

DEVFINANCE

Discussion list on development finance of the Ohio State University

Quarterly Review¹

April to June 2001

General Information

➤ **Micro Finance Gateway's new homepage**

The new homepage has all of the content it had before and gives users faster access to the different parts of the Gateway.

The new GW homepage has five main areas:

- Online searchable library including over 2000 documents
- Resource Centers with new online resources such as the Information Systems Services and Audit Services.
- Discussion groups - Will offer soon a devfinance archive service.
- Highlights (updated weekly) about interesting projects, new initiatives in the industry, relevant documents etc. Contributions to the highlights are welcome!
- We also welcome you to express your views on any industry-related topics in our new Viewpoints section.

<http://www.microfinancegateway.org/>

➤ **Initiative to fund assessments/ratings of micro-finance institutions**

CGAP and the Inter-American Development Bank (IDB) have decided to collaborate on a joint initiative to fund assessments/ratings of micro-finance institutions (MFIs). The purpose of the joint CGAP-IDB Rating and Assessment Fund is to:

- Stimulate improvements in MFI performance
- Encourage shared information and transparency of financial information on MFIs
- Increase MFIs access to domestic and international financial markets
- Build the market for micro finance ratings/assessment services

The Rating Fund would provide partial financing of rating and assessment services for micro-finance institutions and 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).

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

Please see enclosed mail for the ELIGIBILITY CRITERIA FOR ASSESSORS/RATERS or address your questions to the IDB/CGAP via mail, fax, or email: IDB/CGAP Micro finance Rating and Assessment Fund Applications, C/o CGAP, 1818 H Street, NW Q Building, Suite 450; Washington, DC 20433 Fax: (202) 522-3744; Cgap@worldbank.org

Website: <http://www.cgap.org/>.

African MFIs should contact ADA at adalux@pt.lu. Further information is also available at www.cgap.org/html/mfis_ratingfund.html.

The program is co-financed by SDC Berne.

➤ **Global Development Awards 2001 Competition**

A Washington DC-based organization with close ties to the World Bank is sponsoring an open competition that will award cash prizes and travel expenses totaling \$400,000 in three different categories: (1) outstanding research award; (2) research medals; and (3) most innovative development project.

The Global Development Awards 2001 is open to researchers and development practitioners in a wide range of disciplines. Finalists in all categories will present their papers at the awards ceremony in Rio de Janeiro in December 2001. To learn more go to: <http://www.gdnet.org/awards.htm>

➤ **MicroSave-Africa now online**

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.

Learn more about its activities in training, action research, study programmes and micro insurance in the enclosed mail or go to the website:

<http://www.microsave-africa.com/>

¹ The most relevant articles of the discussion list are mentioned in the text with their author, date of issue and subject. They are to be found in the annexe, classified in the same order as they appear in the present text.

➤ **Subscribe to the World Bank development research group's newsletter**

Bert Wesselink informs about the possibility to be kept up-to-date with recent research of the Finance Team in the World Bank's Development Research Group (in association with the Financial Sector Policy and Strategy Department). Interested persons may subscribe to their free quarterly newsletter *Interest Bearing Notes*, which highlights research on financial issues as they apply in or affect many developing and transitional economies.

The following Excel databases can be obtained at <http://www.worldbank.org/research/interest/data.htm>: Deposit Insurance Database; Financial Structure and Economic Development Database; and, Bank Regulation and Supervision Database, making comparisons between financial systems across countries and over time.

Current macroeconomic topics, whose progress will be reported in, *Interest Bearing Notes* include four key areas: Incentives in Finance; Banking Crisis; Financial System Structure and Performance; Financial Liberalization; and Banking Privatization and Internationalization.

Select *Interest Bearing Notes* at:

<http://www.worldbank.org/research/registra.htm>.

➤ **Micro banking bulletin**

Microbanking has announced the establishment of its website <http://www.microbanking-mbb.org>.

The homepage features current and past issues of MBB's semi-annual publication "The MicroBanking Bulletin" that disseminates the industry benchmarks, and information on other services offered by the project such as network services and customized performance reports to the project participants. Information on the project methodology, description of project participants, contact information is also provided.

In the future there will be added pages on current initiatives in the performance standards/rating, frequently asked questions on performance benchmarking and rating, and data from the project database that would not violate MBB's confidentiality agreement with its participants.

MBB welcomes expressively the new site's visitors' feedback.

