

DEVFINANCE

Discussion list on development finance of the Ohio State University

Quarterly Review¹

July to September 2001

General Information

➤ **NEW:** CGAP's Micro Insurance Initiative

A new resource centre on the micro finance gateway (<http://www.microfinancegateway.org>) promotes sound practices in insurance provision through the exchange of knowledge and experience. The site covers the following different areas:

* The Highlights section will profile an organization, service, and/or issue and will be updated at least once per month initially and more frequently thereafter. Please send ideas for highlights to cgap@worldbank.org.

* The Events section provides information on upcoming workshops, conferences and trainings in micro insurance as well as proceedings from past events.

* The Documents section is continually expanding and contains many works from the current body of literature on the subject, including basic reference works.

* The Service Providers section provides information and links to MFIs already in the business of micro insurance, to insurers and re-insurers as well as technical assistance companies and individuals.

* The FAQ section addresses frequently raised questions on micro insurance and is a good introduction to the issues facing the micro insurance field and experience so far.

* The Links section takes you to over 20 other relevant sites. The entries are annotated so you can easily find what you need. The number of links is constantly growing. Let CGAP know if you find any great new sites and register your own in the Post Your Organization section.

Please feel free to post information on your institution, add documents, enter your CV, share information on your micro insurance event, and suggest improvements for this site. The site managers Syed Mesbahuddin Hashemi (shashemi@worldbank.org) and Jennifer Isern (jisern@worldbank.org) would be glad to receive comments and suggestions.

➤ **NEW:** Devfinance archive

The Rural Finance Program at The Ohio State University (OSU) and CGAP have launched the Devfinance archive on the Microfinance Gateway at: <http://www.ids.ac.uk/cgap/devfinance/>. Using this service, you will be able to browse by message and by date and to search through the messages by keywords. The archive currently includes messages sent to Devfinance from 1999 onwards. There is also a service to highlight messages representing major Devfinance debates. To begin with, the team has created collections on "the poorest in micro finance" and "group versus individual lending". Other topics will be added later on.

➤ **MFI rating fund**

The joint fund initiated by CGAP and IDB (Inter-American Development Bank for assessments/ratings of micro finance institutions, launched in May 2001, has started its work. In July alone, the Rating Fund approved individual grants to EDPYME Crear Tacna and to EDPYME Confianza, two MFIs based in Peru, and to CrediFundes, an MFI based in Panama. The institutions that have so far been approved by the Rating Fund to conduct ratings/assessments are Micro-Credit Ratings and Guarantees India Ltd. (M-CRIL), MicroRate, PlaNet Rating, and ACCION International. The Pilot Phase of the Rating Fund ends in December 2001. The lessons learned from this pilot phase will provide the basis for a larger and more structured multi-donor Rating Fund set to be activated in the first quarter of 2002.

To know more about the Rating Fund and the application procedures:

http://www.cgap.org/html/mfis_ratingfund.html and cgap@worldbank.org.

➤ **Performance evaluation of African MFIs**

The European Initiative under the leadership of ADA Luxemburg has included the following organisations for performance evaluations of African MFIs: **AMSSF** (Morocco), **Al Amana** (Morocco), **Kafo Jiginew** (Mali), **MC2** (Cameroon), **MUFFA** (Cameroon), **URCBAM** (Burkina Faso), **Vital Finance** (Benin), **Beehive** (South

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 annex, classified in the same order as they appear in the present text.

Africa) and **Faulu Uganda** (Uganda). The evaluations have been carried out by four evaluation / rating agencies (*Horus, MicroRate, PlaNet Rating and Ebony Consulting International*).

Conclusions and lessons learned have been elaborated during a workshop between MFIs and evaluation agencies that took place at the beginning of October in Luxembourg. They will serve as the basis for discussions and proposals with European and international donors and MFIs in December 2001. For more information on this African experience please contact ADA at: adaong@pt.lu or Mia Adams, 15 Bvd Grand Duchesse Charlotte, L-1331 Luxembourg; Tel (352) 45 68 68 1, Fax (352) 45 68 60.

