ANNEXES
To the Devfinance quarterly Rewiew

January -March 2001

Publications

➢ **PlaNet Finance Library News (2 mails)**

From: p library [plibrary@planetfinance.org]
Sent: Di 09.01.2001 16:17
Subject: Library News 8-1-2000

Library News in English 8-1-2000 (also available in French and Spanish). To

subscribe please email: plibrary@planetfinance.org

8 January 2000

Khula
Echos
Publications
Events

Institutions
Pick of the Week

Khula

Khula is an independent, limited liability company in South Africa dedicated to assisting Retail Financial Intermediaries (RFIs) such as banks, NGO's and provincial development organizations in creating sustainable small,medium and micro enterprises. Khula provides several innovative programs directed at increasing loans to these businesses, by increasing the RFI's lending capacities, assisting in the development of more RFI's in the region and by offering mentor programs to the small business community.
http://www.khula.org.za

Echos

The World Bank approves a $30m Social Development Fund Project to Senegal The World Bank approved a US$30 million loan to Senegal that will give local communities an improved quality of basic social services. The project will support:

- **Increased access to basic social services through direct and indirect poverty reduction interventions**
- **Increased access of poorer groups of the population to microfinance products and services via existing participating financial institutions and savings and credit associations**
- **Capacity building of community-based organizations, participating financial institutions and savings and credit associations**
- **Capacity building of the government for poverty strategy management, monitoring and evaluation.**

The IDA credit is on standard terms of 40 years maturity, including 10 years grace.

Publications

Agricultural development banks: close them or reform them?

The author sees changes in the landscape of rural finance that have been prompted by the rise of microfinance institutions and a relative failure of agricultural development banks. He states that, 'Innovation should not necessarily imply establishment of new organisations when it might be more cost effective, although at times politically more sensitive, to reform existing ones.' The article proposes a reform that would, "Transform agricultural development banks into viable and sustainable providers of financial services to all segments of the rural population, including the poor". Suggested steps include:

- **a political will to reform or close banks with adequate reform strategies such as privatisation**
- **operational autonomy and freedom from political interference**
- **financial and organisational restructuring together with an effective planning process**
- **human resource development, including staff retraining**
- **demand-driven deposit, credit, and other financial products**
- **financial sustainability**

Author: Hans Dieter Seibel / IMF Finance and Development, 2000
To request a full version of this paper email: bhim@planetfinance.org

Events

Social banking, Investment and Financial Access - "There are other ways", 17 - 19 May 2001, Dublin, Eire INAISE (International Association of Investors in the Social Economy) is a global network of socially and environmentally oriented financial institutions. In 2000-2001, INAISE is concentrating on developing its core networking function. In order to do this, it has organized a series of plenary sessions and workshops on the developing social economy in Ireland. The topics covered include social risk capital, evaluating social investment, microcredit in an industrialised economy and the challenges of new technologies.

Contact: inaise@inaise.org or for more information visit:

http://www.inaise.org/Events/Events.htm
PlaNet Library Team

From: p library [plibrary@planetfinance.org]
Sent: Di 16.01.2001 11:37
Subject: Library News 15/01/2000

Dear Develpment Financers!
Please find attached the text only verion of this weeks Library News. This is the last issue which we will post on this list. To subscribe please email plibrary@planetfinance.org (also available in French and Spanish).

We welcome your suggestions.
Sincerely,
The PlaNet Library Team

Library News

15 January 2001

Pick of the Week
Alexandria Business Association
Alexandria Business Association (ABA) was started in 1989 by local businessmen and the USAID in Egypt. USAID provides financial and technical services to ABA which uses the funds to finance existing small and micro businesses in Alexandria and Kafr El-Sheikh. In conjunction with those financial services, ABA also offers consulting, training and technical assistance. All loans are given on an individual basis only, and initial loans are only given for working capital.
http://www.aba-sme.com

Sites
http://www.afdb.org/home.html
The African Development Bank (ADB) is the premier financial development institution of Africa, dedicated to combating poverty and improving the lives of people of the continent. The ADB supports numerous microfinance initiatives

throughout Africa. Their website contains: information on the bank's activities, news updates, Country Fact Sheets, official publications and a list of job opportunities at the ADB.

