

# ANNEXES

To the Devfinance quarterly Review

October - December 2001

## Publications

➤ [New book by Schreiner and Yaron \(1 mail\)](#)

<b>From:</b> Dale W. Adams [dwadams@burgoyne.com] <b>Sent:</b> Do 22.11.2001 00:05 <b>Subject:</b> Schreiner and Yaron book
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All mfi wanbees ought to read the following new book:

Mark Schreiner and Jacob Yaron, <<Development Finance Institutions: Measuring Their Subsidy>> Washington, D.C.: World Bank, 2001. You can find ordering information on the World Bank's web site: [www.worldbank.org](http://www.worldbank.org).

I must tone down my criticism of the microdebt industry. It is spawning a number of excellent recent publications; first Beth's fine book and now this one.

S and Y do a splendid job of discussing two measures of the social costs of development finance organizations. The first measure is Yaron's well know Subsidy Dependence Index (SDI). The second is a newer measure the authors label the New Present Cost to Society (NPCs) indicator. They go on to point out that the SDI is best employed in short time frames, while the NPCs discounts the value of cash flows and thus works in both short and long-run time frames. They also remind us that both measures only provide information on the costs of mfis, not on their more elusive benefits. They correctly argue, however, that a careful and full accounting of costs allows useful comparisons with expenditures on other development alternatives.

Most of the book describes the strengths and weakness of these two measures along with critiques of other measures of the performance of financial institutions. The authors also provide details on how to compute the SDI and NPCs.

I hear by the grapevine that Yaron will soon retire from the World Bank. Too seldom do we stop to congratulate those in the development finance trenches for their contributions. Jacob is one of several excellent rural finance experts I've known in the World Bank. Nearly 30 years ago Walter Shaefer-Kehnert introduced many of the new ideas about development finance into the Bank via courses in the Economic Development Institute. J. D. Von Pischke and Brian Argyle were later valiant in swimming against the current in their criticisms of traditional agricultural credit projects. Jacob was fortunate in coming into the Bank when the support for subsidized and targeted lending waned. We have to thank Fred Levy and many others who dismantled the old system of development finance that was attuned to central planning, rather than market economics. Yaron came in the back door of the contentious interest rate argument by focusing on ways to measure the costs of this type of subsidy. His measure moved the argument away from emotions and scriptures. Perhaps it was his experience with jumping out of planes when he was young that gave him the grit to persist in his endeavors.

I especially appreciate that Jacob has published a lot, even though his native tongue is not English. Too many bright Bank staff use the excuse of not writing English perfectly and the press of duties to avoid publishing. I've also appreciated his efforts to draw bright young people into his work. He doesn't mind sharing the spotlight and often lists his name as the junior author. The S and Y book is a fitting benediction to his productive Bank career.....jane.

➤ **Article recommendations by Dale Adams: ADB Newsletter from September 2001, Vol. 2, No 3 (1 mail)**

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**From:** Dale W. Adams [dwadams@burgoyne.com]  
**Sent:** Mi 21.11.2001 22:54  
**Subject:** Two articles

The most recent issue of the Newsletter <<ADB Finance for The Poor>> Vol. 2, No. 3, September 2001 has several interesting articles in it.

One is by Nimal Fernando and is titled "Proliferation of Microfinance Institutions." Dr. Fernando worries about the large number of microfinance organizations that are popping up in Asia. He notes that ngos dispensing debt are a thriving cottage industry. There are 120 in Cambodia, for example, and more than 1,000 in Bangladesh. He is especially concerned about the ability of many of these small organizations to accomplish substantial outreach and economies-of-scale. He also notes that many of these organizations are heavily subsidized by donors, raising questions about their durability once subsidies are withdrawn. I've not heard much discussion of these issues in the microdebt industry.

The second article is by John Whittle and is titled "Developing Credit Unions in The Kyrgyz Republic." He reports on the preliminary results of a credit-union development project funded by GTZ in the Kyrgyz Republic. The project is about 4 years old, has formed about 160 credit unions, and has attracted more than 10 thousand members. As should be the case, the amount of savings mobilized in these cooperatives is larger than the amount of money lent. (Dare I restate my old grip about these being called credit unions when deposit mobilization is often the dominant feature of these organization? They should be called something like finance cooperatives.) The only reservation I have about the project is they report recovering more than 97 percent of their loans. Why do virtually all of the microfinance organizations end up with this rate of loan recovery, at least initially? Is it a best practices to report essentially the same recovery rates! Nonetheless, I was interested in reading about the preliminary results of this project. The big plus of financial cooperatives is that they provide deposit and savings services along with lending. The recent experience with developing these cooperatives hasn't received much exposure. Perhaps to balance our views, it might be useful to ask someone with Beth Rhyne's writing and analytic talents to bookafy the recent experience with finance cooperatives in one or more countries.

This ADB Newsletter can be downloaded from

<http://www.adb.org/documents/periodicals/microfinance> Dr. Fernando is the editor and his email = [nfernando@adb.org](mailto:nfernando@adb.org) .....jane.

➤ **Upcoming publications on Apex Institutions in Micro finance (1 mail)**

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**From:** Rosenberg@worldbank.org  
**Sent:** Di 04.12.2001 17:26  
**Subject:** CGAP study on microfinance apex (wholesale) institutions

CGAP will soon be publishing APEX INSTITUTIONS IN MICROFINANCE by Fred D. Levy.

The text of the study is available on CGAP's web site at

<http://www.cgap.org/assets/images/Apex%20OP6%20Word%20final.pdf>

The 44-page study reviews the experience of national microfinance apexes?wholesale mechanisms that channel funds, with or without supporting technical services, to retail microfinance institutions in a single country or integrated market. Here is a summary of its conclusions:

- Apexes probably expand the supply of resources available for unlicensed microfinance institutions (MFIs), at least in the short term.
- However, microfinance development in most countries is held back more by a shortage of strong microfinance institutions (MFIs) at the retail level than by a shortage of wholesale funding.
- Planning documents for apexes typically overestimate the number of retail MFIs that will be strong enough to channel the apex's funds.
- Apexes for unlicensed microfinance institutions (such as NGOs) are most likely to be useful when they are created in response to the existence of a critical mass of competent retail MFIs, as was the case with PKSF in Bangladesh.
- Apexes that fund licensed institutions such as banks and finance companies have seldom been successful in encouraging these institutions to continue microlending when the apex money runs out. The only exceptions to this pattern seem to be where the apex's funds were linked to day-to-day technical assistance from a group that (a) had a track record of running sustainable microfinance itself, and (b) was able to provide the retail institution with a fairly complete "turnkey" package of information and management systems. The number of such technical assistance providers is very small at present.
- Apexes have not been successful in building bridges between MFIs and commercial funding sources. Indeed, the incentive to seek commercial funds is weakened by the availability of easier funding from the apex.
- It may not be reasonable to require that apexes be financially sustainable themselves (after imputing a charge for the opportunity cost of their capital).
- Little evidence was found that apexes play a useful role in coordinating among donors and harmonizing their requirements.
- Management is key to an apex's effectiveness. The actual availability of managers with the necessary technical and personal qualifications should not be assumed, but rather should be investigated carefully at the planning stage.
- The most important function of apex management is probably the selection of MFIs to be funded. Because the number of qualified MFIs is usually limited, managers have trouble applying proper selection criteria when they are faced with political pressure or pressure to disburse large amounts quickly.
- In the apex's supervision of the MFIs it funds, focusing on institutional performance targets that are few in number, precisely defined, and seriously enforced is probably more effective than requiring massive reporting on detailed uses of funds.
- .
- Political interference is a common problem in apexes, despite assurances to the contrary at the planning stage. The best protection will usually be to keep state participation in the governance of the apex to the minimum level possible.
- .
- Donors and governments tend to create unrealistic disbursement pressure for apexes. It would usually be preferable for initial funding of an apex to be modest, with larger amounts added later in response to demonstrated demand and capacity.

