

ANNEXES

To the Devfinance quarterly Review

April - June 2001

General Information

➤ Initiative to fund assessments/ratings of microfinance institutions (1 mail)

CONSULTATIVE GROUP TO ASSIST THE POOREST

THE INTER-AMERICAN DEVELOPMENT BANK

Announcement on the Establishment of a Joint
Microfinance Rating and Assessment Fund

OBJECTIVE

The Inter-American Development Bank (IDB) and the Consultative Group to Assist the Poorest (CGAP) are pleased to announce a joint initiative called the Microfinance Rating and Assessment Fund (hereafter called the Rating Fund). This joint initiative is aimed at improving the quality, reliability, and availability of information on the risk and performance of microfinance institutions (MFIs). The primary objectives of the Rating Fund are to:

- ü Stimulate improvements in MFI performance
- ü Encourage shared information and transparency of financial information on MFIs
- ü Increase access of MFIs to domestic and international financial markets
- ü Encourage expansion of capacity to perform MFI assessments

Starting on May 1, 2001, the IDB and CGAP will conduct a pilot test with financing for a limited number of assessments/ratings for microfinance institutions. The lessons learned from this test will provide the basis for a larger and more structured Rating Fund set to be activated in the first quarter of 2002.

Both the IDB and CGAP acknowledge the various individual donor rating initiatives that have emerged in recent months since they first shared their concept notes with the microfinance industry, including donors, microfinance practitioners, and raters/assessors. Our hope is that these bilateral initiatives will be complementary to the multi-donor IDB-CGAP Rating Fund, which aims to build a market for microfinance rating and assessment by making the Fund accessible to any qualified rater or assessor.

SERVICES FINANCED

The Rating Fund would provide partial financing of rating and assessment services for microfinance institutions. It will finance both ratings (an analytical report with a specific grade) and assessments (an analytical report without any specific grade) of microfinance institutions and their financial performance. The Fund will not prescribe or dictate the methodology for the assessments.

The Rating Fund will finance 80% (up to a maximum of \$8,000) of the cost of the rating/assessment of a MFI by a pre-approved individual or institution. It will also finance rating or evaluation updates, on a declining basis (60% of total costs for the second update and 40% of total costs for the third update).

ELIGIBILITY CRITERIA FOR MFIS

The Rating Fund is available to MFIs that have provided financial services for more than three years in some institutional form. The Fund would apply to transformed MFIs as well as NGOs.

Strong preference would be accorded to MFIs that commit beforehand to (i) a full public disclosure of its adjusted financial statements and the rating/assessment report, and (ii) a short feedback opinion on the rating/assessment.

MFIs in all of the world's regions, except those in industrialized countries, are eligible to apply.

ELIGIBILITY CRITERIA FOR ASSESSORS/RATERS

Eligible assessors include qualified microfinance assessment organizations, consulting firms and individuals, as well as professionally recognized international rating agencies. Locally-based rating/assessment agencies, as well as organizations that are in partnership with local rating institutions, will be encouraged to apply.

Organizations wishing to be qualified to offer assessments or ratings to MFIs that are financed through the Rating Fund should apply to the Rating Fund and be able to demonstrate the following :

- ü That they, or their leading personnel, have analyzed the financial statements and overall performance of at least 8 MFIs over the past 5 years. They should include copies of the three most recent of these reviews in their application. These reviews will be treated in a confidential manner, and destroyed subsequent to evaluation by IDB and CGAP.
- ü That they can perform the basic types of financial statement adjustments routinely practiced in MFI appraisals.
- ü That their rating/assessment methodology cover main microfinance risk areas, such as governance, assets quality, MIS and internal control, financial analysis, and liquidity.

A steering committee will qualify raters/assessors based on their track records and the above criteria. Continued qualification of raters/assessors would depend on the quality of the assessments they produce using this Rating Fund. A mechanism will be established to obtain MFIs' feedback and review the appropriateness of raters/assessors' methodologies.

APPLICATION INSTRUCTIONS

MFIs that wish to qualify for funding for a rating/assessment exercise should apply through a simple letter to the IDB-CGAP Rating Fund with the following information enclosed:

1. One-page institutional summary highlighting operational results to date and demonstrating that the MFI meets the requirements stated above.
2. Copy of latest year financial statements including the external auditor's report (if any)
3. Copy of reports arising from rating, evaluation, appraisal, or other review by external consultants over the past 24 months
4. An estimate from the proposed rater/assessor as to the total cost of carrying out the exercise. IDB and CGAP will use regional reference criteria to evaluate the cost estimate. If the estimate seems inappropriate, IDB and CGAP reserves the right to ask the MFI to request bids from other qualified raters.
5. Specify whether funding is for (i) a rating (an analytical report with a specific grade) or (ii) an assessment (an analytical report without any specific grade).
6. A written commitment to provide the rater/assessor with sufficient information so that the adjusted financial statements are in compliance with the CGAP Financial Statement Disclosure Guidelines; and a written commitment on the part of the rater/assessor to certify whether or not the adjustment financial statements meet that requirement.
7. A written commitment to (i) full public disclosure of its adjusted financial statements and the rating/assessment report, and (ii) a short feedback opinion on the rating assessment.

The IDB and CGAP will approve both the rater/assessor and the cost of the exercise if the proposal from the MFI is deemed appropriate. Disbursements will be made upon completion and submission of the rating/assessment report and of invoices.

The IDB/CGAP Microfinance Rating and Assessment Fund

Application Form for Microfinance Institutions

Microfinance institutions interested in the IDB/CGAP Microfinance Rating and Assessment Fund should apply through a simple letter to the Fund with the following information enclosed.

1. Institution name
2. Acronym
3. General Manager's name
4. Address
5. Country
6. Telephone and fax
7. E-mail
8. Legal structure

9. Start date of microfinance program
10. Information provided as of (date)

In addition, applicants should also enclose the following information. Please check in the box/bullet if the information is attached to the application.

- q One-page institutional summary highlighting operational results to date
- q Copy of most recent financial statements including external auditor's report
- q Copy of reports arising from rating, evaluation, appraisal, or other review by external consultants over the past 24 months
- q Estimate from the proposed rating or assessment organization as to the total cost of carrying out the exercise.
- q Indicate whether funding is for:
 - **Rating (analytical report with a specific grade), or**
 - **Assessment (analytical report without any specific grade)**
- q A written commitment to provide the rater/assessor with sufficient information so that the adjusted financial statements are in compliance with the CGAP Financial Statement Disclosure Guidelines.
- q Written commitment to provide (i) full public disclosure of adjusted financial statements and the rating/assessment report, and (ii) a short feedback opinion on the rating/assessment.

Applications and questions should be addressed to the IDB/CGAP via mail, fax, or email:

Attention: IDB/CGAP Microfinance Rating and Assessment Fund Applications
C/o CGAP
1818 H Street, NW
Q Building, Suite 450
Washington, DC 20433, USA
Fax: (202) 522-3744
E-mail: Cgap@worldbank.org
Website: <http://www.cgap.org>

The IDB/CGAP Microfinance Rating and Assessment Fund

Application Form for Rating and Assessment Organizations

Organizations and individuals wishing to be qualified to provide rating and assessment services to microfinance institutions should apply to the IDB/CGAP Microfinance Rating and Assessment Fund through a one-page letter containing the following information:

1. Name of organization or individual
2. General Manager's name
3. Address
4. Country
5. Telephone and fax
6. Legal structure
7. Years in business
8. Nationality
9. Information provided as of (date)
10. Number of MFI ratings/assessments in last 5 years

In addition, rating/assessment organizations and individuals should also enclose copies of the most recent MFI ratings/assessments they have conducted. These reports are only for IDB's and CGAP's review and will be treated confidentially and destroyed subsequent to evaluation.

Applications and questions should be addressed to CGAP via mail, fax, or email:

Attention: IDB/CGAP Microfinance Rating and Assessment Fund Applications
C/o CGAP
1818 H Street, NW
Q Building, Suite 450

Washington, DC 20433, USA
Fax: (202) 522-3744
E-mail: Cgap@worldbank.org
Website: <http://www.cgap.org>

➤ **MicroSave-Africa now online (1 mail)**

MicroSave-Africa is proud to announce the launch of its new website.

MicroSave-Africa is a unique project that promotes the development of savings and other more client-responsive financial services among micro-finance institutions (MFIs) in East Africa. To achieve this goal, the project has successfully combined primary field level research with the poor, action research with MFIs, curriculum development, and information dissemination.

The field-level research entails extensive interviews with poor people (including microfinance clients) to better understand their financial behaviour and risk profile; action research involves helping MFIs to better listen to clients and design appropriate financial products based on better market information. Both research activities complement each other and directly feed into curriculum development and dissemination efforts.

TRAINING: Learn about MicroSave-Africa's innovative training course "Market Research for MicroFinance" described as "the best course on microfinance client demand available to MFIs in the world today, by a large margin." - Marguerite Robinson, Elizabeth Rhyne and Patricia Mwangi in their Mid Term Review of MicroSave-Africa.

MFIs using the course:

- **Have experienced significant shifts in the way they think about their clients**
- **Have learned to talk with their clients more effectively**
- **Are applying lessons about clients and using the specific techniques in a variety of ways.**

The website provides contact details and short CVs of trainers/consultants accredited to deliver this valuable course or to assist MFIs conduct market research - be it to develop products or simply to understand the dynamics of client drop-outs/exits. ACTION RESEARCH: The MicroSave-Africa Action Research Programme is working with a few carefully selected Action Research Partner MFIs in all aspects relating to the product development cycle. MicroSave-Africa provides its suite of four courses to the partners: the "Market Research for MicroFinance" course, the "Costing and Pricing of Financial Services" course, and the proposed new courses on "Planning, Conducting and Monitoring Pilot-Tests" and the planned "Going to Scale" course. MicroSave-Africa's role will also be to ensure that its partners have an adequate understanding of the issues involved in moving from product design to full scale implementation, including operations and other supply side issues.

