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Order of global microfinance

Microfinance Regulations for Development -- Global Experiences
Edited by Rushidan Islam Rahman and Lila Rashid.

Published by: University Press Limited; 2011, Price: Tk 1,000.

REVIEWED BY: MA BAQUI KHALILY

It is quite fascinating to read the book titled "Microfinance Regulations for Development -- Global Experiences", edited by Rushidan Islam Rahman and Lila Rashid. It is essentially a compilation of

the papers presented at the three-day international conference on "Microfinance Regulations: Who benefits?", organised by the Microcredit Regulatory Authority (MRA), Bangladesh.

The objective of organising the conference, I believe, was to learn from the available experiences on microfinance regulations across the globe. The mission is fulfilled. The anthology amply documents the regulatory framework for microfinance institutions (MFIs) in different countries. The MRA should be commended for organising the

conference and bringing out the anthology. The editors have well structured the omnibus based on themes that are of interest to the readers and professionals. Not only the book will be useful for the regulatory agencies in different countries but it will also be beneficial for the students, professionals, thinkers and researchers in the field of microfinance.

The book has been published at a time when the microfinance sector is a subject of severe debate in Bangladesh. There are two schools of thought on microfinance -- impact approach and financial system approach. Often critics question effectiveness of microcredit in poverty alleviation and validity of high interest rate from the welfare perspective. These questions fall under the 'impact approach'. Although sound empirical evidences amply document that microcredit has positive impact on different outcomes at the household level, the questions are valid. The questions are valid from the perspective of maximising welfare of poor borrowers. But welfare cannot be maximised at the expense of viability and sustainability of microfinance institutions. Here comes the 'financial system' approach. Under this approach, MFIs are part of financial system. As such, MFIs need to be sustainable in order to ensure continuous flow of financial services to the poor. Evidences are quite strong that the subsidised institutions are not cost efficient. In such a situation, it is quite reasonable to argue that the microfinance sector needs to flourish under a regulatory framework. MFIs should operate within regulatory framework of external agency. The critical issue is the nature of regulatory framework. This is where the book provides guidance, generates interest and utility to the regulatory agency, professionals and policymakers.

The book is structured into five parts. The first three parts contain eight articles on the regulatory framework of eight countries from three continents. Based on these articles, we can identify three approaches to regulate MFIs -- first, establishing a separate regulatory agency; second, establishing a regulatory window for



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MFIs under the central bank, and third, entrusting the responsibility of regulation, supervision and monitoring under a developed bank. As evident from the anthology, Bangladesh falls under the first category. Most of the countries, like Zambia, Bolivia, Cambodia and Uganda, follow the second approach; and India is set to follow the third approach.

Bangladesh has a separate regulatory agency called Microcredit Regulatory Agency, established in 2006. In India, the government is set to enact a new law to bring MFIs under the National Bank for Agriculture and Rural Development. Why are these separate approaches? Why the central banks regulate MFIs in most of the countries? Why India follows absolutely a separate path? This is more related to the perspective of viewing the role of microfinance institutions.

Microfinance institutions have emerged essentially from the development role of the self-regulated non-government organisations (NGOs). Broadly there are two groups of MFIs -- some offer pure financial services while some other offer both financial and development services. These institutions vary also in size. With multiple role of MFIs and NGO-MFIs, it is very difficult to bring all of them under a single and rigid regulatory framework. Consequently, flexibility is required in the framework. This is what we find in the anthology. Part I thru Part III of the book amply pro-