Publications

The Material Condition for Microenterprise in the United States and the Third World This paper is a review of evidence on the effects of the material conditions for microenterprise in the US and Third World. It shows that while microenterprise does work for a few extraordinary low-income people, wage employment, additional education and job training are still the most common paths out of poverty. The analysis shows that:

- **U.S. microenterprise programs face challenges unknown in the third world**
- **Abundant wage jobs and a safety net decrease the push toward self-employment**
- **Even small ventures are complex and must comply with regulations, pay taxes, and compete in global markets**
- **Group loans do not work well in the United States, and private lenders take the best individual borrowers It concludes that microenterprise for the poor is more difficult in the United States.**

Author: Mark Schreiner, St. Louis: Center for Social Development, Washington University (2000)

Download the full version of this paper at:

http://gwbweb.wustl.edu/Users/csd/workingpapers/wp00-2.pdf

Events

Internal Control for Microbanking organised by the Bank Rakyat Indonesia, 19 - 23 March 2001, Jakarta, Indonesia The Bank Rakyat Indonesia (BRI) International Visitor Program was established in June 1996 under a partnership agreement between BRI and USAID (United States Agency for International Development). The program is designed to allow visitors from overseas to learn and conduct a comparative study of the success of the BRI Unit banking system. The International Visitor Program of BRI currently conducts various visit programs, in-class training programs and on the job training and consultancy services related to microfinance practices especially involving the working poor.

Contact: ivp@bri.co.id for more information visit:

http://www.ids.ac.uk/cgap/download/BRI.htm

PlaNet Library Team

Subjects of interest

➢ Market rates of interest (3 mails)

From: J. D. Von Pischke [jdvp@erols.com]
Sent: Mo 01.01.2001 00:55
Subject: Market rates of interest

Possibly more debate and consideration is required with respect to market rates of interest. A starting point would be that when one is attempting to create a new market, as often happens in microfinance, there is at the outset no market and hence no market rate.

On Tue, 12 Dec 2000 19:19:58 Mr N Srinivasan wrote:I mostly agree with Jane's post on Market rates. My experience is that manyMFIs tend to charge very high rates compared with the market, in the name ofsustainability and providing ease of access. In India while the peak rate on loans charged by mainline banks is around 20%, some MFIs charge as high as32% making it a scarcity rent. Some collect savings and do not pay interestthereon, or pay a low rate, and thus increase the effective price of loans.There seem to be two different markets one in which banks operate and anotherfor MFIs.

It is not at all clear to me that a higher rate of interest in what is clearly a different market segment represents a monopolistic return. This is not to say that MFIs are necessarily efficient. More importantly, achieving efficiency usually requires some time and experience, as well as competition. Markets must be built through transactions.

I totally endorse the proposal for pricing loans using the cost recovery modeif inefficiency costs are not part of the MFI costs. Very often inefficiencyof MFIs increase their transaction and risk costs and the borrower should notbe asked to pay for the same. While using the cost recovery mode, the bestof MFIs' costs should be used as a norm, as otherwise, a high interest rateregime will result.

Most economists would argue that the role of competition is to ensure least cost production, in this case bringing down interest rates, which punishes inefficient providers and provides more choice to borrowers. At the same time, as competitors strive to protect themselves by building market niches, they differentiate their product. Given product differentiation (type of borrower, understanding and management of risks, term structure, collateral, location of offices, etc.) one would normally expect that there would be a variety of rates in the market. (T his may be less likely to happen in high finance, e.g., banks active in national money markets) because of regulation and because the difference between one large bank and another may be less that between one MFI and another.)

Even SDI will not be able to capture the costs of inefficiency; it willmerely the totality of subsidies (whether really warranted or necessitated onaccount of inefficiencies) and suggest the level to which interest rates should be raised.

Subsidies complicate the matter, and probably do a better job of promoting inefficiency than of promoting efficiency. This would be expected because the incentive to control costs would be lower when some costs are subsidized. This is another argument for working toward sustainability.

It is time that the borrowers are involved in fixing the interest rates onloans, by showing them clearly the structure of rates and how much of it isdue financial costs, risk costs and staff costs. These costs could besubjected to borrowers' scrutiny. Perhaps this might drive interest rates torealistic levels.

Whenever an economic transaction occurs, at least two parties are involved. In the case of an MFI, the two major parties are the borrower and the lender. It is impossible to have a credit transaction without the involvement of a borrower, and thus borrowers are indeed involved in determining rates of interest. The changes in interest rates and market shares in microfinance in Bolivia in 1999 and 2000 indicate how forceful competition is, and how it empowers borrowers by giving them the choice of lender they will patronize. This is how borrowers participate in determining interest rates. Their actions also discipline lenders. To summarize this point: borrowers are already inextricably involved in determ ining interest rates.

Regards
N.Srinivasan

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

From: Mr N Srinivasan [gsns@vsnl.com]
Sent: Di 02.01.2001 16:06
Subject: Market rates of interest

Dear all,

I am tempted to post some observations on Von Pischke's views on interest rates. The post is intended more to generate a debate and not to decry any point of view.

Von Pischke wrote

Possibly more debate and consideration is required with respect to market rates of interest. A starting point would be that when one is attempting to create a new market, as often happens in microfinance, there is at the outset no market and hence no market rate.It is not at all clear to me that a higher rate of interest in what is clearly a different market segment represents a monopolistic return.

