they can access standard "individual" loans, possibly on a fully commercial basis.
- Strong efforts should be made to reform the rural finance markets and institutions to improve the efficiency of the sector, and to design services and products appropriate for small clients.

Tankha, A. (2002). "Self-Help Groups as Financial Intermediaries in India: Cost of Promotion, Sustainability, and Impact". New Delhi: Sa-Dhan, study prepared for ICCO and Cordaid, The Netherlands, August.

Abstract: This study, which has been undertaken for Sa-Dhan, New Delhi on behalf of ICCO and Cordaid, supplements studies undertaken by I/C Consult on the self-help group (SHG) landscape in India (Bosch, 2001; & Bosch and Damen, 2000). It analyses the role and development of SHGs in financial intermediation in rural India. The principal objective of the study is to contribute to a consistent and relevant funding policy for ICCO and Cordaid. It seeks to achieve an understanding of "best practice" in SHG development in India and to help direct donor funds for microfinance (MF). The study addresses three main issues: Efficiency: What can be said about the average cost of SHG promotion both with and without emphasis on social and political empowerment? What difference does the credit plus approach make to average SHG promotion costs? Effectiveness: What is known through results of assessment studies of the effects and impact of SHG promotion? What is known about the results of monitoring indicators of impact? Sustainability: What kind of sustainability or phase out strategy is employed by NGOs? The study is based on a review of literature on SHGs, the experiences of seven leading NGOs involved in the formation of SHGs and interviews with chief executives and staff of a dozen other major NGOs/ projects promoting SHGs.

Wilson, K. (2002). "The New Microfinance: An Essay on the Self-Help Group Movement in India". *Journal of Microfinance*, Vol. 4, No. 2, Fall.

Abstract: Indian NGOs have created at least one million self-help groups with 17,000,000 members since the self-help group concept was developed by MYRADA in the late 1980s. India is unique in that banks are permitted to lend directly to unregistered self-help groups and by May 2001, banks and cooperatives had financed 461,478 of these groups, with almost 200,000 new self-help groups financed between May 2000 and May 2001, indicating an accelerated process of expansion. The National Bank for Agriculture and Rural Development (NABARD) trains banks and refinances their loans. The key to NABARD's success is decentralization. Responsibility for group development and training is devolved to NABARD's 2,100 NGO partners and almost 450 banks and cooperatives provide banking services to the groups. According to the Microcredit Summit Report, 2,663,901 of the 6,651,701 active members of the groups financed through NABARD (most of them women) were categorized as "the poorest," making NABARD the largest microfinance initiative in Asia, with Grameen Bank a close second. (If the number of members of self-help groups not linked to bank financing are included, the number of the poorest being reached through self-help groups is at least double.) Local costs per group member to train and support a group until it can operate independently range between $4 and $12.

Wilson, K. (2002). "The Role of Self-Help Group Bank Linkage Programme in Preventing Rural Emergencies in India". Mumbai, India: NABARD MicroCredit Innovations Department.

Abstract: Throughout India floods, cyclones, droughts, earthquakes, and landslides threaten the survival of rural households, dealing their harshest blows to the most vulnerable communities. In the face of such natural calamities, very poor families lose their health, their homes, their animals, their water, their land, and their chance for education. Most of all, they lose their hope. Catholic Relief Services seeks to reverse these losses through the Self-Help Emergency Prevention (SHEPherd) program, an approach which sequentially engages two proven models: the 'self-help group' model-particularly the self-help bank linkage model advanced by NABARD, and the 'community-based disaster preparedness' model. CRS has already secured $600,000 to begin this program in Eastern India effective October 2002.

❒ Informal Lending

Adams, D.W. & Ladman, J. (1979), "Lending to Rural Poor through Informal Groups: A Promising Financial Market Innovation?" *Savings and Development*, Volume III, Number 2, pp. 85-94.

Aleem, I. (1993). "Imperfect Information, Screening, and the Costs of Informal Lending: A Study of a Rural Credit Market in Pakistan". In *The Economics of Rural Organization: Theory, Practice and Policy*, edited by Karla Hoff, Avishay Braverman, and Joseph E. Stiglitz. New York: Oxford University Press. p. 131-153.

Abstract: Many governments have perceived the rural moneylender as usurious. This article takes a first step toward directly testing the validity of this view. In a study of services, costs, and charges of fourteen informal market moneylenders and their clients in Chambor, Pakistan, the article examines whether the high implicit interest rates charged reflect the actual costs of operating in that market. Estimates of the resource costs incurred by informal lenders for screening, pursuing delinquent loans, overhead, and cost of capital (including unrecoverable loans) suggest that lenders' charges are equal to their average cost of lending but exceed their marginal cost. This finding is consistent with the view that the informal credit market is characterized by excess capacity and monopolistic competition in the pressure of imperfect information.

Ashraf, N.; Karlan, D.S. & Yin, W. (2005). "Deposit Collectors". *Yale University Economic Growth Center Discussion Paper* No. 930.

Abstract: Informal lending and savings institutions exist around the world, and often include regular door-to-door deposit collection of cash. Some banks have adopted similar services in order to expand access to banking services in areas that lack physical branches. Using a randomized control trial, we investigate determinants of participation in a deposit collection service and evaluate the impact of offering the service for micro-savers of a rural bank in the Philippines. Of 137 individuals offered the service in the treatment group, 38 agreed to sign-up, and 20 regularly used the service. Take-up is predicted by distance to the bank (a measure of transaction costs of depositing without the service) as well as being married (a suggestion that household bargaining issues are important). Those offered the service saved 188 pesos more (which equates to about a 25% increase in savings stock) and were slightly less likely to borrow from the bank.

Bolnick, B.R. (1992). "Moneylenders and informal financial markets in Malawi". *World Development*, Volume 20, Issue 1, January 1992, Pages 57-68.

Abstract: After a background review of the institutional financial srvices available to small and medium enterprises in Malawi, and a survey of the literature on Malawi's informal financial markets (IFMs), this paper presents a detailed report on the character and operations of a katapila moneylender in Lilongwe, Malai. The moneylender market is then analyzed in terms of several themes from the literature on IFMs in less developed countries. For example, calculations show

that the interest charges on katapila loans are not justified by economic costs of doing business. Finally, policy implications for promoting more efficient finance are discussed.

CGAP. (2005). "Caja Los Andes (Bolivia) Diversifies into Rural Lending". *Agricultural Microfinance: Case Study* No 3.

Abstract: Caja Los Andes (CLA) has distinguished itself as a profitable, diversified provider of individual loans in the highly competitive Bolivian microfinance market. (Caja Los Andes, F.F.P., became Banco Los Andes Procredit in January 2005.) After inheriting a three-year-old urban lending portfolio from its parent organization (Procredito) in 1995, CLA immediately began to expand its operations to rural areas and add agricultural loans to its portfolio. Despite a difficult recession that began in 1999, CLA has performed well and continues to hold close to 10 percent of its total portfolio in rural and agricultural loans. This case study examines the adaptation of CLA's urban lending methodology for rural and agricultural loans, its risk management techniques for agricultural finance, and the impact of socio-political constraints in Bolivia that limit portfolio growth.

Coleman, B.B. (1999). "The Impact of Group Lending in Northeast Thailand". *Journal of Development Economics* 60 (1): 105-141.

Abstract: Much of the literature on group lending focuses on its high repayment rates rather than its goal of promoting borrower welfare. Most studies that attempt to measure the impact of group lending neglect the issues of self-selection and endogenous program placement, thus leading to biased estimates of impact. One reason for this neglect is the lack of data that would allow for identification of impact. This paper surmounts these problems by using data from a quasi-experiment conducted in Northeast Thailand in 1995–1996. Program participants were identified in six control villages 1 year prior to receiving loans. Surveys were then conducted of these "control" members, "treatment" members in eight older program villages, and nonmembers in both types of village. This survey design allows for straightforward estimation of impact. The results indicate that program loans are having little impact although "naive" estimates of impact that fail to account for self-selection and endogenous program placement significantly overestimate impact.

Cuevas, C.E., & Graham, D.H. (1984). "Agricultural Lending Costs in Honduras". In *Undermining Rural Development with Cheap Credit*, edited by Dale W Adams, Douglas H. Graham, and J.D. Von Pischke. Boulder: Westview Press. p. 96-103.

Dalla Pellegrina, L. & Masciandaro, D. (2003). "New Microfinance? Informal Credit and Group Lending in Competitive Markets". Universita di Lecce Economics Working Paper No. 39/20.

Abstract: In this paper we present a model of competition between informal lending and group lending. The paper is organized as follows. The second paragraph reviews the economic literature that analyzes separately group contracts and informal lending markets. The third paragraph tries to answer the following question: "Can the credit group play a role in competitive markets?", where competitive markets are characterized by two features: markets where the lender acts under no profit condition, and at the same time the borrower can choose among different types of contracts (i.e., informal lending contracts and credit group contracts). The fourth paragraph concludes.

Dalla Pellegrina, L. (2006). "Microfinance and Investment: A Comparison Between Group Lending, Bank Lending and Informal Credit". Working Paper Series Bocconi University.

Abstract: Using data from a World Bank survey carried out in Bangladesh during the period 1991-1992, we compare the impact of microfinance/group lending and other types of credit on agricultural investment. After controlling for all other determinants of credit contracts, such as interest rates and collateral required, estimates show a stronger influence of microfinance with respect to informal and bank lending on variable input expenditure, supporting the idea that microfinance incentive devices (joint responsibility, peer monitoring, social sanctions, future credit denial in case of default, etc.) are effective in order to promote a productive use of funds.

Dellien, H.; Burnett, J.; Gincherman, A. & Lynch, E. (2005). "Product Diversification in Microfinance: Introducing Individual Lending". Women's World Banking.

Abstract: Group-based lending strategies have become widely established amongst MFIs - these include solidarity group lending, especially popular in Latin America, and village bank approaches that are prevalent in Asia and Africa. As part of a drive to provide a diversified selection of financial products, many MFIs in all regions have begun to expand their available credit products to include individual loans for some of their clients. This report points out that the objective of many MFIs in introducing individual lending has been to reduce the migration of valued clients to the competition, and to enhance their ability to attract potential new clients - group and individual loan methodologies represent dramatically different approaches to lending. The purpose of this paper is to set out the Women's World Banking (WWB) approach to integrating individual loan products into group lending institutions. In doing so, the paper describes the processes and tools developed by WWB and aims to provide practical assistance to the increasing number of group microlenders globally that are beginning to provide individual lending products. WWB has developed a framework designed not as a blueprint, but as a series of guiding questions that aim to anticipate the decisions and challenges encountered by institutions in introducing individual lending.

Fernando, N.A. (2003). "Pawnshops and Microlending: A Fresh Look is Needed". *Finance for the Poor*, Vol. 4, No.1. ADB.

Abstract: Pawnshops are an important source of microcredit in many developing countries, especially in Asia. Nevertheless, many practitioners, policymakers, and funding agencies seem to be prejudiced against pawnshops. They consider pawning to be a "desperate measure" and an activity that needs to be curtailed. As a result, some countries have laws that inhibit pawning by private sector operators. In other countries, pawning has not yet received adequate attention, despite its potential as a useful service. The purpose of this note is to encourage those who are interested in finance for poor and low-income households to take a fresh look at pawning. The note briefly examines some of the assumptions that have contributed to the prejudices against and neglect of pawning, and the need for a fresh look, citing relevant experiences in Indonesia and Sri Lanka.

Gangopadhyay, S. & Lensink, R.W. "Delegated Monitoring and Moral Hazard in Underdeveloped Credit Markets". (Available online: Feb, 2007).

Abstract: This paper originates from the current move to individual-based lending systems by many microfinance institutions and the fear that this move will lead to a decrease in access to credit for the poor. More specifically, the paper examines how an individual-based lending scheme can be devised such that moral hazard issues can be addressed, even when straight forward individual lending is unable to do so. We show that the moral hazard problem can be solved if microfinance institutions hire informal lenders to monitor the borrowers. In addition, we show that by offering the informal lender a demandable debt contract a simple incentive scheme could be obtained that induces the informal lender to collect the necessary information, and to truthfully reveal this information.

Gonzalez-Vega, C. (1984). "Credit Rationing Behavior of Agricultural Lenders: The Iron Law of Interest-Rate Restrictions". In *Undermining Rural Development with Cheap Credit*, edited by Dale W Adams, Douglas H. Graham, and J.D. Von Pischke. Boulder: Westview Press. p. 78-96.

Haberberger, M.L. & Kuasakul, N. (2003). "Time for rethink on loans - Rural lending based on formal collateral is not flexible enough". Bangkok post.

Abstract: The use of loan collateral in rural and micro lending in Thailand, as in many developing countries, is beset with considerable difficulties. This article questions whether the programme of land reform proposed by the Thai government, which includes increasing the use of land documents as collateral against loans from state banks, is beneficial. At present BAAC focus either on joint liability or land mortgage. Rural micro lending should be based more on preventive measures, such as obtaining comprehensive information about a borrower's household and enterprises and careful monitoring to keep risks to a minimum. The authors recommend that the Government should support rural borrowers by ensuring that all state banks offer cash flow based loans with frequent repayment schedules, accept a variety of collateral types and set an interest rate which is risk based.

Hoff, K. & Stiglitz, J.E. (1998). "Moneylenders and bankers: price-increasing subsidies in a monopolistically competitive market". *Journal of Development Economics*, Volume 55, Issue 2, April 1998, Pages 485-518.

Abstract: In many areas of the world, a significant part of the cost of obtaining a good or service is the cost of enforcing the contracts entailed in its provision. We present models of markets with endogenous enforcement costs, motivated by studies of rural credit markets. We show that subsidies may have perverse effects under monopolistic competition, increasing prices or inducing exit. Higher prices (interest rates) result from the loss of scale economies or from negative externalities among suppliers. The models are consistent with the puzzling evidence that infusions of government-subsidized formal credit have not improved the terms offered by moneylenders.

Iqbal, F. (1988), "The Determinants of Money Lender Interest Rates: Evidence from Rural India". *The Journal of Development Studies*, Volume 24, Number 3, April, pp. 364-378.

Jones, J.H.M. (1991). "Jain Shopkeepers and Moneylenders: Rural Informal Credit networks in South Rajasthan." The Assembly of Listeners. Ed. Carrithers and Humphrey. Cambridge: CUP, 1991. 109-138.

Klein, B.; Meyer, R.L.; Hannig, A.; Burnett, J. & Fiebig, M. (1999). "Better Practices in Agricultural Lending". Rome: FAO and GTZ, Agricultural Finance Revisited, No 3.

Masciandro, D. & Dalla Pellegrina, L. (2003). "'New' Microfinance? Informal Credit and Group Lending in Competitive Markets." Bocconi University, Paolo Baffi Centre Working Paper No. 156.

Abstract: In a given geographical area, what happens when a farmer, a craftsman, or a small merchant can choose between participating in a group lending or resorting to an informal money-lender? This paper presents a theoretical model that examines such situations, placing group lending and informal credit in a competitive market context. The results indicate that the higher the value of the borrower's assets, the more he will tend to prefer group lending. Then if policymakers desire to facilitate access to group lending to poorer classes, it would seem advisable for them to exclude access to group lending for owners of assets that exceed certain thresholds, and to exclude assets that may have a special value for the borrower. Also, the lower the value the borrowers place to reputation, and the more the non-governmental organization (NGO) proposing the group lending contract is capable of offering effective non credit services and be efficient in organizing its structure, the more he will favour group lending. Then, before to introduce the group lending in a given area, the NGO should understand carefully the economic and social features of the community to which it is extending credit; furthermore the supply of group lending is consistent with the hard budget constraint. Finally group lending does not seem to offer particular risks of adverse selection. Therefore group lending can be viewed as perfectly consistent with a market approach.

Montgomery, R. (1996). "Disciplining or Protecting the Poor? Avoiding the social costs of peer pressure in solidarity group micro-credit schemes". *Journal of International Development* March, 8 (2); 289.

Abstract: This paper utilizes case studies from Bangladesh and Sri Lanka to explore a disadvantage of group lending schemes: the unnecessary social costs of repayment pressure. The author argues that extending credit and meeting the needs of the poor need not be incompatible. The poor can be protected from socially damaging peer pressure lending practices via flexible repayment schedules, savings facilities and short-term, high-interest consumption loans. The analysis suggests protectional devices for poor borrowers, better staff performance indicators, and self-management of some resources by the poor.

