

DEVFINANCE

Discussion list on development finance of the Ohio State University

Quarterly Review¹ October-December 2000

General Information

➤ MFI guidelines for content of financial statements

CGAP's 28 member donors have approved distribution of a preliminary version of a set of guidelines for the CONTENT (not the FORMAT or ACCOUNTING POLICY) of MFI financial statements. There will be extensive field-testing before a final version is prepared next year. The objective of the guidelines is to assist in the preparation of financial statements that provide the minimum information necessary for an outsider to understand an MFI's financial condition.

Please look for a summary at the enclosed mail.

➤ CGAP consultant data base and strategy

CGAP has just launched its new on-line consultant database on the Micro finance Gateway. This database complements the Job Marketplace, which already posts dozens of the latest job vacancies in the micro finance sector. CGAP's 27 member donors are invited to use the new searchable database to locate qualified micro finance specialists when they need to fill consulting or permanent positions. Access is not restricted and anyone trying to locate and hire micro finance expertise can use the service as well.

Brigit Helms informs that CGAP is pleased to share a recently completed statement on its current strategy and programs. A PDF version is available on www.cgap.org. Any comments are welcome.

➤ ACCION launches Africa initiative

Robin Ratcliffe from ACCION International informs about the new initiative for Africa. ACCION's new work in Africa is being led by Elisabeth Rhyne, who joins ACCION as Senior Vice President, Research, Development & Policy. Drawing on both its Latin American experience and Calmeadow's resources,

ACCION will develop a strong team of technical experts available to work in Africa, together with proven financial tools such as the ACCION CAMEL. In eastern and southern Africa, ACCION will work closely with Vulindlela, a South Africa-based microfinance consulting firm founded by Calmeadow. ACCION also expects to contribute its experience in working on regulatory issues to policy debates now taking place in Africa.

➤ Evaluation and rating of Micro-finance Institutions

The GIRAF E method of evaluation and rating of Micro-finance Institutions (MFIs), developed by PlaNet Rating, has been elected by the micro-finance practitioners in Uganda as the most adapted method for assessing MFIs in the country. The vote took place during the Kampala's « credit rating fare », where 150 practitioners (MFIs, commercial banks, central bank and donors) chose GIRAFE from the three different methodologies presented. The competition was organized by the SUFFICE bilateral programme (Bank of Uganda/European Union), which purpose is to support micro-finance in Uganda.

➤ Introduction to credit scoring

Mark Schreiner draws the attention to a PowerPoint presentation called "Credit Scoring 101" by Pete McCorkell, a vice-president of Fair, Isaac, the world's largest scoring firm. www.fic.gov/bcp/creditscoring Additionally, there is a short paper in English or Spanish written by him on the potential for scoring for micro finance. Please send a message to schreiner@gwbmail.wustl.edu.

Jacqueline Bass from Weidemann & Associates announces the development of a technical note on credit scoring. The note should be ready within the next couple of months and will be disseminated widely among practitioners.

Fair, Isaac Inc.'s website www.ficoguide.com and www.lendinguniverse.com/UnderstandingFICOScores.asp provide some more details on FICO (Fair, Isaac) score factors and how credit risk scoring works.

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.

➤ **Change of ADA web site**

Please take note of the new ADA web site:
<http://www.adaceremlux.lu>
 ADA - CEREM-LUX, 15, Boulevard Grande Duchesse
 Charlotte, L-1331 Luxembourg
 Tel. ++ 352 45 68 68 – 1; Fax ++ 352 45 68 60
 E-mail: adalux@pt.lu

➤ **The micro leasing experience of ANED**

Mauricio Dupleich has created a page for all those with difficult access to the Internet containing the micro leasing experience of ANED as a downloadable PDF file <http://www.geocities.com/mauriciod2001/>

➤ **Information systems and Microfinance**

Normand Arsenault from Canada informs people involved in information systems assessment, development and implementation about interesting documents found on the web. Please have a look at the full list in the attached mail for further information.