\* \* \* \* \*

Richard Rosenberg

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## Subjects of Interest

**From:** J. D. Von Pischke [jdvp@erols.com]  
**Sent:** Sa 01.12.2001 19:30  
**Subject:** Grameen's Come-uppance

On a bittersweet day last week the financial world read on the front page of The Wall Street Journal that Grameen Bank had been at best lax, and more likely at worst, deceptive in reporting its financial performance.

How little reaction this has generated! Most of us in the trade probably had long suspected that something was fishy, wishing that we had a current analysis as thorough as that provided by Mahabub Hossain back in the 1980s and including factors that may not have seemed to be very important when Hossain was writing. But, we were well served by WSJ—a serious, well-balanced article on microfinance, the second in less than a year that has appeared on its front page.

I gave up on trying to make sense of Grameen's financials in the mid-1990s when they were so late in appearing, when consistency seemed hard to track from year to year, and when they continued to report so much "filler," data that seemed of little import. One year they produced a report that did not include financial data, an operations report dressed up as an annual report, with a note that financial statements would be available later, on request.

By contrast, the Grameen Foundation USA has got it right in its annual reports. Full financial statements followed by a raft of notes. Presided over by an audit firm I never heard of, but that is OK—my company uses an auditor you never heard of either, located in Chantilly VA (where's that?). Small clients might get the most inexperienced staff of one of the Big 6 audit firms (or however many are left) and pay dearly for it. The small audit firms are less expensive and have incentives to perform well. But, an audit by an unknown firm may lead a lender to spend more time on due diligence of a small business seeking a loan.

I recently trolled the web in search of financial data made available by the large actors in microfinance. The results were mixed. One large and famous one (not Grameen) also gave me old data that was virtually useless, but with lots of pictures of photogenic poor women. (Gotta like those gals.) I'd suggest that dfn readers do the same—pick one or two and have a look.

IMI offers an interesting format that suits its owners ([www.imi-ag.de](http://www.imi-ag.de)). Results on its website do not include the value of TA in the investments it has made, as discussed at the recent Frankfurt Seminar. (See Chapter 3 in Kimenyi et al., STRATEGIC ISSUES IN MICROFINANCE, for details of the TA approach and cost.) What do others do?

Will the WSJ piece foreclose the possibility of a Nobel Prize? Can a bunch of bean counters derail a major brand? Or is something else at stake, i.e., the transparency demanded by an increasingly skeptical and information-conscious world that relentlessly seeks lower transaction costs and equity, comparing like to like? Is Grameen doing any better in reporting the truth than the nationalized banks in Bangladesh? (Probably Grameen is lightyears ahead—but this is based on my experiences of 10 years ago in Bangladesh.) Is Grameen's pickle any different from development assistance at large: promoted too strongly and "results" reported too generously? (A good friend from the World Bank once suggested the process, at least as it relates to financial sector operations generally, has historically been one of reverse alchemy—turning gold into lead.)

The good that should come out of the WSJ piece is first of all a better understanding of a diminished Grameen and second but more importantly, a race to the top as the industry generally provides more useful data. The MBB is in the lead on an industry-wide basis. MicroRate seeks to create a commercial market in data. What can individual providers do to meet normal commercial disclosure standards? Do donors have a role to play, requiring public disclosure—websites are most accessible—at the level of the individual microfinance institution on the ground, as part of conditionality? Will microfinance advocates in Washington and around the world use their political clout to provide excuses for Grameen or to push for more detailed industry-wide disclosure?

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**From:** CROULET, C. ROSS [R.CROULET@AFDB.ORG]  
**Sent:** Mo 03.12.2001 08:58  
**Subject:** Grameen's Come-uppance

A thoughtful and interesting analysis of the Wall Street Journal article on Grameen by one of the old sages of microfinance, J.D. Von Pischke. I myself have been suspicious for a long time about the true situation of Grameen so often disguised by Dr. Yunus's global steller status what being considered for a Nobel Prize, intimate with the Clintons and frequently invited to the White House, etc.

The lessons, of course like for any financial institution of intermediation (an investment bank, Bank of America, Goldman Sachs, PADME in Benin, Socremo in Mozambique, Ecobank, etc. etc.) is complete transparency in financial reporting and disclosure. These of course are underpinned by sound financial management, operations and administration. More importantly, people within financial institutions dedicated to and owners of the fiduciary duty they hold being in possession and custodians of other people's money.

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**From:** Robin Ratcliffe [rratcliffe@accion.org]  
**Sent:** Fr 07.12.2001 18:12  
**Subject:** ACCION Responds to WSJ article re Grameen

Richard...thank you for your comment and certainly we at ACCION are well aware that most MFIs are tiny, donor dependent and fairly unsophisticated in terms of financial reporting. The letter actually says: Grameen's borrowers represent a small percentage of the estimated 25 million poor "microentrepreneurs" being served by large, specialized microfinance institutions (MFIs) throughout the world. The vast majority of these MFIs are rigorous, transparent etc. etc.

What we meant to point out and perhaps did not do so effectively is that the vast majority of the recipients of credit are being served by large MFIs which operate in a rigorous way. We were thinking of ASA, BRAC, Bank Rakyat Unit Desa, Compartamos, Mibanco, a number of Bolivian institutions, K-Rep Kenya and the like.

Hope this helps. Kind regards, Robin Ratcliffe

-----Original Message-----

**From:** Richard Meyer [<mailto:meyer.19@osu.edu>]  
**Sent:** Wednesday, December 05, 2001 3:15 PM  
**To:** [devfinance@lists.acs.ohio-state.edu](mailto:devfinance@lists.acs.ohio-state.edu)  
**Subject:** Re: ACCION Responds to WSJ article re Grameen

Robin: Thank you for posting this letter and my appreciation to Maria for sending an important clarifying letter to the WSJ. Perhaps one sentence in the letter deserves comment.

It reads "The vast majority of these MFIs are rigorous, transparent and financially self-sustaining."