Navajas, S. & Gonzalez-Vega, C. (2000). "Innovative Approaches to Rural Lending: Financiera Calpia in El Salvador". Ohio State University, Rural Finance Program. June.

Abstract: Given the increased interest in rural lending, it is important to understand how a few financial organizations have been successful in reaching the rural areas. One of these organizations is Financiera Calpiá in El Salvador. Understanding the lending technology of Calpiá, the problems this technology has solved, and the challenges the organization still faces, is important for helping others to draw lessons about what can be done and what cannot be done in rural lending. The paper is organized in six parts.

- The first part briefly discusses the difficulties of rural lending, in order to identify the problems that Calpiá's lending technology has been asked to solve.
- The second part describes the Salvadoran context, with emphasis on the target markets reached by Calpiá and on the obstacles emerging from the environment.
- The third part presents a snapshot of Financiera Calpiá.
- The fourth one identifies the general principles followed by Calpiá in designing and implementing its lending technology.
- The fifth part describes the rural lending technology of Calpiá in depth. This part examines actual procedures, as they are implemented, and, when possible, it compares the procedures used in rural areas with those used in urban areas. This part also discusses, step-by-step, the problems that each procedure solves during the lending process.
- The last part summarizes lessons, presents conclusions, and explores future challenges.

To manage systemic risk, Calpiá undertakes portfolio diversification at three levels (the household, the rural portfolio, and at the total portfolio level). The institution also accepts diverse types of assets as collateral. The most outstanding feature, however, is the attention to ensuring availability of appropriate human capital. The selection and training of loan officers receives substantial and competent attention. Calpiá's training program is outstanding. They have found that the stock of knowledge needed to understand agricultural activities and to establish farm repayment capacity is considerably more complex than in urban environments. The experience of Financiera Calpiá in rural lending has much to teach others and this paper provides a detailed insight into how they have developed this side of their business.

Navajas, S.; Gonzalez-Vega, C. & Hopkins, J. (2000), "Do Lending Technologies Exclude the Poor?" unpublished BASIS paper, Columbus, Ohio: The Ohio State University.

Navajas, S.; Conning, J. & Gonzalez-Vega, C. (2003). "Lending Technologies, Competition, and Consolidation in the Market for Microfinance in Bolivia". *Journal of International Economics*. Volume 15, 747-770.

Abstract: Abstract: Innovations in lending technologies and market saturation have made La Paz, Bolivia one of the most rapidly changing and competitive microfinance markets in the world. Two lenders stand out: the pioneer BancoSol, which first profitably expanded the loan market with group liability loans, and the later entrant Caja Los Andes, which offered individual liability loans using costlier screening. Using a simple model of credit market competition with moral hazard and adverse selection we analyse how the terms of loan contracts were adapted to changes in competition and how borrowers' incentive to remain diligent and repay loans was affected. Hypothesized behaviour derived from the mod el is tested and shown to be consistent with empirical evidence from loan records and a household survey.

Sen, B. (1989). "Moneylenders and informal financial markets: insights from Haor areas of rural Bangladesh" *Research Report* No. 100, Bangladesh Institute of Development Studies.

Teranishi, J. (1994). "Modernization of financial markets: An analysis of informal credit markets in prewar Japan". *World Development*, Volume 22, Issue 3, March 1994, Pages 315-322.

Abstract: Why are informal credit markets in developing countries so persistent and difficult to eradicate? This paper argues that one of the basic reasons for this lies in the efficiency of information channels between informal lenders and their customers. This hypothesis is tested by estimating the demand and supply functions of informal credit using cross-section regional data for

prewar Japan. The effectiveness of the so-called high deposit rate policy based on McKinnon-Shaw theory is also evaluated from this viewpoint.

Valenzuela, L. (2000). "Comments on Lending Institutions". Presentation at the IADB conference "Promising Practices in Rural Finance," Washington, D.C., May 22.

❒ Co-operatives

Barham, B.L.; Boucher, S. & Carter, M.R. (1996). "Credit constraints, credit unions, and small-scale producers in Guatemala". *World Development*, Volume 24, Issue 5, May 1996, Pages 793-806.

Abstract: Efficient and equitable development outcomes may depend, in part, on whether formal financial institutions leave low-wealth producers tightly constrained in their access to credit. If so, can cooperative institutions efficiently relax these constraints? These issues are explored using survey data gathered from 950 small-scale producer households in areas of Guatemala with market-oriented credit unions that mobilize savings and make unsubsidized loans. Nonprice rationing by banks is found to be common among lower wealth households, while credit unions relax credit constraints for a significant portion of those rationed by banks, but not the poorest of the study households.

Chowdhury, P.K.; Huq, M.A.; Rahman, S.A. (1987). "Cooperatives as institutions for development of the rural poor". Kotbari: Academy for Rural Development.

Christen, R.P. & Vogel, R.C. (1984). "The Importance of Domestic Resource Mobilization in Averting Financial Crisis: The Case of Credit Unions in Honduras". Conference Paper 13. Presented at the conference, "Financial Crisis, Foreign Assistance, and Domestic Resource Mobilization in the Caribbean Basin," at The Ohio State University, Columbus, Ohio, 30 April–1 May 1984.

CPD (Cooperative Promotion Department). (1989). "A Study on the Growth of Agricultural Cooperatives in Thailand 1978-1987". Bangkok: the Cooperative Promotion Department.

CUNA. (1983). "What Everyone Should Know About Credit Unions? Information Booklet". Madison, WI: Credit Union National Association, 15 p.

Cuevas, C. (1988). "Savings and Loans Co-operatives in Rural Areas of Developing Countries: Recent Performance and Potential". *Savings and Development*, Vol. 13, No. 1, pp. 5-18.

Dejene, A. (1993). "The Informal and Semi-formal financial sectors in Ethiopia: A Study of Iqub, Iddir, and Saving and Credit Cooperatives". African Economic Research Consortium, Nairobi, Kenya.

Fraslin, J.H. (2004). "CECAM: A Cooperative Agricultural Financial Institution Providing Credit Adapted to Farmers' Demand in Madagascar". Paving the Way Forward for Rural Finance: An International Conference on Best Practices Case Study.

Abstract: The formal financial sector in Madagascar is poorly spread in the rural hinterlands. Rural lending is based on personal relations, and is distinguished by high costs and high interest rates. As a solution, in 1993, savings and agricultural credit cooperative societies called "Caisses d'Epargne et de Credit Agricole Mutuels" (CECAM) were started. These have disbursed loans amounting to over seven million US Dollars. CECAM has been benefiting from various sources of funding and support of international organizations and its network is characterized by:

- Strong linkages with farmer organizations;
- Foundation of stable equity capital;
- Credit tailored specifically for farmers.

The author also provides the following information:

- A strategic development plan (2000 - 2003) was initiated in the year 2000 by the setting the Interregional Union of CECAMs - UNICECAMs. This has acquired the recognition of a credit institution.
- There is a proposition of creating a new 'mixed' financial institution as a limited company, which will have full operational autonomy by the years 2001 to 2005. This will liaison with all financial partners and will supply common financial services and technical assistance.

The case study concludes with lessons from the CECAM experience. These are:

- Strong agricultural orientation leads to more efficiency;
- Farmers generally take their own credit decisions;
- Internal capitalization should be used to promote ownership;
- Delinking savings and credits helps in repayment;
- Promoting competition and regional regulation helps in efficient running of the CECEM network;
- The model retains authentic basic cooperative management at village level and banking competence at central level.

Gaboury, A. & Quirion, M. (2006). "Why We Can No Longer Afford to Ignore Financial Cooperatives in the Effort to Increase Access to Financial Services". Développment international Desjardins, Québec, Canada.

Abstract: This document aims to offer a number of elements to stimulate discussion on the role of powerful financial cooperatives as tools for increasing access by the poor to financial services. The paper suggests that in the wide-ranging debate within the microfinance community on sustainability and accessibility, financial cooperatives have never really entered the fray. The authors argue that there of course problems within the cooperative sector but the problems lie mainly with specific institutions. For example, many cooperatives formed part of state policy to expand access to credit and have almost become "organs of the state". Furthermore, there remains a lack of reliable supporting data on the extent of outreach of this sector and its performance. Nevertheless, cooperatives are said here to be an "amazing" delivery mechanism when effectively networked. They are often organised in close proximity to the communities they serve and are often located in rural areas or in communities that are ignored by other institutions. The authors argue that when networked, each cooperative becomes a point of redistribution for the services and resources of the whole network (the effect of which multiplies the more the network is integrated and communication and interaction are facilitated. The authors also note that cooperatives, by their nature, seek to increase local and collective wealth because they belong to their members. Furthermore, cooperatives often place more emphasis on savings mobilisation and the creation of local capital than do other institutions. The paper also discusses how the governance and performance of financial cooperatives is strengthened when they are organised into federated networks, as well as how cooperatives can be synonymous with sustainability and outreach.

Galor, Z. (2005). "Rural Community Development: Ownership and Functioning".

Abstract: The traditional rural areas are the key to any successful development movement in the emerging world. In these countries there are numerous attempts to create rural communities aimed at the promotion of sustainable development of the rural population. This paper will try to learn from some of these attempts, especially in understanding the links between the individual members of these communities and their respective communities. A special emphasis is given to cooperatives, which in their multi-purpose mode are the initial structure to build up strong rural communities. Understanding what cooperatives are, their advantages and limitations, is an important part of any attempt to succeed in this development. The author gives his interpretation of share capital, surplus value, asset valuation and dealing with reserve funds. He concludes that when really successful cooperatives are created in the traditional rural areas, they can serve as the basis of the creation and the elaboration and the strengthening of rural communities. Simple multi-purpose societies have the best chance of success.

Kawai, S. (1999). "The Groundwork for Agricultural Co-operative Finance in a Transition Economy". *Agricultural Finance and Credit Infrastructure in Transition Economies: Proceedings of OECD Expert Meeting, Moscow, Feb.* 141-47. Moscow: O.E.C.D.

Abstract: For transition economies, where farming is centered around relatively small farms or groups of small farms, organization into co-operatives will be effective. Credit co-operatives can help farmers prepare farm plans and instruct them on borrowing at their own risk and the process of loan repayment. Agricultural credit co-operatives provide incentives to save and promote the recycling of funds in the farming sector. The experience of the credit union in the Kyrgyz Republic provides a good example.

Lele, Uma (1981). "Co-operatives and the Poor: A Comperative Perspective". *World Development*, Volume 9, pp 55-72.

Magill, J. (1991). "Credit unions: a formal sector alternative for financing microenterprise development." *GEMINI Working Paper* No. 22. New York: PACT Publications.

Mishra, D.P. & Shah, T. (1992). "Analysing organizational performance in village co-operatives". *Small Enterprise Development*, Volume 3, Number 1, March 1992, pp. 4-13(10).

Abstract: This article attempts to explain levels of organizational performance in Indian village co-operatives using insights from some thirty recent case studies. It suggests that underperformance in co-operatives can be traced to failures in one or more of the five interacting sub-systems that a co-operative is composed of as a human organization: namely, governing structure, operating system, critical linkages, patronage system and the micro-environment. The article then argues that while isolated examples may be found of co-operatives which are successful because of their managers or their particular context for sources of large-scale improvements in the general performance of co-operatives, we would have to look to major improvements in the design of co-operative systems and the macro-environment within which they operate. Finally, the article lists a set of design principles emerging from the framework evolved in the paper. The basic fieldwork underlying this paper was undertaken by the authors and students of the Institute of Rural Management Anand (IRMA). The authors acknowledge the support provided by IRMA for undertaking this field research.

Murray, J. & Rosenberg, R. (2006). "Community-managed loan funds: which ones work?" *Small Enterprise Development,* Volume 17, Number 3, September 2006, pp. 13-27(15).

Abstract: In remote rural areas, usually the only form of viable microfinance is some form of community-managed loan fund (CMLF). Professionally managed MFIs usually provide more secure, well-managed services, but their higher running costs prevent them from operating in many rural areas where CMLFs can succeed. This article, drawing on a review of the performance of many CMLF projects established by donors and NGOs, finds that their success or failure is linked to the source of their funds, and also to the quality of external support they receive. It finds that most CMLFs that rely on external funding from the start fail. The article concludes with implications for development agencies that support CMLFs.

Schrieder, G.R. & Cuevas, C.E. (1992). "Informal Financial Groups in Cameroon". in *Informal Finance in Low-Income Countries*, edited by Dale W Adams and Delbert A. Fitchett (Boulder, Colorado: Westview Press, 1992): pp.43-56.

WOCCU (1991), "What is a Credit Union? Information Booklet". Madison, WI: *World Council of Credit Unions, Inc., 6p.*

■ *Formal-Informal Finance Interlinkage*

Adams, J.Q.; Brunner, H.W. & Raymond, F. (2003). "Interactions of Informal and Formal Agents in South Asian Rural Credit Markets". *Review of Development Economics*, Vol. 7, pp. 431-444.

Abstract: The paper provides a realistic explanation for the persistently large loan costs in the informal and formal credit markets of South Asia. In the presence of the adverse selection problems that arise from information asymmetries and discrepancies in credit services, price competition in somewhat differentiated products is sufficient to generate the high interest rate convergence observed in Nepalese credit markets. Most prior literature emphasizes collusion as the cause and leads to ineffective entry-oriented policy prescriptions. The new interpretation stresses the need to reduce information asymmetries, product differentiation, and moral hazard risks, while widening the spatial orbits of agent competition.

Andersen, T.B. & Malchow-Møller, N. (2006). "Strategic interaction in undeveloped credit markets". *Journal of Development Economics*, Volume 80, Issue 2, August 2006, Pages 275-298.

Abstract: This paper studies the strategic interaction between informal and formal lenders in undeveloped credit markets. In a model with adverse selection, loan seniority, market power, and differences in the cost of lending, it is shown that under general conditions a co-funding equilibrium will be a Nash outcome of the game. We demonstrate that a collateral requirement in connection with formal loans always generates a new co-funding equilibrium in which both lenders earn higher profits. A government subsidy to the formal lender may have the opposite effect. We relate our results to existing empirical evidence and the emerging discussion of how to best ensure financial viability and outreach of microfinance institutions.

Atieno, R. (2001). "Formal and informal institutions' lending policies and access to credit by small-scale enterprises in Kenya: an empirical assessment". African Economic Research Consortium (AERC) ed.The Regal Press Kenya.

Abstract: The main objective of this study is to investigate and assess the role of the institutional lending policies of formal and informal credit institutions in determining the access to and use of credit facilities by small-scale entrepreneurs in rural Kenya. The results of the study show the limited use of credit reflects lack of supply, resulting from the rationing behaviour of both formal and informal lending institutions. The study concludes that given the established network of formal credit institutions, improving lending terms and conditions in favour of small-scale enterprises would provide an important avenue for facilitating their access to credit.

Basu, K.; Clive, B. & Bose, P. (1999). "Interlinkage, Limited Liability, and Strategic Interaction". *World Bank Policy Research Working Paper* No. 2134.

Abstract: When will a landlord prefer to supply both land and credit to a tenant rather than allow the lender to borrow from a separate moneylender? The paper shows that if tenancy contracts are obtained prior to contracting with the moneylender, and the tenant has limited liability, interlinked deals will predominate over the alternative situation where the landlord and the moneylender act as noncooperative principals. Basu, Bell, and Bose analyze the example of a landlord, a moneylender, and a tenant (the landlord having access to finance on the same terms as the moneylender). It is natural to assume that the landlord has first claim on the tenant's output (as a rule, if they live in the same village, he may have some say in when the crop is harvested). The moneylender is more of an outsider, not well placed to exercise such a claim. A landless, assetless tenant will typically not get a loan unless he has a tenancy. Without interlinkage, the landlord is likely to move first. In the noncooperative sequential game where the landlord is the first mover and also enjoys seniority of claims if the tenant defaults, interlinkage is superior, even if contracts are nonlinear - a result unchanged with the incorporation of moral hazard. The main result is that if a passive principal - one whose decisions are limited to exercising his property rights to determine his share of returns - is the first mover, allocative efficiency is impaired unless his equilibrium payoffs are uniform across states of nature. The limited liability of the tenant creates the strict superiority of interlinkage by making uniform rents nonoptimal when, with noncollusive principals, the landlord (the passive principal) is the first mover. A change in seniority of claims from the first to the second mover (the moneylender) further strengthens this result. But uniform payoffs for the first mover are not essential for allocative efficiency if he is the only principal with a continuously variable instrument of control. So, the main result is sensitive to changes in the order

of play but not to changes in the priority of claims. This paper - a product of the Office of the Senior Vice President and Chief Economist, Development Economics - is part of a larger effort in the Bank to understand the institutional structure of rural markets and its welfare implications.