➤ **PlaNet finance announces news**

Please visit its web site for actual news at www.planetfinance.org. All interested in Micro finance in Cambodia are invited to download the rating reports of the rating mission in Hattha Kaksekar, carried out for the French Development Agency <http://www.planetfinance.org/en/rating/enligne/presentation.htm>

➤ **Meeting on deposit mobilisation in Peru**

Dale Adams reports shortly about a meeting on a field study on deposit mobilisation in Peru. Please see enclosed mail.

➤ **Micro enterprise bank in Kosovo**

The Wall Street Journal of December 20 carried an interesting front-page article about the Micro enterprise Bank of Kosovo. It is a project of IPC and received funding from a variety of institutions including the IFC, EBRD, German and Dutch sources. The article features the general manager, Koen Wasmus, who has participated in the Frankfurt seminar and worked with Centenary Bank in Uganda. Under the circumstances, it must operate in ways quite different from a typical bank. Its success to date is a credit to all those who developed the techniques and procedures required for a most difficult environment.

➤ **Finance for Water and Sanitation**

There are nine documents linked from the CGAP Micro finance Gateway that relate to micro finance for water and sanitation. They are all free and available online. They can be reached through <http://www.ids.ac.uk/cgap/watersan.htm>. The web page highlights "Micro-credit for sanitation", a WELL technical brief by Daniel Saywell. The other documents are displayed by clicking "More on micro finance, water and sanitation".

Courses and seminars

➤ **User Owned Micro finance in March 2001**

The University of East Anglia, Norwich, Overseas Development Group announces a course on User Owned Micro finance in March 2001, including a detailed analysis of results with FSA model and implementation in various countries as well as a detailed discussion of Issues in Micro finance, Credit Unions, Self-Help Groups, ROSCA/ASCA development, and a computer software designed for small scale user owned micro finance businesses. There are 15 places available. For more information, an application form and a copy of the last evaluation summary by the participants phone, fax, or email odg.train@uea.ac.uk or visit ODG on the web: World Wide Web site: <http://www.uea.ac.uk/dev/odg/>

➤ **Course on business planning for MFIs**

CURSO DE PLANIFICACION DE NEGOCIOS PARA INSTITUCIONES DE MICROFINANZAS

12 a 16 de Febrero de 2001

Hotel Casa Santo Domingo, Antigua, Guatemala
 Facilitador: Charles Waterfield

You can write to waterfield@microfin.com for further information.

Publications

➤ **MF handbook in French and Spanish**

The Sustainable Banking with the Poor, a microfinance project at the World Bank, is pleased to announce the publication of the French and Spanish versions of the Micro finance Handbook - An Institutional and Financial Perspective by Joanna Ledgerwood. Price: US\$30. The Microfinance Handbook is a technical manual design to assist those in the field of microfinance in the design and implementation of microfinance activities.

Order Information: Phone: (703) 661-1580, fax: (703) 661-1501, e-mail: Books@worldbank.org.
Mail: The World Bank, P.O. Box 960, Herndon, VA 20172-0960, U.S.A.

➤ **Micro finance regulation**

Laura Dubery draws the attention to the latest edition of Small Enterprise Development Journal that focuses on micro finance regulation. Please refer to the enclosed mail for further details.

➤ **New publications by Calmeadow**

Calmeadow is pleased to present our latest publication entitled, "Client-Based Market Research: The Case of PRODEM" by Nanci Lee, Toronto: Calmeadow. 2000. The experience of PRODEM, a Bolivian NGO, provides an example of innovative market research. In 1992, PRODEM shifted its attention from providing loans to urban micro entrepreneurs to serving substantially different markets in rural and peri-urban areas. This paper documents the market research process that allowed PRODEM to tailor repayment schemes for farmers and later rural and urban vendors. Ordering details: available in .pdf on Calmeadow's website: www.calmeadow.com (under *New and Noteworthy*) and in hardcopy from PACT: email books@pactpub.org

CALMEADOW is also pleased to announce that the fifth issue of The MicroBanking Bulletin, a product of the MicroBanking Standards Project funded by CGAP, is now available in both hard copy and electronic version. The current and previous issues of the MicroBanking Bulletin can be downloaded for free from CALMEADOW's website: www.calmeadow.com, and it is available in hard copy from PACT Publications in New York-Email: books@pactpub.org, Website: www.pactpub.com; Tel: (212) 697-6222, Fax (212) 692-9748.