STUDY PROGRAMME: Learn about the MicroSave-Africa Study Programme, which attempts to:

- **develop an improved understanding of poor people's need and the demand for financial services, and**
- **how best to set about meeting these.**

Studies completed to date (and posted on the website for download) include:

- **"Client Drop-outs (Exits) From East**

African MFIs"

- **"Client Perspectives On Savings Services**

In West Africa"

- **"Vulnerability, Risks, Assets and**

Empowerment - The Impact of MicroFinance on Poverty Alleviation"

- **"Savings and The Poor: The Methods, Use and Impact of Savings Amongst the Poor in East Africa"**
- **"Health Care Microinsurance: A Synthesis**

Of Case Studies From Four Health Care Financing Programs In Uganda,

Tanzania, India, And Cambodia”

- **“The Relative Risks to the Savings of the Poor”** In addition the site contains an extensive range of essays on specific topics draw on the overall body of MicroSave-Africa work, they are often prepared in response to specific occasions - a few of the titles available for download are given below:
- **“A Critical Review of Savings Services in Africa and Elsewhere”**
- **“Are You poor Enough?” - Client**

Selection by MicroFinance Institutions”

- **“Beyond Basic Credit and Savings:**

Developing New Financial Service Products for the Poor”

- **“Principles and Practice - Myths of**

Regulation and Supervision”

- **“Drop-Outs, Graduates, Defaulters and the Excluded”**
- **“Replication-Regressive Reproduction or**

Progressive Evolution”

TOOLKITS: The combined experience of its core research and the action research programme has allowed MicroSave-Africa to develop and test a series of practice-based and practitioner-focused, training curricula and workshops.

MicroSave-Africa has developed and tested or is completing five courses:

1. Market Research for MicroFinance;
 2. Costing and Pricing of Financial Services;
 3. Institutional Culture Change;
 4. Planning, Conducting and Monitoring Pilot-Tests for MFIs
- **Savings/Loans/Insurance; and**
 - 5. Roll-out and Going to Scale for MFIs

Subjects of interest

➤ [Debt impact manual \(10 mails\)](#)

<p>From: Dale W. Adams [dwadams@burgoyne.com] Sent: Mi 02.05.2001 02:21 Subject: Debt impact manual</p>
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At a recent microdebt conference I bumped into Monique Cohen from AID/Washington. Despite knowing I'm a confirmed agnostic on debt-impact studies, Monique graciously and fearlessly gave me a draft copy on CD of the new manual prepared by the SEEP Network on how to do debt-impact studies. You might contact her at AIMS@msi-inc.com if this manual interests you.

Before proffering comments perhaps I should state my preconceived notions about debt impact studies: they are fraught with insurmountable methodological problems and the costs of doing them usually exceed any benefits they might provide.

Background on the manual: it took 4-5 years to prepare a draft that is 416 pages long. Before reading the draft I did a word search to see how many times words appeared I thought might be included in such a manual. I was surprised to find that the words fungibility, additionality, counterfactual, diversion, and financial substitution did not appear in the manual. The word fungible was used once, the term control group was used twice, and the word attribution appeared five times in the text. One of my alltime favorite terms **“empowerment,”** nonetheless, appeared 80 times. Sigh.

I've always thought of impact studies, if they could be done correctly, as providing information that would help flesh out a benefit/cost analysis. That is, they would provide documentation on the volume of benefits that were caused by a debt treatment. Ideally, such studies would provide information that allowed donors and governments to compare benefit/cost ratios across activities so that resources could be allocated to those activities that yielded the most benefits per dollar spent. Since microdebt efforts currently comprise a large part of poverty alleviation programs, impact studies should also provide concrete insights on the extent to which debt lifts people out of poverty.

Unfortunately, the methods suggested by this manual will not provide information that can be used to address these issues. The authors of the manual only attempted to gather information that might be useful to managers of micro-finance institutions to improve their programs. For me, at least, it was misleading to put impact analysis in the title of the manual.

Some of the other problems I noted in the manual:

1. The authors make no attempt to deal with the attribution problem. They claim all of the observed benefits associated with augmentation of debt for the debt treatment.
2. They suggest no technique for dealing with the counterfactual problem. Would some or all of the desirable changes observed have occurred without the debt treatment?
3. They assume that employees of an MFI can collect information from their clients without obtaining self-serving answers.
4. The manual suggests 5 information collecting instruments. One of them is quite long and detailed: income, savings, family, education, health, etc. No mention of the opportunity cost of having MFI employees collect and analyzing reams of information, instead of making and collecting loans. Sociologists might be interested in such information, but I have a hard time seeing how a Pedro Jimenez or a Nabil Shami would boost their bottom line by looking at all of this information.
5. Finally, there is no recognition in the manual that some of the "beneficiaries" of microdebt programs might develop activities that substitute for products or sales of people who are even poorer than the debtor's clients.

Am I unfair in asking what the costs of this huge manual were? Could someone please outline the measurable impact (benefits) of the manual? If I were a donor or government official I wouldn't find the manual of use in making resource allocation decisions. If I were a manager of an MFI I'd surely find some cheaper ways to learn the territory than the instruments suggested in the manual. Who is going to use this thing? I hate to treat nice people this way! It's unpleasant work, but someone has to do it.....grumpy jane

From: Erhyne@worldbank.org] Sent: Mi 02.05.2001 08:36 Subject: The Impact of AIMS
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Dale brings up some important points about the value of the AIMS approach to impact assessment. I agree with several of them. But, the AIMS folk will, I'm sure, defend themselves, as they have thought about all of these issues many times.

I would like to point out that one of the important "impacts" of the AIMS project has been the development and dissemination of a wider understanding of the microentrepreneur, her milieu and her behavior. This includes a shift from enterprise to household as the most important unit of analysis, a deeper understanding of the risks such households face, and a deeper understanding of the strategies they employ for defending against risk—including how they use debt, savings and other financial services. It might be important for Dale to notice that one of the messages coming clearly from AIMS has been the importance of savings. This portrait of the microenterprise and its related household is a valuable addition to the widely shared knowledge among the people involved in microfinance and in my view is the most important contribution of AIMS.

Beth Rhyne

From: Imran Matin [comimatin@hotmail.com]
Sent: Mi 02.05.2001 21:06
Subject: Re: Debt impact manual

Dear Jane,

Two points:

1. The methodological difficulties you raise are not unique to MF impact assessment, but true for almost any social impact assessment where we are dealing with human beings and societal variables. Most MF initiatives use donor money and will probably continue to do so, hopefully at a decreasing rate over time. Given poverty impacts will remain to be an important donor allocation criterion and also given the possibility of MF as an important tool to fight poverty will not go away, it is only natural that despite all the very valid methodological difficulties you raise, finding cost-effective ways of getting some good sense of poverty impact is a very important agenda that needs to be pursued. The AIMS/SEEP toolkit takes this agenda forward and even if it is not used, it has been successful in putting the issues of poverty impact and client focus at the mainstream of MF discourse. This is commendable.
2. You may not be aware, but there ARE serious MF programs in the real world who worry about the poverty impact its services are having and how it may be improved through better program design. However imperfect, some measurement of poverty impact with a special view to uncovering some of the pathways through which this happens, can help programs tremendously.

So, let's not be purists. Aren't we as individuals constantly making sense of our own lives through highly imperfect methods of impact assessments and conjectures?

IM

From: Betty Wilkinson [seafan@pond.net]
Sent: Do 03.05.2001 07:16
Subject: Re: The Impact of AIMS

Beth's note was important. In my experience there were two other extremely important results of the AIMS work. One was that there has been a much wider understanding that "modern" microfinance services have not replaced existing credit and savings mechanisms for poor households, but in fact have expanded the repertoire. And we now have pretty good hard data about what choices households are making in that regard. Two, there has been a shift in focus from institutions (the meso level) to add the issues and interests of clients (at micro level) and the operation and function of microfinance markets (at macro level.) Both are tremendous contributions to the field, for which I commend AIMS.

Betty Wilkinson

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Vision without action is a daydream. Action without vision is a nightmare.

-- Japanese proverb

From: ADA [adalux@pt.lu]

Sent: Fr 04.05.2001 11:02
Subject: Debt Impact Manual

Debt Impact Manual

We agree with the fact that cost effective evaluation of microfinance impact on poverty is very difficult to realize. Not only these studies are costly in terms of financial budget but if one considers the time consuming part on the MFI's level, it becomes prohibitive. Wouldn't it be better to concentrate on making good loans adapted to client's needs ? Can a good MIS and regular loan collecting information give enough data on the essential elements ?

If we share the reluctance towards elaborate manuals and surveys on impact studies, we think that they contributed a lot to the growing attention MFI's put on quality of their services in terms of need to the clients. This is the good part of it.

Mia Adams
ADA / CEREM-LUX

From: Jim Roth [jr243@cam.ac.uk]
Sent: Sa 05.05.2001 13:11
Subject: Re: Debt Impact Manual

Dale,

You point many of the standard methodological problems of assessing social impacts. You recognise the necessity of predicting impacts in allocating resources and relatedly making policy decisions. In asserting that one course of action/policy is preferable to another, by implication you have calculated a series of outcomes/impacts. On the basis of a set of criteria, you have judged one outcome/impacts be preferable to the other (i.e. you have conducted "impact assessments" whether a priori or a posteriori). Given that you have conducted impact assessments, how did you overcome the epistemological problems you raised in your e-mail, that have allowed you to confidently assert that one course of action is preferable to another.