Biais, B. *et al.* (2001). "Informal and Formal Credit Markets and Credit Rationing in Cote de Ivoire". *Oxford Review of Economic Policy,* Vol. 17, No. 4.

Abstract: This paper endeavours to shed light on the respective roles of the formal and the informal credit markets in developing countries. We use survey data for manufacturing firms in Cote de Ivoire, documenting their access to informal credit markets, their investments, and their financing. We confront these data with a simple moral-hazard model of credit rationing. Because of socio-cultural effects, the magnitude of moral-hazard problems and the cost of credit can be different in the informal credit market. We offer a structural econometric estimation of this model. Our empirical results point at severe moral-hazard problems for all firms, and reduced cost of credit in the informal market. Our point estimate suggests that moral-hazard problems can be alleviated in the informal credit market. Policy implications of our results are sketched.

Bose, P. (1998). "Formal-informal sector interaction in rural credit markets". *Journal of Development Economics* 56: 265-80.

Abstract: The majority of small cultivators in the less developed countries are not regarded as credit-worthy by the formal sector financial institutions, and are forced to borrow from the moneylenders in the informal credit market. This paper shows that when such borrowers differ in their likelihood of default, and the moneylenders are asymmetrically informed about the client-specific degree of risk, the policy of providing cheap credit through the formal sector can generate adverse composition effects' which worsen the terms of credit and the availability of loans in the informal sector.

Chandavarkar, A. (1992). "Of Finance and Development: Neglected and Unsettled Questions". *World Development*, Volume 20, Issue 1, January 1992, Pages 133-142.

Abstract: The article analyzes some of the neglected and still unsettled issues on the interrelationship of finance and development and in the subdiscipline of finance; notably, the implications of the dichotomy of formal and informal finance; the modalities and sequencing of financial reform; the challenge of maintaining competition in oligopolistic systems; the scope for market-related monetary policy instruments; the case for autonomy of central banks and divestiture of their developmental role and revamping of their prudential functions. It argues for a sharply focused, country-specific, issues-oriented research agenda.

Carpenter, S.B. & Jensen, R.T. (2002). "Household Participation in Formal and Informal Savings Mechanisms: Evidence from Pakistan". *Review of Development Economics*, Vol. 6, pp. 314-328.

Abstract: Savings are an important determinant of both individual and national wellbeing. Typically, households employ a wide range of mechanisms for saving, including both formal and informal institutions. The choice of savings instrument has important micro- and macroeconomic implications. However, little is known empirically about the patterns of use of these instruments, or the factors affecting household decisions/abilities to use them. The authors apply household-level data from a nationally representative survey for Pakistan to explore these issues in detail. In particular, they focus on the choice between banks and bisi, an informal saving committee similar in nature to a rotating-savings-and-credit association.

Chaudhuri, S. & Manash R.G. (1995). "An Analysis of Delayed Formal and Interlinked Informal Credit in Agriculture". *Journal of International Trade & Economic Development*, Vol. 4, No. 1.

Abstract: A model of interlinked credit-product contracts between small farmers and large farmers when the small farmer faces delay in getting formal credit and the large farmer does not, has been developed. The small farmer remains on the reservation income level, and his reservation income is inversely related to the length of the delay. However, this does not hamper the productivity of the small farmer. The large farmer extracts the surplus through the interlinked contract and this surplus is positively related to the length of the delay. Interlinkage and non-interlinkage equilibria become identical if the small farmer gets the formal credit at the beginning of the crop cycle. Various subsidy policies worsen the distribution of formal credit.

Chaudhuri, S & Gupta, M.R. (1996). "Delayed Formal Credit, Bribing and the Informal Credit Market in Agriculture: A Theoretical Analysis". *Journal of Development Economics*, Vol. 51, No. 2.

Abstract: The paper presents a theory of interest rate determination in the informal credit market in backward agriculture. The market for informal credit is created by the delay in disbursement of formal credit. The delay is controlled by the official of the formal credit agency, and he is bribed by the farmer to reduce the delay. The official and the moneylender play a non-cooperative game in choosing the bribing rate and the informal interest rate, respectively. The informal sector interest rate and the effective formal sector interest rate (incorporating the bribe) are equal in equilibrium. Agricultural price and credit subsidy policies may raise the interest rate in the informal credit market.

Chaudhuri, S. (1998). "Inadequate Formal Credit and the Informal Credit Market in Agriculture: A Theoretical Analysis". *Journal of Quantitative Economics*, Vol. 14, No. 1, July.

Abstract: A theoretical analysis of interest rate determination in the informal credit market has been presented when the market for informal credit is created by inadequate supply of formal credit. The official of the formal credit agency controls the supply of formal credit and he gets a bribe from the moneylender when he rations the supply of formal credit to the farmer. The moneylender and the official play a cooperative game choosing jointly the amount of formal credit and the informal interest rate. Development policy like a credit subsidy policy reduces the informal interest rate and raises the amount of formal credit disbursed by the official. On the contrary, a price subsidy policy raises the informal interest rate and lowers the amount of formal credit disbursed. The paper is an attempt to justify the desirability of a credit subsidy policy theoretically when it is being questioned in a developing country like India.

Chaudhuri, S. (2000). "Interactions Between Two Informal Sector Lenders and Interest Rate Determination in The Informal Credit Market: A Theoretical Analysis". *Indian Economic Review*, Vol. 35, No. 2, July.

Abstract: The paper provides a theory of interest rates determination in the informal credit market in backward agriculture highlighting the interactions between two informal sector lenders (a professional money lender and a trader-interlocker) and explains the prevalence of different interest rates in the rural credit market. The trader and the moneylender play a non-cooperative game in choosing the extent of interlinkage and the non-interlinked informal interest rate, respectively. In the interlinked credit-product contract, the trader offers the interlockees a product price equal to the open market price and his entire surplus comes from his activities in the credit market. These results are completely opposite to those found in the existing literature on interlinkage. A price subsidy policy reduces the extent of interlinkage chosen by the trader while a credit subsidy policy may raise it. Besides, the subsidy policies unequivocally raise the non-interlinked informal interest rate of the moneylender but may lower the welfare of the farmers and the agricultural productivity. In this context, an alternative credit policy of forging a vertical linkage between the formal and informal credit markets has been considered. It has been found that a credit subsidy policy under the new system is able to raise the agricultural productivity and improve the welfare of the farmers by ameliorating their borrowing terms in the credit market.

Chaudhuri, S. & Dwibedi, J.K. (2002). "Horizontal and Vertical Linkages Between Formal and Informal Credit Markets in Backward Agriculture: A Theoretical Analysis". *Indian Journal of Social Development*, Vol. 2, No. 1, June.

Abstract: The paper shows that the policy of forging a vertical linkage between the formal and informal credit markets is distinctly superior to the existing credit policy of horizontally substituting the informal sector by the formal one. An inflow of subsidized formal credit to the informal lenders not only ensures better terms of borrowing to the small borrowers but also leads to higher agricultural productivity vis-a-vis the horizontal linkage case. Even if the informal sector lenders are allowed to collude, the informal interest rate is still lower in the vertical linkage case.

Chaudhuri, S. (2002). "Interaction Of Formal and Informal Credit Markets In Backward Agriculture: A Theoretical Analysis". Game Theory and Information 0511001, EconWPA.

Abstract: In this paper, a model of interaction of formal and informal credit markets has been developed where the bank official (the ultimate provider of formal credit) faces a lending constraint. The bank official takes a bribe from the borrowers to disburse formal credit and he deliberately debars some potential borrowers from getting bank credit. Inadequate supply of formal credit and exclusion of a few borrowers by the official create a market for informal credit. The bank official and the moneylender (the supplier of informal credit) play a non-cooperative game in determining the bribing rate and the informal interest rate simultaneously. The central objective of the paper is two-fold. First, it shows that an agricultural credit subsidy policy may be counterproductive even when formal and informal credits are substitutes. This is contrary to the Gupta and Chaudhuri (1997) result that a credit subsidy policy is counterproductive only when the two types of credit are complementary to each other. Secondly, the paper considers two alternative ways of formulating a credit subsidy policy: (1) through an increase in the aggregate volume of formal credit supplied to the borrowers, keeping the formal sector interest rate at a reasonable level; and, (2) through a decrease in the rate of interest charged on this type of credit. The paper shows that if a credit subsidy policy is undertaken via the first path, it is actually able to lower the informal sector interest rate and improve both the agricultural productivity and welfare of the farmers. This result is crucial because all the earlier papers in this line have analyzed the effects of a credit subsidy policy through the second route and found it to be counterproductive in the presence of corruption in the distribution of formal credit.

Diagne, A. (1999). "Determinants of Household Access to and Participation in Formal and Informal Credit Markets in Malawi". *IFPRI FCND paper* No. 67.

Abstract: The paper uses the concept of credit limit to analyze the determinants of household access to and participation in informal and formal credit markets in Malawi. Households are found to be credit constrained, on average, both in the formal and informal sectors; they borrow, on average, less than half of any increase in their credit lines. Furthermore, they are not discouraged in their participation and borrowing decisions by further increases in the formal interest rate and/or the transaction costs associated with getting formal credit. This suggests that getting access to credit is much more important than its cost for these households. Hence, credit policies should focus on making access easier rather than providing credit with subsidized interest rates. The composition of household assets is found to be much more important as a determinant of household access to formal credit than the total value of household assets or landholding size. In particular, a higher share of land and livestock in the total value of household assets is negatively correlated with access to formal credit. However, land remains a significant determinant of access to informal credit. Therefore, poor households whose assets consist mostly of land and livestock but who want to diversify into nonfarm income generation activities may be constrained by lack of capital. As informal loans are usually too small to help poor households start a viable nonfarm business, these households may be forced to rely on farming as the sole source of income, despite its unreliability because of the frequency of drought in Malawi. Finally, formal and informal credit are found to be imperfect substitutes. In particular, formal credit, whenever available, reduces but does not completely eliminate informal borrowing. This suggests that the two forms of credit fulfill different functions in the household's intertemporal transfer of resources.

Esguerra, E.F. (1987). "Can Informal Lenders be Co-opted into Government Credit Programs?" Manila: Working Paper Series no. 87-03, Philippine Institute for Development Studies, April, 25 pp.

Floro, M.S. & Roy, D. (1997). "Vertical Links between Formal and Informal Financial Institutions". *Review of Development Economics*. vol. 1(1), pages 34-56, February.

Abstract: We investigate vertical linkages between formal and informal financial institutions. Specifically, we study a policy that expands formal credit to informal lenders, in the hope that this will improve loan terms for borrowers who are shut out of the formal sector. We pay special attention to the Philippines. We argue that the effects of stronger vertical links depend upon the form of lender competition. In particular, if the relationship between lenders is one of strategic cooperation (sustained by threats of reprisal in a repeated setting), an expansion of formal credit may worsen the terms faced by informal borrowers.

Germidis, D. (1990). "Interlinking the Formal and Informal Financial Sectors in Developing Countries" *Savings and Development*, Volume XIV, Number 1, pp. 5-21.

Germidis, D.; Kessler, D. & Meghir, R. (1991). "Financial Systems and Development: What Role for the Formal and Informal Financial Sectors?" Development Centre Studies. Paris: OECD.

Ghate, P.B. (1992). "Interaction between the formal and informal financial sectors: The Asian experience". *World Development*, Volume 20, Issue 6, June 1992, Pages 859-872.

Abstract: The nature of the interaction between the formal and informal financial sectors in developing countries is a subject with important policy implications. It has implications for the future of informal finance as the formal sector expands in the long term—will the informal sector wither away, as the traditional view of financial dualism assumes, or will it continue to play an important complementary role, perhaps even growing in absolute size? Second, the pattern of two major policy approaches often advocated toward the informal sector—offering it stronger competition so as to induce it to improve its terms, and promoting linkages with it so as to take advantage of its lower transactions costs in reaching smaller and poorer borrowers. Third, the existence of a large informal sector has implications for the efficacy of monetary and credit policy in achieving stabilization objectives. Fourth, the interaction between the formal and informal financial sectors also has implications for the effects of financial liberalization through removing restrictions on the deposit rate of interest. This paper draws on the experience of Asian countries to address these issues.

Gupta, M.R. & Chaudhuri, S. (1997). "Formal Credit, Corruption and the Informal Credit Market in Agriculture: a Theoretical Analysis". *Economica,* Vol. 64, No. 254, May.

Abstract: The paper presents a theory of interest rate determination on informal credit in backward agriculture when there is a market for formal credit. The farmer has to bribe the official of the formal credit agency in order to get formal credit. The official and the moneylender play a non-cooperative game in choosing the amount of formal credit and the informal interest rate, respectively. The informal-sector interest rate and the effective formal-sector interest rate (incorporating the bribe) are equal in equilibrium. A reduction in the formal interest rate and/or an increase in the price of the product may lead to an increase in the equilibrium bribing rate and the informal interest rate when the formal credit and the informal credit are complementary to each other.

Jain, S. (1999). "Symbiosis vs. crowding-out: the interaction of formal and informal credit markets in developing countries". *Journal of Development Economics*, Volume 59, Issue 2, August 1999, Pages 419-444.

Abstract: It is a common observation in many developing countries that enterprises are active borrowers in both formal and informal credit markets. We propose a model in which the formal sector's superior ability in deposit mobilization is traded off against the informational advantage that lenders in the informal sector enjoy. The formal sector can screen borrowers by providing only partial financing for projects, thereby forcing borrowers to resort to the informal sector for the remainder of the loan. We use the model to predict how the market structure responds to changes in the environment, and we consider the policy implications of various forms of government intervention.

Manig, W. (1990). "Formal and informal credit markets for agricultural development in developing countries — The example of Pakistan". *Journal of Rural Studies*, Volume 6, Issue 2, 1990, Pages 209-215.

Abstract: One of the most important factors for increasing agricultural productivity and production in order to maintain growing populations in developing countries is the utilization of modern technology. For financing the use of agricultural technology, governments establish legally organized credit institutions which frequently offer subsidized credits. Such credits are made available under the existing societal modes of distribution, which leads to the domination of scarce resources by the elite in the rural regions, and, thus, to restriction in the access to credit for the rural sub-classes. Should small farmers or tenants, etc. wish to benefit from the advantages of

modern agricultural technology, they have to depend on the informal credit market as a means of financing. By taking Pakistan as an example, the importance of the informal credit market for financing the use of modern technology from the period of the 'Green Revolution' until the present can be shown. This informal credit market has contributed to keep tendencies towards social polarization in the agricultural sector within limits, since an informal credit system that was not efficient would have made it difficult for small farmers to use the productivity potentials of modern agricultural technology and would have caused social differences to expand. The informal credit market should be reinforced as a political measure for reducing tendencies towards social polarization. This should occur at least until the formal credit institutions actually assume their intended function for all rural groups.

Marr, Ana. (1999). "The Poor and their Money: what have we learned?" ODI Poverty Brief ed. Overseas Development Institute.

Abstract: Money markets ought to allocate finance where it is most needed, and thus contribute to greater productivity, employment and the reduction of poverty. Yet in practice they have not performed this function at all well. Vast segments of the population are still unserved, inappropriate financial services are offered and inflexible contracts are extended. Poor farmers and small businesses are generally excluded from conventional financial institutions like the big commercial banks, and have to resort to informal ways of saving, insuring and borrowing, such as paying shopkeepers to keep their savings safely, or borrowing from moneylenders at very high interest rates. What then are the obstacles to better access by the poor to finance in these markets and how can governments and aid agencies intervene to improve matters?

McKernan, Signe-Mary,; Pitt, M. & Moskowitz, D.Z. (2004). "Use of the Formal and Informal Financial Sectors: Does Gender Matter? Empirical Evidence from Rural Bangladesh". *World Bank Policy Research Working Paper* No. 3491.