I think all of us who are close to the industry wish that was the case, but the general perception is that worldwide the majority of the total number of MFIs in operation are weak, not very transparent because they have not reached that stage in the sophistication of their accounting procedures, and in fact are subsidized in the sense of not covering their full costs through earned revenue and/or they have access to resources at less than market rates. The numbers are imprecise but we generally understand that there are thousands of MFIs operating worldwide but there are only a couple of hundred that have sufficiently good records to submit them to the MicroBanking Bulletin and/or to be rated by one of the rating agencies. As I understand it, most if not all ACCION affiliates fall into this strong category. One of the shared objectives of the industry is to improve the weaker ones as quickly as possible.

Dick

At 05:16 PM 12/3/2001 -0500, you wrote:

Dear Colleagues:

Our ongoing discussions "in the family" of such topics as reporting standards, institutional transparency and regulation and supervision of microfinance institutions have been catapulted to the "outside world" with the publication of the WSJ article last week. Since ACCION's María Otero was quoted in the article, we sent an immediate Letter to the Editor which I have included below for your information. As yet, it has not been published. <<WSJ Letter to Editor 11-27-01.doc>>

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**From:** Dave Richardson [dcr@bwn.net]

**Sent:** Di 11.12.2001 04:55

**Subject:** Grameen's Come-uppance

Wow J.D.....

I'm late in responding, but your bucket of cold water was very provoking!! It might cause some sizzle within the Grameen labyrinth, but then again, maybe not. When you are the bell cow, you don't need to pay attention to the barking dogs ....

Aside from the sin of omission, Grameen has committed another grievous infraction: Dancing with the Devil while trying to enter into Heaven!

"Elastic" loan recoveries may work in some cases, but under no condition should they be accompanied by "elastic" loan loss provisions. A prudent financial institution may take a soft approach with it's delinquent borrowers, but should internally take a "hard line" approach in the creation of loan loss provisions. It also has a responsibility to the savers who are financing such loans. This means that even though a borrower is given two years to pay, the bank should adequately provision (read 100% provision) such loans to protect their innocent savers.

The only way that justice and mercy can both be satisfied is if someone pays the fiddler. In the case of Grameen, it appears that they want to be merciful, but are unwilling to underwrite the risk within a prudent time frame. In case the message is not clear, let me repeat myself: The gateway to Brother Yunus's poverty-free heaven can only be accompanied by someone who pays the entry fee!

Cooperative Greetings,

Dave Richardson  
World Council of Credit Unions  
[dcr@bwn.net](mailto:dcr@bwn.net)

**From:** dfitchett [dfitchett@email.msn.com]  
**Sent:** Fr 14.12.2001 02:59  
**Subject:** Grameen Bashing

Chuck,

The discussion continues to very interesting, if at times a bit intemperate.

But one should ask who are Grameen's real friends? Are the real friends those who wish that Grameen would adhere to standard financial reporting practices in order to assure sustainability and solid growth of the program, or are the real friends those who are not concerned that "Grameen's accounting practices are quite creative", as Eugene phrases it? (Just as Enron, or Xerox, or Cendant, etc., resorted to "creative" or "innovative" financial accounting and reporting practices and "proformas".)

For example, what does Grameen lose by adhering to the standard accepted definition of Portfolio at Risk (PAR)? Kudo's to CGAP for trying to introduce some generally accepted definitions and financial reporting standards for the MFI industry.

Just think what a great contribution Grameen would make to the future of the MFI movement around the world if it would put its enormous prestige and outreach to support that CGAP effort!

Del Fitchett

**From:** J. D. Von Pischke [jdvp@erols.com]  
**Sent:** So 16.12.2001 04:24  
**Subject:** Grameen's Unfortunate Fumble

Grameen Bank's letter to the editor of the Wall Street Journal's editorial page appeared in the December 12 edition. Unfortunately, it compounded any difficulties that the WSJ's front page article of November 27 may have caused Grameen. In his letter Prof Yunus chided the WSJ for seeing problems where he sees progress, i.e., dealing with an arrears situation by running them down by collecting them rather than writing them off against reserves that he claims more than adequately cover the bank's risks. He also says that by the end of 2002 the repayment rate will reach 98%, and invites the WSJ back to provide a "fair hearing."

All well and good. But, how are arrears calculated? Still one or two years after the due date of the final installment? Why not five, if the poor in fact repay and you have abundance liquidity and capital? How is "clockwork precision" in repayment measured—for those 85% of borrowers claimed to behave in this manner? One day late, 7, 30, 90 or 180 days are industry conventions.

Are new loans used to erase arrears on old ones? Without attention to detail in describing the arrears situation, providing disclosure of standards or criteria used to classify loans, the reader is no better off than she was on 27 November.

The letter fails to deal comprehensively with the specific concerns the WSJ raised. This may be a cultural issue, as in NGOs in poor countries vs bank regulators in rich ones, and it just might also reflect sensitivities about disclosure in Bangladesh, a pretty contentious place, where big numbers may attract predators. If so, this is something we should know about and probe, as it could have some bearing on the industry generally. And, if Grameen no longer accepts subsidies of any type as a matter of policy and if it faces a local threat, it of course has the right to remain silent. What does it advise that its replicaters do?

Otherwise, the response represents an incredible lost opportunity, playing the wrong card at the wrong table. Grameen Bank and its friends in Washington must surely be aware of the readership of the WSJ and have some appreciation of their expectations and standards. How many of its readers subscribe generously to charitable causes, or would consider investing part of their fortunes in microfinance if the industry can come up with an attractive vehicle? In fact, there is no

richer vein in the large scale media than the WSJ for this sort of audience. A clear and detailed explanation by Grameen, in response to the original article, might have pried some funds loose for the cause or, more importantly, brought microfinance closer to the mainstream in many readers' minds.

Simply to provide assurances and to tout helping the poor does not carry the day for WSJ's audience. Even less the stance that "We consider credit as a human right," which would be offensive, pathetic or even laughable to many American readers of the WSJ and possibly questionable to others in countries where rights are to a high degree enforceable. (I'd be happy to elaborate on this for those not familiar with the view of human rights incorporated in the US Declaration of Independence and Constitution.)

Has Grameen's website been dusted off since the original article? What does the balance sheet and income statement look like for 2000 and for the first six months of 2001?

How regrettable that the public relations situation was allowed to get worse when it could have got better. Rather than stonewalling, a better result could have been achieved by the provision of more detail about Grameen's financial performance. How sad if Grameen's Washington supporters did not sufficiently coach Prof Yunus on the sort of response that would resonate and be culturally congenial to WSJ readers and within the world of finance generally, or if they did, that they did not prevail. All the worse because the WSJ is almost alone among the global media, presenting more good news than bad news.

J.D. Von Pischke

<p><b>From:</b> Dale W. Adams [dwadams@burgoyne.com] <b>Sent:</b> Mo 17.12.2001 17:52 <b>Subject:</b> Caesar's Wife</p>
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I second J.D.'s lucid comments about M. Yunus's letter to the editor of the <<Wall Street Journal>> on December 12<sup>th</sup>. His letter is evasive and unresponsive to the concerns raised in the earlier November 27<sup>th</sup> Journal article on the Grameen Bank.