➤ **Micro finance and shareholder value**

Please find the attached email summary of a paper on FSAs "Micro finance driven by shareholder value" which edited by Hans Dieter Seibel as IFAD Working Paper B11. For an e-mail copy of the paper you can send a message to Yvonne Diethelm: y.diethelm@ifad.org

➤ **Monograph by ACCION International**

ACCION International is pleased to announce the release of its latest monograph: "Maximizing Efficiency:

The Path to Enhanced Outreach and Sustainability," written by Monica Brand, ACCION's Senior Director of Research and Development, and Julie Gerschick, Consultant, Strategic Solutions. This monograph addresses strategic and operational approaches to maximizing efficiency - utilizing and organizing resources to maximize outreach and revenue generation while minimizing costs. Copies of the monograph will be available through ACCION's website (www@accion.org). The price of the monograph is \$15.00(US) for hardcopy and \$11.25 for electronic copy. Interested buyers can contact the ACCION Publications Department directly via telephone, email or fax Isabella Kenfield, Publications Assistant, ACCION International. Phone: 202-393-5113, Fax: 202-393-5115; ikenfield@accion.org/publications@accion.org.

➤ **CMF publications**

The Center for Micro Finance Nepal offers different publications about training manuals and tools of savings and credit to interested persons. Please refer to the attached mail for the actual list.

➤ **Practical guide for MFIs**

The GTZ Section for Financial Systems Development and Banking Services announces the joint publication "Improving Internal Control: a Practical Guide for Micro finance Institutions" by GTZ, CGAP and Micro finance Network (MFN). It can be ordered for 15 USD or downloaded for 11.25 USD from: www.bellanet.org/partners/mfn/publications.htm.

➤ **Book review by J.D. von Pischke**

Von Pischke gives a review of Stiansen and Guyer, eds., CREDIT, CURRENCIES AND CULTURE: AFRICAN FINANCIAL INSTITUTIONS IN HISTORICAL PERSPECTIVE, 174 pp. Uppsala: Nordiska Afrikainstitutet, 1999. Transaction Publishers in the US, The Africa Book Centre in the UK, Almqvist and Wiksell International elsewhere. This book consists of an introduction and eight articles from a 1996 conference. Please read the attached e-mail.

➤ **Article review about savings**

Rebecca Vonderlack recently read: "Institutional Determinants of Savings: Implications for Low-income Households and Public Policy", Journal of Socio-Economics, Vol.28, No.4, pp.457-473 by Sondra Beverly and Michael Sherraden (1999). Her short review is attached. Beverly can be contacted at sbeverly@ku.edu.

➤ **Book on Rural Financial Markets in Asia**

A recent book of interest to DFNers: Richard L. Meyer and Geetha Nagarajan, *Rural Financial Markets in Asia: Policies, Paradigms, and Performance*, Hong Kong: Oxford University Press, 2000 for Asian Development Bank. ISBN for pb. 0 19 592452 5. It is part of series on Rural Asia supported by ADB. Chock full of data, especially of an institutional sort, analysis, and prescription. According to Thomas Timberg, the book is a State of the Art piece, summarizing previous work, including relatively recent pieces - though in some cases the data is a little stale. Really a tour of where rural/agricultural/micro finance has been over the last 30 years - and to some extent where it should go.

Subjects of interest

➤ **Venture Capital for MFIs - and the advantages of credit unions**

A. Campion from MicroFinance Network started a new discussion round raising the question about available experience on providing venture capital for microfinance institutions. Due to the extraordinary length of the discussion she triggered off (more than 20 emails!) we are offering here a summary without enclosing the corresponding letters. Please feel free to ask for them if you are interested.

Y. Ramakrishna Rao from the Strategic Management Centre in Pune/India put this issue in relation to the poverty alleviation imperative: as private equity out of local sources would expect a return in order to achieve self-sustainability, which would then be "the trade off with the social side of donor involvement"? He is concerned about whether everybody might even be trying to accelerate the commercialization of MFIs before a real market for their commercialized services exists.