Abstract: Access to transfers and credit, whether cash or in-kind, is a major source of poverty alleviation and income generation in many developing countries around the world. Women may especially benefit from transfers and credit in countries such as Bangladesh, where they often have few work alternatives. In this paper, the authors descriptively examine the formal and informal financial sectors of rural Bangladesh, placing special emphasis on differences between men and women. Their analysis uses unique data on the credit and transfer behaviors of 1,800 households in rural Bangladesh. The authors focus on five important questions: How important are the formal and informal financial sectors? What are the primary sources of gifts and loans within those sectors? Do men and women rely on different sources for finances (for example, formal versus informal) or different types of finances (for example, transfers versus loans)? How have the financial sectors evolved during the 1990s? What is the relationship between the formal and informal sectors? This paper - a product of the Gender Division, Poverty Reduction and Economic Management Network - is part of a larger effort in the network to integrate gender into economic policy work.

Meghir, R. (1991), "Formal and Informal Financial Support for Small and Micro-Enterprises" Development". *Journal of the Society for International Development*. Issue no.1, pp. 102-108

Nayar, C.P.S. (1986), "Can Traditional Financial Technologies co-exist with Modern Financial Technologies? The Indian Experience". *Savings and Development*, Volume X, Number 1, pp. 31-56.

Neshamba, F. (1997). "The transition of enterprises from informality to formality - some evidence from Zimbabwe". *Small Enterprise Development*, Volume 8, Number 4, December 1997, pp. 48-53(6).

Abstract: The idea that the informal sector can never do more for the economy than provide a temporary holding ground for the unemployed is challenged in this article. Research into formal sector businesses in Zimbabwe reveals that many businesses started off in the informal sector, before growing and 'graduating' into the formal sector. The initial survivalist strategies of using family labour and working from home were replaced by strategies to upgrade technology, employ additional labour and move premises into industrial areas. Eventually it is difficult to distinguish between 'graduating' enterprises and those that started out in the formal sector.

Ngwira, A.B.A. (1995). "'Small enterprise' or the 'informal sector'?" *Small Enterprise Development*, Volume 6, Number 1, March 1995, pp. 49-52(4).

Abstract: The following article describes the various criteria used for classifying small-scale enterprises and points to anomalies in their use. The author concludes that often a simple employment-size criterion is preferable to trying to define the term 'informal sector'.

Pagura, M. & Kirsten, M. (2006). "Formal—informal financial linkages: lessons from developing countries". *Small Enterprise Development,* Volume 17, Number 1, March 2006, pp. 16-29(14).

Abstract: Despite significant innovations in rural and microfinance over the years, millions of people around the world do not have access to financial services. Can strategic linkages and alliances between financial institutions help resolve this problem? Thanks to funding from the Ford Foundation several researchers set out to answer this question.The results drawn from 12 case studies conducted in eleven countries in Africa, Asia and Latin America indicate that financial linkages are increasingly used by formal inancial institutions (public or private) to target rural clients. A wide variety of less formal, often rural financial institutions are the linkage partners. Initial evidence indicates that the partnership seem to afford both partners the opportunity to overcome a weakness in what they can achieve on their own. But does this initial appeal translate into anything sustainable and/ or replicable? Although it is certainly too early to tell, financial linkages, while promising, are difficult to set up and manage, require strong less formal as well as formal institutions and seldom result in a significant expansion of financial services beyond credit.

Saha, B. & Adhikary, B.K. (2002). "Linkage Strategy Between Formal and Informal Sector - An Alternative Approach to Microfinance". *Bank Parikrama* Volume XXVII, No. 1.

Abstract: Microfinance is considered to be a productive financial tool to reach the poor people and to cater to their financial need. However, in the least decade experience shows that the banks with traditional individualistic techniques have not only failed to increase outreach substantially full also proved their incapability of reducing interest rate charged by the informal money lenders. Hence, a linkage strategy between the formal and the informal sector for microfinacing can be viewed as one of the alternative attractive financial tools in creating a viable rural banking structure. In this context different modes, extent and performance of existing linkages schemes (among bank, nongovernment organizations and informal lenders) for the matter of rural development have been examined in this paper. The paper also attempts to survey the experience of some banks of South Asia that have undertaken linkage programs successfully. At the end of the paper some recommendations have been formulated which may contribute in the future course of linkage strategies of our banks.

Seibel, H.D. & Marx, M.T. (1967). "Dual Financial Markets in Africa: Case Studies of Linkages between Informal and Formal Financial Institutions". Saarbrücken, Breitenbach.

Seibel, H.D. (1987). "The Role of Informal and Formal Financial Institutions" Interlink Newsletter of the ASEAN Association of Planning and Housing, Volume 7, Number 2, June, pp. 2-4

Seibel, H.D. & Parhusip, U. (1992). "Linking Formal and Informal Finance". in Adams, Dale W, and Delbert A. Fitchett, "*Informal Finance in Low-Income Countries*". Colorado: Westview Press, Inc.

Soyibo, A. (1997). "The Informal Financial Sector in Nigeria: Characteristics and Relationship with the Formal Sector". *Development Policy Review* 15 (1), 5–22.

Srinivas, H. (1993). "The Continuum of Informality of Credit: Lessons for Formal Sector Lending". Paper presented at the 2nd Symposium on Housing for the Urban Poor, 11-14 April, 1994, Birmingham, UK.

Srivastava, P. (1992), "Are Formal and Informal Credit Markets in India Interlinked?" *Economic and Political Weekly*, Volume 27, Number 41, pp. 2241-2245.

Yaron, J. & Benjamin, M. (1997). "Formal-informal sector interaction in rural credit markets". *Finance and Development* 34, no. 4: 40-43.

Abstract: The paper argues that many developing countries have tried to spur income growth and reduce poverty in rural areas by making low-interest loans to farmers. The results, it suggests, have been disappointing. A broader approach emphasizing policy and legal reforms and savings mobilization has been more successful. Issues discussed are: challenges for rural finance (the macroeconomic environment, sectoral policies, financial market rigidities, legal and regulatory barriers); the traditional approach; a new approach; a new environment; government interventions (when to intervene? how to intervene? targeting, designing successful rural financial intermediaries); assessing performance; and a successful case study of Bank Rakyat Indonesia's Unit Desa, which has focused on innovative operating policies and autonomy, low cost delivery, a high-quality portfolio, substantial spreads, and self-sufficiency.

Zeller, M. (1994). "Determinants of credit rationing: A study of informal lenders and formal credit groups in Madagascar". *World Development*, Volume 22, Issue 12, December 1994, Pages 1895-1907.

Abstract: Previous research on the determinants of credit rationing focused exclusively on the behavior of formal lenders who contract directly with an individual borrower. Based on survey data from Madagascar, this paper presents an analysis of credit rationing by informal lenders and by members of community-based groups that allocate formal group loans among themselves. The results show that group members are able to obtain and to use locally available information about the applicant's creditworthiness in much the same way as informal lenders do. Both types of lenders use the applicant's debt-servicing obligations and income as the main criteria for credit rationing. This paper therefore empirically confirms theoretical arguments that community-based groups have an information advantage over distant formal bank agents.

Other Topics:

Adams, D.W. (1998). "The Decline in Debt Directing: An Unfinished Agenda". Paper presented at the Second Annual Seminar on New Development Finance, Goethe University of Frankfurt, 2125 September.

Ahmed, S.M.; Chowdhury, M. & Bhuiya, A. (2001). "Micro-Credit and Emotional Well-Being: Experience of Poor Rural Women from Matlab, Bangladesh". *World Development*, Volume 29, Issue 11, November 2001, Pages 1957-1966.

Ahmed, S.S. (2005). "Delivery Mechanisms of Cash Transfer Programs to the Poor in Bangladesh". Washington, D.C.: World Bank, May.

Abstract: The Constitution of Bangladesh recognizes food and education as the fundamental rights of its citizen and the state is responsible to secure these rights. Bangladesh is a signatory to the United Nations Declaration on the Right to Development. In achieving these basic human rights and social targets, Bangladesh has a comprehensive long term approach despite being ridden by problems of high population density, low resource base and high incidence of natural calamities. These targets have been envisioned from the perspective of poverty alleviation and social development. In the light of this perception, the government has taken some major social safety net programs where the individual citizen is incapable of overcoming the economic and social poverty independently. A host of safety net programs target women, children and the vulnerable. Generally, the Income Generation Vulnerable Group Development (IGVDG), the Primary Education Scholarship Program (PESP) and the Rural Maintenance program (RMP), operate in the rural areas where majority of the poor live. These programs deliver a verity of opportunities. Some of these programs deliver food while others deliver cash. Benefits are either delivered without any visible return made by the beneficiaries or with some quantifiable outputs generated by the beneficiaries. A list of ongoing major program, where government delivers benefit to the beneficiary, is presented in Table 1.1 below. The various systems used present different cost and logistical implications. The use of the banking system for delivery of cash benefit transfers, for example, raises some concerns. First, it is possible that banking facilities are not available or easily accessible in all the areas, especially for the targeted beneficiaries. Second, poor people, in general, do not use the banking system or they may have limited access to it. They may not hold bank accounts because they do not have the money to pay for the fees involved in maintaining them. This means that the program or the beneficiaries have to pay for those services and thus reducing the amount of transfers that reach the intended beneficiaries. Third, illiterate people might have problems using the systems and might not be able to fully understand the meaning of the transactions. The purpose of this study is to carry out an analysis of the practical issues and the financial costs relative to the transfer of cash benefits from source to recipients. In particular we would like to find out what is the cost effective way of transferring funds to the beneficiaries. We are interested in the comparison of alternative delivery mechanisms in terms of their efficiency and effectiveness under different conditions and to explore the possible uses of new technologies.

Ashe, J. (1985), "Extending Credit and Technical Assistence to the Smallest Enterprises" in Ray Brompley [eds], Planning for Small Enterprises in the Thrid World. Oxford: Pergamon Press, pp. 277-247.

Barua, D.C. (1998). "The Grameen Strategy to Combat the Flood of 1998". Paper presented at the SEEP Network 1998 Annual Meeting, Washington DC, 28-30 October.

Bhargava, P. (1995). "The role of promotional organizations in the non-farm sector". *Small Enterprise Development*, Volume 6, Number 2, June 1995, pp. 38-43(6).

Abstract: In densely populated countries like India, the capacity of agriculture to provide more employment is limited. The generation of small non-farm businesses in rural areas is thus seen as of crucial importance for boosting the economy and preventing migration to towns. This article argues that promotional organizations have an important role to play in supporting small rural enterprises in the non-farm sector. It identifies the disparate environments, the diverse human resources and the kinds of constraints faced by these organizations in building enterprises.

Promotional agencies are classified into two groups - market-orientated agencies and capability-building organizations - and the strengths of each group identified for the entrepreneur involved.

Buttari, J.J. (1995). "Subsidized Credit Programmes: The Theory, the Record, the Alternatives". USAID Evaluation Special Study No. 75. Center for Development Information and Evaluation. Washington, D.C: U.S. Agency for International Development, June.

Devereux, S. (2001). "Livelihood Insecurity and Social Protection: A Re-emerging Issue in Rural Development". *Development Policy Review* 19 (4), 507–519.

Abstract: Risk and vulnerability have been rediscovered as key features of rural livelihoods and poverty, and are currently a focus of policy attention. The poor themselves try to manage uncertainty using a variety of ex-ante and ex-post risk management strategies, and through community support systems, but these are both fragile and economically damaging. State interventions working through food, labor or credit markets have proved expensive and unsustainable in the past, though encouraging and innovative institutional partnerships are emerging. This article argues that the way forward lies in new approaches to social protection which underpin production as well as consumption: new thinking recognizes the food security and livelihood-protecting functions of public interventions (such as fertilizer and seed subsidies) which were previously dismissed as 'market-distorting'.

Caprio, G. & Vittas, D. (1995). "Financial History: Lessons of the Past for Reformers of the Present". *World Bank Policy Research Working Paper* No. 1535.

Abstract: The environment in which financial institutions operate has changed greatly, but the history of financial development offers important lessons for today. Among the lessons financial history offers:
Macroeconomic stability - low inflation and sound public finance - is important for creating the right incentives for banks and for facilitating the development of securities markets. High inflation and large fiscal deficits distort economic behavior in favor of short-term speculative projects and discourage the long-term investment projects conducive to sustainable economic development. Central bank independence may contribute to economic stability. One way to increase it is by lengthening the term of central bank governors. There must be incentives for bank owners to behave prudently - a requirement that they have capital commensurate with the risks they assume, for example. Unlimited liability and double liability limits may be less feasible now than in the past, but banks in developing countries that face higher risks should maintain higher capital ratios than banks in the more advanced OECD countries. Effective supervision is also essential. Banks run into solvency problems because they fail to diversify - often because of regulatory (especially geographic) restrictions, but also because of excessive connected lending or genuine mistakes. Regulators must ensure that banks diversify their risks, which means ending geographic or sectoral restrictions (including prohibitions against holding foreign assets) and restricting connected lending. Developing effective supervision (to ensure meaningful and effective compliance with prudential rules) is difficult and time-consuming but essential. The difficulty of supervising universal banks and financial conglomerates is an argument used against them in developing countries. But universal banks may generate efficiency gains as they overcome the problems of inadequate reliable public information on industrial and commercial companies. Holding small equity stakes and being involved in corporate governance may be productive. The risk of overlending to related firms is likely to be small when banks hold small stakes in industrial firms; it is high when firms control banks. Pension funds and other institutional investors have grown in importance in many countries over the past thirty years or so, because of longer life spans and longer retirement. These funds started as labor market institutions and personnel management tools, but have become important financial intermediaries. Pension funds offer developing countries an alternative both for restructuring their public finances and for promoting their capital markets. Pension funds can play the role that thrift deposit institutions - such as savings banks, credit cooperatives, and building societies - played in developed countries in the nineteenth century. But thrift institutions can still contribute to financial and economic development by promoting thrift and facilitating credit in rural areas and among low-income groups. They will contribute more if they involve a three-tier structure that combines the benefits of local involvement and monitoring with centralized auditing and supervision.

CARE Bangladesh. (1998). "Effects of Flood '98 on Livelihood of Poor Participants and Savings and Credit Programs of 24 Partner NGOs of Income Project". Dhaka: CARE.

CGAP. (2004). "How donors can help build pro-poor financial systems". Donor Briefs No. 17.

Abstract: This brief outlines a framework for donors to follow when applying a financial systems approach to their activities in the field of microfinance. It emphasises the benefits of collaboration and analyses the characteristics of certain types of interventions with regard to their suitability for different types of donors. The brief is illustrated by the example of how DFID, CIDA, Sida and RNE are joining forces to fund pro-poor finance in Tanzania and ends with a set of emerging principles to improve the effectiveness of donor support for building better financial systems.

CGAP. (2005). "The Market for Foreign Investment in Microfinance: Opportunities and Challenges". Focus Note No. 30.

Abstract: Many microfinance institutions in developing and transition economies receive foreign funding. This Focus Note looks at these "foreign investors" and the demand for their services. It presents a view of the market and addresses key questions, including How much foreign investment in MFIs is really private? How much of this investment is really commercial? Where is the investment being placed, in terms of region, number, and type of MFIs? Are investors competing to invest in MFIs? As MFIs grow and absorb more funding, what is the likely role of foreign investment compared with domestic sources? Does foreign debt create inappropriate currency risks for MFIs? And what practical lessons emerge from this analysis?

Chaves, R.A. & Gonzelez-Vega, C. (1992). "Principles of Regulation and Prudential Supervision: should they be different for microenterprise finance organisations?" Ohio State University.

Chowdhury, O.H., Khandker, S.R., Millimet, D.L. & Pitt, M. (2003). "Credit Programs for the Poor and the Health Status of Children in Rural Bangladesh". International Economic Review, Vol. 44, No. 1, pp. 87-118.

Abstract: The impact of participation in group-based credit programs, by gender of participant, on the health status of children by gender in rural Bangladesh is investigated. These credit programs are well suited to studies of how gender-specific resources alter intra-household allocations because they induce differential participation by gender. Women's credit is found to have a large and statistically significant impact on two of three measures of the healthiness of both boy and girl children. Credit provided to men has no statistically significant impact and the null hypothesis of equal credit effects by gender of participant is rejected.

Churchill, C. (Editor). (2006). "Protecting the Poor - A Microinsurance Compendium". ILO.