No one is criticizing GB for rescheduling loans when borrowers suffer natural disasters. Likewise, no one is criticizing the bank's efforts to provide financial services to people of modest means. It is not bashing a bank when one asks serious questions about the loan recovery measures it uses or to question its loan provisioning policies. If that is bashing, then every single bank in the U.S. is regularly "bashed" by bank examiners to the benefit of all depositors. If GB wishes to act like a bank it ought to use understandable loan recovery measures and not continue to pull the mythical loan recovery number of 97% out of thin air.

Yunus fails to define how the GB measures a loan that is overdue in his letter. As J.D. asks, is its loan recovery performance "improving" simply because bad loans are being refinanced or the loan recovery measure is being flexed?

In the days when agricultural development banks were doing most of the altruistic lending, it was common for them to be casual about publishing audited annual statements, use creative measures of loan recovery performance, and set aside too little to cover real loan losses. To obscure the sorry state of their loan recovery the worst of these banks would often publish figures on the total amount they had ever lent, and the total amount they had ever recovered and hope the reader would conclude their current loan recovery performance was much better than it actually was. Yunus does the same thing in his letter by saying the total amount that GB has ever lent is \$3.5 billion and the total amount they have ever recovered is \$3.2 billion. From these number I suppose he hopes readers will conclude that his loan recovery performance is still over 90% and supposedly improving. Instead, the skimpy information he provides suggests that up to one-quarter of GB's current loan portfolio may be in arrears and who knows about the collectability of the loans that are yet to come due? Like a cancer, loan recovery problems tend to cascade and spread.

Again, I'd be less concerned about GB's casual financial reporting and cavalier response to criticism if the deposits and savings of millions of poor people were not at risk. Yunus preaches about debt being a human entitlement; I'd feel more comfortable if he concerned himself more about the rights and assets of his poor shareholders and depositors.

If this is a sign of things to come, god help the poor if the microdebt industry ever gets heavily involved in mobilizing deposits!

If one sets themselves up as the pope or prophet of the microdebt industry, then one must lead a life beyond reproach as was expected of Caesar's wife.....jane.

<b>From:</b> Navraj Simkhada [navrajs@cmf.org.np] <b>Sent:</b> Di 18.12.2001 07:08 <b>Subject:</b> [cmf-list] The Wall Street Journal Article on Grameen Bank {01}
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Dear all members of the CMF list serve:

Greetings from Nepal. This is to forward the following e-mail sent by Mr Sam Daley- Harris, Director, Micro-Credit Summit Campaign regarding the wall street journal article about Grameen Bank. Sam's response together with response by others and Professor Yunus to the article follows. I also want to put in my response as follows:

I agree to every word written by Sam in his response (please read it below). I also want to add my personal feeling that providing financial services to the poor is not a joke and an excluded aspect by the commercial sector. Now, when the campaign to eradicate this exclusion and provide financial service to as many poor people all over the world as possible in order to improve their livelihood is finally gearing speed I must say that articles as the one published by the wall street journal will hamper the movement of the Micro-Credit /Finance sector. This undoubtedly will hamper the interest of the millions of poor people all over the world who are still devoid of such services. As we are witnessing all over the world that day by day due to war or other calamities the number of poor are increasing. Now we do not want "destructive criticism" to push the Micro-Credit movement behind. If organisations and individuals are concerned let people come up with constructive criticism which will help improve the methodology of financial services to reach as many poor people all over the world as possible. As Sam rightly says Grameen like any other program may have its problems but they are working at solving it and will do so ultimately. But more important than that is the fact that the THE GRAMEEN MOVEMENT HAS DEFINITELY BEEN SUCCESSFUL IN BRINGING THE ISSUES OF PROVIDING FINANCIAL SERVICES TO THE POOR TO THE FOREFRONT. Therefore the organisations and people behind this movement will, I am sure, join hands to combat the difficulties in the movement but at the same time not let any adverse propaganda disrupt the good work commenced.

I just want to point out the fact here that in Nepal alone following is the approximate figure of poor household being serviced by financial products offered through grameen replication:

1. About 1,30,000 Household by a combination of 5 Government subsidised Grameen Banks
2. About 100,000 Households by private sector Grameen replicators including NIRDHAN, CSD, DEPROSC, NSSC, and others I would also like to point out here that most of the organisations mentioned under point 2 have their business plan showing when and how they will reach financial sustainability and they are moving towards it. Please note that the approximate 230,000 households quoted here are some of the poorest households in the world. Therefore if anyone is concerned it may serve better to join hands with us in the summit campaign to improve the living conditions of all these poor people rather than disrupting commendable work which have already been commenced. With best wishes for the season and committmet to strengthening the Micro-Finance movement

Namrata Sharma  
Managing Director  
Centre For Micro-Finance, (CMF) Nepal

From: Sam Daley-Harris, Director  
Date: December 14, 2001

Re: The Wall Street Journal article on Grameen Bank

Many of you know that on November 27, 2001, the Wall Street Journal published a negative article on Grameen Bank and its founder and managing director, Muhammad Yunus. I am taking this opportunity to circulate links to the article, links to Muhammad Yunus' response which was published in the Journal on December 12, and, since the Journal has not yet published any of the many letters written in response, I am also sending a few of the letter prepared by members of the campaign. Many of these links will take you to CGAP's website which includes additional responses.

What follows are:

1. The Wall Street Journal article. <http://public.wsj.com/home.html>
2. The response from Muhammad Yunus  
<http://www.grameen.com/wallstreetjournal>
3. A response from Grameen Foundation USA President Alex Counts:  
<http://nt1.ids.ac.uk/cgap/html/gramhl5.htm>
4. A response from ACCION President Maria Otero  
<http://nt1.ids.ac.uk/cgap/html/gramhl1.htm>
5. A response from World Council of Credit Unions President Arthur Arnold  
<http://nt1.ids.ac.uk/cgap/html/gramhl8.htm>
6. My own response to the Journal is here:  
November 29, 2001

Letters to the Editor The Wall Street Journal 4300 Route 1 North South, Brunswick, NJ 08852

To the editor,

With the U.S. engaged in a war in Afghanistan and President Bush assuring the world that our fight is not with Islam but with terrorists, I find myself wracking my brain to understand why the Wall Street Journal finds it front page news that the Grameen Bank is having repayment problems in some of its branches (November 27 story, "Bank that Pioneered Loans to the Poor Hits Repayment Snag").

Reporters Pearl and Phillips note that "...10% of all the bank's loans are overdue, giving it a delinquency rate more than twice the often-cited level of less than 5%." Yes, Grameen has a repayment problem. Your reporters say that Grameen Bank founder and Managing Director Muhammad Yunus, "acknowledges that Grameen has had repayment difficulties in the past five years" and that the bank is working with staff and clients to correct the problem.

But with Grameen providing small loans and other financial services to 2.4 million poor or formerly poor Bangladeshis, 95% of them women..., I believe you are missing the real story.

