

DEVFINANCE

Discussion list on development finance of the Ohio State University

Monthly Review

April 2000

General Information¹

➤ Special pilot awards program

CGAP seeks partnerships with innovative MFIs that can provide learning opportunities for the microfinance industry by demonstrating effective models and methodologies for reaching very poor clients while working toward sustainability. As part of this initiative, CGAP announces the creation of a special pilot awards program, the Pro-Poor Innovation Challenge, principally for small MFIs. The central purpose of the Pro-Poor Innovation Challenge is to further the industry's learning and knowledge. Under this pilot program, CGAP will initially provide four very small awards of \$50,000 each. The deadline for applications is May 15, 2000 and awards will be announced on May 30, 2000.

Applications and questions regarding the awards should be directed by email to: CGAP@worldbank.org, Attn: CGAP Pro-Poor Innovation Challenge.

➤ Antique sales result

Responses to the recent offer of a relatively inexpensive copy of RURAL FINANCIAL MARKETS IN DEVELOPING COUNTRIES: THEIR USE AND ABUSE by J.D. Von Pischke, were completely overwhelming and can probably be considered as a sign that donor interest in ag/rural credit is reviving. New orders for more copies can still be accepted under the following address:

J.D. Von Pischke
2529 Trophy Lane
Reston VA 20191-2126, U S A
Fax 703 758 1388

➤ English-French translations

The Microfinance Team of GRET, an organisation involved in designing and implementing development programs and in advisory, training and informative

activities, has developed a CGAP-proved high-level internal English-French translation service to meet the increasing needs of French-speaking practitioners. All translations are done internally by a professional translator and carefully proofread by an expert in microfinance to ensure quality. For more information contact: Anne-Claude Creusot, Microfinance, GRET, creusot@gret.org, tel 33 1 40056142, fax 33 1 40056110.

Courses and seminars

➤ Talleres Ejecutivos 2000

GLOBAL PARTNERSHIPS, based in Seattle, Washington, USA is inviting for different workshops in May and June 2000 in various Central-American countries. The objective is to make the management of finances more efficient and effective by applying diversified methodologies used in microfinance thus contributing to the self-sufficiency of the organisation. For detailed information please contact <http://www.globalpartnerships.org/talleres2000.asp>

➤ "Looking Beyond Micro-finance": A three-day Asia Regional Workshop

The Indian NGOs SPANDANA and AICOMM are organizing together a workshop in Hyderabad, capital of the state of Andhra Pradesh, South India, next 13-15 June 2000, for participants outside of India. The workshop basically aims to highlight the fact that micro-credit can not be an empowerment tool unless other critical concerns of the client groups are addressed simultaneously. For more information please contact: Julie Marie George, executive secretary, SPANDANA & President/AICOMM, 122B/6, GAUTAM NAGAR, NEW DELHI 110 049, INDIA; Tel: 91-11-6512909, Fax: 91-11-6526044, attn. SPANDANA. spandana@ndf.vsnl.net.in or juliegeorge@vsnl.com or juliegeorge@hotmail.com

¹ The most relevant articles of the discussion list are mentioned in the text with their author, date of issue and subject. They are to be found in the annex, classified in the same order as they appear in the present text.

➤ **Electronic conference on "Globalization, Development and Poverty"**

The World Bank and the Panos Institute London will co-sponsor this public conference on the impact of globalization on the world's poor that is occurring in the context of the World Bank/IMF Spring Meetings in Washington, and is open to global participation, during the month of May. Its aim is to clarify the dimensions of the debate, the state of our knowledge of the key issues, the main areas of disagreement, and the areas of greatest need for further analysis. The electronic conference will be hosted by the World Bank's online discussion facility, the Development Forum and co-moderated by a team from the World Bank Institute and the Panos Institute London. The Panos Institute London is an independent non-governmental organization working to stimulate open debate on development issues, and particularly to facilitate access to such debates by people in developing countries. For more information on this electronic conference, visit the Development Forum at www.worldbank.org/devforum.

Publications

➤ **A rural finance strategy**

The Interamerican Development Bank (IDB) recently approved a rural finance strategy at the upper management level and is soliciting comments from the public prior to presentation to the Board of Directors for final approval. If you are interested the document can be downloaded at <http://www.iadb.org/sds/utility.cfm/159/ENGLISH/pub/174>. Comments can be sent to sds/mic@iadb.org.

