

DEVFINANCE

Discussion list on development finance of the Ohio State University

Monthly Review¹

August 2000

General Information

➤ Centre for Micro Finance Nepal website

The Centre for Micro Finance Nepal website has been updated and now contains the following information: 1. New issue of CMF's quarterly newsletter "common interest - June 2000 issue". 2. List of new publications of CMF-SA/CRED with its price list. 3. A video film on Women's Empowerment through Savings and Credit Organizations. 4. Membership opened at CMF Resource Centre. The CMF website is located at: www.cmfnepal.org.

➤ Rating agency for micro-finance

PlaNet Finance has launched a rating agency for microfinance, providing rating services to MFIs, and publishing the results on the web: PlaNetRating <http://www.planetfinance.fr/en/rating/rating.htm>. Its aim is to provide both financial and non-financial information on micro-finance institutions worldwide, to help them find new sources of funds. Please contact Alice Nègre under anegre@planetfinance.org.

➤ Report on ILO workshop in Uganda

A report on the ILO workshop 'Microinsurance: A New Instrument for Social Protection' (Dar es Salaam 11-13 July 2000) written by Cerstin Sander from the Austrian Regional Bureau for Development Cooperation in Uganda is enclosed in this review.

➤ Micro-finance and information technology

Murray Gardiner from DBS Consult (Pty) Ltd. in Cape Town, South Africa invites all that are interested in the topic of micro-finance and information technology to share their views on this challenging topic. The company as one of a few according to itself has a keen interest in finding appropriate software solutions for

micro-finance. For more information please visit: www.dbs.co.za

➤ Microfinance Alliance Fund for Southeast Asia

The Catholic Relief Services-USCC and CORDAID (Catholic Organization for Relief and Development based in the Netherlands) have joined forces to launch the Microfinance Alliance Fund for Southeast Asia. Its purpose is to promote social and economic justice by increasing access and participation in the formal financial system by low-income households. The Fund will provide loans, guarantees and other financial products to eligible institutions to expand outreach and profitability of their operations. Loans and/or grants will also be provided to selected institutions to strengthen their capacity to deliver microfinance products and services to low-income households. A limited amount of resources will be provided for associated activities such as research. Inquiries and requests for application forms should be addressed to The Microfinance Alliance Fund, Catholic Relief Services, 2nd Floor CBCP Building, 470 Gen. Luna St., Intramuros, Manila 1002 Philippines, Tel. Nos. (632) 527-8331 to 35, Fax (632) 527-4140 or e-mail to: mfalliance@hotmail.com.

➤ Outreach of micro-finance

Nimel Fernando from Asian Development Bank has provided to the list of participants some interesting information on the micro-finance outreach in Indonesia and Bangladesh. Please find the enclosed mail below.

Courses and seminars

➤ Announcement from SEEP

The SEEP Annual General Meeting will be held in Washington, DC from October 16-20, 2000. To see the draft agenda and registration form, please visit <http://www.seepnetwork.org>.

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 annexe, classified in the same order as they appear in the present text.

➤ **Market Demand Workshop: A Business Development Service**

Weidemann Associates, Inc., as part of the October 2000 SEEP Conference, is conducting a Market Demand Workshop "Harnessing the energy of the market to empower the poorest" on Monday and Tuesday, October 16-17, 2000 that will give you an in-depth understanding of the latest ideas and techniques available in the global marketplace to support small businesses and microenterprises. To learn more about this year's agenda, speakers, and panels, go to: www.weidemann.org/market or through SEEP at: <http://www.seepnetwork.org/annual.html>

➤ **International conference in The Netherlands**

In May 2001 Wageningen University and Research Centre (WUR) and the UN Food and Agriculture Organisation (FAO), together with three Dutch research schools, will organize an international conference on "Livelihood, Savings and Debt in a Changing World: Developing Anthropological and Sociological Perspectives", to be held in Wageningen, The Netherlands. For more detailed information about the conference, registration and sending of abstracts go to <http://www.sls.wau.nl/law/livelihoodsavingsdebt>; and <http://www.sls.wau.nl/livelihoodsavingsdebt/>

Publications

➤ **Credit Unions and the poverty challenge**

The International Labour Organisation published a book end of 1999 called 'Credit Unions and the poverty challenge'. Prepared by a series of experts on microfinance and edited by Bernd Balkenhol, head of the ILO's Social Finance Unit, the book reviews experiences with refinancing credit unions in several countries in Africa, Asia and the Americas, examining: how it has affected their capacity to increase members' shares or mobilize deposits; how refinancing facilities have influenced the quality of the loan portfolio; whether external credit lines have enhanced their profitability; whether debt finance has led to sustained growth and better outreach to the poor.