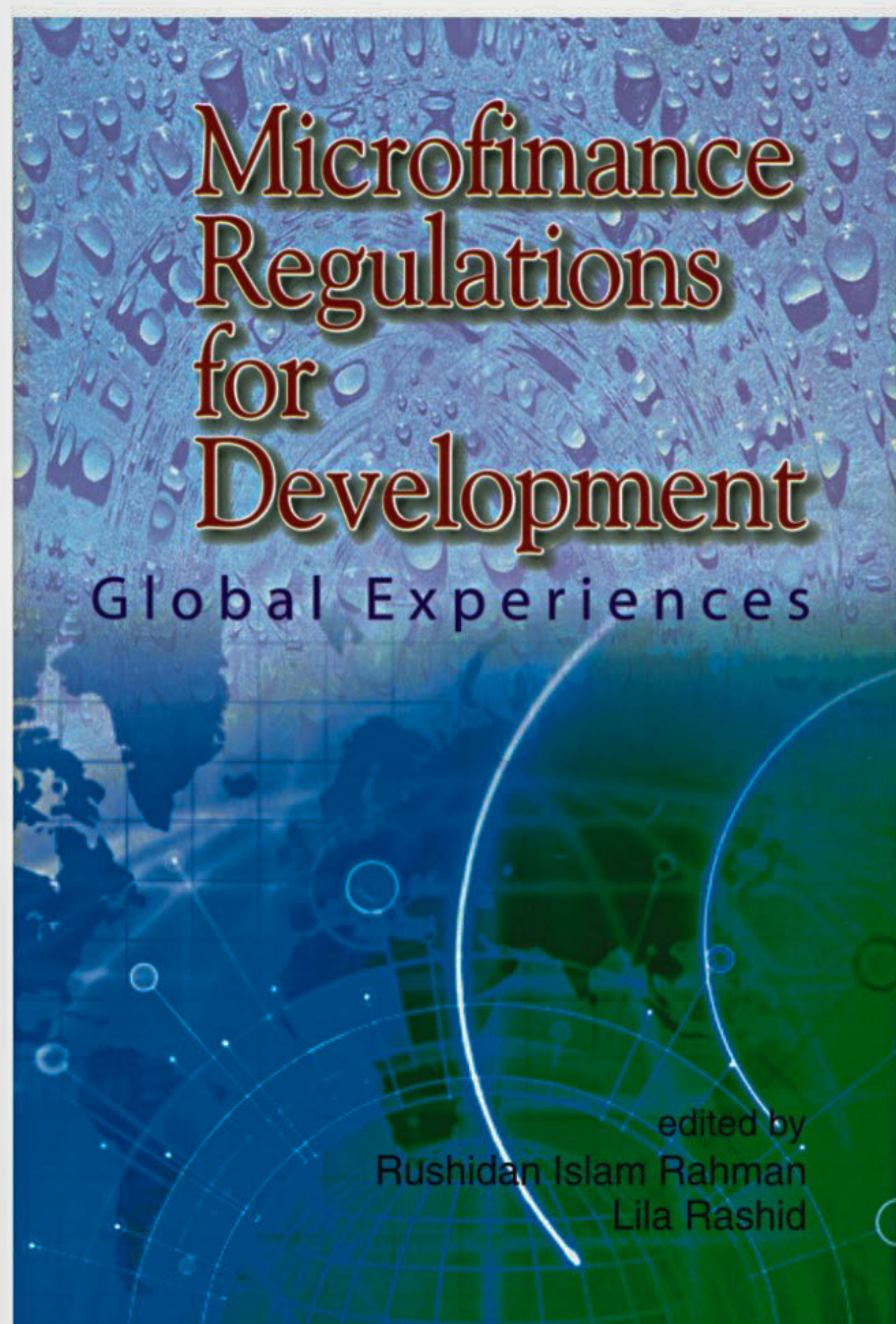
vide evidences of flexibility in regulation. One of the problems MRA faces is to bring all types of MFIs (large, medium, small and very small) under their regulatory net. I think, Bangladesh can learn from the experiences in countries like Cambodia, Bolivia, Zambia and Uganda.

In Cambodia, the country's central bank the National Bank of Cambodia (NBC) classifies MFIs into three categories according to their level of operations and licensing criteria. Big MFIs are licensed like commercial banks; medium-size MFIs are registered with NBC subject to simplified reporting system, and small NGO-MFIs running microcredit projects in specific areas can operate freely.

The banking and financial services regulations of Bank of Zambia classify MFIs into three tiers. Tier I MFIs are deposit-taking MFIs; Tier-II MFIs are non-deposit taking ones, and Tier III MFIs are non-deposit taking institutions with paid-up capital of less than ZMK 25 million. Tier I and II are required to take licenses from the Bank of Zambia. Tier III MFIs are not under regulation. In Bolivia, financial NGOs are generally operated under the supervisory authority of the financial system (ASFI). These institutions can transform either as public corporations or as private financial funds.