➤ **New publication on Africa**

Credit, Currencies and Culture: African Financial Institutions in Historical Perspective, a book edited by Endre Stiansen and Jane I. Guyer (Nordiska Afrikanainstitutet, Uppsala, Sweden, 1999) describes various forms of informal finance that have been practised in Africa accompanying virtually all forms of trade. E-mail contact: endre.stiansen@nai.uu.se

➤ **New book on livestock insurance**

During the recently concluded First International Discussion Forum on Micro-insurance, there were discussions about the risks poor people face in terms of property losses. The poor may lose their assets and properties due to fire, cyclones, floods and epidemics. One type of property insurance is the livestock

insurance. Mr Vijaya Mathema, general manager of Nepal's Deposit Insurance and Credit Guarantee Corporation (DICGC), has just published a book on livestock insurance. The book, entitled "Livestock and Livestock Insurance in Nepal", discusses in detail the principles, workings and mechanics of this insurance. It is an excellent guide for those MFIs/banks interested in this kind of product. To order a copy of the book, write to Mr Vijaya Mathema at mathema@col.com.np or at dicgc@wlink.com.np. The costs of US\$15.00 include mailing anywhere in the world.

➤ **Journal of Economic Literature**

The December, 1999 issue pp. 1569-1614 contains an excellent article on microfinance by Jonathan Morduch, with the attempt to present some theory as well as practice: "The Microfinance Promise". The author is at Princeton University - JMorduch@Princeton.Edu.

➤ **Recommendations on new articles**

D. Adams recommends the latest issues of *Savings and Development* (4, 1999) and *African Review of Money, Finance and Banking* (1999), each containing six new articles, among them one by Schreiner and Yaron which must be read by those who are serious about tracking the subsidy dependence of financial organizations.

Nimal Fernando, ADB Manila, draws attention to the article "Many borrow, more save, and all insure: implications for food and micro-finance policy" by Manfred Zeller and Manohar Sharma, *FOOD POLICY* 25 (200) pp. 143-167. He also recommends Malcom Harper and the new issue of *Small Enterprise Development Vol.11* No. 1 (March 2000) offering eight articles, among which four are on microfinance.

Subjects of interest

➤ **The cost of savings mobilization**

The discussion on the issue of mobilization of savings and its costs goes on. Savings are considered to be a central topic of interest for the micro-finance organization, and the costing of it as well as the promotion of bigger saving amounts are important questions because they determine the profitability of such services. However, there exists a variety of opinions in this field (see interchange between John Owens and Warren Brown).

A toolkit of the costing/pricing on financial services with savings products as an important feature is in the process of being worked out by MicroSave-Africa together with CGAP and will soon be available. They recommend MFIs to conduct a full cost analysis of their products, including the marginal cost analysis of savings products. Additionally, fees for a high quality service on the income side can play an important role and reduce the necessity of increasing the average daily balance. The approach of credit unions to calculate interest rates on savings accounts is nevertheless a little different. According to them, in any case cross-subsidization among the offered products, as well as services in general, seem to be highly profitable strategies to "feed the small fish" (small clients) because, some day, they will be there when the MFI needs them. (See enclosed mails.)

➤ **Subsidising deposits: An exotic example**

A discussion on the question of whether it is reasonable to subsidise deposits or not has come up in connection with an introduction to Individual development accounts by Mark Schreiner, requested by Dale Adams. IDAs are matched, tax-advantaged savings accounts for low-income people in the United States. Accumulated matches may be withdrawn only for "approved" uses, such as home ownership, home repair, micro-enterprise, retirement or post-secondary education. Accumulated savings may be withdrawn for any purpose.

Opposite to the main deposit issue, usually discussed on the DFN, IDAs focus mostly on getting poor people to first save something and then accumulate enough to make a difference. They could attract people to save in financial assets in banks - some for the first time in their lives - and IDAs enabled these savings to grow to relatively large sums fast enough for to tempt some people to believe that, contrary to much of their past experience, they can begin to climb toward the middle class. This possibility might justify such kind of asset-based welfare policy in spite of the subsidy element that is an integral part of this instrument (see enclosed mails).

➤ **Standard bank, moral duties and households – the problem of downscaling financial services**

Many banks do not offer their services to the poor in certain regions. An example from South Africa has led one participant to the question, why some enterprises (e.g. banks) seem to be ascribed a moral duty to sell their services below cost and others are not. However, when banks request documents like pay slips as proof of a salary – thereby excluding many potential clients from making use of the offered services -, a solution

could be the formation of households including at least one member with access to a permanent income. This way, more poor individuals could be reached.

➤ **Bernai Velarde asks: Is Micro debt good?**

Is debt bad? It depends. Is micro debt bad? It depends. Some (...) believe that providing credits to the poor is to make them worse off. On the other extreme, some believe that credit is a human right. (...)

Micro-finance is an industry that can be made profitable if properly managed. Capital is necessary for investment. Poor people have businesses and they need capital for investment and working capital. If they don't have their own capital or savings and use loan to invest in productive activities that permit them to pay back the loan and make a decent profit in the process, (...) it cannot be said that debt is bad."

Apart from loans, other products have to be developed to open up the financial services. Also, transaction costs should be reduced to enable better rates for the clients. Besides, the provision of additional business development services will improve productivity and competitiveness of the micro-entrepreneurs. All these topics deserve to be discussed in the DFN forum according to one participant.

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