The book (\$ 14.95) can be obtained from ILO Publications

<http://ilo/public/english/support/publ/pindex.htm>

➤ **New publication by AFRACA:
Financial Sector Reforms, Central Banks and Rural Finance**

AFRACA has published a new book that focuses on financial sector reforms in Africa and their impact on the

role and rural finance policies of central banks. The new book contains the key papers presented in the Harare workshop as well as a summary of the main conclusions reached on appropriate central bank policies in the rural finance market. Copies of the publication may be requested from: Mrs. Ruth A. Odera, Programme Coordinator, Afraca Secretariat, Box 41378, Nairobi, Kenya; Email: afraca@africaonline.co.ke

➤ **Floods and the MF industry**

The USAID-funded Microenterprise Best Practices project of Development Alternatives, Inc. (DAI) recently published a new publication entitled "Bangladeshi Experience in Adapting Financial Services to Cope with Floods: Implications for the Microfinance Industry." In March 2000, MBP sent two researchers, Warren Brown and Geetha Nagarajan, to document these MFI experiences and experiments. The lessons and experiences presented in this report focus on five areas: (1) contextual issues, (2) savings products, (3) credit products, (4) insurance products, and (5) product delivery. To obtain a brief of this document, send an email to bangladesh@dai-listserve.dai.com. The full document can be downloaded free of charge from the project website at the following link <http://www.mip.org/pubs/mbp-res.htm#mre>

➤ **Financial Services Associations**

CGAP has recently commissioned a study reports on the subject: Financial Services Associations. The Story So Far (DRAFT). This paper draws from existing literature on and evaluations of Financial Services Associations (FSA) to review performance to date and raise key questions on issues related to institutional sustainability. You can view and/or download the paper on CGAP's website:

http://www.cgap.org/html/p_other_documents.html#FSA

Subjects of interest

• **Landless farmers**

In the context of a demand for sharing experience on how to build up assets for landless farmers the questions rose whether land ownership could be a guarantee for improving the farmers' income prospects or not. Most of the participants agree that probably it is not – if the corresponding financial services and legal systems in a country remain the same and do not evolve according to needs. Therefore, instead of ownership a good rental act may be an alternative for landless farmers.

➤ **Formalisation of MFIs**

The issue of reaching the poorest in a sustainable way through an MFI has been discussed controversially this month. Participants were asking whether these two objectives could be really met by evolving from an NGO status into a formal bank. The required high standards for formal financial institutions often prevent banks from investing in risky and costly micro-clients. On the other hand, according to one opinion the reasons why MFIs have not been successful in achieving sustainability should be explored more. An example would be to define the appropriate degrees of needed institutionalization resulting from higher transaction costs and scale for the entire spectrum of services, writes Ahmad Jazayeri from FSA International. S. Ijioma from AFRACA reports that in Africa attempts are being made to put in place legal and regulatory framework for MFIs to enable them mobilise deposits and be subject to supervision. Besides, to go for wholesale relationships with established MFIs from the side of commercial banks might be a very good arrangement for the sustainability of an MFI. Mr Jazayeri again points out that the question is less whether to become or not a formal bank but to institutionalize from very small informal operations to more structured user-owned systems and to sophisticated commercial operations. (See enclosed mails.)

➤ **Over-indebtedness**

Observing repeated critiques of the micro-financing industry over-indebting clients led one participant to the question what does this mean conceptually and how could the incidence and/or severity of this situation be measured. Olaf Kula provides an example from Ghana showing the correlation between a bigger formalization of rules procedures and enforcement of law in micro-finance and a growing level of defaults. In opposition to this, so-called circles of witnesses helped in former times to clarify the existing obligations of a potential borrower. They were essential for mortgaging assets to secure a loan in an informal process called pledges. An interesting opinion comes from Jos Vaessen (Antwerp University). He thinks that over-indebtedness can be defined as an imbalance in a household's efforts to balance different coping strategies due to too many claims from family, friends, moneylenders, micro-finance programs etc. The solution as well appears to be complex according to Jos Vaessen: the huge information asymmetries between the different actors have to be overcome. He suggests involving intensive articulation with local communities in order to assess best the situation of the potential client. Didier Thys from Freedom from Hunger asks which should be the value of a household's outstanding liabilities at any

given time and whether the multiplicity of sources in this context could have a negative influence. Eric Nelson from the World bank remarks that this issue merits perhaps the attention of a thesis – apart from his demand to MFIs to improve their offered services. (Mails are enclosed.)

➤ **Micro-insurance through MFIs**

Jimmy Roth from ILO Social Finance Unit has provided a useful paper on the pros and cons for an MFI to offer micro-insurance in general, and if yes whether by themselves or through acting as agents. Among the main advantages are the textured understanding of local households allowing the MFI to design adapted insurance products. The special knowledge can be used as well to set less expensive premiums on the basis of more exact mortality rates determination etc. The costs, on the other hand, consist in required highly specialised skills and the increased role of moral hazard from the clients' side.

The advantages of acting as an agent are obvious: less risk to the MFI and consequently for its clients and a much simpler task. On the other hand MFI clients very often would not realise that the insurance product comes from a different company which may lead to conflicting interests in case of claims.

For full information see enclosed mail.

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