My view

Microfinance market in India is not a recent one. Microfinance through MFIs is of recent origin. Mainline banks have been providing small loans to poor for a long time, but they are spatial and sectoral gaps in their credit outreach. The number of loans made by banks for amounts less than $ 500 exceeded 150 million. The outreach of banks through Self Help Groups is about 130000 groups, which is roughly 2.2 million households. As against this the outreach of all MFIs put together is very small and nowhere near even one million households. Hence there is no basis to conclude that there is no market and no market rate. What is different is the service provider and not the segment.

This is not to say that MFIs are necessarily efficient. More importantly, achieving efficiency usually requires some time and experience, as well as competition. Markets must be built through transactions.

My view

While we agree that MFIs will take time to achieve efficiency, who should pay for these inefficiencies? Whether any of us would pay high inefficiency costs to build a market or an institution? Then why should very small borrowers should be expected to do so?

Most economists would argue that the role of competition is to ensureleastcost production, in this case bringing down interest rates, which punishesinefficient providers and provides more choice to borrowers. At the sametime, as competitors strive to protect themselves by building market niches, they differentiate their product. Given product differentiation (type oborrower, understanding and management of risks, term structure, collateral,location of offices, etc.) one would normally expect that there would be avariety of rates in the market. (This may be less likely to happen in highfinance, e.g, banks active in national money markets) because of regulationand because the difference between one large bank and another may be lessthat between one MFI and another.)

My view

Competition will infact bring rates to optimal levels and provide choices, if competition is fair and market is perfect. I do not know when was the last occasion perfect market conditions were seen in any part of the world. Most niche markets develop on information asymmetry and it this info gap which has to be exorcised in microfinance. In the Indian context lack of literacy provides ideal conditions for exploitation of very small and poor clients. If very poor and illiterate constitute a "niche", then usury is justified.

Subsidies complicate the matter, and probably do a better job of promotinginefficiency than of promoting efficiency. This would be expected becausethe incentive to control costs would be lower when some costs aresubsidized. This is another argument for working toward sustainability.

My view

I totally endorse this view. It could not have been better said.

Whenever an economic transaction occurs, at least two parties are involved.In the case of an MFI, the two major parties are the borrower and thelender. It is impossible to have a credit transaction without theinvolvement of a borrower, and thus borrowers are indeed involved indetermining rates of interest. The changes in interest rates and marketshares in microfinance in Bolivia in 1999 and 2000 indicate how forcefulcompetition is, and how it empowers borrowers by giving them the choice oflender they will patronize. This is how borrowers participate indetermining interest rates. Their actions also discipline lenders. Tosummarize this point: borrowers are already inextricably involved indetermining interest rates.

My view

There are of course two parties to any transaction. (When I am mugged I am the second party to the transaction; but I would not agree that I was involved !) But they operate from different positions of strength. The lender dictates the terms and the borrower is a passive party till the loan is actually made. (There are of course exceptions to this;). Since the credo of many MFIs is that "cost does not matter; only access does", we could guess in whose favour the terms of loan would be. My submission is that borrowers have little say in interest determination, and will continue to be so on account of the disinformation about the modalities of interest fixation. If MFIs hold themselves out as customer friendly, then they should not fight shy of involving borrowers in a more direct manner in pricing loans.

Regards
N.Srinivasan

From: Greg Chen [chen@glt.comsats.net.pk]
Sent: Do 04.01.2001 05:59
Subject: Market rates of interest

N. Srinavasan wrote:

Microfinance market in India is not a recent one. Microfinance through MFIsis of recent origin. Mainline banks have been providing small loans to poor for a long time, but they are spatial and sectoral gaps in their credit outreach. The number of loans made by banks for amounts less than $ 500 exceeded 150 million. The outreach of banks through Self Help Groups is about 130000 groups, which is roughly 2.2 million households. As against this the outreach of all MFIs put together is very small and nowhere near even one million households. Hence there is no basis to conclude that there is no market and no market rate. What is different is the service provider and not the segment.

It would be worth inquiring further about Banks and Self Help Groups in India. Is there evidence that most Banks or SHGs have been or are beginning to provide microfinance services on an increasingly sustainable basis? If the answer is no, have they really contributed to establishing a market or market rates?

Greg Chen

➢ Borrowers' against MFI's sustainability? (9 mails)

From: Mr N Srinivasan [gsns@vsnl.com]
Sent: Di 06.02.2001 14:51
Subject: Microcredit summit conference in Nw Delhi

Dear DEVfners,

The recent Microcredit summit conference began with a bang on MFI sustainability. The model offered was that MFIs cold expand micro credit with profits, provided they got the pricing right. In this case the range of pricing indicated was 35 to 51 %. 35 % is perhaps not too high in some contexts; I have wondered ever sinc e I heard the presentation and the following question and answers as to what economic activities produce 50% + rate of return, which alone could enable servicing of high cost loans given by MFIs. Some evidence was offered based on a study carried out in Philippines that some rural activities could generate returns in excess of 70%. The only problem was that this was a limited study and had shadow prices to compute returns. Shadow prices cannot repay loans. If many rural economic activities with such high returns exist then it is possible for such MFIs to post profits. But the fact is that rural livelihoods are marginal and barely produce enough to keep body and soul together.