I know the piece was started before September 11 (I was interviewed by one of the reporters several times in August). But the world has changed since then and your reporting must do a better job of reflecting that change. Here are some other challenges you might also have focused on that Grameen and Professor Yunus have tackled. Their success in meeting these challenges is a beacon of hope in a world that so needs it.

1. Dr. Yunus has struggled with fundamentalist clerics, starting in the late 1970s, in his effort to reach women clients who now number more than 2.2 million. This is a problem that, if not solved, would have hampered other institutions in Bangladesh who, along with Grameen, are now reaching more than 7 million women according to the State of the Microcredit Summit Campaign Report 2001...

2. In the late 1970s and early 1980s Prof. Yunus struggled to convince Bangladeshi banks and the government that poor people were creditworthy without collateral. He succeeded and, as your article states, now there is great competition in Bangladesh—but Bangladesh is one of the few countries where that is the case. This has to change. If the world is to reach the UN Millennium Summit's goal of cutting absolute poverty in half by 2015, an even more important goal since 9/11, then we will need more commitment to high quality microcredit delivery around the world because of its significant contribution to relieving poverty. A World Bank study from 1997 found that every year Grameen Bank helps 120,000 families (some 600,000 family members) move out of poverty. The Microcredit Summit's goal of reaching 100 million poorest families by 2005 would be a good place for the Journal to start its new vein of reporting.

3. Grameen argued long and hard during the 1980s to get the government's permission to offer \$300-600 housing loans. Can you imagine what a villager's one-room house must have been like if a new one, built with a \$600 loan, is a major improvement? For one thing, a new roof, now made of tin, means that it won't rain inside anymore. Grameen has given more than 500,000 housing loans.

Grameen Bank works in a society where many of the well-off don't repay their loans, where government loans might be forgiven before an election, where corruption is too often the rule rather than the exception, where husbands can't understand why loans are given to their wives, where most of its clients are illiterate, where bank branches are likely to have no electricity, and where women had previously never touched money and still never go into the marketplace.

Yes, Grameen has a repayment problem and they have been working successfully to solve that problem and many, many others. I am not asking for the use of kid gloves or for special treatment, just for balanced reporting.

Sincerely,

Sam Daley-Harris, Director Microcredit Summit Campaign

This is a response to my letter from Jeff Ashe:

Sam,

I thought your comments were well taken. Let's put these repayment problems (which are by no means institution threatening) into the context of what Grameen has accomplished.

There are many who are licking their chops about the troubles of one of the leaders in the field.

Every initiative has its strong points and its difficulties and running a bank with more than 2,000,000 poor women clients must rank among one world's more difficult undertakings.

Jeff Ashe, Visiting Scholar Institute for Sustainable Development Heller  
School Brandeis  
University

<b>From:</b> BRCS [brcs@iafrica.com] <b>Sent:</b> Mi 19.12.2001 07:38 <b>Subject:</b> Grameen Bashing
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Hello

This is a topic near and dear to my heart (see <http://www.talk.to/BRCS/mfpasa.pdf> for details). The Grameen problem is indeed 'cultural', but the clash is between people who see microfinance in different ways, not Yankee suit bankers and Bangladeshi professors.

On one hand you have those who believe passionately that to be sustainable, microfinance has to be abstracted from the social conditions in which it is employed and treated as a scarce resource subject to maximum conservation. Social externalities from microfinance practise are valued, but not in the technical sense that money is valued. 'Performance' is therefore seen in terms of equilibrium amongst the financial variables involved, including opportunity costs, albeit in the context of trying to achieve the specific goal of alleviating financial poverty as opposed to making profits.

On the other hand there are those who believe equally passionately that the social externalities Eugene Versluysen cites should be valued not just as morally 'good', but as legitimate outputs of a development effort that uses money to mobilise poor people and to change their survival strategies. These changes are not just about savings and credit, but also about shifting attitudes and social and political relationships that contribute to poverty. As such they have both proximate and mediate economic value. 'Performance' is therefore seen more broadly than financial equilibrium since the concept of opportunity costs also includes forgone opportunities to shift social conditions.

Problem No. 1 is that the 'money people' and the 'social change people' speak the same language - sort of - but operate from such different underlying assumptions that common words have different conceptual meanings for them. 'Money people' (who are invariably those hired to do evaluations) want to evaluate all programmes on the basis of what they themselves know and value, whilst the programme practitioners might have very different values. Donors are caught in the middle, since they often have no expertise in either approach and become alarmed when 'money' and the 'social change' people give different assessments of the same thing, using the same language, but with diametrically opposed conclusions. This leads to confusion and distress for all involved.

Problem No 2 is that the 'social change people' often neglect to develop and use the skills needed to talk to the 'money people'. For example, many social change MF practitioners cite positive social externalities and social asset creation in their programmes, but are either unable to value these in a financial sense or unwilling to do so because they believe (wrongly, IMHO) that "you can't win if you enter the terrain of technical microfinance debate, so rather don't go there at all". So they leave the terrain altogether, leading to a bifurcation in the donor community between those who deal with 'sustainable' MF programmes (usually bilaterals) and those who deal with the others (usually church-based).

It should be possible to develop a framework that (a) allows both parties to communicate effectively without leaving so much implicit, and (b) specifies under what conditions the 'money' and 'social change' approaches can and should be employed.

Otherwise we remain stuck with apples and oranges.

Ted Baumann

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The views expressed in this email are those of the author and should not be attributed to BRCS clients unless otherwise stated.

----- Original Message -----

**From:** [Linda MAYOUX](#)  
**To:** [devfinance@lists.acs.ohio-state.edu](mailto:devfinance@lists.acs.ohio-state.edu)  
**Sent:** Thursday, December 13, 2001 1:19 PM  
**Subject:** Re: Grameen Bashing

I was also rather dismayed at the way the debate went. Mohammed Yunus, together with others like Ela Bhatt of SEWA should indeed be applauded for their life's work of bringing the issues of poverty and the injustices faced by poor women onto the agenda of donor agencies like USAID and World Bank.

<p><b>From:</b> Eugene Versluysen] <b>Sent:</b> Tuesday, December 11, 2001 7:05 PM <b>Subject:</b> Grameen Bashing</p>
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Greetings All.

Bashing Grameen seems to be a popular pass-time for MFI experts.

It is true that Grameen's accounting practices are quite creative, and that Muhammad Yunus comes a close second to Madonna as a celebrity. But let's not blame Yunus for being a frequent guest at Clinton's White House or for corralling kings and queens to the cause of microfinance. His aim, I believe, is to make microfinance more widely acceptable and to attract more donor support. As for his being a potential Nobel Peace Prize nominee, I wouldn't mind.

Or do people think that the likes of Arafat (1994), Kissinger (73), Anwar Al-Sadat (1978), F.W. De Klerk (85), and Shimon Perez (94) were worthy winners? If so, Yunus had better stay at home; no fancy trip to Oslo for him.

