

## Foreword

for the doctoral dissertation by Christiane Ströh: "How to assess pro-poor financial sector development: A comprehensive framework applied to the case of Peruvian microfinance", submitted to and approved by the School of Business and Economics of the Freie Universität Berlin, Germany

'Microfinance' has become a catchword in the last few years. From international development cooperation it has made its way into national and local poverty-relief strategies as well as into global commercial finance. And from the very beginning of the turn from top-down development banking with cheap directed credit toward serious, sustainable banking for the poor in the 1960s and 70s, Peru has been one of the main arenas for a great number of actors and approaches in this field. Together with my colleagues and students at the Latin American Institute and the Department of Economics and Business Administration of the Freie Universität Berlin as well as the consulting firm IPC (Internationale Projekt Consult, Frankfurt/M.) on behalf of the German aid agency GTZ (Deutsche Gesellschaft für internationale Zusammenarbeit), I have had the privilege to observe and even participate somewhat actively, in the development of the Peruvian financial sector and its microfinance segments over the last nearly thirty years. Christiane Ströh's doctoral dissertation is therefore based on more than individual research, because it draws on broad historical records and academic reflexion for its comprehensive overview of the present stage of microfinance in Peru. Her teaching of the graduate-level course on microfinance at this Institute as well as her studies and consulting activities in Brazil, India, Mongolia, and other countries have also given her strong incentives and ample material to compare the Peruvian experiences with others and to follow the pertinent discussions between academics and practitioners on banking with the poor.

Studies on microfinance are normally centred around individual projects or programmes, whereas financial sector analyses tend to concentrate on commercial and investment banking, with little concern for microfinance. On the other hand, micro-economic approaches to finance make categorical differences between firms, consumer households and investors, and poverty-analysing studies make only skimpy reference to finance, - except the ones praising microfinance as a panacea. The specific value added by Christiane Ströh's thesis lies in the all-encompassing sector approach and the comprehensiveness of her framework to assess poverty alleviation by financial services.

Coming from a political economy background, she takes 'structural heterogeneity' seriously in that she recognises that the 'genes' of the dominant monetary economy are different from the ones of the *economía familiar* of most of the poor, where the family-led enterprise is intricately linked to the household so that neither pure business nor consumer nor investor finance concepts and strategies would be adequate. From a great number of empirical studies in Peru and beyond, she extracts a convincing set of adequate financial services or 'products' which poor families need most so that the demand side of pro-poor financial development can be defined properly in quite precise terms. Amartya Sen's 'Development as Freedom' provides her with the decisive criterion for evaluating the articulation between demand and supply of financial services, namely access. The mere option, i.e. the freedom to go to a bank or a specialised microfinance institution in the case of need, becomes an important piece of 'development' for the poor.

On the supply side, a broad range of financial institutions is therefore considered to be of decisive importance. With the help of modern information technologies, not only NGOs and international development cooperation projects have recently opened and deepened access to the poor, but also self-help cooperatives and commercial banks as well as public development banks such as the Banco Nacional in Peru, which is often the only provider of financial services in distant and marginalised localities. The central criterion of 'outreach' to the poor is

made operational by identifying scope, cost, breadth, depth and length, all of which are applied to the detailed data from the Peruvian cities, towns and rural districts. And the whole range of financial institutions is finally presented with their relevant products, - most of which in the voluminous appendix, which is a treasure trove of its own.

Christiane Ströh concentrates her case study on microfinance in Peru, and on the question of her topic 'How to assess pro-poor financial sector development?' – which she answers quite convincingly with her 'comprehensive framework'. Broader questions, such as the role of the Peruvian financial sector in general on the determination of income and wealth distribution, power structures and pro-poor or pro-rich policies, are left aside. And her suggestions for further research focus on the needs of the poor and the adequate response to those needs rather than dreaming up revolutionary alternatives and change. Still, this thesis is a must for readers interested in a critical discussion on impact and relevance of microfinance for the poor as well as for members of the international development cooperation community, who struggle with adequate concepts, institutions and procedures in order to achieve the millennium goals and similar objectives.