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Microfinance and Public Policy: Outreach, Performance and Efficiency edited by Bernd Balkenhol Palgrave Macmillan Publication, New York, 2007, pages 286, price £ 60.00

Microfinance has globally emerged as a major policy tool for eradication of poverty in the previous two decades. During this period, Micro Finance Institutions (MFIs) experienced a spectacular growth in terms of volume and outreach. The book, "Microfinance and Public Policy: Outreach, Performance and Efficiency", which was published by Palgrave Macmillan in 2007, addresses some important issues relevant to microfinance. The book, edited by Bernd Balkenhol of International Labour Office, presents the findings of a survey by Geneva International Academic Network (GIAN) of 45 MFIs, which are operating in 21 countries across Africa, Asia, Latin America, Eastern Europe and Middle East and North Africa. The research work was a joint project of Geneva International Academic Network, the Institute of Development Studies, International Labour Office, University of Cambridge and University of Geneva, with ILO as coordinating agency. The major focus of the book is to examine the efficiency of MFIs.

Part I, comprising the Chapter, 'Efficiency and Sustainability in Microfinance', which is the introductory chapter, discusses various dimensions of the microfinance, *viz.*, promises and achievements made by it, efficiency and financial sustainability of microfinance institutions. Efficiency refers to the ability of firms of using scarce resources in most effective ways in providing greatest number of goods and services to end-users. Efficiency is a matter of technical transformation of inputs (staff, funds) into outputs (loans and other financial services). In case of MFIs, such technical efficiency can be measured in terms of ratios such as number of clients per loan officer, average loan balance and staff costs. Book emphasises the need to differentiate efficiency from financial sustainability. There could be situations where an MFI is efficient in technical and allocative terms under market constraints, but not financially sustainable. Chapter concludes that in situations of discrepancy between efficiency and financial sustainability in MFIs, efficiency can be considered as neutral and high order performance criteria.

Part II of the book covering four chapters, discusses the conceptual framework in terms of theoretical link between poverty, inequality and finance from various perspectives. It also sets out various issues in the area of microfinance. It depicts that the microfinance products other than microcredit such as micro insurance and micro deposits can be more useful for poor. There could be trade-off between poverty reduction and financial performance of MFIs. Surveys of some MFI recognise the indispensability of subsidies for financial performance and targeting the poor. However, in many cases, MFIs face some kind of problem related to getting subsidies. It has been observed that public donors attach more conditions than private donors to subsidies they provide. In the absence of subsidies, it would be difficult for microfinance institutions to reach to very poor which may lead to exclusion may also happen because of various constraints, *viz.,* climatic conditions, geographic distance, low population density, lack of sufficient collateral and irregularity of income, *etc.* It is also to be noted that by increasing over-indebtness in some sections of poor population microfinance can increase inequality in society. Authors Amadou Diop, *et al.,* draw conclusion that micro-credit by itself cannot be panacea to reduce social inequalities and eradicate poverty.

The chapter on 'Poverty Reduction through Microfinance: A Capability Perspective' attempts to examine the issues raised in previous Chapter. It explains that there could be positive and negative effects of microfinance. Positive aspects are based on the assumption that there is a managerial capacity in poor people (idea of self employment). It may be broadened by linking food and income security with financial security. Access to financial services may increase the risk bearing appetite, smoothen the consumption pattern, increases the expenditure on medical, education and other social occasions. But at the same time many mechanisms might be detrimental to poor from enjoying the benefits of microfinance, *viz.,* strict group membership rules, peer group expectations, *etc.* Author, Flavio Comim, in comparison to other value-based approaches, advocates adopting Sen's capability approach for assessing the true requirement of credit. Unlike standard measures of poverty which emphasise resources as indicators of human well being, capability approach focuses on people's level of education, self confidence and autonomy as capabilities, and can have intrinsic and instrumental values. Capabilities are intrinsic when they are valued independently of their consequences, while they may be instrumental when they are valued dependent on their consequences.

Next article on 'Achieving Poverty Outreach, Impact and Sustainability: Managing Trade-offs in Microfinance', examines the conundrum of the trade-off between social and financial objectives and how it can be managed practically. The questions at the helms of trade-offs are social objectives of MFIs, who are served, what are the services being served and what is the level of viability. According to author Anton Simanowitz through analysis and program design, greater depth and outreach can be achieved. It can, but must not always, affect the financial performance of an MFI. It strongly believes that it is possible and cost effective for the MFIs to devise systems for monitoring and assessing their outreach performance.