➤ **NIS policy forum website**

Weidemann Associates, Inc. and the Micro finance Centre for C&EE & the NIS have announced the establishment of the NIS Policy Forum web site at www.weidemann.org, "News", "NIS Policy Forum on Micro finance Law & Regulation". Once at the site, you can download the forum presentations, agenda, press release, summary evaluation, background reading, speakers' bios, and participant contact list. There is also a page of links to micro finance and micro enterprise development organizations and resources. Those who would like to share draft documents concerning micro finance law & regulation in the NIS on this web page, can send an email to WeidAssoc@aol.com. Please type in the Subject line *NIS Policy Forum* to get instructions for document submission.

➤ **CGAP e-bulletin September 2001**

The CGAP e-bulletin lets you know what new documents are available on the CGAP website, what new services it is launching, and other announcements of general interest. For more information on any item or to download documents, use the direct links at <http://www.cgap.org/>.

This issue's content:

- New Services: a new resource center on Micro insurance;
- Announcements: release of Microfin 3.0; CGAP grant application cycle; launch of CAPAF website; courses for donor staff;
- Updates on previous announcements: the Audit Information Center; the Rating Fund;
- In the Works: regional mapping studies of micro finance; client poverty survey of MFIs and credit unions in Latin America;
- Online resources: Micro credit Summit Campaign interview of CGAP; latest version of Spanish-English glossary;

- In every issue: Micro finance Gateway Highlights, latest capacity building partners' course schedule.

To keep up-to-date on CGAP'S partners' course schedule, visit

http://www.cgap.org/html/mfis_training03.html.

For a description of the courses, go to

http://www.cgap.org/html/mfis_training02.html.

To find out more about CGAP'S partners, go to

http://www.cgap.org/html/mfis_training01.html.

Courses and seminars

➤ **Business planning and financial modeling for micro enterprise programs**

December 10-14, 2001

This one-week intensive workshop will present a step-by-step framework for developing a business plan and financial projections for a micro enterprise program. The comprehensive business-planning framework separates the planning process into strategic and operational elements. A sophisticated financial modeling tool, "Microfin" (developed through contracts with CGAP and Women's World Banking), will also be explored in depth.

The workshop will be based on the course the facilitators offer each summer at the Micro finance Training Program in Boulder, Colorado, and on the CGAP Handbook, Business Planning and Financial Modeling for Micro finance Institutions, written by the workshop's facilitators. The course is structured to be highly participatory, with participants applying the business-planning framework to a detailed case study throughout the training, including extensive computer-based exercises using the Microfin model. Participants will receive a copy of the Handbook, including diskettes containing Microfin.

For more detailed information:

Chuck Waterfield; Phone: 717-295-9292; MFI Solutions, LLC; Fax: 717-295-9292; 325 N. West End Ave; waterfield@csi.com; Lancaster, PA 17603.

Publications

➤ **Publication on Contract Farming**

The Marketing and Rural Finance Service of the Food and Agriculture Organization of the United Nations (FAO) has published a guide on "Contract farming - partnerships for growth" by Charles Eaton and Andrew W. Shepherd. Contract farming can be defined as an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements. There

is some scope for financial institutions to work with agribusiness in this area. While many companies are able themselves to finance the inputs they provide to farmers, others prefer to work through financial institutions. Repayments can usually be made through deductions at the time farmers deliver the product. For financial institutions to work with agribusiness in this way, however, requires a detailed understanding of the issues relating to contract farming, the preconditions for its success and the management skills required.

The guide describes in detail the general modus operandi, internal functions and monitoring mechanisms of contract farming. It should be required reading for any financial institution contemplating working with agribusiness in this way, and for governments and NGOs seeking to promote this form of production.

The Guide can be ordered or downloaded at:

<http://www.fao.org/ag/ags/AGSM/contract.htm> or
<<http://www.fao.org/ag/ags/AGSM/contract.htm>>

➤ **Savings and Development Publications**

The latest issue of the journal *Savings and Development* Vol 25, No. 2, 2001 has the following articles in it:

1. A. Boughrara, "Money Demand in Tunisia During the Reform Period."
2. Y. Izumida and P. B. Duong, "Measuring the Progress of Rural Finance in Vietnam."
3. D. Majumder and others, "An Architecture of the Future Banking System in India."
4. M. S. Habibullah and P. Smith, "Financial Liberalisation and Liquidity Constraints in Myanmar and Nepal: Some Empirical Evidence."
5. R. Craigwell and others, "The Finance-Growth Nexus: A Multivariate Var Analysis of Small Open Economy."
6. S. I. Oladeji and I. O. Ogunrinola, "Determinants of Informal Savings in South-West Nigeria."