Dave Richardson (World Council of Credit Unions) contributes to this interesting topic with a comparison between Calpia, El Salvador's MFI, and 13 Salvadorian credit unions to highlight the advantages of cooperative MFIs. According to him, venture capitalists would make use of a situation marked by "the poorest people in the world paying the highest interest rates in the world, so that the richest people in the world can get richer". His strong defending of the CU's, however, calls other participants on the scene to remember about hidden costs at CU's like tax exemptions (Ahmad Jazayeri) and volunteer labor (Warren Brown). The latter draws

the attention to the additional hurdles for CU's of growth constraints and the increased risk of mismanagement having led in the past to stagnation or even collapse of the CU. [There are, however, many cases where growth and development have occurred also with CU's. Comment made by the author of the review.]

Nobu Otsuka mentions that while he not being against venture funding for MFIs, at least in Latin America he does not know any case of a successful "exit" of venture capital from the corresponding MFI. The very vivid discussion continues with D. Richardson reminding about savings deposits remaining the cheapest source of funding and the fact that CU's exist already since 150 years. A. Jazayeri, however, sees significant weaknesses in the lack of private individual incentives; that the capital belongs to no one and that benefits from retained profits are not apportioned individually. His central question is "whether or not (...) Credit Unions can offer good value for money for their shareholders and for those wishing to promote financial services at the grassroots and if there are alternatives".

Mr Otsuka opts for a good capital structure and enhanced management by private investors even to mobilize savings (with Calpia or the Bolivian Caja Los Andes as examples) and sees the role for development agencies in catalyzing such private capital to add value to the management.

Then the discussion turns to the questions of the right spread. D. Richardson thinks that lower cost funding is a pre-condition to assure a sustainable flow of resources into the MF industry. According to A. Jazayeri, "interest rates should reflect the scarcity of capital supply and the demand for loans and not the administrative costs for making loans". Because of the usually still higher returns of micro entrepreneurs it remains profitable for them to borrow. N. Srinivasan, however, does not agree; he thinks high pricing of loan products is often an expression of desperation to get funds at any costs. D. Richardson neither agrees; he argues that the lower rates at CU's have to do with lower costs (administrative expenses and operating efficiency). A. Jazayeri cannot accept this explanation and states that "credit unions follow the same laws of economics as any other economic agent".

With the last participant at this unusually tenacious discussion, Damian von Stauffenberg (Microrate), the conclusion is brought up that "the market needs both kinds of credit". While MFIs base their lending decisions on the borrower's repayment capacity, most CU's focus on collateral thus excluding a certain number of potential clients. Damian suggests to always ask what one or the other institution is better in, and D. Richardson agrees to that though delivering a last

attempt of convincing his counterparts of the superiority of Credit unions:

"Credit unions may be old and certainly not as sexy as these young virgin MFI's who do a great job with their provocative imagery and social graces, but when it comes to providing the poor and the disenfranchised with the same range of basic financial services as the subscribers of this listserve, we will be there, alongside ANY of the other orthodox micro finance institutions."

➤ Market rates of interest

Dale Adams has brought into the discussion considerations about the appropriate notion for MF interest rates. According to him, the term *market rate* in this context is highly questionable because of the various differences of the financial products that do not allow such uniformity. It is usually very difficult to observe a situation where the corresponding rate is formed based on the comparison with "other similar and non-subsidized products, offered freely in the market". Adams therefore suggests choosing the expression *cost-recovery rate*.

Some participants agree with him, like Richard Roberts from FAO (there it is called *realistic interest rate*) or N. Srinivasan, who is however concerned about the costs of inefficiency at an MFI which should not be a part of the price to be paid by the borrower. He thinks that it could be helpful to involve the borrowers in fixing the interest rates for loans. [This has been experienced with considerable success e.g. in Africa. Comment made by the author of the review.] Others do not support Adams at all; H.S. Shylendra even sees "a shift and contradiction" in Adams' arguments. When in the past interest rates were established by anything else but not market forces in order to promote rural development, how can one now opt under the same objective for an approach, which does not entirely include market forces? He introduces the term *poverty limiting interest rate*, a rate "facilitating real accumulation by the poor". J.D. von Pischke mentions in this context the *wealth optimising interest rate*, being probably similar to the previous one, provided the question is answered whether it is the one charged for borrowing or paid on savings.

