

DEVFINANCE

Discussion list on development finance of the Ohio State University

Quarterly Review¹

January-March 2001

General Information

➤ Findings on SHG linkage project in India

The SHG linkage project pioneered by NABARD (National Bank for Agriculture and Rural Development) has reached a level of about 180000 groups covering more than 3 million families. More than 80% of groups are exclusively of women, and the programme is made possible on account of the involvement of 700+ NGOs and 2500+ bank branches. The goal of NABARD is to reach a level of 1 million groups by 2008.

The staff economists of NABARD took up this large programme for evaluation. The findings are available on NABARD's website under "what's new". Those interested may access it from www.nabard.org.

In this context we recommend to have a look at the analysis on linkages on self-help groups with formal financial institutions, published under the same title by and available at the Swiss Agency for Development Cooperation.

➤ Micro Finance Gateway: Conference and Events Database

The micro finance gateway (<http://www.microfinancegateway.org>) has updated its conferences and events database for 2001, containing now more than 65 different events for 2001, including descriptions of events, agendas and registration information. Information on dates four months ahead can be accessed by selecting the "Forthcoming" link. You can search for an event by region, topic and date at <http://nt1.ids.ac.uk/cgap/confsea.htm>.

You can also help to update this database by registering your training or conference on line at <http://nt1.ids.ac.uk/cgap/confentry.htm>

➤ Program design and MIS

With regard to program design and MIS, Bert Wesselink (bwesseli@cerco.net) suggests having a

look at the paper "Monitoring guidelines for semi-formal financial institutions active in small enterprise finance" (ILO, 1996), available under:

<http://www.ilo.org/public/english/employment/finance/pu/bl.htm>. In the paper, three levels of analysis are distinguished, i.e. the level of the client, the institution and the community at large. In the first section, business monitoring is addressing the client profile, business performance, individual loan and savings performance, business effects and impacts, and provides an overview of relevant questions for research. Secondly, the financial and operational performance of the SFI are analysed, the institutional effects and impacts assessed, and relevant questions at the level of the institution are formulated for discussion and research. Finally, community monitoring elaborates on the economic environment, political and regulatory environment, the financial marketplace, impacts of financial services at community level, and concludes with relevant research questions for identifying new products and services.

➤ CGAP information system

This new service has been designed to help MFI managers to select an MIS software package that best suits their organizational needs. The IS service has 5 main components: Software comparisons, software selection guidelines, FAQs (frequently asked questions), information about CGAP's consumer reports and a glossary. The new service is available at http://www.cgap.org/html/mfis_mis_services.html

➤ PlaNet Finance: IKM programme

IKM is a technical assistance programme meant for micro-finance practitioners worldwide. It aims to instruct MFIs how to stay in touch with their clients and provide demand driven services for them. You will find more information on the IKM website <http://www.planetfinance.org/en/rating/impact/IKM/presentation.htm> hosted within PlaNet Rating under the label "Impact Assessment and Market Research".

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.

Courses and seminars

Please refer also to our latest flash from last month where we have informed about special training events.

➤ IV Annual Conference of the MF institutions in C&EE and the NIS

18-19 May 2001, Bratislava, Slovakia

Who should attend?

- Managers of micro finance institutions and in C&EE and the NIS; - Lawyers, accountants, MIS specialists and other advisors to micro finance institutions; - Funders of micro finance in the region; - Policy makers and government officials who want to understand micro finance better; - Beginners interested in or getting started in micro finance in the region.

Please check in advance of the Conference to determine if a visa is required for you to enter Slovakia. MFC partner in Slovakia will issue a letter confirming your participation if you let MFC office know that such letter is necessary to obtain your visa.

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➤ AIMS project conference

*Understanding Micro Finance Clients:
Advances in Impact Assessment and Applications for
Market Research*

Dates: Thursday and Friday, May 31st and June 1st, 2001. Venue: American Management Association, Washington, D.C. The objective of this two-day conference is to explore the growing field of micro finance client research, impact assessment, and market research. The conference will bring together practitioners, researchers, program managers, donors and other experts to discuss recent developments in the field and learn from each other.

A two-day workshop on how to use the Practitioner Led Client Assessment Tools developed by AIMS and the SEEP Network is immediately preceding the conference on May 29th and 30th.

Please register now to attend the conference on May 31st and June 1st at <mailto:AIMS@msi-inc.com> (NOTE: Please indicate if you want to attend the AIMS Tools Workshop on May 29 and 30 as well).