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

➤ **Market study on micro credit in central America**

The Spanish version of this study (we informed about its publication in our review I/2001) is now available through the Katalysis Partnership directly at: afindley@katalysis.org. Phone: (209) 943-6165, fax: (209) 943-7046.

➤ **Review of article by Dale Adams: *Roscas in Japan***

Robert Dekle and Koichi Hamada, "On the Development of Rotating Credit Associations in Japan," <<Economic

Development and Cultural Change>> Vol. 49, No. 1, October 2000, pp. 77-90.

Adams gives a short overview on the mentioned article. He considers as noteworthy that the evolution from roscas to financial services in Japan, Taiwan and Korea was characterised by a financial infrastructure that did both lending and deposit taking – in contrast to the evolution of the micro debt industry.

You can read the full review in the enclosed mail.

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

Please find below the content of volume 12 number 3, September 2001:

Blind spots - TOM DICHTER

Mobilizing small, medium and large savings - motivations and financial risks - ANITA CAMPION

Introducing savings services into ASA, a microcredit institution - GRAHAM A.N. WRIGHT, ROBERT PECK CHRISTEN and IMRAN MATIN

The relative risks to the savings of poor people - GRAHAM A.N. WRIGHT and LEONARD K. MUTESASIRA

Savings and need in East Africa: an infinite variety - LEONARD K. MUTESASIRA

What kind of savings products do poor women need?

The experience of SHDF - JEAN-PAUL LACOSTE

BOOK REVIEWS:

- The poor and their money

- Rural credit and on-lending groups: Micro finance needs and concepts in India.

To order a copy please contact Laura Dubery at

laurad@itpubs.org.uk. Single issues are £11 plus postage and packing. Subscriptions are also available at £88 for institutions and £42 for individuals.

More information about Small Enterprise Development can be found at:

<http://www.itdgpublishing.org.uk/sed.htm>

➤ **New book by Margarite Robinson**

Marguerite Robinson <<The Microfinance Revolution: Sustainable Finance for The Poor>> Washington, D.C.: The World Bank, 2001. US\$35 at email address = books@worldbank.org.

This is volume one of three that Dr. Robinson is preparing for World Bank publication. The second volume focuses on the Indonesian experience with micro finance and should be out late this year.

Dale Adams has shared with the list his personal impression of this book, which we enclose to the review.

Subjects of Interest

➤ Poor savers' risk

In the context of promoting the mobilisation of savings services, Richard Rosenberg from CGAP has drawn the attention of devfinance participants to a new field study on Uganda elaborated by Graham Wright and Leonard Mutesasira from MicroSave Africa. The research with the title "The relative risk to the savings of poor people" dealt with three main aspects asking poor savers about the savings systems or services they use at present, the amount of money they saved during the past year and the percentage lost out of these savings during the mentioned period. In Rosenberg's opinion, the interesting results seem to confirm Graham Wright, who was arguing since a long time in favour of offering the poor customers different choices for savings deposits and against overregulating semi-formal services in the name of depositor protection. The important aspect when safeguarding deposits is, according to Wright himself, "to think in terms of the relative risk rather than absolute risk facing them ... [the poor (comment from the author of this paper)] as they seek to save".

Ahmad Jazayeri (FS International), though agreeing with Wright's critique of central banks for their lack of competencies in supervising semi-formal entities, defends specialised external regulation and supervision. He describes his recent bad impression from an evaluation of some village banks in South West Uganda having alarming trouble with bookkeeping, liquidity and loan tracking, thus potentially causing dramatic future losses among the corresponding savers. Therefore, in the long run an enabling and supporting supervisory system is in his opinion a pre-condition for long term sustainability of such institutions.