Abstract: he book notes upfront that by helping low-income households manage risk, microinsurance can assist them to maintain a sense of financial confidence even in the face of significant vulnerability. It brings together the latest thinking of leading academics, actuaries, and insurance and development professionals in the microinsurance field to offer a practical, wide-ranging resource which provides a thorough overview of the subject to date. The book allows readers to benefit from the lessons learned from a project launched by the CGAP Working Group on Microinsurance analysing operations around the world. It is aimed at insurance professionals, practitioners and anyone involved with offering insurance to low-income persons, this volume covers the many aspects of microinsurance in detail including product design, marketing, premium collection and governance. It also discusses the various institutional arrangements available for delivery such as the community-based approach, insurance companies owned by networks of savings and credit cooperatives and microfinance institutions. The roles of key stakeholders are also explored and the book offers insightful strategies for achieving the right balance between coverage, costs and price. This book is organized into six parts. The first part, Principles and Practices, defines microinsurance, provides insights into the risk-management needs of low-income households and explains the critical social protection function of microinsurance. Part 2 summarizes lessons about specific types of products, namely health insurance, long-term life insurance and short-term insurance linked to savings and credit products. This part also explores the adaptation of insurance products to address the characteristics of women and children. The third part of the book explores microinsurance operations in detail. It includes chapters on product design, marketing, premium collection, claims, pricing, financial and risk management, governance, organizational development and loss control. It concludes with a chapter on benchmarking that examines performance ratios of the microinsurance schemes. Microinsurance

can be delivered through a variety of institutional arrangements. Part 4 examines these arrangements to analyse the conditions in which one might be preferable to the others. These chapters consider the partner-agent model, the community-based approach, insurance companies owned by networks of savings and credit cooperatives, retailers as distribution channels, and microfinance institutions. One chapter analyses the advantages, disadvantages and conflicts of interests of various organizational arrangements for delivering health insurance. Part 5 assesses the roles of key stakeholders, including donors, regulators, governments, insurers and reinsurers, and technical assistance providers. The book concludes with Part 6, which summarizes the strategies needed to achieve the right balance between coverage, costs and price, and provides an outlook on future developments in microinsurance.

Clark, H. with input from CGAP staff. (2003). "Credit Components". CGAP Donor Brief No. 10. Washington, D.C.: CGAP, February.

Copestake, J.; Greely, M.; Johnson, S.; Kabeer, N. & Simanowitz, A. (2005). "Money with a Mission Volume 1: Microfinance and Poverty Reduction". Warwickshire, UK: ITDG Publishing.

Dessy, S. & Ewoudou, J. (2006). "Microfinance and Female Empowerment". *Cahier de Reserche Working Paper* No. 06-03.

Abstract: In the informal economy of developing countries, female entrepreneurs face a comparative disadvantage for operating high-productivity activities, owing to the prevalence of patriarchal forms of business regulations. Yet, for microfinance institutions (MFIs) to succeed in enhancing female empowerment, increased access to credit must enable female entrepreneurs to tap into the range of high-productivity activities. So when the costs of legality are too high in developing countries, and the informal economy becomes the only affordable venue for operating a business venture, this paper shows that access to microfinance services becomes only necessary, but not sufficient for female empowerment. Based upon a game-theoretic model of activity choices by ex ante homogenous women, we argue that conditioning well-trained women's access to credit to the adoption of high-productivity activities may enable MFIs to induce the emergence of networks of female entrepreneurs large enough to mitigate patriarchal practices that raise the costs of operating such activities in the informal economy.

DFID. (2004). "The Importance of Financial Sector Development for Growth and Poverty Reduction".

Abstract: This DFID working paper notes that it is now widely accepted that the private sector must be the engine of growth, and that governments must work to create the right enabling environment for private sector development. The paper also suggests that by facilitating transactions and making credit and other financial products available, the financial sector is a crucial building block for private sector development. It can also play an important role in reducing risk and vulnerability, and increasing the ability of individuals and households to access basic services like health and education, thus having a more direct impact on poverty reduction. But the authors argue that the importance of promoting financial sector development (FSD) has not always been widely understood. Yet this paper notes there is a great deal of evidence to suggest that FSD is important for growth and poverty reduction, and that without it development may be held back, even if other conditions are met. This paper reviews some of the literature, both theoretical and empirical, on the relationship between financial sector development, growth and poverty reduction in order to elucidate these linkages and to assess the importance of FSD to development. This paper, however, does not discuss policy implications or related issues, such as how to eliminate barriers to financial sector development.

Dickson, J. (1995). "Culturally sustainable rural enterprise development in Papua New Guinea". Small Enterprise Development, Volume 6, Number 1, March 1995, pp. 43-49(7).

Abstract: Enterprise development is typically the transfer of a Western model of business to a recipient clientele, regardless of the local culture. Cultural issues need to be considered in the design, delivery and evaluation of development projects, and this research indicates that enterprise development is no exception. Certain basic business principles, such as profit, marketing and cash control, need to be adhered to, but for sustainability, those who plan and implement enterprise promotion programmes must consider these issues in the context of the cultural norms of the community, and adapt the basic principles. This article describing field work in Papua New Guinea (PNG) identifies a number of cultural variations to business practice that

rural business people used in the day-to-day operation of their small rural enterprises. In the past these practices were identified as bad business practice, or 'the wrong way to do it'; however, this field research demonstrates that, on the contrary, this may be 'best practice' in the context of a subsistence community.

Field, M. & Knopp, D. (2003). "Business linkages and producer groups in Bangladesh – options for rural microenterprise development". *Small Enterprise Development*, Volume 14, Number 4, 10 December 2003, pp. 49-61(13).

Abstract: The difficulties of providing poorer microenterprises with BDS may sometimes be overcome by encouraging them to form groups and market their produce collectively. This article describes the experience of the USAID-funded JOBS Project in Bangladesh as it worked with three groups of microenterprises – the Bogra Handicrafts Association, the Modhupur Pineapple Association, and the Shafipur and Mirpur footwear producer groups – to improve their market linkages. Perhaps surprisingly, a greater degree of independence and market strength was eventually achieved with the pineapple farmers and the shoemakers, for whom the JOBS Project intervened directly to arrange technical assistance and marketing linkages, than for the handicraft workers, who received BDS through an NGO/MFI. How these three projects shed light on ideas about building the market for BDS for microenterprises is discussed.

Fry, M.J. (1980). "Saving, investment, growth and the cost of financial repression". *World Development*, Volume 8, Issue 4, April 1980, Pages 317-327.

Abstract: This paper presents a quantitative estimate of the cost of financial repression in developing countries. Here, financial repression is interpreted as the technique of holding institutional interest rates (particularly deposit rates of interest) below their market equilibrium levels. For a sample of developing countries, saving is found to be affected positively by the real deposit rate of interest, as is real money demand, where money is defined broadly to include savings and time deposits. Under disequilibrium interest rate conditions, higher saving which raises real money demand increases pari passu the real supply of credit. Credit availability is an important determinant not only of new investment but also of capacity utilization of the entire capital stock. Hence, the growth rate is itself affected positively by the real deposit rate of interest through two channels – first, the volume of saving and investment and, second, capacity utilization of the entire capital stock, i.e. the measured incremental capital/output ratio. Estimates of saving and growth functions lead to the conclusion that the cost of financial repression appears to be around half a percetage point in economic growth foregone for every one percentage point by which the real deposit rate of interest is set below its market equilibrium rate.

Galor, Z. (2005). "Finance and Guarantees in Rural Development".

Abstract: In this brief paper, Zvi Galor explores the role of guarantees in credit policies and the potential for cooperation. He observes that the Grameen Bank became famous for the introduction of mutual guarantees to overcome the lack of security for lending to poor people. However, the Moshav in Israel relied on the mutual guarantee of its members to obtain credit back in the 1920s. While mutual guarantees are useful to facilitate access to credit, Mr Galor is of the view that many other factors are also important to ensure the success of rural investments. For example he commends the mixed farm approach which spreads employment and cash flow throughout the year and explains how this effect is enhanced by being part of a cooperative group as in a Moshav. The group is able to facilitate the movement of funds between members by providing a savings and credit service. Mr Galor points out that farmers participating in a Moshav were further benefited by the marketing and input supply services. Thus members received competitive rates of interest on their savings, competitively priced inputs and good returns on their produce. He argues that these cooperative benefits would assist development projects today and an emphasis on credit alone is inadequate.

Gersbach, H. & Wenzelburger, J. (2001). "The Dynamics of Deposit Insurance and the Consumption Trap". CESifo Working Paper Series No. 509.

Abstract: We investigate a banking system subject to repeated macroeconomic shocks and show that without deposit rate control, the banking system collapses with certainty. Any initial level of reserves will delay the collapse but not avoid it. Even without a banking collapse, the economy still converges to a consumption trap with positive probability. Savings are maximal in the consumption trap, but are used entirely to pay back obligations of banks. No long-term investments can be financed and GDP is minimal. We discuss stronger intervention rules that avoid both a collapse and the consumption trap, confirming that capital requirements are an early

indicator signaling when intervention may become necessary. Our analysis provides an explanation why economies which experience a banking crisis may endure long-lasting economic downturns.

Gobezie, G. (2004). "Microfinance Development: Can Impact on Poverty and Food Insecurity Be Improved Upon?" International Conference on Microfinance Development in Ethiopia.

Abstract: Development strategies aimed at eradicating poverty now invariably incorporate microfinance as one of the key elements. Thanks to this increased attention and the quantity of resources being devoted to it, the outreach of microfinance is expanding very rapidly, despite the fact that the services are still largely using a one-fits-all modality across all areas and economic situations. Experience strongly suggests that microfinance indeed has the potential to be one of the key instruments to fight poverty by positively affecting the house-hold economic portfolio. It can expand opportunities for enhancing income, improve capabilities in terms of human capital, improve the copping mechanism against vulnerability in its various features, as well as empower the disadvantaged; and the impact can occur at enterprise, individual, household and even community level, largely as a result of enterprise profitability. Yet, the available evidence in Ethiopia suggests little progress has been made. According to the author microfinance is still largely financing agricultural activities, little served with modern technology, and very few non-agricultural activities apart from trading. Individual enterprises are expanding very slowly, if at all. After being long time clients of the MFI, and after taking 8-9 consecutive loan cycles, the absorptive capacity and the loan size taken by an individual enterprise is hardly different from what it was when the clients joined the MFI afresh eight-nine years back. Micro-saving, which is proving elsewhere to be as important, if not more important, than microcredit services in terms of guarding the poor against vulnerability, seems to be given little accord, even by the microfinance service providers themselves. The number of voluntary savers in the Amhara region is quoted as being 80,000 which is a very small proportion of the rural population of 3 million households. The author believes that women are not enjoying the full benefit of microfinance services although they primarily target them. The programmes are implicitly or explicitly based on the assumption that rural women are conversant with non-farm income-generating activities and have sufficient time to expand traditional or start new ones, which is clearly often not the case. Many loans given to women are actually utilized by men. The author concludes that microfinance is not a sufficient instrument for reducing poverty in areas like that of the Amhara region. For it to be effective, the marketing situation, the infrastructure, particularly the road net-work, the skill and risk aversion behaviour, particularly that of women, and integration of the whole service with other sectors requires immediate attention.

Gobezie, G. (2006). "Gender, Poverty and Micro-enterprise Services in Ethiopia: Why Only Few Women are Joining?" National Fair – Women's Empowerment in the New Millennium.

Abstract: This paper examines the need for, and the success of, micro-enterprise programs in Ethiopia, with a special focus on their outreach to women. The paper discusses the role that micro-enterprise can play in alleviating poverty in Ethiopia, reasons why micro-enterprises target women, and the relationship between empowerment, resources, agency and achievements. It also describes the features of the "group guarantee-lending model" and examines whether the program has achieved the empowerment objective and successfully extended microfinance to poor women as well as looking at the pros and cons of the group-lending methodology.The report finds the impediments to women accessing the program include self-selection of group members that leads to the exclusion of the very poor and unfavourable factors (such as terms and conditions, loan size, low number of female loan officers, lack of business development services support, aversion to risk, and shortage of time). The paper states that microfinance helps alleviate poverty by enhancing human capital, reducing vulnerability, and providing savings and insurance services and emergency loans. In particular it lists the following positive features of the "self-help approach" – they are savings-based, the pride of ownership and autonomy, the integrated services of finance and business development, economies of scale, and sustainability. The paper concludes that for micro-enterprise services to be successful in poorer areas, there is a need for improvement in rural infrastructure and education about microfinance.

Gonzalez-Vega, C. (1997). "The Challenges of Transferring the New Lending Technologies to Reach the Poor from the Urban to the Rural Areas: Questions from Theory, Lessons from Microfinance Best Practice". paper presented at the XXIII Meetings of the International Agricultural Economics Association, Sacramento, California.

Guiso, L.; Sapienza, P. & Zingales, L. (2000). "The Role of Social Capital in Financial Development". *NBER Working Paper* No. W7563.

Abstract: To identify the effect of social capital on financial development, we exploit the well-known differences in social capital and trust (Banfield (1958), Putnam (1993)) across different parts of Italy, using microeconomic data on households and firms. In areas of the country with high levels of social trust, households invest less in cash and more in stock, use more checks, have higher access to institutional credit, and make less use of informal credit. In these areas, firms also have more access to credit and are more likely to have multiple shareholders. The effect of trust is stronger where legal enforcement is weaker and among less-educated people. The behavior of movers is mainly affected by the level of trust of the environment where they live, but a significant fraction of the effect is also due to the level of trust prevailing in the province where they grew up.

Gupta, A. & Agarwal, R. (2003) "'The Consumer Financing Business in India' - Building Blocks for the Future".

Abstract: In view of this changing landscape, we look at the three major drivers of growth in consumer finance: auto finance, housing finance and consumer durable finance. We discuss the trends in each of these areas as well as the shortcomings which are slowing down growth. We present some of the innovative product ideas which have appeared in the market recently and others which have the potential and can pick up provided adequate attention is paid. These include customer financing by large retail outlets, range of credit card offerings, innovations in education finance, rural finance, etc. The role of risk management has also been discussed as far as containing delinquencies and losses in repayment of loans are concerned. The mortgage portfolio performance will get affected by a sharp drop in real estate prices, drop in rents, changes in the tax laws removing exemptions for mortgage repayments. The Auto loans portfolio can get affected by the drop in re-sale values of cars, decrease in car prices, exchange rates, etc. Unsecured products like personal loans and credit cards can get affected by macro economic factors like employment rates, inflation, interest rates etc. We therefore provide an overview of the risk mitigation strategies which are available to lenders and progress made in this direction so far.

Harper, M. (1998) "Profit for the Poor, Cases in Micro-Finance". ITDG Publications, London and Oxford and IBH, New Delhi.

Harper, M. (ed.). (2003). "Microfinance: Evolution, Achievements and Challenges". ITDG Publishing; Samskriti.

Abstract: This book brings together fourteen articles on microfinance, which were published, in the Small Enterprise Development Journal between 1990 and 2001. Together these papers illustrate some of the major developments and changes that have occurred in the field of microfinance over the years, e.g. the move from enterprise microcredit to household financial services and the move from 'charity' to 'sustainability'. The collection enables readers to revisit some of the concerns that still preoccupy practitioners and illustrates that there are still many unanswered questions. The book is particularly suitable for students and others looking for a wide-ranging introduction to the subject of microfinance and for national and international policy makers and donors who are looking for a broad presentation of trends and alternative strategies.

Hashemi, S.M. (1996). "CGAP Focus Note 21: Linking Microfinance and Safety Net Programs to Include the Poorest: The Case of IGVGD in Bangladesh". Washington, D.C.: Consultative Group to Assist the Poor.

Abstract: This paper focuses on the Income Generation for Vulnerable Groups Development (IGVGD) program. The IGVGD is a collaborative food security intervention jointly led by the government of Bangladesh, the World Food Program (WFP) and the Bangladesh Rural Advancement Committee (BRAC), Bangladesh's largest NGO. Targeted towards destitute rural Bangladeshi women who have little or no income earning opportunities, the IGVGD program has provided food grain assistance and savings and credit services to nearly a million participants over a ten-year period. Two-thirds of these women have graduated from absolute poverty to becoming microfinance clients, and have not slipped back into requiring governmental handouts.

Henry, S. (2006). "Good Practice in Business Development Services: How Do We Enhance Entrepreneurial Skills in MFI Clients?" Ontario, Canada: Alterna Savings.