➤ **Rural Finance Web page**

The Ohio State University has informed about the new address for the web page of the Rural Finance Program as it has been integrated into the page of the Department of Agricultural, Environmental and Development Economics, at <http://aede.osu.edu/Programs/RuralFinance>.

The appearance has changed but the content is similar.

The vertical bottoms at the left take the visitor into the sections - program description, - events, - Frankfurt, publications, - BASIS, - Devfinance, - Staff (including faculty, graduate students, and associated researchers) and - Links.

Courses and seminars

➤ **CGAP training events and conferences**

Regarding our earlier information on the training and information opportunities this year, we would just like to remind you of CGAP's micro finance gateway where you can find updated offers sorted according to topic, period and place. <http://www.microfinancegateway.org/>

Publications

➤ **New book by Dirk Steinwand**

Marguerite Robinson recommends Dirk Steinwand's brilliant new book, "The Alchemy of Microfinance: The evolution of the Indonesian People's Credit Banks (BPRs) from 1895-1999 and a Contemporary Analysis." "The book is a tour de force, a fine work of scholarship, and an extraordinary addition to the micro finance literature. It starts with a wonderful analysis of the European history of micro finance which then leads into the establishment of the BPRs in Indonesia during Dutch colonial rule -- and to their more than one hundred years of history since.

"The Alchemy of Microfinance" raises within a time context of hundreds of years, some of the fundamental issues that many Devfin participants are wrestling with today. This book will be of interest far beyond Indonesia. Its analysis is deeply grounded in Indonesia, but its findings should be of interest to many in micro finance: practitioners, governments, banks, donors, academics, and others. Highly recommended!

"The Alchemy of Microfinance" is published by Verlag fur Wissenschaft und Forschung" (VWF), Berlin. I understand that it will soon be available through amazon.de (please note that this is not amazon.com)."

➤ **Savings and Development Publications**

The latest issue of the journal <<Savings and Development>> Vol. 25, No. 1, 2001 has the following articles in it:

- Jos Vaessen, "Accessibility of Rural Credit in Northern Nicaragua: The Importance of Networks of Information and Recommendations."

- George Mavrotas and Roger Kelly, "Savings Mobilisation and Financial Sector Development: The Nexus."

- Pravakar Sahoo, Geethanjali Nataraj and B. Kamaiah, "Savings and Economic Growth in India: The Long-Run Nexus."

- Louis N. Chete, "The Nigerian Banking Crisis: What Role Did the Macroeconomy Play?"

- C. Justin Robinson, "Stock Price Behavior in a Small Emerging Market: Tests for Predictability and Seasonality on The Barbados Stock Exchange."

The email address for the journal is publications@fgda.org.

➤ **Book on micro finance in Mexico**

For those interested in MF in Mexico Dale Adams informed about a new book by Carola Conde Bonfil, <<Pueden Ahorrar Los Pobres? ONG y Proyectos Gubernamentales en Mexico>> (Can poor people save:? NGOs and government projects in Mexico), Zinacantepec, Mexico: El Colegio Mexiquense, 2000. The email address for the college = public@cmq.edu.mx.

The basic message of the book is that poor people will save substantial amounts, including making financial deposits, if given the opportunity and incentives to do so. Adams agrees with Conde who implies that deposit mobilization, rather than debt dispensing, ought to be the primary focus of micro finance, especially where women are heavily involved.

➤ **Useful paper on debt-impact studies**

Paul Mosley, "The Use of Control Groups in Impact Assessments for Micro finance," Working Paper No. 19, ILO, 1998.

<http://www.ilo.org/public/english/employment/ent/papers/wpap19.htm>

Mosley provides short descriptions of five types of impact studies: before and after studies, comparison of planned versus realized accomplishments, subjective judgements by individuals involved in the program, quasi-experiments, multiple regression analysis, and the with and without approach (use of control groups). Most of the paper focuses on the last method.

Dale Adams writes about this paper:

"Instead of doing problem-plagued debt-impact studies, I'd rather see us animate the notion of empowerment (ugh) and count the votes of clients regarding the usefulness of "their" micro finance programs. We can count these votes in loan recovery rates, in willingness to pay the costs of the services rendered, borrowers coming back for additional loans, and willingness to place savings in the organization. As long as these activities aren't mixed with subsidies they are unbiased votes for or against the usefulness of a program."

Please have also a look under "Subjects of Interest" at our summary of the discussion this quarter on the new AIMS debt impact manual.