Dale Adams joins this discussion with the statement that with regard to providing the needed features of divisibility (in the sense of the possibility of short-term access to savings; comment by the author of this paper) and liquidity desired by most savers, "only secure, semi-formal and formal forms of finance can supply these important features". He reminds about the fact of existing "deformed financial services in many countries" being the result of one-sided credit focused financial programmes and thus denying saving options for poor people.

You can download the paper from www.microsave-africa.com under *study programme > synthesis papers*.

Please follow the full exchange by reading the enclosed mails (6).

➤ Flexibility vs. discipline

Imran Martin from BRAC in Bangladesh proposed a subject for discussion among the list participants dealing with a basic consideration concerning the poor. Which strategy, he asks, generates better outcomes regarding poverty reduction: a flexible one or one that is based on long-term planning implying a certain discipline? He thinks that the answer to this question might have considerable implications for the way in which micro finance is being done. Craig Churchill sees a major constraint in the "disconnect between the irregular cash flows of low-income people and the strict repayment discipline of micro finance institutions" and suggests some practical solutions. Olaf Kula from ACDI/VOCA judges from his experience that the poor usually tend to choose discipline, as shown e.g. with the kind of relatively rigid rules set by members of ROSCAs or small managed tontines groups. Asif Dowla supports this opinion. He argues that some degree of compulsion or discipline within programmes can help the poor to avoid using up immediately any surplus because of the survival need as well as overcoming traditional sharing norms, which can become obstacles to economic growth. Other participants assume that the key lies in the right combination of these two elements or see a correlation between them.

You can follow this debate by reading the enclosed mails (8). For the research paper see the paragraph "General".

➤ Wider impacts of micro finance

After having discussed controversially the benefits and cost of impact assessments, list participants picked up again this important topic but under a broader perspective. As Claudio Gonzales-Vega from OSU (Ohio State University) points out, consequences of micro finance have usually been evaluated at the level of market participants (households, enterprises, other organisations). The impact of micro finance on the surrounding economic environment, however, is rarely subject to analyses, which Gonzales-Vega calls a "serious shortcoming". He mentions local labour supply, wages and employment as well as product prices, productivity and profit margins as elements beyond the household-firm boundaries that are in their majority affected by the so-called "general equilibrium impacts of micro finance".

For Elizabeth Dunn, at least two areas of challenge lie at the root of this situation: the fact that many variables contributing to impacts on community levels are not primarily economic variables (she lists e.g. freedom of movement, increased levels of group organising and other). She is aware of the lack of methods for

measuring these social and political dimensions. Secondly, she agrees with Gonzales-Vega's expression of "general-equilibrium" consequences in goods' and labour markets and asks additionally for considering the welfare implications of the micro finance industry impact on financial markets in general.

Gary Woller invites the devfinance community in this context to share the findings of a paper elaborated by himself and a colleague from Marriott School about the impact measurement on community level of a micro finance program in Ecuador, which is enclosed in this review together with 2 mails.

➤ Defaults in Bolivia

For many micro finance practitioners and developers, the events that happened in Bolivia in July (several micro credit clients took hostage of superintendency employees) made them ask many important questions about the underlying causes as well as the lessons to be learnt from this case. Was overlending a major reason or the increasingly bad general economic situation in the country? Who exactly in the financial sector is affected by this crisis? Which measures have been taken so far by the concerned stakeholders (financial associations, superintendency, others)? What has to be changed and how in the Bolivian micro finance industry, and can lessons of prevention be formulated for other countries (e.g. Zimbabwe)? We therefore provide an extract from a mail sent from Bolivia to the list by Martina Wiedmaier-Pfister, main advisor of the Rural Financial Systems Project financed by GTZ:

Background

Since 1999, Bolivia is hit by an **economic crisis** due to the problems in neighboring countries, continuous natural disasters, massive eradication of coca plantations leaving the economy with 500 million \$ annually less, restrictive customs procedures impeding smuggle, widespread social uprisings, etc.

