Editorial: Expanding the debate on financial services

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This volume of Enterprise Development and Microfinance (EDM) addresses from different angles and in different ways the capacities and needs of financial service providers to effectively reach to the poor. Some articles explore options for increased operational efficiency of microfinance institutions (MFIs), while others focus on the capacity of service providers to expand beyond microfinance. Some take a more global view, while others focus on experiences in specific countries, namely China, India, Togo and Brazil. Taken together, the articles provide fresh fodder for debates on how financial service providers can achieve sustainability and better support the poor's capacity to deal with risk and uncertainly. The articles also provide important insights into how government and donors can better support service providers—or at the very least reduce the barriers that limit the impact and reach of service provision. Hopefully the rich debate here and elsewhere in EDM on financial services will inspire deeper reflection on how to increase the coverage and effectiveness of non-financial services, such as rural advisory services and business development services.

The first article, by Wu, Escalante and Li, examines MFI efficiency in relation to organizational maturity (i.e. accumulation of experience over time) and the goals that guide MFI strategy. Traditionally, microfinance has aimed to achieve the double objective of financial sustainability and social responsibility (i.e. responding to the needs of a large number of poor clients). The article applies a unique research framework to two contrasting sets of MFIs: the more mature Indian MFIs and the younger Chinese MFIs. The authors found no difference in the technical efficiency in the Chinese and Indian MFIs; however, the Indian MFI were able to operate at a larger scale. Interestingly, both Chinese and Indian MFIs struggled to achieve financial sustainability. Territorial limitations and other government regulations (e.g. restrictions on loan pricing) likely explain the scale inefficiencies faced by Chinese MFIs. However, when efficiency was examined with a social outreach lens, Indian MFIs scored higher efficiency than their Chinese counterparts. The authors caution that Chinese MFIs are likely to face a steep road to achieving financial sustainability, perhaps at the expense of social outreach.

Couchoro (this volume) focuses on a particular element of MFI operational efficiency: the capacity of MFIs to adapt management information systems (MISs) for reducing their transaction costs in credit provision and streamlining internal administration processes. Interestingly, while MFIs generally were able to adopt MIS, they faced considerable challenges to reap the benefits from MIS. Among the challenges Couchoro identifies are lack of technical support from MIS providers, limited adaptability of the MIS to meet specialized needs, and considerable cost investment to obtain and maintain a system. This article provides some optimism for increased operational efficiency of MFI through the uptake of MIS. It also points

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to the need for stronger coordination with MFIs to upgrade their capacity to use the software and with MIS suppliers to better adjust their product to the needs and circumstances of MFI in Togo and, most likely, elsewhere.

Lahkar, Pingali and Sadhu (this volume) ask whether the spread of commercial-oriented MFIs in India has led to over borrowing by low-income clients who take out multiple loans. The argue that borrowing from multiple sources may make financial sense: in some cases, loan amounts from any one source may be too small for making strategic investments or for covering relatively large expenses, in other cases, someone may take out formal loans from MFIs to pay off informal loans with traders or others. The article shows that an overall increase in access to credit does not necessarily lead to an increase in indebtedness levels. Households generally demonstrate the capacity to make judicious use of credit availability and refrain from overconsumption. An important policy recommendation emerges from this work: regulations should not limit the amount of loan a person can obtain through MFIs or the number of self-help financial groups in which a person can participate.

Rounding out this volume are two articles that explore options for expanding the type of financial services offered to the poor. Adams and Vogel (this volume) begin their discussion on microsavings with a review of microcredit and the misconceptions surrounding it. They argue that while the poverty-reducing potential of microcredit has fallen short of expectations, microcredit has shown that many poor people had significant capacities to borrow and repay leans. The article compares the strengths of two models for facilitating microsavings by the poor: the savings-group model and the self-help-group model. Neves Martins and Afonso (this volume) analyze a large database to identify lowest cost option for the design of microinsurance policies for poor households in Brazil. They found that designing a policy whereby households paid for private insurance only for elective and emergency consultations and low complexity examinations, but relied on state-borne (no cost) medical services for more complicated procedures provided by the state. Such a design offers potential for the poor to have better access to quality services for more routine medical services, while allowing the state to focus resources on more complex medical services.

In closing, recently you may have noticed some changes at EDM. I'm happy to be serving as EDM's new editor. Our editorial board and committee have some new members. We welcome Shaun Ferris (CRS), Amos Gyau (ICRAF), Mark Lundy (CIAT), Alastair Orr (ICRISAT) and Dietmar Stoian (Bioversity International) to the EDM team. These new members bring considerable expertise from Africa and Latin America and expand our focus on markets, business and value chains. There are exciting changes on the horizon. Over the next several months we aim to revise the guidelines for authors to better reflect our needs, retool the review process to allow for support to authors in finalizing their submissions, identify options to expand the journal's coverage of debates on business and value chain development and have a larger impact on debates surrounding financial services, and finally, devise a long term strategy for increased visibility and citations for articles published in EDM. We welcome your input to this process. Please let me know your suggestions for increasing the relevance of EDM for your work.

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