➤ **Guide on Housing micro finance**

Kimberly Tilock from CHF International has announced a guide, which is supposed to be a useful resource for micro finance institutions, financial institutions and donor agencies interested in understanding home improvement lending and in navigating entry into this field. According to Tilock, the guide describes what is home improvement lending as well as takes the reader through the process of assessing the potential demand for a home improvement lending program and the capacity of an MFI to implement such a program.

The Guide is available through PACT Publications (website www.pactpub.com or telephone 202-466-5666) or directly from CHF, www.chfhq.org.

➤ **Latest issue of *Small enterprise development***

The latest issue of the journal <<Small Enterprise Development>> Vol. 12, No. 1, March 2001 has several articles in it on micro insurance:

1. Micro insurance -- the risks, perils and opportunities by Warren Brown
2. Health care micro insurance -- case studies from Uganda, Tanzania, India and Cambodia by Michael J McCord.
3. Informal micro insurance schemes -- the case of funeral insurance in South Africa by Jimmy Roth
4. Insurance against poverty? The new generation agricultural micro insurance schemes by Paul Mosley
5. Are you poor enough? -- Client selection by micro finance institutions by Graham A. N. Wright and Aleke Dondo.

The journal's website is <http://www.oneworld.org/itdg/journal/enterprise.html>.

The subscription email = sales@portlandpress.com.

➤ **Publication on Automating Micro Finance**

The MicroFinance Network presents its latest publication, "Automating Micro finance: Experience from Latin America, Asia, and Africa," by Anita Campion and Sahra S. Halpern. New technologies are redefining financial services, and they present significant opportunities to micro finance institutions. Some micro finance institutions — even ones that serve the poorest clients — already use automated teller machine (ATM) networks, smart card operations, and credit scoring technology. This publication provides a broad view of innovative banking technologies that are relevant to MFIs, while keeping in mind various institutional cost structures and capabilities.

To order, please visit the MicroFinance Network website, at www.mfnetwork.org, and click on "Publications." You will find "Automating Micro finance" under "Occasional Papers."

Subjects of Interest

➤ Debt impact manual

Which are the benefits of impact assessments? On the example of the AIMS/SEEP tools "Learning from clients: Assessment tools for micro-finance practitioners" an intensive discussion took place this quarter, triggered off by a harsh critique sent to the devfinance list by Dale Adams. His main point being the misbalance between huge methodological problems connected with an impact study and the corresponding costs, he concretises the critique with the following remarks:

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 analysing 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 micro debt programs might develop activities that substitute for products or sales of people who are even poorer than the debtor's clients."

The reactions to this were manifold: from principal to partial agreement to the contrary question, how Adams himself proceeds when designing result-effective MF interventions to accusing him of being purist and judging his statement as "dumb".

E. Rhyne from the World Bank underlined the in her view most important contribution of AIMS that it has helped to create and disseminate a wider understanding of the micro-enterprise and its related household. Betty Wilkinson from IRIS mentions the effect of AIMS that the MF community focuses nowadays much more consequently on the clients' issues and interests (supported by Mia Adams from ADA/CEREM-LUX) as well as on operation and

function of MF markets. E. Dunn, who has been involved in the AIMS project since its beginning, gives some further information on it thus enabling a more balanced judgement of the different comments about the AIMS tools by all other list participants not familiar with it.

Imran Matin (BRAC) broadens the main critique concerning the methodological issue by reminding that this problem is "true for almost any social impact assessment where we are dealing with human beings and societal variables". He thinks that "putting the issue of poverty impact and client focus at the mainstream of MF discourse" deserves recognition. Impact measurement can help improve programs – despite being imperfect, which is quite natural from his point of view. Jim Roth takes this consideration further by asking how Dale Adams himself uses to "overcome the epistemological problems" which he raises himself and to calculate the social consequences or impact of our suggestions? Aren't we always doing a priori a kind of impact assessments while judging upon possible outcomes of the action or policies conducted?

M. Sharma (CGIAR) even suspects Adams to not keep his mind open enough – he recommends that people like Adams should make use of their "well established connections with universities etc. and stir up work to make impact assessment less costly and better aligned to policy actions".

Finally, Dale Adams makes a second contribution to the discussion by giving some answers to the preceding comments and explaining further his argument against impact studies: "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."

This exciting debate shows the importance of careful interpretation of such study results and can be followed by reading the enclosed mails (10).

➤ Remittances and MFIs

It is again Dale Adams who raises the issue by commenting a note from J. Van Doorn (ILO) on ILO's interest in remittances. In his contribution, he asks whether or not there is "any special spin" on a given amount of money caused by the intent of the lender vs. money that is given as a gift in the case of remittances. Also, he seems to be doubtful regarding the reasonability of handling remittances by an NGO, be it as deposits or through transferring them from A to B. Probably, overhead costs would make such transfers less efficient than as it is currently done by the existing system.