➤ Conference on "Challenges to Micro Finance Commercialization"

In collaboration with ACCION International, the Micro Finance Network will hold a conference on "Challenges to Micro Finance Commercialization" in Washington, D.C. June 4-6, 2001 at the World Bank (supported by CGAP, USAID, MBP and IDB). Similar to the Governance conference of 1998, this conference is open to all practitioners and others interested in expanding the frontiers of micro finance best practices. To register e-mail Sahra Halpern at mfn@mfnetwork.org or visit <http://tamis.dai.com/mbpworks.nsf/Commercialization>

➤ Third Annual Micro Enterprise Development Institute

Southern New Hampshire University (formerly New Hampshire College) announces its third annual Micro Enterprise Development Institute on June 11-29, 2001. This year's programme offers a greater array of courses and expert instructors throughout the field.

The field of micro enterprise development is constantly changing and refining its methodologies and "best practices" to reflect the accumulated experience of its practitioners. Participants who come to the Micro Enterprise Development Institute are practitioners. There are two levels of courses for 1) participants introductory, and 2) intermediate and advanced.

For more details, you are invited to visit the online brochure at <http://merlin.nhc.edu/ced/micro/index.html>

➤ Long-term training in Bolivia

In order to continue its commitment to support deposit mobilization efforts in MFIs, FONDESIF-GTZ (Rural Financial Systems Development Project) designed a comprehensive savings development programme (Programa de Fomento a la Movilización de Depósitos en Instituciones Microfinancieras, **Programa FOMI**).

Programa-FOMI's aim is to develop efficient and sustainable savings mobilization services in MFIs complemented by a sound micro finance regulatory environment. In order to do so, this program will strengthen technical capabilities (by pilot projects, training and development of techniques and systems) of all sector-relevant actors (MFIs, economic policy making and regulatory institutions), at all their levels (upper, middle, and lower staff), and promote formal savings awareness in Bolivian society. Tangible support, as expressed in the partial funding for equipment and infrastructure will also be provided. Moreover, to avoid duplication or atomization of efforts

oriented towards the development of savings mobilization in the country, **Programa FOMI** will be guided by an Inter-institutional Coordinating Committee (formed by government sector-relevant institutions, cooperation agencies and MFIs networks). The first phase of this program (three years) is expected to start by mid 2001.

For any further comments or clarifications, please refer to Martina Wiedmaier-Pfister, Team leader Rural Financial Systems Development Project, FONDESIF-GTZ; sfgrtzw@ceibo.entelnet.bo

Publications

➤ CGAP Micro Finance Gateway Bulletin:

New year special edition on regulation and supervision, January 2001

The outputs of a policy workshop on regulation and supervision held between 22 and 26 November 1999 in Kampala, Uganda have been brought together in a book available online from the CGAP Micro finance Gateway. To mark this publication and to note the mounting literature and experiences worldwide we are distributing a special bulletin on regulation and supervision. The book, "How to regulate and supervise micro finance? - Key issues in an international perspective" by Hannig, A. Katimbo-Mugwanya, E. (Eds) has been produced by the co-operation of the Bank of Uganda and the German Technical Co-operation Financial System Development (FSD) Project. It is available at the following Internet address:

<http://www.ids.ac.uk/cgap/static/1929.htm>

This is in addition to the familiar page on Regulation and Supervision:

<http://www.ids.ac.uk/cgap/html/regsuper.htm>

➤ **The Role of Central Banks in Asia and the Pacific**

Thomas Timberg has recommended the ADB volume authored by Paul McGuire and John Conroy on "The Role of Central Banks in Asia and the Pacific", presenting a summary of the state of play in the South and Southeast Asian region. According to him, the three key conclusions are as follows:

1. Central Banks are not very good at providing money for micro finance and shouldn't. 2. Central Banks sometimes have a comparative advantage in doing some related promotional and research work for micro finance and if that is the case they probably should do such work. 3. Central Banks to the extent they are responsible for prudential supervision of the banking

systems should set up a minimally intrusive regulation to protect depositors when micro finance institutions gather extensive public deposits. This is contrary to the present state of thinking about central bank regulation of micro finance in much of South Asia.

➤ **Micro Credit Summit Papers**

The link to all the papers commissioned by the Micro Credit Summit Campaign is:

<http://www.microcreditsummit.org/papers/papers.htm>

➤ **PlaNet Finance Library News**

Please find two mails enclosed containing the news dated January 8 and 15, 2001.