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TO BE CONTINUED



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The future of mobility

Few things will affect our future more than migration. A new book provides one of the best analyses of its costs and benefits

Exceptional People: How Migration Shaped Our World and Will Define Our Future. By Ian Goldin, Geoffrey Cameron and Meera Balarajan.

Princeton University Press; 352 pages; \$35 and £24.95.

When a Bangladeshi man goes to work on a construction site in the Middle East, his wife typically moves in with her husband's family. Not all wives enjoy this. They sweat in a strange kitchen, take care of a bossy mother-in-law and see their husbands only for a few weeks each year. And although their husbands send home plenty of money, they often send it to their parents, not their wives. Migration creates losers as well as winners.

But the gains vastly outweigh the losses, as Ian Goldin, Geoffrey Cameron and Meera Balarajan make plain in their new book, "Exceptional People". If rich countries were to admit enough migrants from poor countries to expand their own labour forces by a mere 3 percent, the world would be richer, according to one estimate, by \$356 billion a year. Completely opening borders would add an astonishing \$39 trillion over 25 years to the global economy. That is more than 500 times the amount the rich world spends on foreign aid each

year. Migration is the most effective tool yet devised for reducing global poverty.

The same worker can earn 15 times as much if he or she moves from say, Yemen to the United States. The wage gap between rich and poor countries is far wider than it was a century ago, during the great age of migration from Europe to America. And the emotional costs of leaving home, though still hefty, are much lighter than they were. A 19th-century Russian emigrant might never see or speak to his family again. A 21st-century migrant can Skype them in the taxi from the airport.

Small wonder that the number of international migrants has doubled in the past quarter-century, to more than 200m. Increasing mobility combined with cheaper communications means that in the future, "The global community is becoming connected in a manner not experienced since our small-world evolutionary origins in Africa." This is a fascinating point, which the authors could have pursued further than they do.

Overall, however, this is a book of bold ambitions ably fulfilled. Mr Goldin and his co-authors offer a history of migration, from man's earliest wanderings in Africa to the

present day. Thanks to modern techniques for decoding genetic evidence, far more is known today about the great movements of prehistory than was suspected even a decade ago. Genetic tests are now so cheap that Mr Goldin can draw us a map of how his own ancestors moved from east Africa 31,000 years ago, across Arabia and through Central Asia before swinging back into northern Europe.