Abstract: After working for 10 years in the microfinance arena, both at the Calmeadow Metrofund and at the Alterna Savings Community Micro Loan Program (both based in Toronto, Ontario, Canada), it is my belief that it takes more than a loan to help a micro-business succeed and reach its goals. I believe a combination of financial credit and operational support is crucial to helping entrepreneurial clients succeed in today's marketplace, regardless of the location where the micro-entrepreneur is competing. Any entrepreneur has to have a combination of technical, operational and strategic skills. The technical skills come with the commitment, creativity, experience and knowledge they have within their field. The operational skills (including accounting and finance, business planning, quality control, health and safety regulations, marketing and human resource management) can often pose a challenge and necessitate support. Finally, strategic skills can take an entrepreneur from the start-up phase to the next level in business management. Most entrepreneurs believe a lack of ongoing capital is the reason for stagnation within their businesses. While this can be an important factor, a lack of continual operational skills support also plays a strong role in Micro Small Enterprise (MSE) failure, or in MSEs not reaching their growth potential. In the 1990's operational skill assistance was provided to microentrepreneurs through Business Development Service (BDS) organizations, which operated separately from the sources of financing for MSEs. BDS services were viewed as non-financial and were thought to be less challenging to deliver than financing, which has capital and other requirements. (BDS services include management and vocational skill training, consultancy and advisory services, marketing assistance, access to information, technology development and transfer and business linkage promotion.) According to the article Bundling Microfinance and Business Development Services1, there is a growing recognition in the microfinance community that to develop successfully low-income people need a wider range of integrated financial and non-financial services. A combination of expanded financial and non-financial services can help an entrepreneur succeed by: building their self-confidence; increasing their income, productivity, and employment; and ultimately facilitating the personal growth of the entrepreneur. Through the provision of more integrated services, microfinance institutions will no doubt benefit from better loan repayment and portfolio quality, client retention and the increased ability of the entrepreneur to access other financial products and services. To achieve these results, microfinance institutions need to ensure that the appropriate support is provided to clients, so they can gain the skills needed to successfully and continually operate their businesses. This support can be in close partnership with Business Development Service Organizations or within the microfinance institution itself. The question is: How do we enhance entrepreneurial skills in microfinance institution clients? This paper will answer the question by identifying best practices in Business Development Services offered in close partnership or integrated within microfinance institutions—both in developing and developed world settings.

Heemskerk, M.; Norton, A. & De Dehn, L. (2004). "Does Public Welfare Crowd Out Informal Safety Nets? Ethnographic Evidence from Rural Latin America". *World Development*, Volume 32, Issue 6, Pages 941-955.

Abstract: The researchers compare ethnographic data from two neighboring countries––Suriname and French Guiana––to investigate whether public welfare systems displace informal risk-sharing arrangements. The results suggest that the informal safety nets of poor rural households are deficient when shocks are extreme, irreversible, cumulative, and co-variate. Public welfare can reduce poverty by strengthening informal insurance systems, distributing cash, enabling new risk management strategies, and promoting human capital development. It remains a challenge for policy makers to implement welfare systems that cover society members with the lowest levels of human and social capital, and that minimize adverse consequences of economic change.

IMF. (1998). "Thailand Letter of Intent". 26 May. Washington DC: IMF.

Jaffee, D. & Russell. T. (1976). "Imperfect Information, Uncertainty, and Credit Rationing". *Quarterly Journal of Economics* 90:651-66.

Jaramillo, M.F. (2004). "Leveraging the Impact of Remittances through Microfinance Products". *ACCION InSight* No. 10, p. 15.

Abstract: Remittances - money sent from an immigrant to his or her home country - is an important service for microfinance clients and represents a significant market opportunity for microfinance institutions. This InSight details the results of ACCION's research to understand the

motivations of remittance senders and recipients, to explore product enhancements that could help both senders and recipients meet their financial goals, and to understand the characteristics important for a remittance delivery system.

Kabeer, N. (2005). "Is Microfinance a "Magic Bullet" for Women's Empowerment? – Analysis of Findings from South Asia". Economic and Political Weekly.

Abstract: Opinions on the impact of microfinance have been divided between those who see it as a "magic bullet" for women's empowerment and others who are dismissive of its abilities as a cure-all panacea for development. This paper seeks to examine the empirical evidence on the impact of microfinance with respect to poverty reduction and empowerment of poor women. The author argues that the provision of financial services, like the provision of any development resource, represents a range of possibilities, rather than a predetermined set of outcomes. It notes that which of these possibilities are realised in practice will be influenced by a host of factors, including philosophy that governs their delivery, the extent to which they are tailored to the needs and interests of those they are intended to reach, the nature of the relationships which govern their delivery and the calibre and commitment of the people who are responsible for their delivery. The paper is specifically interested in the extent to which access to financial services helps poor women address their practical daily needs as well as their strategic gender interests and whether the approach taken makes a difference to these outcomes. It is also suggested that how needs are addressed may be as critical as which needs are addressed in bringing about the larger structural transformation embodied in the idea of strategic gender interests. The conclusion proposes the need for caution in talking about the impact of microfinance, in general, and the need to talk about the impact the particular organisations have had in particular contexts. However, regardless of the pace and the extent of the change that they bring about, the review in this paper suggests that microfinance offers an important and effective means to achieving change on a number of different fronts, economic, social and perhaps also political. Nevertheless it becomes apparent that access to financial services does not "automatically" empower poor women and their households. An intervention is contingent on context, commitment and capacity if this potential is to become a reality.

Kamal, M.M. (2002). "Managing Microfinance in an Innovative Way". ASA.

Abstract: This book has been written by the Senior Deputy General Manager of ASA, one of the most successful microfinance institutions in Bangladesh. ASA's management approach is notable for the degree of decentralisation practised. Branch managers are delegated the authority and responsibility to work independently. Simple record-keeping and accounting procedures have been developed to save time and make the work more cost effective. The innovative methods of ASA have enabled it to achieve rapid and profitable development.

Karlan, D. (2001). "Microfinance Impact Assessments: The Perils of Using New Members as a Control Group." *Journal of Microfinance* 3 No. 2: 76-85.

Khalily, M.A.B. & Meyer, R.L. (1992). "Factors Influencing the Demand for Rural Deposits in Bangladesh: A Test for Functional Form". *The Journal of Developing Areas* 26(3): 371-382.

Kula, O.; Downing, J. & Field, M. (2006). "Value chain programmes to integrate competitiveness, economic growth and poverty reduction". *Small Enterprise Development,* Volume 17, Number 2, June 2006, pp. 23-35(13).

Abstract: Identifying particular value chains that have the potential to compete globally should boost output and incomes. The challenge is to achieve this in value chains incorporating large numbers of small firms and microenterprises, and who are also in a position to benefit. This paper offers a step-by-step practical guide to intervention design for achieving competitiveness that benefits the poor. First industries are selected with potential for competitiveness, then a value chain analysis is carried out. A strategy is developed to improve competitiveness and achieve an equitable distribution of benefits, and an action plan is devised to achieve this strategy. Finally a system of performance monitoring and impact assessment is needed to evaluate the effectiveness of interventions.

Kumar, A. et al. (1997). "China's Nonbank Financial Institutions". Paper No. 358. Washington DC: World Bank.

Lapenu, C. (2000). "Current State of Development and Prospects for Microfinance Institutions". *Rural Financial Policies for Food Security of the Poor*. Policy Brief No. 5.

Abstract: The database compiled by IFPRI (see policy brief on microfinance institutions [MFIs] in Africa, Asia, and Latin America) counts almost 1,500 microfinance institutions (688 in Indonesia and 790 in other countries) supported by international organizations in 85 developing countries. They reach 54 million members: 44 million of them save, and 23 million of them borrow. The total volume of outstanding credit stands at $18 billion and the total savings volume stands at $13 billion, or 72 percent of the volume of the outstanding loans. MFIs operated out of at least 46,000 branches and employed around 175,000 persons. Analyzing this world of mushrooming MFIs canprovide fresh insights on potential service outreach and the overall role of MFIs in developing countries.

Levin, M.D. (1981). "Labor, Savings and Credit in a Nigerian Village." Symposium on Traditional Cooperation. I.U.A.E.S. Intercongress, Amsterdam, mimeo.

Lewis, D.J. (1996). "Understanding rural entrepreneurship in a Bangladesh village — individuals, roles or structures?" *Small Enterprise Development*, Volume 7, Number 4, December 1996, pp. 22-31(10).

Abstract: Despite the centrality of small enterprise development to current development practice among donors and NGOs, the concept of entrepreneurship has only rarely been examined since the heyday of modernization theory. Moving beyond the emphasis on key individuals and special qualities and instead focusing on ideas about structure and context, we can use the concept to understand how people gain access to new non-cultivating roles in agriculture in rural Bangladesh. Processes of technological change under privatization and structural adjustment have created new opportunities leading to the creation of new forms of technology-based enterprise in rural areas. These need not always be captured by local élites. For NGOs and other development agencies there may be new openings for innovative support to enterprise efforts by the poor.

Lipton, M. & Lipton, Merle. (1993). "Creating rural livelihoods: Some lessons for South Africa from experience elsewhere". *World Development*, Volume 21, Issue 9, September 1993, Pages 1515-1548.

Abstract: A development path for South Africa that will create jobs and reduce poverty must include the encouragement of greater labor intensity in agriculture, especially of smallholder farming, which was suppressed under apartheid. There is, however, widespread skepticism — on both the left and the right — about the prospects for more labor-intensive farming. But this skepticism is called into question by both theory and evidence of the advantages of small-scale production in certain products and circumstances; there are now numerous examples of this in many parts of the world. The paper discusses the preconditions for the development of such farming in South Africa, including land reform and the need to reorient investment and supporting economic and technical services (research, training, marketing, credit) from the privileged, large-scale "white" farms to the undercapitalized and neglected black smallholders.

Mayoux, L. (2001). "Micro-finance and the empowerment of women: a review of the key issues". Microsave-Africa.

Abstract: Looks at the links between micro-finance and women's empowerment within the context of the debate about gender mainstreaming. The paper is based on research by the author and secondary source material. 15 case studies form the main basis of the arguments. The paper concludes that women's empowerment needs to be an integral part of policies. Empowerment cannot be assumed to be an automatic outcome of micro-finance programmes, whether designed for financial sustainability or poverty targeting. More research and innovation on conditions of micro-finance delivery is needed. The paper finds that cost-effective ways of integrating micro-finance with other empowerment interventions, including group development and complementary services are still lacking. Unless empowerment is an integral part of the planning process, the rapid expansion of micro-finance is unlikely to make more than a limited contribution to empowerment.

McCord, M.J. (2003). "The Lure of Microinsurance: Why MFI's should Work with Insurers". *Microinsurance Centre* Briefing Note #1.

Abstract: This paper is the first in the MicroInsurance Centre Briefing Notes series. It presents an arguement advocating that MFIs intending to develop insurance products beyond basic credit life should work as a partner with a regulated insurer.

Meyer, R.L. (2001). "Microfinance, Poverty Alleviation, and Improving Food Security: Implications for India". In Ratan Lal (ed.) *Food Security and Environmental Quality*, CRC Press LLC, Boca Raton, FL.

Abstract: Analysts are becoming increasingly aware that microfinance can play multiple roles in reducing poverty and improving food security for poor people. This chapter discusses these roles and applies them to India. It begins by summarizing the changes in perceptions about poverty reduction that have occurred during the past couple of decades. Then there is a brief discussion of the relationship between finance and food security. The following section considers microfinance as a "win-win" proposition in the provision of financial services. This is followed by a discussion of microfinance in India, noting important strengths and weaknesses of current policies and programs. The concluding section outlines ways in which microfinance could be strengthened to improve its contribution to poverty alleviation and food security in India.

Meyer, R.L. (2001). "Microfinance, Poverty Alleviation, and Improving Food Security". *Finance for the Poor*, Vol. 2, No. 2. ADB.

Abstract: 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.

Meyer, R.L. & Larson, D. (2002). "Issues in Providing Agricultural Services in Developing Countries" in *Promoting Third-World Development and Food Security,* Luther G. Tweeten and Donald McClelland (eds.), Westport: Praeger Publishers, 1997, pp. 119-151.

Meyer, R.L. (2003). "Microfinance, Poverty Alleviation, and Improving Food Security: Implications for India". In Rattan Lal, David Hansen, Norman Uphoff, and Steven Slack (eds.), *Food Security and Environmental Quality in the Developing World*, Boca Raton, Florida: CRC Press LLC, 2003.

Microfinance Consensus Guidelines, (2003). "Definitions of Selected Financial Terms, Ratios, and Adjustments for Microfinance".

Abstract: This guideline puts forward standard definitions for selected financial terms, commonly used and subject to confusion, and suggests a standard method of calculating certain financial ratios. The consensus on these terms is the result of a project intitated by Damian von Stauffenberg of MicroRate with Alternative Credit Techniques, CGAP, IDB, M-Cril, MicroBanking Bulletin, PlaNet Finance, the SEEP Network and SEEP Financial Services Working Group, and USAID.

Minsky, H.P. (1991). "Financial Crises: Systemic or Idiosyncratic". Working Paper No. 51.

Abstract: The presentations at this conference are by economists from Academies and economists who professionally confront real world problems, either in private finance or in public policy. As economists we accept that the remarks made by Keynes in the closing passage of The General Theory are true: "... the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. .... I am sure the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. ... Soon or late it is ideas, not vested interests, which are dangerous for good or evil." We like this assertion not only because it makes us important but also because it makes good sense. The ideas that Keynes refers to are theories. A theory prior for rational action. A of system behavior is a proposed action,

whether by individual agents in households or firms, a bank, a government agency or a legislative body is appropriate action only as a theory connects the action to the desired result. Because some institutions, such as deposit insurance, the savings and loan industry, and a number of the great private banks, that served the economy well during the first two generations after the great depression, seem to have broken down, the need to reform and to reconstitute the financial structure is now on the legislative agenda. As we try to fix the financial system three questions should be asked of the pushers of a policy proposal: 1. "What is it that is taken to be broke?", 2. "What theory about proposal?" 3. What are the dire consequences of not fixing that which you assert is broke? In what follows I will take up three points 1. Two views of the results of the economic process 2. Systemic and idiosyncratic sources of financial crises 3. Some ideas about the scope for policy in the present "crisis".

Montiel, P.J. (1990). "The Transmission Mechanism for Monetary Policy in Developing Countries". *IMF Working Paper* No. 90/47.

Abstract: In many developing countries the financial system is characterized by the absence of organized markets for securities and equities, by capital controls, and by legal ceilings on bank borrowing and lending rates, a situation which gives rise to parallel markets for foreign exchange and informal loan markets. This paper analyzes how changes in monetary policy instruments (bank credit, administered interest rates, required reserve ratios, and intervention in the parallel exchange market) are transmitted to domestic aggregate demand in a financially-repressed economy. Such an analysis is necessary to understand how the move to a more market-oriented system would affect the economy in the short run.

Morduch, J. (1998). "Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh." Princeton University working paper.

Abstract: The microfinance movement has built on innovations in financial intermediation that reduce the costs and risks of lending to poor households. Replications of the movement's flagship, the Grameen Bank of Bangladesh, have now spread around the world. While programs aim to bring social and economic benefits to clients, few attempts have been made to quantify benefits rigorously. This paper draws on a new cross-sectional survey of nearly 1800 households, some of which are served by the Grameen Bank and two similar programs, and some of which have no access to programs. Households that are eligible to borrow and have access to the programs do not have notably higher consumption levels than control households, and, for the most part, their children are no more likely to be in school. Men also tend to work harder, and women less. More favorably, relative to controls, households eligible for programs have substantially (and significantly) lower variation in consumption and labor supply across seasons. The most important potential impacts are thus associated with the reduction of vulnerability, not of poverty *per se.* The consumption-smoothing appears to be driven largely by income-smoothing, not by borrowing and lending. The evaluation holds lessons for studies of other programs in low-income countries. While it is common to use fixed effects estimators to control for unobservable variables correlated with the placement of programs, using fixed effects estimators can exacerbate biases when, as here, programs target their programs to specific populations within larger communities.

Morduch, J. (1999). "The Role of Subsidies in Microfinance: Evidence from the Grameen Bank". *Journal of Development Economics*, Vol. 60(1), pp. 229-248.

Abstract: The Grameen Bank of Bangladesh has been in the vanguard of the microfinance movement, showing the potential to alleviate poverty by providing credit to poor households. Part of this success has been built on subsidies. In 1996, for example, total subsidies evaluated at the economic opportunity cost of capital amounted to about US$26–30 million. The evidence helps to explain why institutions like Grameen have not just sprung up on their own as private commercial ventures, and it underscores the value of openly addressing the costs and benefits of subsidization. The paper also describes recent difficulties in maintaining high repayment rates.