What is the other important issue is the objective of sustainability. When we talk of sustainability of MFI, is not borrower sustainability an equally important consideration? The moneylender has been much maligned on account of not addressing the borrower sustainability aspect. (His rates, in the Indian Context, might compare favourably with the suggested rates for the MFIs in the case study presented.). It seems that MFI sustainability seems to cloud the very objective with which NGOs entered micro finance, to reach the unreached, to serve the unserved, to provide hope to people suffering poverty. There is a need to revisit the mission and objectives for those NGOs which have set up or are about to set up MFI operations. If they don't, then the voluntary sector will have no ground to talk about predatory lending.

Regards
N.Srinivasan

From: Ernelson@worldbank.org
Sent: Do 08.02.2001 07:46
Subject: Microcredit summit conference in Nw Delhi

Regarding the Srinivasan comment, If we are to argue about MFI sustainability vs. service to the rural poor based on annualized interest rates we need more information that given in this message. Access to liquidity is usually the biggest problem facing the poor; taking on further debt (a.k.a. credit) comes a few notches lower on the priority list. If the analysis is discussing 51% (annualized) on a short-term loan it sounds like a costly proposition for the lender and a good deal for the borrower until you realize this is 3.5%/month or 0.11%/day. If it can be used for trade markup (compare to 20% per day), to prevent a catastrophe (potential loss of 100%) or for an opportunistic response to chance offering (the fabric remnant, the broken bag of rice for sale at a deep discount; the transporter with unused space...). These should not be compared to an investment loan at 51% p.a.. The same question about time horizon is required before accepting the comment "35 % is perhaps not too high in some contexts". Without a time horizon and some idea of opportunities we have no basis to judge that statement.

Even if "rural livelihoods are marginal and barely produce enough to keep body and soul together", rural traders and others have been able to benefit from trade credits and others to produce short-term gains which contribute greatly to keeping body and soul together. If MFIs can aid that on a sustainable basis, this appears to be a service to the poor.

Eric Nelson

From: Muriithi Kagai [mkagai@yahoo.com]
Sent: Do 08.02.2001 08:48
Subject: Microcredit summit conference in Nw Delhi

Financial sustainability is one of the most debated issues with regard to Micro Finance activities. Most of the controversial debates such as commercialization of micro finance institution are driven by the frustrations that MFIs have gone through the years while pursuing sustainability.

From a rather simplistic point of view, one can associate the problem of sustainability to lack of entrepreneurial drive and culture in micro finance institutions. MFIs are involved in business but they are themselves not managed by business people. If you check most of the reasons why MFIs face problems relating to sustainability, they are in one way or another connected to poor methods of doing business. In the case of charging higher interest rates as cited in this NewDelhi summit, it is the same story all over the world - Passing the cost of your inneffiencies to the poor borrower. Arguments that poor people make returns of 70% to justify 50% interest rates do not hold water and require further interpretation. First, the 70% return could be true but in absolute figures it translates to very little incomes. Additional production arising from loan injections do not necessary result into such high returns on investment as the challenges to turn over increased stocks tend to reduce profitability. This brings in the argument that it is not just lack of accessibility to credit that makes people poor. Even if someone was to realistically make a 70% return of her/his investments, we have no basis to try to present a strong case of sharing that return with the entrepreneur. It would mean that 80% interest rate is justified if enterprises are making 140% returns on their investment.
If an MFI is efficient and business oriented, it should make profits or simply get out of business. The current easy way out is to pass the cost to the poor borrower who therefore has to work to sustain the MFI rather than himself. Interest rates charged by MFIs should not substantially differ with those charged by commercial banks- the argument that these two serve different clientele not withstanding. Most of the good terminologies that describe an entrepreneur are lacking in many MFIs.

Anyone interested in getting into the devil on this topic can reach us on icmckep@yahoo.com.

Muriithi Kagai

From: Norm & Christine MacIsaac [macisaac@mos.com.np]
Sent: Do 08.02.2001 15:57
Subject: Microcredit summit conference in New Delhi

Dear DFNers,

I was also in Delhi this week and share an odd sort of feeling about this *win-win proposal* for microfinance, *i.e. you can reach the poorest and charge relatively high rates of interest.*

First, though, let's be clear. Those, like David Gibbons, who argue that the *win-win proposal* is possible also remind us that these loans are typically for short periods of time. Money is turned over rapidly, so, borrowers are typically paying a lot less than 51 paisa per one rupee of borrowed money. They may also be paying interest on a declining balance (I would hope).

