Reviews and resources

The Handbook of Microfinance
edited by Beatriz Armendáriz and Marc Labie
2011, World Scientific, ISBN 13978-981-4295-65-9, ISBN 10 981-4295-65-5, £124 (US$190), ebook version $247

Let's start with the title.

The Handbook of Microfinance is a large, heavy, expensive anthology of 29 articles. It's not at all a handbook in the sense of a work that can provide easy or quick practical reference.

The articles are arranged in as much of a logical order as possible, in sections addressing Practices; Environment and context; Commercialization; Agricultural finance; Savings insurance and the ultra poor; and Gender and education. However, an orderly table of contents does not a handbook make, and the articles vary too much in tone, detail, and orientation towards microfinance to be a consistent guide for a practitioner. Articles swing from the uncritical belief that 'microcredit alleviates poverty' to more thoughtful discussions of the challenge of measuring impact. While some are concise, comprehensive, informative jewels, others are obtuse pieces that swing from muttered truism to impenetrable formula. No one is likely to pick this book up and look for help answering a thorny question in microfinance (in fact, no one without moderately good arm strength is likely to pick it up at all).

If it's not a handbook, is it at least about *microfinance*? Yes, but only in a restricted sense of the term. It is mostly about micro*credit*, and as such it feels like a relic of years past. All the hot topics being debated today are largely absent. Many of the articles still treat credit-only MFIs as the paradigm of pro-poor finance. While credit-only MFIs still grab a lot of attention, and in some cases are still large and profitable, who would seriously say today that they are the models we should be studying? The Handbook contains too little discussion of the things that practitioners are actually talking about, the things that in all likelihood will be concerning us in coming years. Informal groups, branchless and cellphone banking, climate change, consumer protection, financial diaries, Portfolios of the Poor, financial education, savings-led and community-managed microfinance, and large banks moving downstream are all mentioned, but are far from the centre of the discussion, which remains centred on MFIs.

I was recently in Western Kenya and experienced

doi: 10.3362/1755-1986.2012.009, ISSN: 1755-1978 (print) 1755-1986 (online)

amazement and appreciation that people had choices: CARE's VSLAs were booming and members were spontaneously spreading the approach to neighbours and relatives; branches of Equity Bank and its imitators had popped up seemingly at every crossroads offering easy and affordable savings accounts; and M-Pesa was saturating the country with outlets. After years of working in Africa hoping to find *anything* that worked well in pro-poor finance, I was delighted to note that there were three separate institutional forms, all growing fast, all full of hope and promise. But unfortunately none of them has any prominence in *The Handbook of Microfinance*.

Wayne Gretzky, the ice hockey star, is often credited with saying, 'A good hockey player plays where the puck is. A great hockey player plays where the puck is going to be.' This book straps on its blades and boldly skates to where the puck was five years ago.

So, if it's not a handbook of microfinance, then what IS *The Handbook of Microfinance*? There is only one possible market for this £124 (US$190) monster: university students in introductory microfinance classes for whom it is required reading. (Weirdly and perversely, the e-book version of this book costs even more than the dead tree version – $247. What is the business model driving college textbook prices?)

But how poorly served are students if they are forced to buy this, and how misguided the professor who scans the list of authors, sees a number of well-known names, and assumes that it is a worthy textbook. How much better it would be simply to have the students read a few classics, or follow some of the online discussions on microfinance. I'd start with David Roodman's *Microfinance Open Book Blog* or his newly published book, *Due Diligence*. Subscribe to *DevFinance*. Check out the collected studies and focus notes from C-GAP. Visit Savings Revolution. Consult the works of some of the individual authors with articles in the book, such as Stuart Rutherford's *The Poor and their Money* and *Portfolios of the Poor* or Dean Karlan's *More Than Good Intentions*. Or, await the forthcoming *Microfinance Handbook* (Ledgerwood et al.), a true handbook of microfinance. All of these are at least trying to figure out where the puck is going and, incidentally, many are available at no cost and the others are at least affordable.

Of course, despite what I say here, people will buy and use this book, and so it is appropriate to point out that many of the articles are quite worthy of attention, while others are academic and tedious to a fault. I can only comment on some articles that struck me.

Dean Karlan makes the familiar case for his brand of

research, involving comparisons of test groups with randomly selected control groups. I am very sympathetic to this approach, but I'm also aware that opinions about the application of randomized control tests in the complexity of development programmes are polarized. Imagine how much more informative, and entertaining, the book would have been if his article had been followed by an article from one of the many articulate sceptics, or – better – if there had been a Crossfire-style debate.

Jay Rosengard offers as concise an overview of the reasons for and types of regulation and supervision as one could ask for. Craig Churchill is similarly clear in a short, informative overview of micro-insurance. These articles, and a few other gems of clarity, contrast with other articles – I will leave it to the reader to discover which ones, but they are easy to identify by the pages of formulae – which rapidly get into such abstractions as 'present-biased, quasi-hyperbolic utility functions'. The latter have their place I am sure, but it seems wildly optimistic to assume that the reader of this textbook understands them, or will profit from what seem to be displays of pedantry.

Solène Morvant-Roux surveys new approaches to agricultural finance competently, though she seems to assert (p. 427) that insurance can protect against climate change, which is false: one can insure against *events*, but not against *trends*, and climate change is clearly a trend.

One of the editors, Beatriz Armendáriz, writes a sympathetic article on the desire of women for better opportunities to save, which often leads them to the informal sector. Her article includes the following:

> Unlike dissatisfaction with microsavings facilities expressed by women in microfinance…Stuart Rutherford reports on clients' satisfaction on more than a dozen informal microsavings venues, including deposit collectors. The downside of such type of informal venues, however is that unlike microfinance, informality goes unfunded by outside the community resources. It follows [non sequitur alarm!] that it seems rational and welfare enhancing for women to smooth consumption over time and make lump-sum investments via microloans from MFIs…' (p. 508).

The 'downside' she mentions – the lack of outside 'funding', which can only mean loan funds in this context – is of course one of the advantages of good informal sector groups often cited by savings group proponents, who generally brag that savings groups do not drain money from villages in the form of interest payments

to MFIs; the writer's disturbing leap is, I suppose, based either on her lack of appreciation for the lump sums provided by good informal sector groups, ASCAs and ROSCAs alike, or simply her unexamined pro-formality bias. To read the handbook is to visit a world in which 'financial inclusion' means integration into the MFI and banking system, no more and no less. Finally, while I apologize if it seems churlish to criticize the English of non-native English speakers, many of the articles here are written in prose as unwieldy as the passage cited above.

Stuart Rutherford's article on instalment savings draws on his experience both as a researcher and writer and as a practitioner through the NGO SafeSave. One of SafeSave's ingenious savings-and-credit products, called P9, is presented with sufficient detail about its functioning, explanation of why it was designed, and cautions about its use, to justify its inclusion in a real 'handbook'.

The bottom line? If the reader ends up somehow with a copy, she will find some worthwhile articles, sadly embedded in an undertaking that seems a decade out of date.

Paul Rippey is an independent consultant who specializes in community-based, savings-led approaches to pro-poor finance, and in adding value to savings groups. For 20 years, he designed and managed MFIs, including Al Amana in Morocco. He is co-founder of savings-revolution.org, an independent website devoted to savings groups in all their forms.