Last chapter of this part, 'Smart Subsidies,' argues that government measures can be meaningful and effective and can be devised so as to avoid negative externalities. It can be in the form of startup subsidies for institutions or can be startup subsidies for customers. It emphasises that startup subsidies have advantage of being time limited and relatively transparent. According to the Chapter, arguments against subsidies spring from fears that they would undermine the long term viability of microfinance and limit its scale. However, Jonathan Morduch emphasises that, in principle, subsidies in modern microfinance can be well designed. And, if so, they can be part of efforts to achieve meaningful transformation in the lives of clients, without sacrificing the integrity of institution.

Part III of book, comprising four chapters discusses methodology for estimating efficiency. 'Efficiency in Microfinance Institutions: An Application of Data Envelopment Analysis to MFIs in Peru' argues that in case of MFIs, traditional methods of estimating efficiency would not be sufficient as MFIs are non-profit organisations which work for social cause. Therefore, there is a need for a methodology applying multiple efficiency criteria for assessing the degree to which MFIs are financially and socially efficient. For this authors Renata Serra, Fabrizio and Milasoa Cherel-Robson apply Data Envelopment Analysis, which very often used for measuring the financial and social performance of banks and other financial institutions. It uses a data set of 40 microfinance institutions active in Peru in 2003. In the analysis, authors, found that efficiency level of MFIs is quite high.

The next chapter 'Efficiency in Financial Intermediation: Theory and Empirical Measurement' by Thorsten Beck has applied interest rate as a measure of efficiency. It discusses that, while in developed countries interest rate spread is 2 to 4 per cent, in developing countries often it could be up to 10 per cent and in certain cases it may reach up to 30 per cent (*e.g.,* Brazil). The Chapter concludes that, while the efficiency of financial system is reflected in interest spread and margins, one has to consider underlying causes in order to formulate sensible policies. Chapter emphsises the reforms in macroeconomic and institutional framework of economy to enforce competition and attain higher efficiency.

Findings of Chapter, 'Efficiency Drivers and Constraints: Empirical Findings', show that efficiency and financial results are distinct dimensions of performance of an MFI. According to the author,Yousra Hamed, there are five drivers that position an MFI on the socio-financial space, *viz.,* location, legal form, scope for externalisation of transaction costs, method of staff remuneration and delivery techniques (group *vs.* individual loans and collateralised *vs*. uncollateralised loans). It concludes that the diversity of operating environments and rich variety of institutions, both influence the position of an MFI on the trade-off between financial and social performance, and it appears timely to ground donor support on a more general, fair and neutral criteria, which is efficiency. Author briefly presents the results of the 2004-05 GIAN survey. Based on survey it arrives at a set of efficiency indicators - measured in terms of financial as well as operational self sufficiency - such as administrative expenses per loan outstanding, cost per borrower, average loan processing time, *etc.,* which can be taken as neutral criteria for funding.

In the last chapter of this section, 'Measuring the Performance of MFIs: An Application of Factor Analysis,' Giovanni Ferro Luzzzi and Sylvain Weber have used factor analysis method for measuring the performance of the MFIs. Chapter follows somewhat similar methodology used in Chapter 6 where MFI's output are measured and evaluated with respect to resources used in efficient frontier context but with, a different dataset and an alternative model. Authors demonstrate that by factor analysis it is possible to present graphically the location of efficient MFIs as clusters, the relative best performer and distance of any given MFI in a cluster to that relative best performing MFI.

Part IV of book comprises four case studies in four chapters related to MFIs of four countries/regions, *viz.,* Mali, Morocco, Eastern Europe and Central Asia and Chile, which illustrate the variety of exogenous variables bearing on the precise position of an MFI on poverty profitability continuum. Mali's case study by Renata Serra *et al;* deals with the consequences of subsidy dependence despite impressive growth and encouraging policy and regulatory environment. The case of Morocco is probably a unique combination of government support and commitment of the commercial banking sector for its pronounced poverty eradication focus. The scenario is entirely different for Eastern Europe and Central Asia where most MFIs are involved in lending to micro-enterprises. Vito Sciaraffia Merino presents a unique case study of Chilean auctioning system of subsidy to microfinance to commercial banks. It claims that evaluation by academicians show that not only this method was less costly to taxpayers than alternative methods but also that a substantial portion of these clients graduated into the banks regular portfolio: an illustration of smart subsidy.

Part V is concluding section of the book. It discusses the policy implications by editor of book himself. The chapter sums up the arguments, findings and suggestions and indentifies the implications for the managers of MFIs, policy makers, governments and donors. It calls on donor community to focus on efficiency as the fundamental performance criteria so as to be able to encompass different degrees of social financial missions in large universe of MFIs.

Overall it may be concluded that though the conclusions of book are based on a very narrow data, it raises a number issues for further research. This book may prove as an important reference book for academicians and policy makers who are concerned about the MFIs and eradication of poverty. Though it does not shed sufficient light on Indian scenario. The book is very relevant for India, which is emulating the policies of financial inclusion with microfinance institutions.

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