Let's also remember what Grameen has achieved. Anyone who has spent time at a Grameen Bank branch in a small village in Bangladesh soon realizes that Grameen has done a great deal to emancipate rural women in a strict Muslim society, and change archaic and repressive social practices, such as dowry. Not only that. Grameen turns social norms upside down when male staff serve lunch to women clients, and when Grameen convenes meetings of its clients' spouses and brothers to make them realize that women too have a place in society and can be breadwinners. I've been there, seen it, and it's really impressive. Knocked my socks right off.

Evidence in Bangladesh and other poor countries shows that domestic violence is far less frequent in households where women are breadwinners, and that giving women a more equal role in the family increases school enrollment of girls. It used to be a saying in Bangladesh that sending one's daughter to school was like watering one's neighbor's garden. No longer. Perhaps purists who look solely at balance sheets and take audit reports as the next best thing to holy water (anyone remember Enron?) don't give a toss about women's fate. I do. Does anyone remember the head of the SEC in the early 1980s who was a wife beater? Broke his wife's ribs in a bout of rage and was promptly sacked. He could have benefited from attending a Grameen workshop for spouse.

Not only that. By financing and building monsoon-proof houses for its better clients Grameen has helped to dramatically reduce monsoon-related deaths. I find that quite impressive. Let's add to that Grameen's numerous and successful replicators.

Enough about that. Let's look at what went wrong at Grameen, and why, and look at other MFIS too.

One of the reasons Grameen's payment record tumbled is the tremendous losses clients suffered in the 1998 typhoon. Of course, it is perfectly acceptable to reschedule a developing country's loans after corrupt officials have squandered gazillion dollars on dumb projects, but it apparently stinks if Grameen extends a loan maturity and calls it a flexible loan.

Now, how do others fare when their clients experience calamities on the scale of Bangladesh's devastating 1998 typhoon? The AIDS pandemic in eastern and southern Africa, and its impact on MFIs is a good example. In November 1999 I spent about four weeks in that region and met scores of MFIs whose clients and staff were dying in droves from AIDS. One of these MFIs, FINCA Uganda, which had 10,000 active clients at the time, still boasted 99.9% repayment rate. Now I found that stretching the facts, given the high incidence of HIV/AIDS among its staff and clients. In Zimbabwe, ZAMBUKO Trust had an average default rate of 20% due to AIDS mortality, and K-REP's loan defaults were of the same magnitude. I also doubt that BRI's Unit Desa have sailed unscathed through Indonesia's financial crisis, and the last I heard about BancoSol, angry clients had stromed a number of branch offices demanding loans.

Now a final note on the source/cause of this recent fuss and splurge of Grameen bashing; the Wall Street Journal! It's a right-wing Republican paper whose editorial lines would have made Genghis

Khan blush. Let's presume that it has a hidden agenda and that anyone, Yunus included, who frequented the Clinton White House must be bad. Let the WSJ wallow in its prejudices and give Muhammad Yunus a break.

Hapy holidays to everyone, Yunus bashers included.

Eugene Versluysen  
Washington DC

**From:** On Behalf Of Linda MAYOUX]  
**Sent:** Thursday, December 13, 2001 3:20 AM  
**Subject:** Grameen Bashing

I was also rather dismayed at the way the debate went. Mohammed Yunus, together with others like Ela Bhatt of SEWA should indeed be applauded for their life's work of bringing the issues of poverty and the injustices faced by poor women onto the agenda of donor agencies like USAID and World Bank.

Addressing issues of poverty and women's empowerment is an enormous and ongoing task and it is therefore to be expected that there will be shortcomings. What is needed is not Grameen bashing and the sort of point-scoring I saw from Accion and others but a really serious debate about how the shortcomings can be overcome. I was also surprised that anyone serious about poverty alleviation should suggest that Grameen should not have rescheduled its loans after the cyclone. In UK and US bank borrowers would expect no less support in times of crisis. It is some of the assumptions underlying the WSJ article which should have been bashed, not Grameen.

Although balance sheets are obviously important, where these become the main preoccupation it is inevitable that programmes will attempt to massage the figures. Any honest programme which is really trying to address issues of poverty and women's empowerment is bound to have higher costs and will need greater flexibility than those who are only concerned with pushing out money to the better-off and recouping it.

I think we need to get beyond both Grameen adulation and Grameen bashing to a real informed debate about the problems and what to do about them.

Linda

**From:** Didier Thys [dthys@freefromhunger.org]  
**Sent:** Monday, December 17, 2001 8:00 PM  
**Subject:** Grameen Bashing

Linda,

Nice call to action. I think we have all had our opportunity to send in our "tsk, tsk, Grameen but that's not us" or "don't pick on Grameen because they mean well" letters. Since we are all obviously motivated by our desire to eradicate the absolute, life threatening deprivation that affects so many of the world's poor, how might we use this opportunity to improve our own performance?

Two issues come to mind with regard to the transparency of our actions.....

1. Some organizations have begun to float the idea for developing a code of conduct for microenterprise institutions. This would be in the vein of developing a self-regulating mechanism which we could all adhere to as practitioners. I have no clue as to what should go into such a code, but a lot of people on this listserve obviously do. Let's hear some suggestions. We've heard a lot about common accounting standards and practices which is useful and thanks to CGAP is getting some good promotion and backstopping. The challenge here is to think about this and more. What standards would we be willing to commit ourselves to?

2. I like financial transparency, but we all have a long way to go. That is why a lot of the money designated for microfinance has gone to "capacity building" through training and technical assistance and most of that money has gone to "support organizations" from North American and European countries. Our message to our partners in developing countries has been improve your services, improve your governance, improve the transparency of your operations and finances. We even rate them now on their balance sheets and income statements and determine how subsidy dependent and cost-effective (great new book by Yaron and Schreiner for doing this - check it out on the CGAP website!) they are. However, I have been trying for two years now to find out the value of technical assistance and training that organizations receive and I keep encountering the same problem. They cannot give it to me, because that information is in the hands of their northern partners and is not generally shared with them. Moreover, northern partners rarely look at the cost structure of their technical assistance and training since it is almost entirely subsidized through public and private grants or government/multilateral contracts. We spend a lot of time ascribing a value to a grant provided to an MFI, but we spend no time determining the value of our technical assistance and incorporating it into the subsidy dependence index for that same MFI. Given the call to transparency, do I hear a new openness to sharing our own cost data with regard to technical assistance for MFIs? I think it would be great. I am seriously interested in hearing if there are any institutions out there who would like to work on developing a subsidy dependence index that incorporates the full value of externally subsidized technical assistance.

Didier

<b>From:</b> Linda MAYOUX <b>Sent:</b> Thursday, December 20, 2001 3:10 AM <b>Subject:</b> Codes of conduct
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Dear Didier,

Thanks for this.