➤ Investing in saving programmes

In another mail Adams draws the participants' attention to CGAP's annual report and the fact that though savings as a theme is mentioned already at the very beginning, out of 80 he could not find more than a very few projects going in the direction of savings mobilization. So he is putting forward his concern about

how such an important facilitator like CGAP would promote this important issue. Brigit Helms tries in an answer reaction to explain that CGAP is acknowledging this need and in which way it is more and more paying attention to savings promotion. However, Adams easily proves the opposite by referring to the objective number of serious "investments" made by CGAP, the qualification of its staff and hours spent on deposit mobilization and the quantity of workshops conferences etc. organized for the promotion of the theme.

Please see enclosed mails (4).

➤ The honesty of MF providers and systemic risk

Imran Martin has noticed that in Bangladesh MFIs built up "to take savings and make the run" usually do not use groups. He is broadening this issue by asking more generally about the significance of groups in micro finance. While obviously transaction costs are being transferred from the institution to the group, the question of client level transparency in a difficult legal and regulatory environment gains importance. Betty Wilkinson from the Center for Institutional Reform and the Informal Sector (Maryland) gives some information about people's motivation to join a group and the advantages for the MFI.

Additionally, I. Martin is interested in understanding better the correlation between the lending technology of an MFI and the so-called contagion effect, i.e. "the extent and the speed with which repayment indiscipline spreads across an MFI". He thinks it is necessary to understand the strategies of those organizations that succeed in limiting the contagion effect – while partially working with the same clients.

See enclosed mails (3).

➤ Globalisation and Gender – dilemmas for MFIs

Rebecca Vonderlack has raised an interesting topic by reviewing an article written by Susan Johnson and Thalia Kidder in *Small Enterprise Development* 10 (3) about the international proliferation of micro finance programmes, specifically micro credit. Please find below extracts of her original mail:

"A global publicity campaign, the Micro Credit Summit, has contributed to micro credit's vast acceleration; 'Globalization may not in itself be responsible for poverty, but there is a trend to increased homogeneity in responses to common issues, including those of poverty and development, which tend to ignore local contexts'.

However, the authors think that the bias towards credit oversimplifies the complexity of poverty by placing

micro credit as the panacea for overcoming poverty; resources that are needed by other social services may be redistributed to micro credit programs; and assessments of micro credit's impact on the alleviation of poverty have only been done in Bangladesh. With such a small research foundation, there cannot be an assumption that micro credit will alleviate impoverishment more than infrastructure, education, and agriculture. "

A second issue is "the effect of micro finance on women and attempts in micro finance at targeting women specifically. When dealing with women, micro finance research cannot marginalize the fact that finances are a key manipulator in the context of domestic violence as a means of power and control for the man over the woman. Johnson and Kidder recommend the literature go further in addressing the type of savings product that would allow women to deposit their money and have complete control and confidentiality over their finances."

The last question Ms Vonderlack mentions is "micro finance within the context of social reproduction. The article discusses the "reproductive tax", which is domestic activities under women's responsibility, which maintain and reproduce the labor force. Women must complete these tasks before they can participate in an income generating activity. The authors recommend that micro finance begin financing domestic labor. There is a need to acknowledge that if domestic chores are inefficient, burdensome, or unsafe it will have a negative effect on economic development productivity. Johnson and Kidder suggest that micro finance: acknowledge that loans are used for nonproductive activities; diversify the financial products available; make considerations in their product designs for education, health, housing, and community and domestic infrastructure; acknowledge the need for emergency and consumption loans, particularly for women; consider that "Access to credit, insurance mechanisms, and savings for timely medical treatment can therefore release women's reproductive labor time"; develop a system that enables migrants to safely send money home.

Overall, micro finance organizations need to "move beyond viewing women as recipients, responsible payers or a new market". Micro finance organizations need to "expand their role in supporting investments in social reproduction while also contributing to doing this in ways that change gender relations."