This is not meant as a glib, rhetorical question. I think its important to thrash out these ideas as, you of course recognise and suggest in you e-mail, they form the very basis of our suggesting that one course of action is preferable to another. In your e-mail you also recognise that what we have are "methodological difficulties" not "iron-laws of impossibility".

Perhaps you could give us an instance of where you have suggested a particular microfinance policy intervention with social consequences or similarly where you have suggested non-intervention. How did you go about it? How did you calculate the social impact of your suggestion?

From: SHARMA, MANOHAR [M.SHARMA@CGIAR.ORG]
Sent: Sa 05.05.2001 19:40
Subject: Re: Debt Impact Manual

Jane,

If the world of microfinance were totally (or even largely) a private initiative, I would have understood quite well your abhorrence toward impact studies.

Unfortunately, and like it or not Jane, the very existence of the microfinance initiative - in NGO banks, universities, foundations, consultative groups, policy groups, and conferences like you attended etc. etc.- is predicated on the assumption that private initiative is either largely missing or at least does not do the job well enough. Hundreds of millions of dollars are poured into this non-private industry every year on grounds that public money fills holes that the private sector has left behind.

Lacking the profit bottom-line of the private sector, impact assessments are the only ways to find out whether these kinds of assumptions make sense or actually hold out in reality. Assessment results are important which ever way they go: each dollar set aside for microfinance potentially means a dollar less for other programs in education, health, infrastructure and the like, and vice a versa.

To criticize a badly done impact assessment or to ask those who generalize wildly out of context to cool off, is understandable. But to say that impact assessments are simply not required is, I must admit, quite dumb. Some impact

studies can be expensive, but in relation to the hundreds of millions of dollars that are at stake, still be worthwhile. (What if the drug industry said to hell with all these expensive (and not always perfect) trials?)

The challenge for people like you is to exploit your well established connections with universities etc. and stir up work to make impact assessment less costly and better aligned to policy actions. Not to blindly trash them.

So next time you meet someone in the conference halls fundraising for a microcredit-for-woman empowerment program, try to sit down with her and ask her to reason out why she thinks microcredit empowers better than an education program or changes in property rights legislation. Be as pointed as you need to be. And next time you go to Bangladesh or Malawi, make an earnest effort to check her arguments against what you see. And try your best to convince her - or her donors - otherwise, should you disagree. But for heaven's sake keep an open mind.

M.

From: Dale W. Adams [dwadams@burgoyne.com]

Sent: So 06.05.2001 18:14

Subject: Sophistry in impact studies

I'm sure, as Beth points out, that AIMS is a noble effort and that it does much good. Nonetheless, good organizations are not immune to promoting bad ideas. Deluding ourselves into thinking that we can do reliable impact studies does a disservice to those who pay our way.

How did we get trapped into trying to do impossible (or dishonest) impact studies? We end up in this quicksand because of the way most microdebiting efforts are initially justified. If you tell donors you are going to use debt to lessen poverty, empower women, increase employment, improve nutrition, save the environment, cause grass to grow where it has never grown before, and create democracies, then you are trapped into measuring impact along these lines later to show you have succeeded.

Instead, if one initially justifies the project on the basis of providing sustainable microfinancial services for people of modest means one avoids the methodological sink hole of doing impact studies. The performance of financial organization can be evaluated largely using the data they should normally generate, thus saving time and the expenses of drudging up primary data. If done correctly, these performance evaluations reinforce good management practices, rather than diverting labor into gathering impact information that has little managerial use.

Would anyone with good sense insist on doing similar impact analyses on telephone services, electricity, potable water, roads, a cure for AIDs/HIV, or general education? If a development project provides dependable clean water in a village where most people are poor, for example, who cares if the water empowers anyone, or if some of the people who are better off in the village also use the water?

I would have less objections to impact studies if they did not systematically underestimate costs and inflate benefits, thus misleading policymakers into thinking debt programs were more successful than they really are. For example, if you toss in the towel on the attribution and counterfactual problems and claim all of the positive changes that were <<associated>> with an increase in debt, as the AIM's manual does, then you can claim benefits that may be due to weather, price changes, new technology, etc. Further if you ignore that some of the activities of individuals benefited by microdebiting efforts substitute for the activities of others who may be even poorer, you ignore some of the program's costs.

I'd have more respect for the microdebt industry if they would stop the sophistry of using phony impact studies to hype their efforts. Instead, they should trumpet the numerous sustainable microfinance organizations and new techniques that have come out of their activities.jane.

From: AIMS [AIMS@msi-inc.com]

Sent: Mi 09.05.2001 20:19

Subject RE: Debt impact manual

Dear DevFinance Colleagues,

A number of you have privately expressed interest the "Debt impact manual" recently mentioned in the Listserv discussion.

Thanks for your interest and we welcome your feedback.

The document is available in electronic format (along with all our other publications) in the AIMS Publication section of our website (<http://www.mip.org/componen/aims.htm>). The document is entitled "Learning from Clients: Assessment Tools for Microfinance Practitioners-Draft Manual (January 2000)".

If you have any difficulties obtaining the manual, please contact us directly.

Regards,
The AIMS Team

AIMS@msi-inc.com

From: Dunn, Elizabeth G. [DunnE@missouri.edu] Sent: Do 10.05.2001 19:39 Subject The Aims of AIMS

It has been exciting to follow the recent debate in reaction to Dale's review of the AIMS/SEEP Tools manual. I have enjoyed reading the many well-reasoned comments posted to the list.

As someone who has worked on the AIMS Project since it began, I would like to make three points:

- 1) The AIMS Project consists of several components, and the AIMS/SEEP Tools manual is only one of these components. In addition to the tools manual, we have completed numerous studies on methodological and conceptual issues related to client-level research in microfinance (these are available on the web site www.mip.org). A third major component of AIMS has been the three longitudinal impact studies (the "Core Impact Assessments") conducted in India, Peru and Zimbabwe. In these three large-scale studies, we have made serious attempts to address the issues of fungibility, attribution, and the problem of the counterfactual cited in Dale's messages. For a listing of additional AIMS components and activities, see the web site.
- 2) From the beginning, AIMS has deliberately chosen to work at several levels of the client assessment continuum, because technical advances are needed at many levels. On one end of the continuum, the AIMS/SEEP Tools represent a low-cost/low-rigor approach that can be managed by microfinance practitioners to produce credible and practical results. On the other end, the longitudinal studies represent a high-cost/high-rigor approach designed to produce scientifically defensible and generalizable results. In the middle of the continuum, AIMS has conducted or supported numerous middle-range studies, including a number of impact studies associated with the CGAP working group on impact assessment.
- 3) There will be an opportunity to continue the impact assessment debate at the upcoming AIMS conference "Understanding Microfinance Clients: Advances in Impact Assessment and Applications for Market Research" to be held May 31 to June 1 in Washington, D.C. Information on the conference is available at the following web site: http://www.usaid.gov/economic_growth/eqad/aimsconference/index.html

At the conference, representatives from numerous microfinance organizations will discuss how they have applied the AIMS/SEEP Tools to derive useful program management information. In addition, the impact findings of the longitudinal studies will be publicly presented for the first time. These findings include evidence of both positive and negative impacts and provide some indication of the magnitude of these impacts, information that is useful for assessing the relative costs and benefits of supporting microfinance to achieve social objectives. There are more items on the conference agenda as well, reflecting the AIMS commitment to work at several levels of the "client assessment continuum." For those interested in detailed information on the AIMS/SEEP Tools, there will also be a two-day workshop on the tools on May 29-30, prior to the conference.

Regards,
Elizabeth Dunn
AIMS Project and
Dept. of Agricultural Economics,
University of Missouri
DunnE@missouri.edu

From: Dale W. Adams [dwadams@burgoyne.com]
Sent: So 13.05.2001 04:25
Subject: Remittances

The note that Judith Van Doom recently posted about ILO's interest in remittances reminded me how many times I've bumped into remitting activities in low-income countries. Glad to see ILO is focusing attention on this topic. They have at least three papers on remittances: the two Judith mentions in her message and another done in 1999 on Somalia. I entered remittances in a google.com search and found numerous other studies on this topic, particularly about Cuba.