➤ **Savings and Development Publications**

No 3, 2000 has the following articles in it:

1. A policy mix for OECS development.....Peter Adrien.
2. Exchange-rate volatility and trade flows in an emerging market: some evidence from a Garch.....A.F. Darrat and S.R. Hakim.
3. Fiscal senigniorage: the case of central banks in CARICOM.....Garth P. Nicholls
4. The potency of monetary and fiscal policies in Caribbean countries: A cointegrating Var approach.....Alwyn Jordan and others.
5. An overview of the Nigerian financial market before and during the deregulation of the economy 1955-1993.
6. The importance of being thrifty: saving policies in Taiwan and Botswana.....Johanna Boestel.

No 4, 2000:

*** "Improving Bankability of Small Farmers in Northern Vietnam" by Gertrud B. Schrieder and Insa Theesfeld.

*** "The Financial Structure of Barbados," by Michael Howard.

*** "Ways Donors Can Help the Evolution of Sustainable Microfinance Organizations," by Mark Schreiner.

*** "Privatization of Public Enterprises in Bangladesh: Problems and Prospects," by Tanweer Akram.

*** "Malaysian Inflation and The Ringgit Effective Exchange Rates: A Vector Error Correction Analysis," by Monsor H. Ibrahim.

*** "Financial Liberalization, Weighted Monetary Aggregates and Income in Nepal: An Empirical Investigation," by Muzafar Shah Habibullah.

➤ **African Review of Money Finance and Banking: Content of its Number for the year 2000**

*** "Foreign Direct Investment and Economic Growth in Nigeria: A Seemingly Unrelated Model," by Janet O. Adelegan.

*** "Determinants of Farm Households' Access to Informal Credit in Lume District, Central Ethiopia," by Teresa Adugna and Franz Heidhues.

*** "The Financial Modeling of Cameroonian Roscas," by Leonard Tchuindjo.

*** "The Economics of Grain Warehousing in Sub-Saharan Africa," by J. Coulter, J Sondhi and R. Boxall.

*** "Womens's Saving Behaviour in Cameroon: An analysis from their Historical Life," by Gerard Tchouassi.

Email contacts for both journals = publications@fgda.org and <http://www.fgda.org>

➤ **Market study on Micro Credit in Central America**

The Market Study Microcredit in Central America is available through PACT publications tel: (202) 466-5666 or directly from the Katalysis Partnership website:

<http://www.katalysis.org/documents/microcredit.exe>

Subjects of interest

➤ **Market rates of interest (Continuation)**

J.D. von Pischke and N. Srinivasan have extended the exchange on market rates of interest focusing in more detail on the appropriate height of the rate. Von Pischke considers the existence of different rates as natural given the difference in market segments (banks vs. MFI clients). According to him, borrowers are already involved significantly in determining the rates; the changes in Bolivian micro finance between 1999 and 2000 serve him as an example for the power of borrowers when they can choose the provider of MF services. Subsidies, however, decrease the incentive for MFIs to lower costs, which then lead to inefficiencies of operations and higher rates.

Srinivasan, on the other hand, does not agree with this view. He makes the difference between the providers of the services (banks vs. MFIs) but not the clients. Therefore, as he argues, there is no reason why MF clients should pay more at MFIs than at banks when part of the rate height is caused through inefficiencies. Though he agrees that competition does indeed increase influence opportunities on rates by borrowers, he reminds of the assumption of perfect market

conditions – what is almost never the case. His opinion is that the reasons for market niches are often information asymmetries. In countries with a low level of literacy (like e.g. India) it is easy to exploit small and poor clients. Additionally, though theoretically involved in the rate determining process, MF clients usually have a much lower position of strength – either they accept the loan offer or not. Srinivasan opts for much more direct participation of the borrowers in the loan pricing procedure – provided MFIs are supposed to be customer friendly.

Greg Chen raises the question about the sustainability of the services provided by banks or self help groups to MF clients. If the answer is not clearly yes, which would be their contribution to establishing market rates for micro finance? (3 mails)

➤ **Borrowers' against MFI's sustainability?**

Mr Srinivasan's information about the recent Micro credit summit conference in New Delhi where MFI sustainability was a central issue gave further input to the exchange on the interest rate theme. At the conference, a model was presented foreseeing loan pricing at MFIs from 35% to 51%. Yet Srinivasan thinks that the borrowers' sustainability should be considered as important as the MFI's one. He is afraid that the discussion around the latter could make forget about the basic objective of MFI's: to reach the unreached, to serve the unserved, to provide hope to people suffering poverty. Eric Nelson from the World Bank reminds that without a time horizon and an idea of the opportunities behind the suggested loan rates it seems to be difficult to judge Srinivasan's statement. Another discussion participant, Muriithi Kagai, brings in the following twofold view of the problem: lacking business skills at both MFI's and borrowers. Inefficiency of business operations is the result: for MFI's meaning higher interest rates due to higher costs, and for entrepreneurs unrealized increase of returns of investments despite loan injections. His firm opinion is that unprofitable MFI's should close down. Otherwise because of transferred inefficiency costs it is the borrowers who are working to sustain the MFI rather than themselves.