Yet this is exactly my worry. Are we just lending to that segment and in such a way that fits our methodology? Who is providing loans to small farmers for example? Nobody worries about pushing debt on poor people, as long as they are repaying.

I was left wondering if this *win-win proposal* isn't leading to some strange permutations at the grassroots level. One NGO was claiming 6 years of perfect repayment *(I mean perfect: no defauts, no late payments at all)*. This same NGO claims to be working with the poorest. This is a microfinance practitioners wet dream!

But this is also a state which I am told experienced a rather severe drought during that same period. So what exactly is going on? How come the poorest are able to repay their loans? In Bangladesh, some of the best MFIs in the world suffered due to the latest flood.

Many explanations are possible. Perhaps loan officers made some of the payments. Maybe people borrowed from other programs to make their payments. Maybe the NGO has a creative bookkeeper. *Who knows.*

Or, perhaps the NGO allowed people to withdraw their savings or dip into their emergency fund. If so, then *kudos* to them. But why aren't they talking about their success in promoting *coping strategies* rather than just telling people that the repayment is perfect? Probably because most people are in the *reach the poor and maximize repayment paradigm.* If those two are on track, then you've got it!

My point is not to question anyone's performance claims. Rather, I wonder, like my fellow DFNer, if we aren't losing sight of what this is all about.

How high is an acceptable rate of interest? How acceptable is it to mould our lending practices to meet our financial performance exigencies? Are we only lending to the entrepreneurial poor for short terms? Are we pushing perpetual debt in the interest (sic!) of sustainability?

Some people are now "writing off" lending in remote and hill areas because of the high cost. So, basically, if we can't make it sustainable, the poor won't get access to credit. Consequently, those who are really in need, like our friends in the hills of Nepal, will be neglected while programs in the plains abound. Is that the path to follow?

Sorry, I got into microfinance in the 1980s because I was impressed by the "can do" mentality. Let's not let the microfinance orthodoxy paint us into a corner.

At the meeting in Delhi, I was totally impressed by the diversity of programs and people involved in microcredit. Don't let the talkers of the world limit your possibilities.

Maybe next summit, instead of limiting ourselves to sustainability and targeting, we should discuss what is actually *happening at the operational level and in people's lives.* Maybe that could help get us back on track.

Norman MacIsaac

From: Gary Woller [gmw@ucs-exch.byu.edu]
Sent: Do 08.02.2001 17:58
Subject: Microcredit summit conference in New Delhi

Dear DEVfners,

I would like to follow up on the message by N. Srinivasan. I too am highly skeptical that too many microenterprises of the petty trading variety (which comprise the majority of clients in many programs, particularly those targeted to the more poor) are generating a financial rate of return equal to or in excess of the high interest rates charged by microfinance programs. But, this is an empirial question, which leads me to ask whether there are any good empirical studies that have investigated this question.

If my hypothesis is true (and I do not know it to be true—I am still only guessing), then it begs the question as to why so many persons are taking enterprise loans at such high interest rates if their enterprises do not yield sufficient returns to repay the loans? If this happens, then it clearly suggests that the money to repay is coming from other sources as well. Next, I ask myself about the rationality of persons who engage in such behavior. I assume ex ante that they are rational, so there must be a good explanation for their behavior (e.g., enterprise loans are de facto consumption loans).

The pricing policies of MFIs, and the tacit or explicit support of such policies by the industry, imply widespread consensus that the financial returns to microenterprises (and petty trading) exceed the interest rate charged. Is it not time that we seriously question this assumption and subject it to some testing (assuming again that it has not been done)? It strikes me as a fairly crucial question.

Regards,

Gary Woller

From:	Natarajan Jeyaseelan [njeyaseelan@usa.net]]
Sent:	Fr 09.02.2001 06:04
Subject:	Microcredit summit conference in New Delhi

Dear DFN friends,

I too wonder how the poor in India can afford to pay the interest rates around 35 to 50% just to reach the financial sustainability of the MFIs, when the rate of return from most of the rural enterprises is very marginal at around 15 to 30% due to the reasons like obsolete technology, lack of backward and forward linkages.

In India, the interest deregulation regime is of recent origin. Now, the prime lending rates of PSBs are hovering around 12 -13%. Even then, the Industrials keep on pressurizing for downward revision of lending rates to make them competitive in the global market. Banks lend to SHGs at around PLR, which is quite reasonable & affordable to members. How we can justify under our Indian context, to hike the rate for poor, when the powerful, wealthy corporate houses are expecting lower interest rates.