Some of the issues about remittances that interest me follow:

1. It might be worthwhile to compare the estimated magnitudes of remittances by country with the volume of microlending done by country. My guess is that remittances are many multiples of the volume of lending done by the microdebt industry in most, perhaps all countries. The multiples are likely especially large in Egypt, Somalia, Ghana, Lesotho, El Salvador, Vietnam, Cuba, St. Kitts/Nevis, Jamaica, the Dominican Republic, Mexico, the Philippines, Bangladesh, and Pakistan.
2. It would also be interesting to compare the class of people receiving remittances with the class of folks who are clients of the microdebt industry. Suspect lots of both groups are women, poor individuals, and rural people.
3. Is there any reason to think that the developmental effect of say \$400 in remittances is any different than a \$400 loan made by a microlender? After fungibility kicks in, wouldn't the household that receives a given amount in either remittances or a microloan spend that money on the activity that gives them the highest rate of return or amount of satisfaction? Is there any reason to conclude that the intent of the lender puts any special spin on a given amount of money that causes borrowed money to be spent more productively than money given as a gift?
4. My reading of Judith's note suggests that ILO wants to explore positioning some of the microdebt industry astraddle remittances flows. Is this a good idea? Should we encourage non-regulated ngos to handle deposits? In addition, can any ngo expect to do a more efficient job of transferring remittances than the existing system? The Mexicans in Utah can transfer funds quickly, safely, and cheaply to most any place in Mexico using Western Union. Likewise, Filipinos working in Kuwait can deposit money in an informal system that delivers the payments to most any place in the Philippines in a couple of days. Many of the overseas Vietnamese who return home on vacation carry many thousands of dollars with them that are passed out to friends and relatives. With the huge overheads most ngos carry, I doubt they can compete in these types of remittance markets.
5. It strikes me as odd that ILO should try to wed remittances with the microdebt industry. On the one hand I appreciate ILO's interest in trying to help poor people through improved finance. On the other hand, I'm uneasy about attempts to force all of poor peoples' financial requirements through the microdebt pipeline. Perhaps credit unions, commercial banks, and postal savings systems are more appropriate institutions to cozy up to remittance flows. Would improved transfer and deposit services associated with remittances provide benefits to more poor people than further expansion of the microdebt industry? Is there anything in the UN's charter that prohibits ILO from doing something on the deposit side?.....jane

From: CERSTIN.SANDER@BMAA.GV.AT]
Sent: Mo 14.05.2001 15:09
Subject: Remittances

Interesting questions and some excellent suggestions for analysis from Dale/jane on remittances. Taking a slightly different angle, for me remittances are part of a larger question of how people send and receive money. It's a question I was interested in pursuing in Uganda and Tanzania where I work. In collaboration with MicroSave-Africa, this study is now actually in the final drafting stages.

We didn't look at international remittances specifically, but more generally at how people transfer money within the country and within the region for purposes of trade as well as personal use. This in countries where commercial financial providers have various limitations such as limited representation outside the capitals, loss of trust in the banking system due to recent collapses, etc.

Jane's questions with a precautionary note on remittance or money transfer services by microfinance operators are important. There are lots of pros and cons to weigh - in terms of regulatory issues, capacity, and on and on. But the picture jane paints for us is an extremely partial one and worth adding onto so as to enrich the discussion. Let me add some snippets—far from a fully developed argument. I hope others will feel inclined to also jump in.

For instance, Jane and mf ngos. The microfinance industry does comprise operations that are commercially operated and sound. Some of them are regulated financial institutions licensed to intermediate deposits; so there is more than non-regulated ngos in this sector. Then, some of the MFIs who cannot handle deposits directly have found creative but sound ways to serve their clients with savings products, for instance by pooling client savings and depositing them with commercial banks—thereby the MFI clients earn interest on their savings in a way they never could even if they could open a bank account.

Jane then suggests post offices, western union, credit unions, etc. as the better placed agencies to handle such service. All of them are options though we need to look at them a bit more closely:

Credit unions have a shaky reputation in several countries, for instance Uganda, though they are managing to regain trust and ground slowly. Post offices have by far the best outreach in terms of offices across the country. One of the main challenges clients told us about in Uganda and Tanzania is retrieving money and getting service in general. Long line ups, lack of cash at the office, unfriendly service, etc. are among the common complaints.

Western Union is definitely another option though not cheap and also a question of access to one of their offices. Interestingly perhaps, in light of Jane's comment on MFIs and remittance services, in Uganda one of the microfinance banks, CERUDEB, is one of two agents for Western Union.

What it boils down to, as with many other services, are factors such as the ones listed below far from comprehensive in any way and with only a touch of discussion on each:

Geographical and other accessibility:

- which financial services can be found up-country? If one is to think of remittances from abroad, it could be sent to the closest capital or even district capital, for instance but from there it may still have to reach someone living in a village a fair distance away
- using any of the services one has to look at not only where one is sending from, but also where it can be received; services such as Western Union have very limited outlets up-country; banks tend to send from one bank account to another, so both sender and receiver have to have accounts. Who can use the service? For banks, for instance, what it takes to open a bank account re letters of recommendation, minimum balance etc. can be prohibitive
- cost: often a minimum fee is charged which can make it too expensive relative to the amount one wants to send
- identification: both Uganda and Tanzania do not have a system of national IDs; all kinds of other documentation is used for identification instead, including tax receipts; for women it is often more difficult to ID themselves than for men; they tend to have to go to the local authority to get a letter which incurs cost and, for instance, also means that other people know that they are receiving money which can create demand on that money.

Not surprisingly, many people use informal services or link a number of services and calling in favours with relatives and friends to get money from point A to point B. What's really interesting to note is what's out there in terms of services one might not think of immediately. In Uganda, courier companies transfer money for you. In Tanzania, the bus companies are a very commonly used service. These are not regulated, not insured, but they provide a service that works well at a low cost for the destinations they reach.

Informal services, such as sending money through relatives, friends, a driver, a businessperson, are also extremely common. Interesting to note here are the risks, and therefore hidden costs. Also interesting to note is a growing mistrust among people and the uptake of other options where they are available. Where they are not readily available, people tend to prefer to carry the money themselves but fear the risks such as robbery. To mitigate for some of the risk, they tend to carry larger amounts in smaller chunks on multiple trips.

Bottomline: there is an underserved market; existing informal, semi-formal, and formal systems as they exist have not expanded to extend their market; some new services such as courier and bus companies have emerged; there is scope for other services While I fully agree with Jane that we need to be careful when considering a product niche for microfinance here, depending on the market, the MFI, and so on, there can be opportunities for a marriage of microfinance and money transfer, either in alliance with existing service providers such as Western Union or independently. Apart from opportunities for microfinance, we need to be careful to identify the criteria under which it should and should not be done.

Other voices and experiences?

Best,
Cerstin

PS For a bit of background info, going back briefly to the terms of

reference for the study, the premise was that efficient and affordable

financial services are key to a healthy business environment for all sizes of business, but also for households more generally. Payment systems, in particular, are critical for the backward and forward linkages for business. On the household level, remittances from abroad and also from urban to rural relatives are major sources of cash for parts of the population.

Financial systems networks in Tanzania and Uganda are still very weak, concentrated primarily in urban centres, and geared primarily towards large and medium business and salaried employees. Apart from geographical constraints, access is limited by other aspects such as minimum requirements to be accepted as a client and lack of trust in the sector which has been riddled with insolvencies and other problems.

In settings where the system on offer is still very limited, the question arises: how is money transfer done?

The aim of this study is to gain an understanding of the ways in which businesses and people use existing formal or informal services or of how they devise their own systems. This provides us with inputs to analysing service gaps in the formal financial sector, with pointers for product development, and with inputs to gauging opportunities and criteria for microfinance services.

<p>From: Judith Van Doorn [vandoorn@ilo.org] Sent: Di 15.05.2001 16:06 Subject: Remittances</p>
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The points raised so far on linking remittances to micro-finance are indeed very valid. I just want to stress that I fully agree that migrants and their families are probably much more interested in deposits services as compared to micro-credit.

When referring to the "productive use of remittances", the ILO therefore interpretes this in a very broad sense, thereby including deposits as a relevant service. Yet other relevant services may range from micro-credit and micro-insurance to education plans or pension plans.

In fact, our workshop on this issue revealed that there are three different types of "productive investments":

Direct investments:

- **at the individual level: this includes deposits, loans, and other services directly geared towards the migrant or the recipients of these remittances.**
- **at the community level: this includes savings and/or loans geared towards the development of the community. In this case, a group of community stakeholders manage a fund geared towards community development, e.g. infrastructure or school projects, etc.**

Indirect investments: in this case migrants can invest in a small business / equity caputal fund or a start-up fund. In this case there is no personal link between the remitter and the receiver.

Naturally, the role of micro-finance organisations (again, in the wider sense of the word, i.e. including regulated organisations) will vary for each method of investment.

In short, we found that the micro-finance sector can only effectively compete in this market if its services are:

- **cheap**
- **safe**
- **quick**
- **accessible**
- **transparent**
- **market-conform**

Although many established companies (like western union) are safe and quick, they are by no means ransparent. These companies do not inform their clients of the total costs of the transfer, particularly since they tend not to reveal the exchange rate and additional costs at the receiving end. More competition and better information about more cost-effective (yet safe and quick) services is needed.

Another aim of the ILO is to explore the potential for partnerships, e.g. between MFIs, banks, exchange houses, transfer agencies, diaspora organisations and even the government. With respect to the latter I would like to point to a Mexican initiative, through which the government -on a pilot basis- tops up a community development fund consisting of remittances from Mexican migrant (hometown) associations.

I hope that these points have clarified a bit the way we would like to proceed in this area.

dwadams@burgoyne.com 05/13/01 07:02 AM >>>

The note that Judith Van Doom recently posted about ILO's interest in remittances reminded me how many times I've bumped into remitting activities in low-income countries. Glad to see ILO is focusing attention on this topic. They have at least three papers on remittances: the two Judith mentions in her message and another done in 1999 on Somalia. I entered remittances in a goggle.com search and found numerous other studies on this topic, particularly about Cuba.

Some of the issues about remittances that interest me follow:

1. It might be worthwhile to compare the estimated magnitudes of remittances by country with the volume of micro-lending done by country. My guess is that remittances are many multiples of the volume of lending done by the microdebt industry in most, perhaps all countries. The multiples are likely especially large in Egypt, Somalia, Ghana, Lesotho, El Salvador, Vietnam, Cuba, St. Kitts/Nevis, Jamaica, the Dominican Republic, Mexico, the Philippines, Bangladesh, and Pakistan.
2. It would also be interesting to compare the class of people receiving remittances with the class of folks who are clients of the microdebt industry. Suspec

<p>From: Nathalie Gons [ngons@woccu.org] Sent: Mi 16.05.2001 16:18 Subject: RE: Remittances</p>
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As I prepare for my third conference in 6 months on remittances and MFIs it's clear that remittances are the "latest micro-insurance". I agree with much of what Jane and Cerstin have said and wanted to expand on the credit union experience in this area. However, first a comment on the current costs. If the cost of sending money to Mexico was cheap and efficient as suggested, Fox would not be to spending political capital to break-up Western Union's monopoly position in the market. Regarding partnering with existing companies as Cerstin suggested is a good idea and only mention that credit unions chose not to partner with Western Union.