This idea of codes of conduct is really important. I think though it should go beyond just accounting procedures to areas like:

- social responsibility : In the States I believe banks have social responsibility requirements to invest part of their profits in community development - or am I misinformed in this? In UK the banks are bending over backwards to get social responsibility credentials - however small the actual measures taken are in practice. Few MFIs make profits, but there are many ways in which loans, savings, insurance and pensions could be designed to take social responsibility considerations into account. This could include things like commitment to act in the best interest of the client eg not pushing inappropriate loan products, not tying clients into unprofitable savings and insurance and a concern with loans which would assist local community development eg to enable local trained health care workers to purchase the necessary equipment, for girl's secondary education, for purchase of land and house sites in women's names.
- gender equity : equal opportunities policies for staff, non-discrimination against clients (either women or men unless this is justified by their mandate as a 'women's or men's programme). In Canada I believe banks are required to conform to these principles and women who feel they are discriminated against in loan applications can take the banks to court - or again am I misinformed?
- environmental responsibility : to consider the environmental impact of the use of loans eg when used for widespread purchase of pesticides, for expansion of polluting industries

Obviously these would raise many contentious issues, and actual concrete measures may be difficult to arrive at (as with the financial measures) but the discussions would lead to a real debate about how the potential development contribution of micro-finance can be increased - as most are and are likely to continue to be recipients of development funds.

An integral part of this should also be discussion of setting up systems for proper impact monitoring and assessment - more along the lines of the SEEP approach than that of AIMS but

also building on other participatory and sustainable innovations. Some of these are discussed in my paper on the DFID-EDIAIS website: [www.enterprise-impact.org.uk](http://www.enterprise-impact.org.uk)

which is an ongoing draft which will be periodically updated and comments/contributions gratefully received.

I also think the point about donor financial transparency is also important. The large amounts of money spent on expensive international consultants who spend very short periods in a country on 'development tourism' and often play havoc with programmes does I think need to be justified.

Linda

<b>From:</b> Didier Thys [dthys@freefromhunger.org] <b>Sent:</b> Sa 22.12.2001 00:19 <b>Subject:</b> Codes of conduct
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Linda,

I like the direction you are taking this. Let us say that financial transparency would be one of the categories that would need to be included and that there is already a wealth of work to draw from for setting these standards. Despite how we may feel about Grameen, the accounting and reporting techniques it pioneered when there were no standards or tools are not the ones that the rest of the movement/industry will be or are carrying forward. The work in this area has been abundant over the last 5-10 years so there are plenty of good ideas and tools to draw from.

Your comments point us to areas where there has been less investment and effort and it would be fun to stimulate the thinking on what they imply in terms of our own codes of conduct.

1. Social Responsibility: This is near and dear to the hearts of everyone in this business, but have we truly expressed what the social responsibilities of microfinance institutions are. A lot of the issues you raise I would actually put into a separate category as they are very important in their own right. These are the questions of appropriate financial products, terms and conditions. I think the organizations—it would be nice if one of them spoke up! -- that have proposed a code of conduct were thinking about these and have mentioned "consumer protection" as a guiding theme. We should probably make a commitment to consumer protection - ya think? What kinds of rules would microfinance institutions be willing to abide by in this area? The other aspect of social responsibility is along the lines of the examples you mention that banks in the US and Canada have to follow - committing a portion of their resources to underprivileged zones or client populations. This is a depth of outreach question. Is there some statement about an organization's commitment to the poor that can be made and a process for auditing or rating that commitment that microfinance organizations could commit to?
2. Gender equity. No argument here, particularly in terms of policies for governance and staff structures. I am constantly struck by the fact that this industry markets itself in terms of serving women and that most of the organizations are run by guys!
3. Environmental responsibility. Here's something we never talk about. The USAID Bureau for Africa has developed an interesting document called "Environmental Guidelines for Activities with Micro and Small Enterprises". I wonder how many of us are aware of it and would agree with the standards they would like to see microfinance (and BDS) institutions follow? Don't worry - there is still time to make comments.....you can find the document at [www.encapafrika.org/smallscaleguidelines.htm](http://www.encapafrika.org/smallscaleguidelines.htm).

These are three (or four if you separate out consumer protection) that maybe we can work on and bring to the level of development of the financial standards and guidelines. That would give us five areas to look at for an institutional code of conduct. Would this not serve to both validate the need for financial transparency while appropriately contextualizing it within a wider spectrum of issues an organization must be vigilant about?

Didier

<b>From:</b> J. D. Von Pischke [jdvp@erols.com] <b>Sent:</b> So 30.12.2001 21:17
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I am concerned about a couple of things from the recent exchanges arising from the items in the Wall Street Journal concerning Grameen Bank.

One is interpretation: My guess is that almost or even virtually everyone on this list respects, if not stands in awe, of what Grameen has accomplished. Some of us have put this in writing in the literature. Yet, any criticism whatsoever seems to be interpreted as “bashing.”

Second is the false dichotomy: Invidious distinctions rank below holistic reflections about what it takes to run a bank or any other financial institution or service that can help empower the poor on a sustainable basis. (I believe that most of us are committed to sustainability, however defined.) These false dichotomies come in two types.

One is that since Grameen has done such a great job, it is not important that it disclose data or report accurately. Any disagreements or concerns about how financial data are handled can be dismissed as “bashing” or otherwise deemed irrelevant.

The second form is stereotyping us/them, good guys/bad gals, white hats/black hats. If we're interested in balance sheets and related financial statements, then it goes without saying that we are indifferent toward the poor. But, if we really do care about the poor, then financial statements and by extension financial performance are by definition entirely irrelevant to our quest or dream to ease the burden of poverty. Mere impediments planted by bean counters along the road that need not concern the right thinking traveler.

Also, isn't it interesting that “they” are tainted by ideology while “we” have values. Yet it is all the same at the end of the day. Who would not want to have both values and a corresponding ideology?

I believe that the place where good things are most likely to occur is at the frontier or margin. There are two broad positive possibilities when two or more forces, factors, actors, schools, institutions or whatever meet. One is that they discover synergy and create mutual empowerment through collaboration. The other is that they compete and in so doing reduce costs to their clients through innovation and efficiency. Aren't these the whole story of microfinance? Deep answers unto deep, but from different backgrounds and directions. In the process skills are broadened because we want to know why the other side, or another side, is either having so much fun or else missing so much opportunity. Clients benefit.

If microfinance is where microenterprise meets “formal” finance at the frontier, what identifies a microfinance practitioner or professional? I propose that the following “microfinance curriculum” defines our club.

Anyone who has been involved for about five or more years (excluding undergraduate work) should:

- A) be dedicated to helping the poor,
  - B) have dealt in some capacity with the poor face to face, preferably in a language spoken by the target group, at some stage in his or her career,
  - C) have a good feel for the financial flows of target group households,
  - D) be able to identify and quantify the risks the target group face in their most common occupations and from the most common external shocks, and evaluate their most common responses to these risks,
  - E) be fully conversant with at least one lending technology,
  - F) understand the changes in a lender's financial structure and performance over time by comparing the lender's balance sheet and income statement as of the end of different accounting periods,
  - G) have a grasp of the construction of financial ratios that are commonly used to describe the financial condition and performance of microlenders, and their applicability,
  - H) be able to recite the target or threshold norms for such ratios for at least the part of the industry or crusade to which the practitioner belongs,
  - I) be actively curious about technical and institutional issues beyond the daily concerns.
- Possibilities include being able to discuss and compare i) innovations that have occurred or are

occurring in microfinance at the national level, regionally or globally; or ii) the strengths, weaknesses, opportunities and threats (SWOT) inherent in a) different types of institutions as providers (e.g., NGOs, cooperatives, commercial firms that are not cooperatives, government entities); or b) different types of lending technologies (e.g. group based, individual, credit scoring); or iii) the ins and outs of impact analysis.