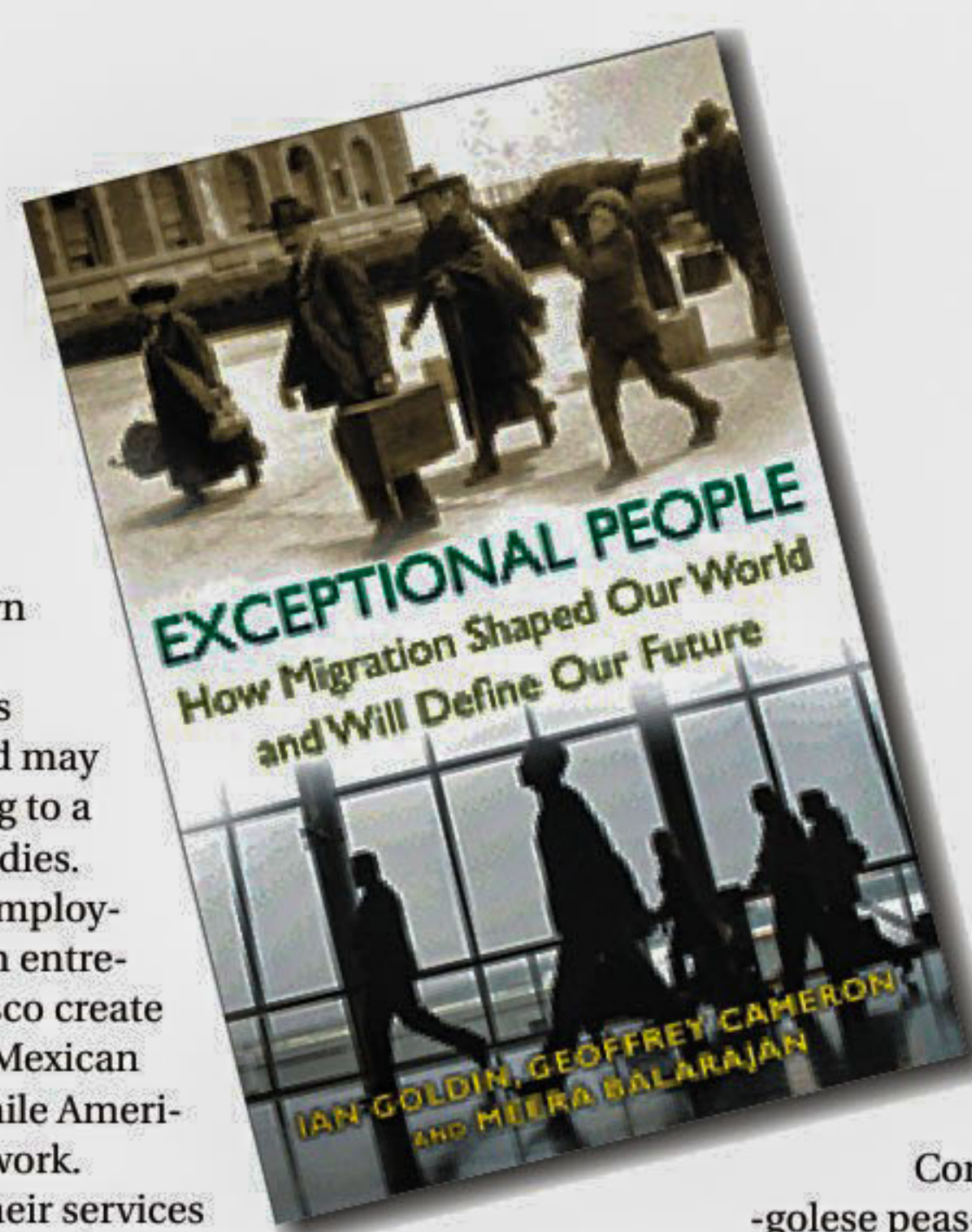
After filling in the historical background, the authors give a rigorous but readable guide to the costs and benefits of modern migration. Poor countries may suffer when they lose their best brains to the West: 43 percent of Liberian doctors, for example, now work in North America. But the prospect of migrating spurs people in poor countries to acquire marketable skills. Some then decide not to migrate after all. Others spend several years abroad but then return home with new skills, new contacts and a pot of savings to invest. Overall, the brain drain actually helps poor countries. And of course, it benefits the migrants themselves. If it did not, they would not leave home.

Immigration is unpopular in rich countries because people overestimate its costs and underestimate its benefits. An influx of unskilled

migrants may drag down the wages of unskilled natives, but this effect is "very small at most, and may be irrelevant", according to a number of different studies. Migrants often create employment for natives. Indian entrepreneurs in San Francisco create new technology firms. Mexican nannies hold babies while American mothers go out to work. Migrants come when their services are wanted and stay away when they are not. Through the migrant grapevine, they know that jobs are drying up several months before government statisticians notice.

"Exceptional People" is packed with surprising insights. The authors knock down wild predictions that climate change will create 200m refugees by mid-century. Global warming may cause more frequent floods, but most flood victims go home when the waters recede. The authors cite as evidence the deluges that hit Mozambique in 2000 and America's Gulf Coast in 2005. This reviewer, who saw both disasters up close, was struck by the sheer determination of the displaced to return.

The next big wave of migration will come from Africa. Today, most Africans are too poor to move far. A typical



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Con-golese peasant cannot afford the boat fare to Kinshasa, let alone Belgium. But as the continent becomes less poor, more and more Africans will acquire the means to migrate.

More generally, the authors predict a future of labour shortages in rich countries which only migration can solve. As Europe and America age, they will need more young and energetic nurses, care assistants, housekeepers and cleaners. Robots cannot do everything, even in Japan. The demand for highly skilled workers will grow too, and countries will start to compete more fiercely for mobile talent. Migration will "define our future", the authors say. They are probably right.

The Economist