Before we determine that remittances should be sent through MFIs it would be useful to review the experience learned in microfinance. Listed below are five lessons that I feel apply to remittance transfers:

MFI Experience 1: The operation can be sustainable if you are willing to charge the costs needed to cover all expenses.

Moral: Remittance services must be offered on a business basis. Only then can there be a social impact.

MFI Experience 2: Don't create the environment of untruths. In an effort to ensure loans were contributing to what was considered development, some MFIs would only provide loans for "productive" purposes. To obtain a loan that was needed but not deemed productive, individuals needed to create untruths.

Moral: Beware of creating incentive systems for remittance transfers that require the funds to be used for "productive" purposes.

MFI Experience 3: The most successful microfinance programs are the ones that serve various economic groups of people, and simultaneously meet their changing needs.

Moral: Transfer pricing isn't necessarily bad. Large remittances with higher fees can cross-subsidize lower fees for smaller transfers.

MFI Experience 4: Given the choice between a solidarity or an individual loan and social training as a condition of the loan or no social training, most people choose individual loans and no social training.

Moral: Create products that consumers, as opposed to donors and development specialists, want.

MFI Experience 5: Access to credit is not the same as access to financial services.

Moral: Narrowly focused remittance services by themselves do not meet the financial needs of individuals.

In addition to these lessons in the microfinance industry, during the past 24 months WOCCU has learned the following lessons in the development of its International Remittance Network (IRnet) service.

- **There needs to be equal interest on both sides of the transaction;**

- **Financial standards of the sending and receiving entities are a prerequisite to ensure the safety and efficient payment of remittances;**
- **The market is more competitive than microcredit; and**
- **Scale is everything in this business and a broad network is essential.**

The distribution of remittances requires four essential items, a single point of data and fund settlement, a network of clearing accounts, physical distribution of offices in a country and sufficient liquidity. On the sending side, you need the regulatory authority to accept payments, ability to send data, settle the funds and well position offices. WOCCU is working with credit unions on both sides of the transaction to offer the IRnet service.

On the sending side: In the US (and Canada in the near future) credit unions are responding to the changing national demographics. They are increasingly becoming community as opposed to employer-based and are recognizing that many immigrants do not have "bank" accounts today. Credit unions in the US offer the money transfer service as a tool to develop a relationship. By having an account, immigrants do not need to use check cashers to cash their pay check and can keep their funds in a safe place to reduce the risk of theft (a growing problem facing unbanked Latinos in the US). While the competition in the US is often reliable, it's not cheap and if people trusted them they wouldn't have brought a class action lawsuit. Some credit unions also offer two ATM cards for accessing the account abroad.

On the receiving side: A growing number of national credit unions movements have central finance facilities to clear and settle payments. In addition to these network accounts, credit union offices are often located broadly throughout a country.

Credit unions are receptive to opening savings accounts for those groups receiving funds. This is not always an option with post offices, nor are banks always willing. The case and point being Mexico, where Bancomer/Banamex distribute millions of remittances per month but 63% of the population remains unbanked. Currently, people have to go into convenience stores or furniture stores in many countries to pick up money. If people can receive funds at a location where they also have the option to save it seems to be a good thing.

Comments?

Regards,

Dave Grace

World Council of Credit Unions (WOCCU)

From: Dale W. Adams [dwadams@burgoyne.com]
Sent: Mi 23.05.2001 01:15
Subject: RE: Remittances

The U.S. edition of the <<Wall Street Journal>> has a front page article today (May 22) that discusses remittances. It quotes the IMF as saying the flow of remittances has now reached the yearly level of \$70 billion (US), with \$15 billion of that flowing out of the U.S. The author goes on to describe the substantial impact that remittances have had on a town in central Luzon, Philippines (Pozorrubio). One-in-ten of the town's population works overseas and many of them send remittances home.

Remittance flows dwarf international aid and are likely larger than the volume of investments made in low-income countries by foreign companies each year. Am I way off in estimating that remittances are at least 70 times the volume of new funds flowing annually into the microdebt industry? I recognize the mystical properties that microdebt has in erasing poverty, but wonder, at the same time, if this avalanche of remittances might not also do a bit of good.

This leads me to wonder about those who protest free trade and open labor markets in the name of helping the poor.....jane.

From: H.S. Shylendra [hss@fac.irm.ernet.in]
Sent: Fr 25.05.2001 08:02
Subject: Perspective

Remiitances, internal or external, no doubt are an important sources of income and investment in the developing countries. But pitting international remittances against the intervention of microfinance has some problems. Taking the examplpe of India, remittances from abroad contribute a significant amount of forein exchange. Commercial banks vie with each other to attract deposits in US\$ from the migrants. But who are the people who migrate abroad? They are mostly qualified professionals or skilled workers, certainly above the criteria to qualify for microfinace. Of course, many

poor also try to migrate to developed but mostly to pursue menial or undignified jobs. Given the restrictions for flow of labour it has not been easy for the poor to migrate. Many difficulties come in their way. Some of them end up being rounded up as illegal immigrants or as it has happened, have even got frozen to death in a steamer or in an insulated van in search of greener pastures. Much of the remittances which come from abroad are for families needing no support under microfinance. More than the international remittances, for the poor (eligible microfinance clients) as revealed by a recent study of mine on seasonal migration, it is the earnings from migration to domestic towns or prosperous agricultural area which play a significant supplementary role in sustaining their livelihood. Given the livelihood compulsion, the remittances for the poor at the most can help in surviving than in any economic consolidation. However, here again living in slums or on pavements or even in open spaces, even internal migration has certainly not been fully a dignified way of diversification for them. Interventions like microfinance can play a useful role in helping them diversify locally, provided clear opportunities and linkages are identified. Some of the MFIs are also encouraging SHGs to mobilise savings of the poor from their internal remittances. Any perspective glorifying migration and remittances ignoring the distress dimension can therefore only be partial in addressing the question of meaningful livelihood security for the poor.

HS Shylendra

From: John Owens [john_owens2001@yahoo.com] Sent: Fr 25.05.2001 18:19 Subject: Perspective

Dale:

The article you mentioned: "For Philippine Town, Repatriated Earnings, Pave Road to Riches" also appeared on the front page of the Asian Wall Street Journal just as the Rural Bankers Association held their annual national convention. This article was handed out at the convention by the President of Western Union - Philippines. Western Union - Philippines now handles over US\$1.2 million a month in remittances through rural banks. This has been growing every month and they expect this to double in the next 12 months. They have also started offering national remittances to help those who work in the cities to send money to families in the provinces.

Remittances are definitely big here in the Philippines and they do often help the poor in rural areas. We have even talked with Western Union about helping to promote savings mobilization in the rural banks by encouraging those receiving remittances to save with the banks rather than to simply withdraw all the funds.

John Owens
Microenterprise Access to Banking Services
Rural Bankers Association of the Philippines
e-mail: john_owens2001@yahoo.com

➤ [Grameen launches mutual fund \(15 mails\)](#)

From: Imran Matin [comimatin@hotmail.com] Sent: Do 10.05.2001 08:42 Subject: grameen launches mutual fund
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FYI.

Grameen Mutual Fund launched
Debuting bid to channel rural savings to corporate world STAR BUSINESS REPORT

To mobilise savings of the rural destitute, Grameen Bank yesterday launched its first mutual fund. The fund came into being following registration of the trust deed with the local sub-registrar at a city hotel.

Grameen Bank will be the sponsor of the fund, Standard Chartered Bank will provide the custodian services while Asset and Investment Management Services (AIMS) of Bangladesh - the country's lone asset management company - will be in charge of its management. The Grameen Trust will act as trustee to the fund.

Speaking on the occasion of the fund's launching, Grameen Bank Managing Director Dr. Mohammad Yunus termed the move as an old-age pension scheme for the poor.

He said the first scheme - Grameen Mutual Fund One - will offer a guaranteed 10 per cent return.

The size of the fund will be around Tk 12 to 15 crore, part of which will be offered to the general public.

Dr. Yunus said the fund will enable the micro-credit recipients to claim ownership of large industries and sit on the boards of these companies.

He said that the fund would also help overcome the present depression on the stock market.

Under the scheme, Grameen Bank is planning to enhance the earnings potentiality of the rural poor through augmenting and directing their savings towards the capital market in a structured way.

Grameen Bank's micro-credit recipients have savings of over Tk 1,000 crore under different projects. Their funds will be invested in a number of selected companies and the yield would be distributed among the poor micro-credit recipients.

A portion of the fund would be placed with the financial institutions and a part of it be earmarked for the general public through initial public offering (IPO).

Speaking on the occasion, Professor Rehman Sobhan, Chairman of Grameen Bank, said through the fund's formation, savings of crores of the poor will be channeled to the corporate world.

"So far, their activities were confined to the rural economy, which will now be mobilised to the national economy. Finally, it will be channeled to the global market," Prof Sobhan said.

He said the first Grameen fund scheme will be a test case and more such funds will be created depending on the success of the first one. "It's a pioneering and bold experiment which will be observed not only in Bangladesh but also around the globe," the Grameen Bank chairman said.