Some NGO-MFIs charge around 15 to 18% for their loans. Even if we analyse critically the individual members cashflow, it looks profitable and viable because they don't add the cost of their own and family labour cost, while computing the economics of the particular activity.Even though the member may repay the loan correctly, the member may not derive any remunerative income out of the business.

What is the need of the hour may be

** Lower the cost of credit, by externalizing more credit functions to be carried out by the Federations of SHGs.

** Instead of employing more costly professionals for fieldwork, train the local people to manage their affairs (This strategy has paid rich dividends in our Post- IFAD project areas in Tamilnadu - where earlier the Graduates/Post graduates from various places worked as Coordinators in the field during the project period. Later, in the post project phase, they have been dropped out of the project. Then, NGOs started promoting the Animators of the SHGs as Coordinators and they are really doing good field work and a more sustainable way as they are cheaper and locally available and they may not migrate out.

** Identification of viable income generating programmes and motivating SHGs members to take up the individual Enterprises according to their capacity (Often, we insist that the all member should take up group activity and end up in failing)

DFN members can share their experiences whether they have come across any IGPs which return more than 50% rate of return and which is more suitable to rural women.

With regards.
N. Jeyaseelan.

From:	Mr N Srinivasan [mailto:gsns@vsnl.com]
Sent:	Samstag, 10. Februar 2001 17:47
Subject:	Microcredit summit conference in New Delhi

Dear DEVfners,

I see that the post on Micro credit summit has produced quite a few responses, most, which in particular discuss interest rates. Ernelson of Worldbank has brought out an important point that, interest rate has to be applied in the context of a time horizon, and argues that an annualised rate of interest of 51% is just 0.11% a day. 0.11 % a day might be very low, but how many of us would be willing to pay the same, for example, on our credit dues, or house mortgages? The argument also goes that we cannot comment on whether the interest rates are high unless we have an idea of opportunities that exist. Considering that MFIs give a loan only and do not participate in any risk that the client might face in his venture, how can the interest rate vary according to the opportunity for earning incomes? Will the reverse of this logic be acceptable - say a small venture producing a return of only 10% would be charged a rate of interest of 5% per annum, because we know precisely the income opportunity available.

This logic of opportunity available for trade markup is specious and does not apply across the board. Such profit opportunities last only till such time few traders operate in the niche. When a financial institution such as a MFI enters the market and starts making credit available to traders, the supply of traders would increase, and competition would bring down prices and earnings. In fact the entry of MFI into the scene would act as the trigger that brings down the rates of return. It is difficult to assume that there would be an endless army of such clients who would enjoy such high rates of return queuing up before the MFI, so that it can be made sustainable.

This also means that MFIs in this model would ignore large sections of poor who do not have high return opportunities. Such MFIs would be no different from mainline banks which found it difficult to deal with small borrowers and savers. They would enjoy the worst of both money lending and banking traits - usurious rates and neglect of clientele.

Even granting that micro ventures could earn high returns, why they cannot be allowed to retain the earnings rather than being forced to contribute to the sustainability of MFIs. If interest rates are kept lower, the clients would be able to plough back the retained earnings into their business and be less dependent on external funding; this would better serve sustainability and self-sufficiency of the borrower than any other "noble deed" that a sustainable MFI can otherwise do.

There is more thinking to be done on sustainability of MFIs. We do not hear of efficiency and productivity of MFIs as an important issue in sustainability. High interest rate is neither a necessary nor sufficient condition in achieving sustainability. Externalizing costs, using borrower groups for appraisal, monitoring and recovery of loans could be an option in reducing transaction costs. Innovating on delivery mechanisms which do not increase costs while expanding volumes is an option to be seriously explored.

Regards
N.Srinivasan

From:	IntEconWRW@aol.com
Sent:	Mo 12.02.2001 14:42
Subject:	Microcredit summit conference in New Delhi

Who was it who recently said, "The rich will always be with us"? It anyway comes to mind when Sunil asks the question, "whose sustainability are we interested in, here"? The sustainability of any who require a given good or service, in a commecial context, depends upon the sustainability of their supplier. And, in most commercial contexts, that means covering your costs and satisfying your interests. Not covering your costs is the definition of being unsustainable.

Of course there are alternatives to commercial sustainability. Governments can provide goods and services and pay out of general revenues for losses on their sale. That is sustainable as long as the bureaucracies that are created to supply the good or service can convince their treasureries to fund them. But one can conceive of a situation where a bureaucracy might be better at convincing their treasury to fund them than they are at providing the good or service.

The person who would get rich by providing financial services is limited by the requirement that those services be generated in such a way that they are remunerative and they satisfy effective demand. The public agency, on the other hand, is only limited by politics. We are all free, of course, to form our own opinion about which one of these models would be more likely to generated sustainable delivery of financial services to the poor.

Commercialization is a very weighty term. Succeeding through commerce?