- **Over indebtedness** of the microfinance sector, mainly due to the aggressive lending of consumer finance companies.
- Generally, **all MFIs and some other FIs are affected**: Private Financial Funds (PFFs), Financial NGOs, Cooperatives, Mutuals, Banks. However, the individual involvement of each MFI differs a lot.
- Associations of Banks and MFIs as well as Superintendence have been dealing with the movement [meant are here organizations of borrowers; comment by the author of this review] since 1999. At that time, the Superintendence mediated the conflict. An agreement on reprogramming was then signed and ended in

nothing since the leader of the association was put in jail. He had organized a series of protest marches in the main cities and was blamed to act against the law. However, he reappeared in the recent uprisings.

Recent occurrences

- The movement (pressured especially by one borrowers association led by a lawyer) culminated in the hostage taking in the Superintendence on July 2nd, 2001. Hostages were exchanged on the following day for representatives of human rights organizations, Women Groups and the Church, they were freed later on, promising to mediate in the conflict.
- A settlement was signed on July 4th, 2001 between the three financial associations (ASOBAN/Banks, ASOFIN/PFFs, FINRURAL/NGOs) and representatives of 7 regional borrowers associations and their lawyer
- Some details on the agreements were wrongly conveyed to the press, again speaking on the waiver of overdue interest, which was never agreed. It was **only agreed to forgive the legal expenses of the executed cases**.
- Human rights organizations, a women's group and the church are planning to organize a seminar on the problem in the coming weeks. However, the position of these institutions is rather partial to my consideration, for example focusing on the supposedly high interest rate level in the sector which the allegedly "poor people cannot pay".

Some Facts

- The microfinance sector counts with more than 400.000 borrowers at present. About 200.000 are clients of the regulated MFIs (PFFs, 1 NGO and 1 Coop. Bank), associated in ASOFIN. From those, 46.000 are overdue loans (from 1 day on).
- About 150.000 are clients of financial NGOs, of which only 5 % (7.500) have overdue loans (1 day). According to a representative of FINRURAL, some debtors stopped paying their loans in the expectation of a loan waiver.
- Some of the cases presented to ASOFIN are or not even overdue loans. And from the 1003 cases on the list, only 340 refer to the regulated MFIs (PFFs).
- The aggressive lending as well as recovery practice of consumer credit companies since 1998 had negative repercussions on the microfinance market, leading to over indebtedness of some of the traditional clients of MFIs.
- The issue has been politicized ever since by individuals and pressure groups, trying to disgrace the work of 15 years of microfinance in Bolivia, where sustainable MFIs were created which in the

course of time reduced their interest rates for small loans from nearly 60 % to sometimes less 30 % today.

Conclusions

- *Superintendence, MFIs and their associations stick to a complete negation of a waiver (apart from legal costs) even though a lot of pressure on many levels (parliament, repeated protest marches since 1999, negative press campaign etc.) is executed.*
- *The present general "satanization" of microcredit in Bolivia, motivated by pressure groups and persons seeking a global waiver of loans, is a serious threat for the whole industry, endangering the future of micro lending not only in Bolivia.*
- *The poor need to be taught more about the real costs of lending, and become "critical clients" who are able to compare the loan offer critically and fully understand the meaning of a (PRIVATE) loan contract. The Superintendence and the MFIs also understand this.*
- *MFIs recognize that more emphasis must be put in informing their customers and establish a positive customers relationship, which could impede such phenomenon, as well as to make their credit conditions fully transparent.*

Activities to combat the crisis

- *Government, MFIs and their associations, sector institutions and the international cooperation are presently joining hands to overcome the problem with a "emergency plan" still to be developed, including all kinds of activities, like a press campaign, campaigns directed to the borrowers etc.*
- *The facts of and behind the phenomenon are recently analyzed thoroughly to be able to argue in a profound way, to separate problem cases from opportunistic behavior and black sheep, and finally avoid future pressure measures.*
- *Studies and investigations to detail the cost of lending and provide better arguments on this important detail are implemented.*
- *Measures to improve customer orientation in the MFI industry are being prepared to be implemented on the medium term.*

Please note that the cited paragraphs are only a part of the corresponding mail as well as of the whole discussion of this subject. If you want to know more details about the list participants' exchange we strongly recommend reading through all enclosed mails (6).