Morduch, J. & Sharma, M. (2002). "Strengthening Public Safety Nets from the Bottom Up". *Development Policy Review*, Vol. 20, pp. 569-588.

Abstract: Helping to reduce vulnerability poses a new set of challenges for public policy. A starting point is understanding the ways in which communities and extended families try to cope with difficulties in the absence of public interventions. Coping mechanisms range from the informal exchange of transfers and loans to more structured institutions that enable an entire community to provide protection to its neediest members. This article describes ways of building public safety nets to complement and extend informal and private institutions. The most effective policies will

combine transfer systems that are sensitive to existing mechanisms with new institutions for providing insurance and credit and for generating savings.

Morduch, J. (2004). "Consumption Smoothing Across Space: Tests for Village-Level Responses to Risk" in Stefan Dercon, ed., *Insurance Against Poverty*, Oxford University Press.

Moser, C. & Antezana, O. (2002). "Social Protection in Bolivia: An Assessment in Terms of the World Bank's Social Protection Framework and the PRSP". *Development Policy Review* 20 (5), 637–656.

Abstract: This article uses the World Bank's conceptual framework to document the nature and scope of social protection policy and practice in Bolivia. It also assesses the manner in which social protection issues have been included in the Bolivian Government's Poverty Reduction Strategy Paper (PRSP). This highlights limitations in the existing framework, and provides the opportunity to recommend a number of measures that would make it a more comprehensive component of the PRSP. This is a preliminary review of a highly complex subject, which merits considerable further attention.

Nagarajan, G. & Gonzalez-Vega, C. (1998). "Evaluation of Apex Institutions: The Cases of PKSF in Bangladesh and FWWB in India". Columbus: The Ohio State University, Paper prepared for CGAP, August.

Abstract: This report is part of a comprehensive research project undertaken by investigators of the Rural Finance Program at The Ohio State University, in collaboration with the Consultative Group to Assist the Poorest (CGAP), to examine the rationale for the existence and evaluate the performance of apex organisations created to promote the development the development of microfinance. The research effort explores the necessary and sufficient conditions conducive to the development of sustainable microfinance organisations (MFO's) by deriving lessons from the experience of existing apex organisations such as the Palli Karma Sahayak Foundation (PKSF) in Bangladesh. The objective is to offer recommendations to donors and policymakers about conditions favourable to the successful promotion of microfinance through apex mechanisms

Nagarajan, G. & Brown, W. (2000). "Bangladeshi Experience in Adapting Financial Services to Cope with Floods: Implications for the Microfinance Industry". Bethesda: DAI, papers prepared for USAID under Microenterprise Best Practices Project, June.

Otero, M. & Rhyne, E. (1994). "The New World of Microenterprise Finance: Building Healthy Financial Institutions for the Poor". Connecticut, USA: Kumarian Press.

Abstract: This book looks at several ideas which have been crucial to the transformation of microenterprise finance. Chapter 1 (Rhyne and Otero) introduces the major ingredients necessary for the development of a financial systems approach. In chapter 2, M.S. Robinson looks at the way savings are the sustaining part of local finance and examines the explosive growth of savings in Indonesia, made possible by the crafting of convenient, safe and liquid voluntary savings instruments for the Bank Rakyat Indonesia's unit banking system. Chapter 3 (R.A. Chaves and C. Gonzalez-Vega), outlines financial sector regulation and supervision into a primer for microenterprise professionals and addresses how these issues may intersect with the characteristics of microenterprise finance organizations. Chapter 4 (E.L. Edgcomb and J. Cawley) develops a framework for thinking through the key institutional challenges microenterprise development organizations face as they move from their initial planning into implementation, growth and expansion. In chapter 5, Otero focuses on those institutions that have reached the takeoff point and need to transform themselves into financial institutions. Rhyne argues, in chapter 6, that evaluations of microenterprise finance programmes should reflect the new financial systems perspective and lays out an evaluation framework that departs from the traditional concern with the impact on beneficiaries and advocates a focus on the quality of financial services and the capacity of institutions to achieve scale and self sufficiency. Part 2 examines several of the leading methodologies for providing financial services to microenterprises. Chapter 7 (S. Berenbach and D. Guzman) addresses the solidarity group experience worldwide. In chapter 8, J.H. Magill examines credit unions, formal-sector alternatives for financing microenterprise development. Chapter 9 (S.L. Holt) looks at the village bank methodology. In chapter 10, L.R. Reed and D.R. Befus describe how transformation lending can help microenterprises to become

small businesses. Part 3 examines case studies of four microenterprise finance institutions representing Asia, Africa and Latin America. In chapter 11, J.J. Boomgard and K.J. Angell document the Bank Rakyat Indonesia's Unit Desa system and explain the factors that lead to its success. Chapter 12 (A.J. Glosser), describes the transformation of PRODEM, a successful solidarity group programme in Bolivia, into BancoSol, a commercial bank devoted to microenterprises. Chapter 13 (A. Gomez Alfonso, N. Borton and C. Castello) reviews the evolution of an NGO using the solidarity group method in Colombia using the ACCION model. In chapter 14, A.K. Kimanthi Mutua examines the Juhudi Credit System, in Kenya, a modified Grameen Bank model.

Pitt, M. (1999). "Reply to Jonathan Morduch's "Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh." Working Paper, Brown University.

Abstract: This paper addresses the concerns raised by Jonathan Morduch in his paper "Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh" about the methods and results of Mark M. Pitt and Shahidur R. Khandker, "The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does the Gender of Participants Matter?"

Pradhan, R.K. (1989). "On helping small enterprises in developing countries". *World Development*, Volume 17, Issue 1, January 1989, Pages 157-159.

Abstract: Given the increasing interest in the role that small-scale and informal economic activities play in the development process, the paper suggests a particular growth strategy not considered in the typical demand and supply strategies in the past. Referring to those small informal sector enterprises that employ workers — as distinct from those that "employ" only family members — the paper suggests giving credit to owners through the workers on certain conditions, as a way of inducing economic growth with a certain conception of justice. It is felt that "not only will this provide those at the bottom the prideful sense of feeling independent, it will also discourage a way of life that has a natural tendency to exploit those in an even more unfavorable position."

Rahman, Atiqur. & Westley, J. (2001). "The Challenge of Ending Rural Poverty". *Development Policy Review* 19 (4), 553–562.

Abstract: IFAD believes that the only way to reach the international poverty reduction target is to focus on rural development: in the early stages, with a strong focus on the production of food staples on small farms; in later stages, with more attention to commercial crops and the non-farm sector (itself strongly linked to agriculture). The key interventions are: better access for the poor to assets, especially land, water and human capital; improved technology, both 'old' and 'new'; better access to markets; and reform of institutions through decentralisation and devolution - all designed to achieve rapid reduction of poverty, through employment intensity and the exploitation of local linkages with agriculture. IFAD's approach and experience lay particular stress on supporting women and minorities.

Rahman, R.I. (1998). "Hardcore Poor and NGO Intervention". mimeo, Bangladesh Institute of Development Studies, May.

Ravallion, M. (2002). "An Automatic Safety Net?" *Finance and development*, June 2002, Volume 39, Number 2.

Abstract: A series of World Bank case studies suggests that the poor bear the brunt of government spending cuts. Better safety nets that can provide more automatic protection are needed.

Reardon, T. *et al.* (1998). "Diversification of Household Incomes into Nonfarm Sources: Patterns, Determinants, and Effects". Paper presented at the International Food Policy Research Institute Conference on Strategies for Stimulating Growth of the Rural Nonfarm Economy in Developing Countries, Arlie House, Virginia.

Abstract: This chapter had several important conclusions for the RNF development debate. (1) RNF income diversification is very important in the overall income of rural households, with rough averages of 42%, 40%, and 32% in household incomes in Africa, Asia, and Latin America. (2) The composition of RNF income diversification varies greatly over regions (with RNF activities corresponding to 1st stage and transition-stage rural industrialization in much of Africa, South

Asia, and Latin America, and 2nd stage rural industrialization in much of East Asia. The importance of agriculture-links declines and rural-urban links increase as one goes from the first to second stage). Within regions, off-farm income is more migration oriented in poor agroclimatic zones (for risk management), and RNF more linked to agriculture in favorable agroclimatic zones (for income raising). Households with better access to education and infrastructure tend to be more able to diversify, and with more own-wealth sources more able to invest in the more capital-intensive and remunerative RNF activities. (3) This emphasizes the importance of agricultural policy and development in successful RNF income diversification in 1st stage and transition stage rural industrializations. The RNF employment promotion debate tends to have a major gap with respect to 'meso policies' such as agriculturalc, which needs to be addressed (for details see Reardon et al. 1998a). That linkage means that is difficult to spur nonfarm employment without simultaneously addressing the problems of smallholder farmers, and vice versa, that creating the conditions for smallholder development will require overall rural development emphasizing development of the off-farm components of the rural economy. (4) However, the evidence shows that we should be quite worried about the poor's ability to overcome entry barriers to participate in RNF activity.

Reynolds, C.W. (1975). "Achieving greater financial independence for Latin America: A proposal". *World Development*, Volume 3, Issues 11-12, November-December 1975, Pages 839-844.

Abstract: Financial intermediation development in Latin America illustrates the various ways in which the financial system may influence growth, efficiency, and welfare. Though the financial repression of earlier years has begun to be alleviated, much of the resulting growth of finance in Latin America has been concentrated within the countries or between them and the now-developed regions. Intraregional financial flows have been largely overlooked as an avenue for the increase of financial savings and of regional control over the mobilization and allocation of financial resources. This paper proposes the creation of new instruments designed to further the development of financial intermediation on a regional basis. A Latin American Development Bond programme is suggested which would increase the level of voluntary financial savings for regional development purposes and would reduce the present triangulation of credit flows through financial intermediaries outside of Latin America.

Richardson, D.C. (2000). "Unorthodox microfinance: the seven doctrines of success". Microbanking Bulletin ed.Calmeadow.

Abstract: Argues for a radical reform of the orthodox approach of using financial services to achieve poverty alleviation. prospect of a competitive market with different institutional players. Many credit unions are skeptical of conventional microfinance lore. Many are now focusing on commercial viability rather than on outreach. Author offers seven doctrines for achieving poverty alleviation targets: a) Open Door Massification: serving a wider range of economic groups leads to better outreach, b) Micro-savings: MFI is less dependent on external funding and has higher liquidity for on-lending, c) Portfolio diversification: diversifying into work, housing, health, education, transport and security products. The MFI avoids risk of economic downturns in a single sector, d) Efficiency: better productivity helps MFIs compete with down-sizing commercial banks. Larger loans should contribute more to payment of fixed costs. Salary and incentive structures for staff should be re-evaluated, e) Financial discipline: better management of delinquency, loan-loss reserves, loan charge-offs, and reserves of capital and liquidity, f) Self governance: empowerment, matched by checks and balances of economic incentives, financial discipline and systematic vigilance, and g) Assimilation: poor people should be assimilated into the mainstream economy by providing them with access to comparable financial products and services.

Rutherford, S. (1994). "SIPs, NGOs and Financial Services: prospects for financial services for the poor in slum improvement projects". unpublished report for ODA's Urban Poverty Office, Delhi, 1994.

Rutherford, S. (1995). "ASA, the biography of an NGO: empowerment and credit in rural Bangladesh". ASA, Dhaka, 1995.

Rutherford, S. (1995). "A Strategy for financial services for the poor". unpublished report for ActionAid Vietnam, Hanoi, May.

Rutherford, S. (2000). "The Poor and Their Money". Oxford University Press, New Delhi.

Santomero, A.M. (1997). "Deposit Insurance: Do We Need It and Why?". 97-35.

Abstract: Depository institutions play a crucial role in an economy. They create assets to finance a portion of government spending, i.e. deficits, and to support private sector expenditures for everything from plant and equipment to consumer durables. They also and simultaneously serve as a repository for savings, providing a positive return as well as payment services to liability holders. However, these two functions create instability in the financial sector, because illiquid assets are financed by liquid liabilities. For this reason, governments throughout the world have established a financial safety net to insure the stability and integrity of the financial system. A central piece of any regulatory structure aimed at ensuring financial stability is the existence of some sort of deposit insurance structure. However, deposit insurance has its own set of problems. It encourages: (i) risktaking by insured institutions; (ii) neglect by depositors; (iii) intervention by regulatory agencies. Each can be explained as a rational response to the existence of government deposit insurance aimed at the lofty goal of financial stability. Depository institutions are encouraged to take risk because the costs of financing risky assets are unrelated to the probability of fault. With the government guarantee, some or all depositors are insured and care little about the assets their institutions hold or their likelihood of failure. Knowing this, regulators are forced to take on a more active role. In essence, they act as a proxy for the market in disciplining risk and encouraging prudence. In the end, the system diverges from its free market counterpart even as it attempts to obtain a socially desirable end. The problems associated with deposit insurance are even greater for Europe as it moves closer to financial integration. With continued movement toward a single currency and a single financial market, the difficulties associated with weighing and minimizing the cost of deposit insurance to achieve its desirable attributes becomes even more difficult. This is because the willingness of different societies to absorb the costs of such a system in order to obtain the benefits of financial stability and the willingness of financial institutions to bear risk will vary. Therefore, in isolation they would have had different types and levels of deposit insurance. However, in a united Europe a convergence will be forced upon them. Where this will all end is still a very open question. But, the potential for discord and financial dislocation is considerable.

Seibel, H.D. (2006). "The Role of Microfinance in Rural Microenterprise Development: Results of an Internet Based Discussion Forum". Syngenta Foundation and University of Cologne.

Abstract: Syngenta Foundation for Sustainable Agriculture in Basel, Switzerland, works with rural communities in semiarid regions with the objective of improving their livelihoods through sustainable innovation in agriculture. In the context of The Economist's Survey of Microfinance in the November 2005 issue, the foundation invited readers to help shape its strategy in support of the rural micro-enterprise sector by posting their contributions on a website set for that purpose. To initiate the debate it posted four basic questions: How to link microfinance to rural entrepreneurs? What would it take to foster sustainable access to microfinance in the rural areas of developing countries? How can we particularly ensure access by rural women to microcredit? What other factors are constraining microenterprise in rural areas? This paper puts together the key results from the contributions made to the discussion.

Sharma, M. (Editor and contributor). (2000). "MicroFinance : a pathway from poverty". Washington, DC: IFPRI, USAID.

Abstract: These summaries cover research results from a multicountry research program on rural finance policies for food security of the poor, 1994—2000.

Sobhan, R. (1991). "Introduction" to *Debt Default to the Development Finance Institutions: The Crisis of State Sponsored Entrepreneurship in Bangladesh*, edited by Rehman Sobhan. Dhaka: University Press Limited. p. 1-9.

Start, D. (2001). "The Rise and fall of the Rural Non-farm Economy: Poverty Impacts and Policy Options". *Development Policy Review* 19 (4), 491–505.

Abstract: The rural non-farm economy (RNFE) is gaining prominence in debates on rural development. Rural household strategies, and rural economies with them, are often increasingly diversified. But how much do we know about the RNFE's development and impacts, and about how to support it effectively? This article suggests that the RNFE goes through distinct stages of growth, demise and recovery. Understanding these is important in designing policy support. Several interventions are indicated, but three cautions are noteworthy: policies should be fine-

tuned to the stage of rural economic development; the RNFE they target may have variable impacts, particularly on inequality; and supporting the rural non-farm economy may be an expensive option, especially if national job creation is the primary objective.

Steel, W.F. & Andah, D. (2003). "Rural and Microfinance Regulation in Ghana: Implications for Development and Performance of the Industry". Washington, D.C.: The World Bank, *Africa Region Working Paper Series* No. 49.