Imposing the cost recovery requirement? Weighing welfare in units of money? It is the type of thing that Max Weber might have written chapters on. But even though I am sure I do not understand all the implications of the term, the model where the people who receive the service are the final arbiters of success seems the more efficient one. This is not to say that its not a good thing to have governments and donor agencies and NGOs trying to prime the pump. But rather that the flow so generated be self-sustaining.

RW

From:	Koenraad Verhagen [k.verhagen@worldonline.nl]
Sent:	Di 13.02.2001 12:14
Subject:	Microcredit summit conference in New Delhi

Dear DFN-ers,
What are "the pitfalls of Microfinance and its underlying philisophy ?" Recent discussions on the listserve show that many practitioners and analysts of the booming MF ask themselves that question. I have tried to make a critical assessment of current trends in MF policy and practice from the perspective of a set of principles embodied in Catholic Social

Thought. The paper was presented last November to an international ecumenical audience at Calvin College, in Grand Rapids, USA. Its table of contents is given below.

The evoked principles are not unique to Catholicism. Yet, I found them helpful.

The paper ends by a discussion of the difficult choices to be made by Church related development organisations in the North. Firstly, there is a strategic choice to be made, as to whether or not to enter the microfinance playing field, or stay out of it. And when entering, what should they do or not do, in order to have 'added value' in a field with already too many professional actors at some places. Obvious pitfalls are an uncritical acceptance of neo-liberal, micro-credit discourse as a pseudo- 'theology of liberation', the neglect of mobilisation of local resources because of the relatively easy access to donor funding, and the neglect of the interests of the poor in the drive towards achieving institutional sustainability'.

If you are interested in the paper, please send an e-mail to k.verhagen@worldonline.nl [and do NOT use the 'reply' function of this DFN list serve].

Table of contents

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➢ Savings collection as a financial service (6 mails)

From: Dale W. Adams [dwadams@burgoyne.com]
Sent: So 04.03.2001 20:52
Subject: Susu collectors in Ivory Coast

Dr. Seibel reminded us in a recent dfn message that savings collectors are common in many countries. During a recent visit to Abidjan two of us interviewed a susu collector who operates in several central markets in and around Abidjan. I suspect he is only one of many people doing this collecting in Abidjan.

He was a young man with a car and a mobile phone. Several assistants helped him collect small amounts of savings virtually every day from about 400 clients (a.k.a. beneficiaries). He deposited the funds in his account in a financial institution that was licensed to accept deposits. At the end of each month he returned to the saver the amount that each client had given him, less one-day payment that he withheld as a fee. The susu collector's income amounted to the interest payment he received on his overall deposit, plus withholding the one-day payment. In addition, he occasionally lent clients small amounts for relatively short periods of time and earned an interest in the doing.

Several features of his activities interested me. First, lots of relatively poor people were willing to pay someone to help them save more. Under this system savers incurred zero transaction costs since the susu collector absorbed all of the these costs. The mild forced-saving feature of this arrangement and the zero depositor transaction cost were more important to savers than were the negative financial rewards for saving.

Second, the susu collector was apparently making a good living providing these savings services. I don't think he had any other significant source of income. (As an aside, his mother, a well known marketing lady, helped him start the business.)

Third, I wondered why banks didn't hire bonded agents to provide the same services? Bonding would eliminate some of the risks inherent in the informal susu-collector system, banks could offer some modest return to savers, and banks might also provide a broader and more attractive array of deposit instruments than do susu collectors. In addition, I wonder if some of the depositors attracted through this system might later qualify for small bank loans—the deposit performance might be an efficient loan-screening device.

Seibel mentions several banks that employ savings collectors. I recall hearing about the Syndicate Bank in India using such collectors aggressively a number of years ago. Why don't we see more banks doing this, especially in countries where informal savings collectors are so common? What blocks banks, or credit unions for that matter, from doing more of this?.......................................jane.

From: SRINIVASAN [gsns@vsnl.com]]
Sent: Di 06.03.2001 05:29
Subject: Susu collectors in Ivory Coast

Dear DEVfners,

Jane queried about the **Pygmy** deposit collectors of Syndicate bank in India. The collectors were agents of the bank and not employees. The agents' actions were not fully in control of the bank. There were instances of frauds by these agents which put the bank and depositors to loss. Some of these agents tried to get absorbed as permanent employees of the bank using the tough labour laws on employment of contract labour by public sector institutions. So the bank decided to give up the scheme silently.

Some Regional Rural Banks had tried to introduced mobile banking services, using a modified utility vehicle as a branch. This four wheeled branch used to visit designated villages at an appointed day and timeevery week. People of the village would carry out their banking during that time. This service helped more in mobilizing savings. But the costs of operation were uneconomical given the volume of business generated. The mobile branches were also given upabout 10 years back. Perhaps, if they are reintroduced now they might be cost effective.