Managing Director of Aims of Bangladesh Yaweer Sayeed said the fund will now be registered with the Securities and Exchange Commission (SEC) and a prospectus will soon be floated, inviting public subscription of the fund.

He said it may take five to six months for the fund to be traded on the stock exchanges.

Grameen trust Managing Director A. A. Qureshi was also present to witness the documentation ceremony.

From: Carlos Ani [carlosani@yahoo.com] Sent: Fr 11.05.2001 05:43 Subject: Grameen Mutual Fund formed to mobilise money from rural women
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Subject: Grameen Mutual Fund formed to mobilise money from rural women

This news article appeared in a major newspaper in Bangladesh. Carlos Grameen Mutual Fund formed to mobilise money from rural women Even a poor rural women can participate in the board meeting of a large corporate house, as a new private sector mutual fund was formed in the city yesterday with this vision, reports UNB.

Grameen Mutual Fund One, the second in the private sector, has been formed to mobilise money from rural poor women and channel it to the national as well as international economy through stock market.

The sponsors are expected to offer public subscription by end-June subject to completing the regulatory formalities following a trustee agreement signed at Sonargaon Hotel in the evening.

The whole formalities up to initial public offerings would normally require 166 days, but a simultaneous effort would make it possible to offer public subscription by end-June, they said.

As per regulatory requirements, four parties are involved with the fund. The Grameen Bank is the sponsor while Grameen Fund is the trustee, Standard Chartered Bank the custodian, and Asset and Investment Management Services (AIMS) of Bangladesh Limited is the fund manager.

Grameen Bank Chairman Prof Rehman Sobhan, Managing Director Prof Muhammad Yunus, AIMS Chairman Manzurul Haque, AIMS Managing Director Yawer Sayeed and Grameen Fund Managing Director AA Qureshi were present at the signing ceremony that followed a press conference.

Prof Sobhan said the savings of rural poor women so far remained confined in the rural economy with a very poor return. But with the launching of the Grameen Mutual Fund One, these savings are set to be inked with national and international economies. He said the poor women would now be able to become shareholders of big companies listed in the stock exchanges and even can be eligible to sit in the board meetings. Prof Yunus said the mutual fund would involve the otherwise rejected section of the people, specially the rural poor women, to help them reach the stock market for a better return of their savings with Grameen Bank.

Grameen Bank micro credit recipients saved around Tk 1,000 crore, he informed. He said a small portion of the savings would be invested in the mutual fund initially. The remaining amount of an estimated initial capital of Tk 12 crore to Tk 15 crore would be collected through public offerings. The present moribund stock markets would likely to get a boost with the injection of the huge fund of the poor women, said the Grameen Bank chief executive. He said if the initiative becomes successful, Grameen would introduce more mutual funds, and would request the regulatory bodies to keep a certain portion of any initial public offerings (IPOs) for the poor.

AIMS Managing Director Yawer Sayeed said Grameen Mutual Fund would mobilise fund with a commitment to offer at least 10 per cent dividend annually. To ensure the dividend in a risky capital market, the mutual fund planned to invest a portion of the capital into fixed income securities so that the required money for giving 10 per cent dividend comes from the account.

The rest would be for equity investment, he added. "Sluggish market is a best time for portfolio investment," Sayeed said replying to a question.

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Carlos Ani
Microfinance Consultant
[email: carlosani@yahoo.com](mailto:carlosani@yahoo.com)

From: D Macray [DMacray@speakeasy.org] Sent: Sa 12.05.2001 23:51 Subject: RE: Grameen Mutual Fund formed to mobilise money from rural women
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Thanks, Carlos, for sharing this article. Can it be true?

This is sure to start a wave of discussions along the lines of "should the poor be able to gamble their money?" and other debates that academics and consultants thrive on...

Here in Seattle we usually hear news from Bangladesh about the need for health, education, and jobs for poor families. Now we see that they too will have the opportunity to take the same risks we have taken here in the stock markets. Judging from the bankruptcies, write-offs, unemployment roles, and current market performance here, I am sure it will be fine there.

Mutual funds reduce risk by holding a diversified portfolio. Will the women be able to use the Grameen Phone to check their portfolios and reallocate their shares? Will the funds be screened for socially responsible investments, or are companies with sweatshops and GMOs included? I see a whole world of opportunity for Certified Financial Planners, personal investment advisors, and maybe even new development projects oriented to help poor investors find the highest yield. We will probably see a Donor Committee formed to help the Poor and Money Markets.

Reserving portions of IPOs for poor investors is only fair. This will give people a better chance to own stakes in companies that depend on maximizing profits and being very efficient in order to grow and yield satisfactory returns. I can't wait for the shareholder meeting that tries to explain why they let workers go, cut benefits, or changed production countries, even at the expense of the poor workforce to make the company worth more. Maybe these funds will take a stance in the interest of their poor investors at the cost of poor workers?

Limiting the risk by investing in secure instruments will be helpful. Especially if the market can guarantee the fund a nice rate of return. But risks and guarantees don't usually go together well. Taking a microcredit loan for an activity that the

borrower can control or reasonably affect the outcome makes sense. But making slot machines and gambling available does not always.

Of course, it is easy for those of us in open capital markets to be critical. I hope we hear from some poor mutual fund investors soon to set us straight. After all, everyone should have access to all financial services as long as there is full disclosure.

Dennis Macray
dmacray@speakeasy.org

From: Dave Richardson [dcr@bwn.net]
Sent: So 13.05.2001 06:36
Subject: Re: grameen launches mutual fund

Per Imran Matin's post:

"Under the scheme, Grameen Bank is planning to enhance the earnings potentiality of the rural poor through augmenting and directing their savings towards the capital market in a structured way"

Didn't we just have a Sunday School lesson on this issue???

Sounds like Grameen Bank should hire Sebastian Mendez of Estrellamar as its fund manager. He has plenty of experience investing "savings towards the capital market in a structured way"...except for one matter: Instead of guaranteeing 10%, Sebastian was offering 12%+ on savings accounts!

Sleeping peacefully @ 5% interest,

Dave Richardson
World Council of Credit Unions
dcr@bwn.net

From: Ernelson@worldbank.org
Sent: So 13.05.2001 20:39
Subject: Re: grameen launches mutual fund

Wrong reply, Dave: rather than Estrellamar one should look at KUPEDES/SIMPADES for cases of the value of augmenting and directing the savings of the rural poor toward the capital market in a structured way. During the financial crisis in Indonesia, I believe that with the suddenly negative real interest rates, SIMPADES deposits, er, increased. Better than other options available, I suppose...

The "keep the money at home to benefit the village economy" view has a lot to recommend it for local liquidity but doesn't reflect where the motor of economic growth lies in rapidly growing economies, which is usually not in that particular village despite what they taught you in Sunday school. There may be some village high-yield investments but they are relatively small (I would hope, for prudential reasons) and irregular. The money market pays better and is regular; to deny financial intermediation in time and space to the rural poor in countries where it exists is a disservice, and leaves the village financial institution unable to reply with sufficient resources to the good local loan where and when it comes along.

Maybe we should pay more attention to developing broad financial intermediation including microfinance, rather than microfinance or credit unions per se.

All the best, Eric Nelson

From: GIRIJA & SRINIVASAN [gsns@vsnl.com]
Sent: Di 15.05.2001 10:59
Subject: Re: grameen launches mutual fund

Recently in a listserv discussions, there were many posts which said that people are willing to pay for a savings service. Providing access to savings products even at a cost to the saver was considered a valid objective for an MFI to start a service. Now we are at another extreme ideological position - "poor want very high rates of returns on their savings -

the very best that a village offer may not be good enough - MFIs should look to the stock market to produce very good returns". If the basic assumption is that poor want someone else to take charge their savings for fear that it may be spent remained with them, then making the savings vanish by questionable investments in pursuit of high returns is a fraud on the people. It does not matter what the noble intentions of the MFI be, if they lose poor people's money after promising them it would be safe and available to meet any future shocks. There is no argument with Eric Nelson's view that one should not restrict investment of savings in the local area, and that one should look for broad financial intermediation. But whether stock markets are the best suited for the purpose is the question; there must be other safer ways of ensuring that people's savings do not erode in value.

Regards
N.Srinivasan

General Manager
National Bank for Agriculture and rural development
India
gsns@vsnl.com

From: Mr N Srinivasan Norm & Christine MacIsaac [macisaac@mos.com.np] Sent: Di 15.05.2001 16:48 Subject: Grameen launches fund - why invest in people when you can earn more playing the market!??
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Against my better judgment, I thought I might join the squabble on investing in foreign stock markets.

Getting a better return on savings is a good idea. However, in Indonesia, I imagine this is due to the massive devaluation of the currency, not because of savvy stock market investment. So, sure, diversifying into foreign (hard) currency is certainly a good idea. Any financial institution or individual should avoid keeping all her/his eggs in one soft currency basket. Right on, Eric.

However, Dave's point is well taken. Let me ask more emphatically: Have we learned nothing? How will this be different from Estrellamar in Panama?? Let's talk about what Grameen is doing to avoid the pitfalls of our friends in Panama.

There's something else that irks me with all this and it's hard to explain. It's more a gut feeling. Grameen is failing to make a profit on its credit operations (or else why not invest savings there?) on one hand and is putting savings at risk on the other hand. What is wrong with this picture?? By the way, isn't Grameen still depositing grant money in high interest deposits and bonds to make up for operating losses? They KNOW this market and they CAN'T turn a profit for investors yet they are going to dive into the stock market?! I dunno ... Maybe if they are just diversifying investments...