Abstract: Legislation and regulations governing rural and microfinance institutions (RMFIs) in Ghana have evolved with the market, both opening up possibilities for new types of institutions and tightening up to restrain excessive entry and weak performance in the face of inadequate supervision capacity. The result – though not entirely by conscious design– is several tiers of different types of RMFIs with a strong savings orientation and a much greater role of licensed institutions relative to NGOs than is found in many countries. Small unit Rural and Community Banks (RCBs) are accommodated in the Banking Act; savings and loan companies in the Non-Bank Financial Institutions (NBFIs) Law; and credit unions under a new law being prepared to recognize their dual nature as cooperatives and financial institutions. The informal sector is dominated by a variety of savings-based methodologies, both individual and group. Supervision of a large number of RMFIs is costly relative to their potential impact on the financial system (about 7% of assets), and the Bank of Ghana has adopted a number of strategies to cope with its limited supervision capacity: raising reserve requirement for RCBs to as high as 62%; drastically raising the minimum capital requirement for NBFIs; andpermitting self-regulation of credit unions by their apex body. It is currently establishing an Apex Bank to serve the RCBs, link them more effectively to the commercial banking system, and take the lead in building their capacity and, eventually, in undertaking front-line supervision. Although the US$2 million minimum capital requirement makes the S&Ls less accessible for NGO transformation, it has led to introduction of foreign capital. While the RCBs have had limited outreach, some have effectively partnered with NGOs to introduce microfinance methodologies such as village banking, and they are now being strengthened as the backbone for expansion of rural financial services. Linkages also occur between informal savings-based "*susu*" institutions and both RCBs and S&Ls. The Bank of Ghana has taken a relatively laissez-faire position vis-à-vis the informal sector. Liberalization of financial policies in the late 1980s has enabled RMFIs to develop with relatively little interference, and without a clearly articulated national strategy. Nevertheless, continued high inflation and interest rates (particularly on Treasury Bills) has limited the incentive for commercial financial institutions to reach out to smaller, poorer clients (though enabling weak RCBs to improve their capital adequacy with highly restricted lending).Furthermore, directed, subsidized loans under current government poverty programs threaten to undermine loan performance and weaken the long-run potential for developing sound, self-sustaining RMFIs on a significant scale. While Ghana's approach has yielded a wide range of RMFIs and products with the potential for substantial outreach to the poor and sustainability based on savings mobilization, it has also permitted easy entry of institutions with weak management and internal controls. Ghana's experience demonstrates the difficulty of striking the right balance between encouraging entry and innovation on the one hand and establishing adequate supervision capacity on the other. In several segments – RCBs, credit unions, S&Ls – Ghanahas gone through a cycle of easy entry, weak performance, tightening up regulations, and some restructuring (through closing insolvent units, takeovers, or infusion of new investment). The Bank of Ghana has exercised considerable regulatory forbearance in allowing weak units time to comply with stricter regulations (or, in the case of the credit unions, to establish a self-regulating system while awaiting passage of a new law). On the whole, this approach appears to have succeeded in giving Ghana a very diverse, reasonably robust system of RMFIs, with relatively little cost in terms of outright failed institutions (and lost deposits) and moderate drain on supervisory resources. Nevertheless, the system has failed to achieve impressive outreach, especially to the rural poor, and remains burdened by a number of weak units that the regulatory authorities are not well equipped to turnaround.

Steel, W.F. & Charitonenko, S. (2003). "Implementing The Bank's Strategy To Reach The Rural Poor". Washington, D.C. *Rural Private Sector, Markets, Finance, and Infrastructure Thematic Group*, Report No. 26030, The World Bank.

Abstract: This paper elaborates rural finance aspects of the World Bank's rural development strategy, *Reaching the Rural Poor*, by giving an overview of recent implementation experience, discussing current issues, and highlighting priorities for the future. The primary objective is to articulate how the Bank views current best practices in rural finance and attempts to incorporate them into its operations, as a common frame of reference for policymakers in client countries, Bank staff, and other donor agencies. In the process, it provides some operational guidance on the types of instruments suited to different circumstances, although it is not intended as a toolkit for project design.

Taylor, A.M. (1999). "Latin America and Foreign Capital in the Twentieth Century: Economics, Politics, and Institutional Change". *NBER Working Paper* No. W7394.

Abstract: Latin America began the twentieth century as a relatively poor region on the periphery of the world economy. One cause of a low level of income per person was capital scarcity. Long run growth via capital deepening requires either the mobilization of domestic capital through savings, or large inflows of foreign capital. Latin America's capital inflows were large by global standards at the century's turn, and even up to the 1930s. But after the 1930s, Latin America was not so favored by foreign capital as compared with other peripheral regions for example, the Asian economies. The Great Depression is conventionally depicted as a turning point in Latin America for commercial policy and protectionism, thus marking the onset of import substitution and a long-run increase in barriers in international goods markets. However, this paper argues that policy responses in the 1930s, and subsequent decades of relative economic retardation, can be better understood as the cause and effect of the creation of long-run barriers in international capital markets. To support this notion, I discuss the quantitative extent of these barriers and their effects on economic growth. As for causality, I argue that the political economy of institutional changes in the 1930s in the periphery might be understood in similar terms to those economic historians have used to discuss the macroeconomic crisis in the core. Such a political-economy model might thus have universal (rather than core-specific) use. It might predict the 'reactive' and 'passive' responses by periphery countries to external shocks, and the persistence of such shocks in the postwar period. In conclusion, I touch on the important implications of these ideas for the current situation in Latin America, where recent policy reforms aim to undo the last sixty years of isolation and reintegrate Latin America into the global economy.

Tiscon, G.S. (1985). "The Emergence of Non-Bank Financial Institutions in the SEACEN Countries". Staff Papers no. 9, Kuala Lumpur: SEACEN Research and Training Centre, The South East Asian Central Banks, 32 p.

Tomich, T.P.; Kilby, P. & Johnston, B.F. (1995). "Transforming Agrarian Economies: Opportunities Seized, Opportunities Missed". Ithaca: Cornell University Press.

Abstract: Some developing countries have made striking progress in transforming the structure of their economies, in raising productivity, and in reducing poverty. But in fifty-eight countries the majority of the labor force is still primarily dependent on agriculture. These include all of the poorest developing countries, and their 3.1 billion people account for almost 60 percent of the world's population. Our goal is to present a comprehensive analysis of the state of the art in development strategy for these agrarian economies. Identifying important ideas that have withstood the test of time is central to this task. The relevance of these ideas to any country depends crucially on its stage of structural transformation. This is what led us to concentrate our analysis on the largest (and poorest) subset of contemporary developing countries

Udry, C.R. & Conley, T.G. (2004). "Social Networks in Ghana". *Yale University Economic Growth Center Discussion Paper* No. 888.

Abstract: In this chapter we examine social networks among farmers in a developing country. We use detailed data on economic activities and social interactions between people living in four study villages in Ghana. It is clear that the networks of information, capital and influence that permeate these communities are shaping economic development in this region. This chapter explores the determinants of these important economic networks. We first describe the patterns of information, capital, labor and land transaction connections that are apparent in these villages. We then discuss the interconnections between the various economic networks. We relate the functional economic networks to more fundamental social relationships between people in a reduced form analysis. Finally, we propose an equilibrium model of multi-dimensional network formation that can provide a foundation for further data collection and empirical research.

USAID. (2000). "USAID microenterprise development briefs : a compilation of briefs issued from February 1995 through October 1998". Washington, DC.

USAID. (2005). "Value Chain Finance". *RAFI Notes* (Rural and Agricultural Finance Initiative) Issue 2.

Abstract: This brief note is based on "Value Chains and Their Significance for Addressing the Rural Finance Challenge", microREPORT by Bob Fries and Banu Akin – which can also be downloaded below. It suggests a value chain is the series of actors and activities needed to bring an agricultural product from production to the final consumer. Value chain finance then arises when credit or other financial services flows through the actors along this chain – this may or may not include support from formal financial institutions. The paper contends that identifying relationships along the value chain, mitigating constraints, exploiting opportunities for value chain finance, and exploring how formal financial institutions can enter the equation can improve the overall effectiveness and efficiency of the value chain. Such interventions, if designed well, can increase the competitiveness of small producers, a range of agricultural and agribusiness enterprises. This note aims to provide an overview of the nature and potential of value-chain finance, as well as some of the lessons learned in using value-chain finance to promote agricultural sector development. It begins with discussion on value chains, from both a supply and demand perspective, and how they are financed. Finance is split between direct value chain finance and indirect value chain finance; and the complimentary nature of the two is also considered. The note then profiles some common forms of value-chain finance – trader credit, contract farming/outgrower schemes and warehouse receipt systems – and discusses the advantages and disadvantages of each. The note ends by highlighting the implications for program design, drawing on recent experience using value chain analysis in Mozambique.

USAID. (2006). "The Role of Financial Institutions". *RAFI Notes* (Rural and Agricultural Finance Initiative) Issue 3.

Abstract: Farmers, rural residents, and rural businesses historically have had limited or poor access to financial services because of specific constraints to serving rural and agricultural markets. To succeed in promoting agricultural enterprise development or, more broadly, rural development, we must address the inadequacy of financial service in these areas. RAFI Note #3 reviews the risks and problems that financial institutions face in trying to provide rural and agricultural financial services, and highlights new approaches and mechanisms to mitigate credit risk and improve the profitability of rural lending. This issue also discusses the potential for historically urban-focused microfinance institutions (MFIs) to provide services in rural areas, including to farmer clients.

Van Greuning, H.; Gallardo, J. & Randhawa, B.K. (1999). "A Framework for Regulating Microfinance Institutions". *Financial Sector Development Department*. World Bank.

Abstract: Is there a need to regulate microfinance institutions? If so, what activities should be regulated? Who should regulate them? And what issues are fundamental to the sector's regulation? The continuum of institutions providing microfinance cannot develop fully without a regulatory environment conducive to their growth. Without such an environment, fragmentation and segmentation will continue to inhibit the institutional transformation of microfinance institutions. Van Greuning, Gallardo, and Randhawa recommend a tiered approach to external regulation, one that takes into account the different types of microfinance institutions, the products they offer, and the markets they service. A tiered approach can be useful in designing regulatory standards that recognize the basic differences in structure of capital, funding, and risks faced by different kinds of microfinance institutions. The model they develop for a regulatory framework identifies thresholds of financial intermediation activities, thresholds that trigger the requirement that an institution satisfy external or mandatory regulatory guidelines. It focuses on risk-taking activities that must be managed and regulated. They illustrate the usefulness of the model by practically applying prudential considerations to various categories and values of financial risk for each of three broad categories of microfinance institution. A transparent, inclusive framework for regulation will preserve the market specialties of different types of microfinance institutions-and will promote their ultimate integration into the formal financial system. One example of the kind of regulation the authors recommend: Require standard registration documents and procedures-no different from those required of regular corporations-including the designation of a central government agency with which they should register as corporate entities.

Vittas, D. (1997). "The Role of Non-Bank Financial Intermediaries (with Particular Reference to Egypt)". *World Bank Policy Research Working Paper* No. 1892.

Abstract: Non-bank financial intermediaries both complement and compete with commercial banks, forcing them to be more efficient and responsive to customers' needs. Especially, pension funds and other institutional investors that mobilize large long-term financial resources can act as countervailing forces to the dominant position of commercial banks. Non-bank financial intermediaries (NBFIs) comprise a mixed bag of institutions, ranging from leasing, factoring, and venture capital companies to various types of contractual savings and institutional investors (pension funds, insurance companies, and mutual funds). The common characteristic of these institutions is that they mobilize savings and facilitate the financing of different activities, but they do not accept deposits from the public. NBFIs play an important dual role in the financial system. They complement the role of commercial banks by filling gaps in their range of services. But they also compete with commercial banks and force them to be more efficient and responsive to the needs of their customers. Most NBFIs are also actively involved in the securities markets and in the mobilization and allocation of long-term financial resources. The state of development of NBFIs is usually a good indicator of the state of development of the financial system. Vittas focuses on contractual savings institutions, namely pension funds and life insurance companies, that are by far the most important NBFIs. He also offers a brief review of the role and growth of other NBFIs, such as leasing and factoring companies, as well as venture capital companies and mutual funds. Vittas covers developments in selected countries in different regions of the world. He also examines the recent growth of NBFIs, especially contractual savings institutions and securities markets, in Egypt. Vittas discusses the necessary regulatory and other policy reforms for promoting NBFIs - in particular, the openness to international markets and foreign presence that is essential for the transfer of skills and technologies. This paper - a product of the Development Research Group - is part of a larger effort in the group to study non-bank financial intermediation.

World Bank. (1997). "Financial Services for the Rural Poor and Women in India: Access and Sustainability". Washington DC.

Yunus, M. (1992). "Grameen Bank - Experiences and Reflections". Dhaka: *Grameen bank*, 23 pp.

Zaman, H. (1999). "Assessing the poverty and vulnerability impact of micro-credit in Bangladesh: a case study of BRAC". Washington, D.C: Office of the Chief Economist and senior Vice President (DECVP) World Bank.

Abstract: This paper explores the relationship between micro-credit and the reduction of poverty andvulnerability by focussing on BRAC, one of the largest micro-credit providers in Bangladesh. The main argument in this paper is that micro-credit contributes to mitigating a number of factors that contribute to vulnerability, whereas the impact on income-poverty is a function of borrowing beyond a certain loan threshold and to a certain extent contingent on how poor the household is to start with. This argument is illustrated by complementing the existing literature with some empirical analysis of household survey data collected in Bangladesh in 1995. Consumption data from 1072 households is used to show that the largest effect on poverty arises when a moderate-poor BRAC loanee borrows more than 10000 taka ($200) in cumulative loans. A number of pathways by which micro-credit can reduce vulnerability, namely by strengthening crisis-coping mechanisms (the 1998 flood in Bangladesh is used as a case study), building assets and 'empowering' women are discussed. Data from 1568 women are used to construct sixteen 'female empowerment' indicators and the empirical analysis that follows suggests that micro- credit has the greatest effect on female control over assets and also on her knowledge of social issues controlling for a host of other characteristics.

Zeller, M. (2000). "Product Innovation for the Poor: The Role of Microfinance". Rural Financial Policies for Food Security of the Poor: Policy Brief No.3. *IFPRI.*

Abstract: This policy brief reviews evidence and draws lessons regarding the role of microfinance for income and consumption smoothing by the poor. It highlights potential areas for product innovation by the microfinance sector to address the demand for financial services for income and consumption smoothing.

Zeller, M. & Sharma, M. (2000). "Assessing the Relative Poverty Level in Clients of Microfinance Institutions: An Operational Tool". *Rural Financial Policies for Food Security of the Poor. Policy Brief No. 10.*

Abstract: Many microfinance institutions (MFIs) receive public support. In return for this support, governments and donors demand MFIs not only become financially sustainable but also reach the poor, or even the poorest of the poor. Effective evaluation of the achievement of these objectives requires appraising both the MFI's financial sustainability and the relative poverty of its clients. In recent years, several tools have emerged to assist donors in their assessment of the financial sustainability of MFIs. For example, the Consultative Group to Assist the Poorest (CGAP), which seeks to promote sustainable microfinance institutions for the poor, disseminates a number of tools that allow assessing the financial sustainability and other aspects of institutional performance of MFIs. Currently, no operational tool exists for measuring how well a MFI reaches the poor through its services. In order to gain more transparency on the depth of poverty outreach, CGAP supported research at IFPRI during 1999 and 2000 to design and test a simple, low-cost operational tool to measure the poverty level of MFI clients relative to nonclients. This policy brief summarizes the main features of the tool, how it can be applied, and what type of results can be obtained. Another policy brief informs about the results from four test country cases.

Zhixiong, Du.; Quinsin, Mao & Yoichi, Izumida. (2005). "Financing of Rural Enterprises in China after the Financial Reforms in the 1990s – Results of a Field Survey in Anhui Province". *Savings and Development, Issue no. 3.*

Abstract: How well to finance the small and m edium- size d enterprises (SMEs) is a worldwide puzzle. The enterprises in rural China, the typical SMEs but contributing much to both the rural economy and Chinese economy as a whole, are facing difficulties in financing. This paper, with the background of the three substantial reforms upon the rural financial system occurred in the late 1990s, presents the results of a field survey concerning the rural enterprises' financing situation in Anhui Province in the Middle China. The paper examines the loan purpose s , self- evaluation on the accessibility of rural enterprises to various financial institutions. The main findings covers: (1) I n rural Anhui , the rural SMEs established in the 1990s face serious shortage of working and investment capital . (2) M ost of the sample enterprises have strong desire s to obtain loans and show insensitivity to the level of ongoing interest rate of loans. (3) W ith the reform of the financial system in China and the Asian financial crisis during the 1990s, the rural financial institutions became cautious to lend money to rural enterprises. The empirical evidence in this paper indicates that the prominent nature of the Chinese rural financial market after the reforms in the 1990s can be identified as so-called credit rationing. As the background of this phenomenon, there might be information gap between financial institutions and rural TVEs, as well as repressive regulation from the monetary authority.

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