Cerstin Sander, who works at present in Uganda and Tanzania, has carried out a study on the larger question of "how people send and receive money". She mentions the existence of regulated NGOs as well as alternative ways to serve clients with savings products and looks critically at other agents handling remittances like post offices, Western union etc. According to her, there are many different factors of importance when reasoning on the potential ability of delivering remittances services to poor clients (geographical accessibility, identification; risks and hidden cost, other). But there exists clearly a under serviced market thus being an opportunity "for a marriage of micro finance and money transfer".

While J. Van Doorn gives additional information to ILO's understanding of remittances and their implications, Dave Grace from WOCCU contributes 5 lessons learnt about this issue by credit unions. H.S. Shylendra, however, goes deeper into the discussion of "pitting international remittances against the intervention of micro finance" by reminding about the people who usually earn that money which he considers to be above the criteria qualifying for micro finance.

Find out the amazing size of yearly remittances as opposed to international aid and foreign investments – in the enclosed mails (7).

➤ **Grameen launches mutual investment funds**

Another extended controversial exchange took place this quarter when two participants sent two newspaper articles to the list reporting about mutual funds to be launched by Grameen in early May/June 2001. Discussion members were in particular concerned by the fact that the mentioned fund is intended to be "an old-age pension scheme for the poor" as well as enabling poor rural women to "participate in the board meeting of a large corporate house" through investing the savings of Grameens' micro-credit recipients into large industries. The funds, part of which would be offered to the general public, would guarantee a 10 % return. (For more detailed information please refer to the enclosed mails.)

A partly highly ironic and cynical debate started considering various questions: Should poor people have better chances "to own stakes in companies that depend on maximising profits and being very efficient in order to grow and yield satisfactory returns"? Asks Dennis Macray. He is also bothering whether risks and guarantees can really go well together; but he opts clearly for everyone's right to "have access to all financial services as long as there is full disclosure".

Dave Richardson from WOCCU and Eric Nelson from World Bank then delivered a fascinating and partly

amusing word fight. Initiated by Richardson who reminded about the Estrellamar case in Panama (Ref.!), Nelson responded by challenging the "keep the money at home to benefit the village economy" - view and advocates for broad financial intermediation. Richardson, however, answers in a kind of "Sunday school sermon", critically analysing three arguments used by Grameens' founder and director Dr Yunus in favour of launching the funds. He concludes by opposing high returns generated by money vs. its safety – which in his opinion could be a too big luxury for the poor. Nelson, while in principal agreeing with those considerations, tries to broaden the views by bringing into the discussion the terms of liquidity and investments – two different needs experienced by the poor. Richardson's respond to this is, nevertheless, repeatedly underlining the high risks connected with stock market investments implying a comparison with paradise: "In your Sabbath consultations, did Excel measure the probability that Eve would partake of the forbidden fruit??"

Other participants share in principal the presented risk thoughts. N. Maclsaac questions why Grameen does not consider those means for credits; Patrick Oteng thinks that the scarcity of means of poor people implies safety to be the first priority, according to the SLY principle: Safety, Liquidity, Yield, in this order. N.Srinivasan observes a development from one extreme ideology (where people would be ready to pay for savings services) to another (where the goal is maximum return; he is specifically critical given the influence Grameen has on many other players in the MF market and the potentially false signals it is sending with this step. P. Dixit from a women self-help society in Nepal even fears that in case of such a fund's failure the poor might even loose confidence in the civil society.

C. Croulet from the African Development Bank, on the other hand, regards a similar fund rather as a needed service than an irresponsible investment, arguing that with growing prosperity poor clients might want to diversify their options. A pre-condition, however, would be sufficient transparency in the offering of products and processes. A. Dowla draws the attention in this context to the fact that safety of savings is usually limited also by other types of risks (inflation, floods etc.) he takes a strong position pro the discussed fund service defending Grameen against different points of critique mentioned by Richardson and brings up new arguments supporting the promotion of such a fund (market stimulation and other).

E. Nelson while responding to another contribution perceives the Grameen launch as an attempt to meet clients' expectations and concludes that the key challenge is how to make "non-lending financial services more or less likely to succeed". This would

also prevent “copycats” trying to replicate Grameen’s systems from repeating potential mistakes. (15 mails)

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