At least in community-based organisations (co-ops, savings and credit organisations, village banks), the profit is shared among the members, so people can earn better returns on their savings (This is why Jeffrey Ashe was telling us that clients in Nepal were switching from Grameen Bank to community-based "village banks."). This seems better than losing on credit operations on one hand and putting savings at risk on the other. Not that co-ops and village banks are perfect (far from it), but I got a whiff of another MFI investing in the stock market, and it told me that something is rotten in the State of Microfinance.

But, alas, I have questioned something sacred among the MF clergy. Maybe I have even insulted the clergy itself. I will crawl back into my hole.

All the best,
Norman MacIsaac

From: Dave Richardson [dcr@bwn.net] Sent: Di 15.05.2001 22:51 Subject: Re: grameen launches mutual fund

Brother Eric:

O.K., it sounds like maybe it's been awhile since you heard a good Sunday School sermon, so I guess I'd better dust off my musty old pin stripe go-go stock market suit so that I am properly attired in my "Sunday best"...and here goes....

Even though I was questioning the prudence and safety of investing poor people's savings into the stock market, you seem to be saying that we should become mutual fund investors instead of savings depositors because the local village economies can't compete with the yields.... Which Bible are you quoting???

First, go back the Grameen announcement:

It says:

"To mobilise savings of the rural destitute, Grameen Bank yesterday launched its first mutual fund."

Credit Unions have been doing this for 150 years quite effectively without having to resort to mutual funds. I am awe struck by linking the rural destitute to mutual funds....as if the poor have nothing better to do with their meager savings than to motor on down to Standard Charter Bank and AIMS, looking for higher yields!!

Second,

It says,

"Grameen Bank Managing Director Dr. Mohammad Yunus termed the move as an old-age pension scheme for the poor."

What ever happened to all the poor people who live day to day?? I am wondering what a poor person would do with any excess cash? Do you really think the poor are preoccupied with their old age pensions? The only social security system I have seen that seems to work for the poor is to have lots of kids, (remember, the good book says, "Multiply and Replenish the Earth") and have faith that someone in the family will be able to take care of them when they get old!!

Third,

It says,

"Dr. Yunus said the fund will enable the micro-credit recipients to claim ownership of large industries and sit on the boards of these companies."

The poor people I know only dream about acquiring the basic necessities of life: work, housing, education, health...etc, etc. Sitting on the boards of directors of large industries seems pretty galactic to me Finally, Eric, you seem completely sold on these statements by this comment:

"The "keep the money at home to benefit the village economy" view has a lot to recommend it for local liquidity but doesn't reflect where the motor of economic growth lies in rapidly growing economies, which is usually not in that particular village despite what they taught you in Sunday school. There may be some village high-yield investments but they are relatively small (I would hope, for prudential reasons) and irregular."

The next time you crank up an IRR or NPV on your Excel Spreadsheet, send me an e-mail and let me know what "yields" you come up with on the following savings investments that are actually, very common in the village economy:

1. The downpayment for your first home
2. The tuition for your education
3. Medicene for a sick family member

I find it very curious that Grameen Bank would be starting a mutual fund for the poor, when the poor are the least likely to absorb the risks associated with the volatile price changes of the capital markets....

In the past few years, Credit Unions have lost more money chasing "attractive" yields in Banks, Finance Companies, and the Stock Market than they ever did with their own loan portfolios.

So Brother Eric, here's the point: You can't have high yields, without being willing to sacrifice the safety of your money. Can the poor afford such a luxury?

Hence the final point of today's sermon:

"A double minded man is unstable in all his ways" (James 1:8)

Cheers,

Dave Richardson

World Council of Credit Unions

dcr@bwn.net

From: Ernelson@worldbank.org
Sent: Mi 16.05.2001 14:05
Subject: Re: grameen launches mutual fund

Dear Father Dave (and the devfinance congregation):

I have no serious quarrel with your points, I was attempting to link savings mobilization with financial intermediation which is what makes savings productive. I'm not specifically defending putting **all** the villagers' money into mutual funds either, though I find it strange that you might advance the case that the poor should not be offered the same options as are available to we more wealthy folk because there's a risk attached to the potentially higher reward (what's the risk of keeping your money under the mattress or invested in goats or bags of cement, I wonder?). However, my Excel spreadsheet, which I consult religiously on the sabbath, has no problems with longer term investments such as housing (which in opportunity cost terms—i.e. net of renting and considering possible capital appreciation) may be a positive yield indeed or education. I do not need my spreadsheet to calculate the IRR on emergency medical treatment because that's a liquidity (cash flow) problem (but, regarding IRR, consider the opportunity cost!!!) problem rather than an investment one, and we know that access to liquidity is of more importance to more of the poor than is access to credit. I would not deny the poor rapid access to their savings either. I hope Grameen's mutual fund succors those seeking redemption(s).

Faithfully yours,
- Brother Eric

From: Dave Richardson [dcr@bwn.net]
Sent: Fr 18.05.2001 07:40
Subject: Re: grameen launches mutual fund

Dear Brother Eric:

I am flattered that you would consider me worthy to bear the title of a Man of the Cloth (i.e, Father Dave), however, I have committed the unpardonable sin....I was baptized as a credit union believer, and hence, I am not of the chosen lineage....my pedigree is most likely tainted in the eyes of the those who bequeath salvation to the poor... Nevertheless, I make no apologies...

Regarding your perception that I am somehow withholding "options" from the poor, let me reassure you that this is not the case... If you consult your Excel spreadsheet by comparing the different financial products and services (options) of a credit union vis a vis an "orthodox" MFI, you most likely will be "wrought upon" with great enlightenment! We are squarely in the mainstream!

Then there's the stock market.... In your sabbath consultations, did Excel measure the probability that Eve would partake of the forbidden fruit?? I suspect that there might be a direct correlation between Eve, and the poor who partake of a Grameen-sponsored mutual fund!

Nevertheless Brother Eric, fear not!! There is no need of redemption for those who are saved (oops.... I mean those who have savings!)

Best wishes,
Dave Richardson
World Council of Credit Unions
dcr@bwn.net

From: Carlos Ani [carlosani@yahoo.com]
Sent: Sa 19.05.2001 04:44
Subject: Grameen Bank launches mutual fund

Below is a reaction from a Sharenet member based in Nepal on the topic - Grameen Bank launches mutual fund". Feel free to give your opinions or comments. - Carlos

From: "Alok Dixit" <aalok@enet.com.np>
Subject: Re: [sharenet] Grameen Bank launches mutual fund
Date: Thu, 17 May 2001 19:21:17 +0530

Dear friends,

I have been going through the discussions on the case of "Grameen Bank launches mutual fund" and I agree with all those who think that it is giving a very bad example of a very successful MFI.

The very basic question regarding MFI is at stake in this case: why do we launch MFIs? If MFIs are launched to create financial transactions involving poor and those below poverty line and in doing so the goal is to develop a micro-economy supporting poor and the down trodden, then we should not deviate from it by investing into a MACRO venture with very high risk elements. Should we allow ourselves to cheat the very poor of their livelihood and push them to the borderline of death, basically just the opposite the goal of MFI creation? If investments in this type of macro level activities fail, the poor will definitely die not because of hunger but because of lack of confidence in the civil society. This is what happens if we follow Grameen Bank example and if the venture flops.

On the other hand, it is also true that many MFIs are having problems in managing the capital they are able to create. But to me, this capital should be invested in enterprises that supports the micro-economy of the very poor and not those of big-brothers: macro businesses in most cases benefit from such financial transactions. Therefore, the only solution is that capital from the MFIs should be channeled into enterprises that supports the livelihood of very poor, which generates economic activity for the very poor and subsequently allows them to change their social, political and economic activities and status through their own efforts. In a nutshell, capital from MFIs should be used to empower the very poor to stand on their own feet and try to change the future course in their favour. If we follow Grameen Bank example, we will be going just in the opposite direction.

Prabhat Dixit
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Carlos Ani <[carlos@carebangladesh.org](mailto:carlos@carebangladesh.org)> My other email addresses are:

[carlosani@yahoo.com](mailto:carlosani@yahoo.com) and [devjobs@mail.com](mailto:devjobs@mail.com)

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| <b>From:</b> CROULET, C. ROSS [R.CROULET@AFDB.ORG]<br><b>Sent:</b> Sa 19.05.2001 11:52<br><b>Subject:</b> Grameen Launches Mutual Fund |
|----------------------------------------------------------------------------------------------------------------------------------------|

I am bemused by the hand wringing expressed by some on this listserve against Grameen launching a mutual fund service or product. Why not?

Not knowing Bangladesh very well, it would seem that Grameen and the others such as BRAC are assisting the country to develop and deepen financial intermediation. As institutions and structures established to facilitate financial intermediation grow and develop, they are then able to diversify and offer more, perhaps more complex, forms of financial products, services and investment instruments. The complexity and sophistication are likely in proportion to the knowledge level, experience and sophistication of Grameen's clientele, whether poor, rich or otherwise.

So long as an institution such as Grameen has developed its capacity in terms of financial expertise and gained the confidence of its extensive clientele, why can't it diversify its product range such as offering mutual funds? Why think that poor clients of Grameen cannot prosper and grow such that they can consider to diversify their investment options such as into higher risk but higher yielding mutual funds?

To me, so long as there is sufficient transparency in the offering of products and processes by which Grameen offers mutual fund products (i.e., prospectuses, disclosures, companies that are registered and publicly listed, etc.), then let it offer the financial products and services that are in demand.

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**From:** Imran Matin [comimatin@hotmail.com]  
**Sent:** Sa 19.05.2001 20:14  
**Subject:** Re: Grameen launches fund - why invest in people when you can earn more playing the market!??