When I went to Thailand three months back, I was pleasantly surprised to see that BAAC had recently introduced a mobile bank concept on a pilot basis. Economics of its operation were under examination by BAAC.

Regards

N.Srinivasan

From: Asif Dowla [audowla@osprey.smcm.edu]
Sent: Di 06.03.2001 16:43
Subject: Susu collectors in Ivory Coast

I always wondered why would anyone pay, as is the case with Susu collectors (a negative interest rate) to part with their savings instead of demanding interest payments? Dale suggested "the mild forced-saving feature" plus the savings on transaction cost as the possible reasons. My question is why would the savers need to be forced to save. My answer is that there is a 'social constrain' on savings, i.e., demand from friends and relatives and consumption needs may dissipate the savings and the poor need a means to protect their savings. Susu collectors provide this service. Research in Bangladesh shows that compulsory saving schemes of MFIs allows female borrowers' to protect their savings from husbands, other family members and neighbors. I believe that this beneficial aspect of compulsory savings has been neglected in the literature.

Regards.

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From: P Craviolatti [pcraviolatti@yahoo.com]]
Sent: Mi 07.03.2001 19:34
Subject: Susu collectors in Ivory Coast

To answer your first question I would suggest you read the latest Stuart Rutheford book The Poor and Their Money (OUP 2000).

RE: studies on Bangladesh about the beneficial role of forced saving. I have just come

back from two years in Bangladesh working for the European Commission for its funding of BRAC and Proshika and other small MFIs. I would be very interested to know the studies you are referrering to because the evidence from the large and smaller MFIs suggest that forced saving (apart from being compulsary in order to receive loans) do not seem have any other role. Even for the MFIs, it does not appear that to have a very big impact as source of finance (refer to BRAC and Proshika's balance sheets). Women save in banks.

The challenge for the large MFIs in Bangladesh is to develop new saving products/deposits. They have currently embarked on that.

Paolo Craviolatti
Sussex Univ.
UK

From: Peter Bofin [pbofin@hotmail.com]]
Sent: Do 08.03.2001 10:31
Subject: Susu collectors in Ivory Coast

One approach to examining clients' behaviour is to reflect on your own behaviour as a client. When I last had a current account, I earned just over one percent interest while inflation was over three percent. I was effectively paying for it (and don't forget transaction fees). Like the susu collectors' clients I was willing to pay. I did so because I wanted security with ready access and no provider would give a real rate of interest for such a service (grasping relatives was not an issue: in my case usually they are looking for repayments not loans). The first point is clear while the second needs more work. It may have been because of cartel-like behaviour in the Irish banking sector (an accusation often made, especially at the retail forex trade). So how do the Cote d'Ivoire collectors determine prices? Are there agreements between collectors on setting fees? Do they informally allocate areas of operation? Is there real competition between them? At any rate both Irish banks and the susu men are trusted to provide security and access at an acceptable cost.

Your real willingness to pay depends what you need and what is available. In Ireland and Cote d'Ivoire the offer made by providers is adequate to attract customers. Here in Bosnia in the formal sector the offer made by commercial sector is not good enough to attract savers, principally because of well grounded lack of trust in their security. A quick survey of my colleagues here in Sarajevo reveals a small minority to have bank accounts of any kind, and all of those with foreign-owned banks. It looks like security based on trust may be key.

Peter Bofin

From: TCHUMA-Cooperativa de Credito [mailto:kathryn.tchuma@teledata.mz]]
Sent: Freitag, 9. März 2001 07:44
Subject: Susu collectors in Ivory Coast

The discussion so far on this subject has concentrated on why people are prepared to pay for the service. I think that the point has been made that users consider it a relatively small price to pay for the benefit of being able to manage their money. More than once I have heard people call the money that they collect at the end of their month is their 'salary'.

But Dale Adams raised a different point. Why don't banks or credit unions offer a similar service? When we designed our savings product, we decided not to replicate this system, which is widely used in Maputo. (Here it is known as xitique, which is the same name given to ROSCAs, just to confuse matters). In part we felt we could offer a service that would meet other needs, so why fix something that isn't broken, and in part because it would be more difficult and expensive for us. Our savings officers, apart from their salaries come with a whole load of other overhead cost that would make it more difficult to make the service profitable. The use of agents is fraught with problems of security, as the experience in India showed. Also by definition, everyone takes out all their money at the end of the month, which makes the fund deposited unsuitable for on-lending.

However, in the process of launching our product, often the first reaction from people on hearing of it was, "Good, now we won't have to rely on the xitique". This reaction was prompted by miriad experiences of collectors who are robbed, who have run off with the money, or, faced with an emergency of their own, have used the money.

In fact I would be very surprised if people stopped using xitiques, because of the availability of our product. Most people need a variety of instruments to manage their money.

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