Norman Mac Isaac is also in doubt about the New Delhi proposition of charging relatively high rates of interest *and* reaching the poor. He asks the so-called successful NGOs (no defaults, no late payments) to go one step further and share their success strategies – in which he obviously does not believe much. Mac Isaac is rather afraid that we might be loosing sight about the MF overall context. He asks, "How acceptable is it to mould our lending practices to meet our financial performance exigencies?" One interesting suggestion he makes is to discuss in the future the operational

level of MF and what is happening in people's lives - to "get back on track".

Gary Woller wonders how can so many persons take loans at the mentioned high rates if their business does not generate a return in excess of these rates. In this case, the money for repayment would have to come also from other sources than the business. He thinks that some studies or testing are necessary in this regard. N. Jeyaseelan adds that because individual entrepreneurs often do not count their own and their family members' work, their cash flow remains profitable. N. Srinivasan concludes that high interest rates are neither a necessary nor a sufficient condition for sustainability of MFI's; he suggests exploring more seriously innovative delivery mechanisms that decrease costs but increase volume.

Other interesting contributions concern the issue of commercialization of MF services - is this the only way to serve the poor? - as well as "the pitfalls of MF and its underlying philosophy" (uncritical acceptance of micro credit as a "theology of liberation"; neglect of local resources mobilization due to donor funding and the neglect of specific interests of the poor).

You can follow the discussion more directly in the enclosed mails (9).

➤ **Savings collection as a financial service**

Dale Adams reports about his interview of a susu collector in Ivory Coast where he got the convincing impression of a service, resulting in a win-win situation for both the collector and the saver. He asks, "why don't we see more banks doing this, especially in countries where informal savings collectors are so common?" to what N. Srinivasan reacts underlining the danger of fraud by the collectors putting the bank and the depositor to loss.

Asif Dowla tries to explain the success of the susu collectors - given the fact that users have to pay for this service - with the protection effect for the poor's money based on a specific discipline-saving feature. Peter Bofin also thinks that the trust in security provision plays an important role for savers in both savings situation be it with the susu collectors or an average trustful bank in industrialized countries: the real willingness of clients to pay depends what s/he needs and what is available.

Paolo Craviolatti from Sussex University mentions the idea of compulsory savings where he sees the advantage for the borrowers only in the increased possibility of receiving credit afterwards. He argues that - based on his opinion in Bangladesh - women predominantly save in banks and that in reality savings often play only a minor role as funds for MFI's.

Kathryn Larcombe who is actually working in a MF cooperative in Mozambique comes back to the question raised by Dale Adams why banks refrain from offering collecting services and mentions some of the problems that banks would have in doing this. According to her, the susu collection service will anyway exist together with other financial services offered by banks or credit unions. (6 mails)

➤ **Micro finance replication**

Rebecca Kinyon, a student at Boston College, brought up the issue of replicating micro finance programmes to other regions. Ken Iida from Accenture (former Anderson Consulting) doubts very much this possibility, because he thinks that too many socioeconomic variables have to be adapted to local conditions. Therefore, "localization" seems to him to be the better term. Dmitry Ponomarenko from Russia agrees with Ken because the performance of a programme that has been transferred usually varies significantly from the original. From his experience he reports about a total failure of replicating the Grameen system in Bosnia by local people while it is now starting in Kosovo by a person from Grameen itself. He is curious about the future results. (6 mails)

➤ **Search machines for MF on the web**

Dale Adams touched an interesting subject: the power of Internet search machines for MF. He refers to the fact that many devfinance list participants would maybe better off in consulting those first before addressing the devfinance list for advice. As a consequence, with the help of those machines the big number of regular conferences and seminar and other might possibly be reduced, and much hard copy information can be stored more cost-effectively and more accessible in electronic forms. Thorsten Giehler from GTZ draws the attention to the fact that many of the hits found by search machines remain unfortunately often useless because of their irrelevant results. He therefore thinks that even today direct exchange can sometimes be faster and more effective for the objectives of the exchanging persons than the web. Yet he also thinks that the realization of new concepts is as important as talking or writing about them.

Participants have especially recommended the following useful machine for search goals:

www.alltheweb.com - FAST Search and Transfer.