Dear Mr. Srinivasan,

I know very little about investment in the international money market, so I won't hazard a response to the issue of 'playing around with poor peoples' money', except that I see no reason in principle to desist ourselves from finding ways to give better returns on the savings of the poor. I'm sure there are others in this list who can respond to the difficulties and promises of doing this. But I also think the newspaper article which I sent did not give enough details to take any position on the Grameen move. Before you do, I urge you to find out a bit more.

May I point out another issue you raised in your email about Grameen and access to savings. You write that, 'The Grameen ideology seems to have to another extreme. It started with no access to savings, but only credit.' I have written about Grameen's savings access question a number of times in this list emphasising that this is often utterly misunderstood. Grameen DOES (unlike many other MFIs around the world) provide access to savings in the form of what it calls 'group fund loan' which comes out of the compulsory savings of the group. Now, don't get all tangled up just because this is called a 'loan'--- it's just terminology--- the 'loan' is interest free and its 'repayment' is very flexible. The reason why it's dressed up as a 'loan' is to ensure that the client does feel some obligation towards saving up again. This is in part driven by the belief that the poor are under tremendous pressure and find it very difficult to save up and especially because in a large number of cases withdrawal from savings is 'male-need' driven, obliging the man to replenish the savings by the women is often difficult--- terming it as a loan and creating a certain amount of group responsibility around it can help the women to create that obligation. Note that this argument is NOT saying that the poor don't or can't save, but just that it's not easy and sometimes externally imposed sanctions and structures help. I also take the point made by some that more flexible and frequent opportunity also helps. Grameen happens to think, for them, the former works better and the latter is too messy to manage on a large scale. We can debate on these issues and I am still trying to unpack the various elements of this debate, but, to say, as you do, that Grameen started with no access to savings, is just plainly wrong.

Regards,

IM

**From:** Asif Dowla [audowla@osprey.smcm.edu]  
**Sent:** Mi 23.05.2001 18:15  
**Subject:** Re: Grameen Mutual Fund formed to mobilise money from rural

This is in response to several recent posting on Grameen Bank launching of mutual fund.

### **Guillermo Bolanos wrote**

*"I hope the poor rural women do not end up losing their only shirt in a shallow stock market. Bad idea."*

The asset management company will guarantee a minimum rate of 10% which is higher than 8.5% the members are getting from their group fund. There is no ceiling on the maximum. The fund will only invest in blue-chip companies. Under reasonable assumptions the rate could be even higher. The fund will float with a small tranche at the beginning. So, the possibility of poor women losing shirt is remote. Any investment is risky. There is always a positive probability that you could lose your shirt.

### **Mr. Srinivasan wrote**

*If the basic assumption is that poor want someone else to take charge their savings for fear that it may be spent remained with them, then making the savings vanish by questionable investments in pursuit of high returns is a fraud on the people. It does not matter what the noble intentions of the MFI be, if they lose poor people's money after promising them it would be safe and available to meet any future shocks.*

The above arguments applies to his concern as well. There is always small probability that savings could vanish. That probability is even higher in the mountains of Nepal. Drought, floods, inflation, embezzlement etc could easily vanish the poor savings.

## **Norman MacIsaac wrote**

Grameen is failing to make a profit on its credit operations (or else why not invest savings there?) on one hand and is putting savings at risk on the other hand.

Imran Matin has already answered this question. Let me add. Unlike other MFIs in Bangladesh Grameen has the legal cover to collect savings from members and non members alike. It is true that it hasn't emphasized collecting savings from non-members that much. Recently it got approval from the Ministry of Finance to start collecting contractual savings (in Bangladesh it is known as DPS—Deposit Pension Schemes) from members and staff. However, the Ministry did not give permission to market DPS to non-members even though its charter allows it to collect savings from the public! What it is doing now is to take the group saving and invest gradually in the stock market. The total saving of the members in the Group Savings is around 1000 crore taka (1 crore 000000 taka) or approximately 182 million dollars. T

By the way, isn't Grameen still depositing grant money in high interest deposits and bonds to make up for operating losses?

I don't know what Norman means by this. All NGOs in Bangladesh do this. In between receiving of grant and disbursement they park it in CDs—not very high rate of return though, maybe around 8-9 percent. About bond I guess he is confusing this with bond Grameen issued in the mid 90s to recapitalize itself. Those bonds were sold to Nationalized commercial banks at 3%, 5% and 7% depending on the maturity. The bonds were issued to raise money from the domestic market instead of grant and soft loan from the Donors. As far as I know Grameen has repaid all these bonds.

## **Dave Richardson wrote**

I am awe struck by linking the rural destitute to mutual funds....as if the poor have nothing better to do with their meager savings than to motor on down to Standard Charter Bank and AIMS, looking for higher yields!!

I guess Father Richardson does not want the destitutes to investing in the stock market just because they are destitutes! Maybe they should not be members of credit unions either.

## **He further wrote**

Do you really think the poor are preoccupied with their old age pensions? The only social security system I have seen that seems to work for the poor is to have lots of kids, (remember, the good book says, "Multiply and Replenish the Earth") and have faith that someone in the family will be able to take care of them when they get old!!

I would like him to suggest this to poor in the United States. If breeding is the only form of old age pensions why are there attempts to control population growth in poor countries?

The poor people I know only dream about acquiring the basic necessities of life: work, housing, education, health...etc, etc. Sitting on the boards of directors of large industries seems pretty galactic to me

Dr Yunus is preaching what he practices. Majority (9 out of 12) of Grameen Board members are poor women elected to the Board by other members and 93% of Grameen shares are owned by the members. Recently the bank has started paying dividends on these shares as well.

I find it very curious that Grameen Bank would be starting a mutual fund for the poor, when the poor are the least likely to absorb the risks associated with the volatile price changes of the capital markets....

The poor are not absorbing the risk, the asset management company is, because they are the ones who will provide the guarantee.

I am really surprised by these vitriolic reactions. I thought people who used to be critical of Grameen Bank, and rightfully so, for not mobilizing savings would rejoice at this news. I guess you can't win. On the other hand as Asops Fables notes "please all please none."

Some other concerns that were expressed such as investing in a thin market with opaque oversight are a genuine one. However, Grameen is not investing all the money because the market is too small. Only 10 to 12 crore will be invested initially in the domestic stock market. Actually Grameen was planning to use securitization to raise money from the international capital market in the late 90s. The stock market crashed in 1997 and has not recuperate ever since. However Grameen's investment might stimulate the market because of its brand name. To be honest I don't have much confidence in the Securities and Exchange Commission in Bangladesh. Maybe pro-poor organization such as Grameen might use its economic power to bring the necessary changes in the regulation of the stock market.

There is no plan to invest in international market. I am not sure if Grameen Bank can do that. Capital control in Bangladesh may not allow Grameen Bank to invest in overseas market. Actually it won't be a bad idea. If I had my wish I would invest some of the money in the US Govt treasury bills. With an almost guaranteed rate plus the expected depreciation of Bangladesh currency, the effective return from investment would be higher than the minimum 10%. This way the bank could diversify its investment internationally (kind of suggested by Eric Nelson) and protect the savings of the poor.

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| <b>From:</b> TCHUMA-Cooperativa de Credito <a href="mailto:Ernelson@worldbank.org">Ernelson@worldbank.org</a><br><b>Sent:</b> Di 29.05.2001 23:42<br><b>Subject:</b> Re: Grameen Mutual Fund (1) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Mark Staehle queries about MFI finance and Grameen copycats. This comment addresses MFI finance.

Mark poses micro-\*credit\* questions rather than micro-\*finance\* questions. As anyone who was following my rants of a few years ago knows, our work at that time with the poor in W. and S. Africa suggested that their priorities in finance are (1) liquidity [if weighted by importance, "liquidity" would be also numbers 2-10, but this is an ordinal listing], (2) diversifying sources of income, (3a\*) transfers/remittances, (3b\*) safe savings/deposit mobilization, and last, (5) credit (aka debt—hi, Janel), often at the moment of greatest vulnerability.

Re priority #1: The firms who survive the next crisis or take advantage of the next opportunity by receiving rapid funding at an affordable total price tag must praise microfinance institutions. If you're hurting for or searching for liquidity, a 730% annualized interest rate is only 2% of the amount lent, on an overnight basis. However, few must be the microenterprises which can assume a significant debt load at rates exceeding 30% (real) to finance medium term growth. It would be useful to keep the two concepts distinct.

Re priorities #2, 3b: The Grameen mutual fund proposal shows how Mr. Yunus and his colleagues are attempting to respond to the needs of the poor, i.e. are demand driven and therefore go beyond credit/debt. Several DFNers have made valuable contributions in this dialogue thread concerning how appropriate a mutual fund may be so I won't flog this further. Jane has often quoted the recurring empirical finding that when both deposits and credit are available the ratio of depositors to borrowers converges to around 5:1. Grameen has developed and offered other financial products for the poor besides group credit; an option for diversifying sources of income appears to be a logical extension. These are also services to MFIs since the individual is at the heart of the MFI. We know of the failures: pyramid schemes in Albania and elsewhere, mortgage finance institutions in Sri Lanka and elsewhere, Estrellamar in Panama, and others. We know of the recent attacks on MFI institutions operating in the "grey area": legal money lenders in South Africa and elsewhere, Associates First Capital (now that Citi owns it) in the US, and others. Recent contributors are quick to point these out. We (and any would-be "copycats") need analysis as to what (regulatory environment or transparency to members in situations where central regulation is a chimera and unfair, e.g.) makes non-lending financial services (particularly savings mobilization) more or less likely to succeed.

Thanks.

- Eric Nelson  
Tel: 01 307749  
Fax: 01 312203