This core curriculum is celebrated in varying proportions at Boulder, in Frankfurt, at the Summits and elsewhere as posted on dfn and the usual list of other sites.

Criteria A) is required and non-negotiable. But if, say, three of the others are not met by practitioners with five or more years experience, it seems to me that such people are oriented toward professions or jobs other than microfinance: e.g., social work, community development, advocacy or lobbying, financial management, accounting, IT, research, policy analysis, contract management, grant management, philanthropy. People in these occupation are clearly extremely useful in assisting microfinance practitioners. However, lacking sufficient familiarity with the curriculum they are unlikely to be able to contribute very much to sustainability.

Is my outlining this microfinance curriculum an attempt to create an “us” and “them” dichotomy? Absolutely, but it is also an invitation, open to anyone who wants to develop an integrated perspective. This is important for young people who seek career development in a viable profession, for their mentors, for MFI executives and the board members to whom they report. The curriculum can affirm best practice, and standards of credibility and seriousness. And no one ever graduates.

For those no longer on the front lines, our club fortunately welcomes folks who in their journey have traversed most of the curriculum.

Let's move on to 2002.

J.D. Von Pischke

➤ [Are farms enterprises or not? \(4 mails\)](#)

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<b>From:</b> SFRCalif@aol.com <b>Sent:</b> Mi 05.12.2001 07:23 <b>Subject:</b> Re: Farm: Enterprise or Not?
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In a message dated 12/4/01 9:18:28 PM, [R.CROULET@AFDB.ORG](mailto:R.CROULET@AFDB.ORG) writes:

<< Good question from Vikas as in my years of experience most development people characterize agricultural activities, especially crop and animal raising, as non-enterprises. I always argue to look at any agricultural venture no matter how simple or small as an enterprise.

Hopefully responses to Vikas and myself will help support my arguments.

C. Ross Croulet  
Coordinator, AMINA  
African Development Bank  
01 B. P. 1387  
Abidjan, Côte d'Ivoire (Ivory Coast)  
West Africa >>

Thanks for the question on 'rural enterprises' and farm 'enterprises and for your comments Ross.

For several years, I've consulted within the Africa Region and elsewhere. In looking at 'rural enterprises,' and enterprise development issues in general, especially pertaining to value-added activities or the 'value chain,' I found it impossible to not include the 'farm' and products from the farm. After all, 'farms', home-based gardens used for income generation, and small-scale agriculture is what much of the 'rural' area is. Farms are 'farms', but they are also businesses!

When you begin to look at the linkages between the raw materials or what's produced on the farm, how is it possible to separate that out from a rural enterprise. And, if you are a 'bigger picture' person, it is reasonable to connect the farm as an enterprise to the rural enterprise, then to the supply chain that often feeds the urban enterprise.

It will be interesting to hear other's comments.

Susan Reynolds

**From:** OKula@acdivoca.org  
**Sent:** Mo 10.12.2001 17:25  
**Subject:** Re: Farm: Enterprise or Not?

Many have weighed in on this issue. It is hard to figure out where the confusion comes from. An individual contributes labor capital and land to produce a product of value which she or he sells into a market. Where or how is it not an enterprise? The real problem is how donors and implementors divide the funding turf.

The solid contribution of the microfinance field has been in insisting on more rigid criteria for measuring profitability, and sustainability. Microfinance folks have accomplished a lot in the last twenty years to push a rigour in our discipline. This challenge has not fully been met by the ag promoters and many still accept subsidy without directly linking that subsidy to sustainability and exit strategy. Measuring impact, particularly economic impact of microfinance is a challenge not fully met, while returns from investment in agriculture are generally and defensibly- positive.

I think the important challenge is how can we begin to bring donors, and implementing partners, from agriculture and enterprise, both micro- and small, to learn from, and work more closely with, each other.

Olaf Kula  
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**From:** Richard Meyer [meyer.19@osu.edu]  
**Sent:** Mo 10.12.2001 17:22  
**Subject:** Re: Farm: Enterprise or Not?

I believe that most recent studies conducted by US researchers in developing countries treat all activities as enterprises, whether for sale or family consumption (certainly in any study of household resource allocation), and make a distinction between on and off farm, and farm and nonfarm. On and off farm obviously have to do with "place". Farm and nonfarm distinctions are more complicated. Farm often include classical crop production while some include livestock enterprises which produce "processed" products as being nonfarm. Handicrafts made in farm households and food products made for sale off the farm are usually considered nonfarm. Dick At 02:14 PM 12/7/2001 +0000, you wrote:

Thank You Susan and Ross for you responce to my query,I totally agree with both of you. If we go by defining enterprises, than all the activities which are looked at as source of income for household and which is treated as a Business Entity should be treated as Enterprises. This shall then include all the agricultural activities,dairy and allied operations & non farm activities. Essentially activity which are not directed at self consumption, but rather at selling/trading, should be treated as enterprises.

But still if we see the practice In India, then most of the time farm and off farm activities are excluded from rural enterprises. Only Non farm sector is considered as rural enterprises .Isn't this true for other countries too ? If yes, then should this distortion be rectified.

Vikas Choudhary

**From:** Rajeev Gupta [rgupta73@yahoo.com]  
**Sent:** Di 11.12.2001 06:15  
**Subject:** Re: Farm: Enterprise or Not?

Dear Vikas

Hi!

I totally agree on the inclusion of on farm activities as enterprises, but one has to look at the different scenario existing between the under developed, developing and developed countries to understand the distinction that does exist about off farm and on farm activities and their existence as rural enterprises. We generally associate enterprise with the market and there the confusion lies.

In the Indian context, in the past farmers used to produce wheat, rice, pulses and their local variations for self consumption and barter system existed for meeting one's requirement other than food. There did not exist the role of currency or the concept of valuation in standard units. Only in the past couple of decades have we seen the change to cash crops (there is now a profit motive attached with production), thus expanding the scope of enterprises to include on farm activities.

In India, you would still find small land holdings, where rainfed agriculture takes place and the produce barely meets the overall requirement of the family. At times a farmer after harvesting the crop grown for self consumption, sells off the crop residue as animal feed. Next time he sows some other crop which does not yield residue for sale or for any use. Would one call the farmer an entrepreneur (looking at the selling that is involved in the first year)?.

It's time that with the change in agricultural practices, definition of rural enterprise should also encompass on farm activities - but then shouldn't rural enterprises be defined in terms of a scale, time span and motive.

Rajeev Kumar Gupta  
Management Executive  
EDA Rural Systems Pvt Ltd  
Jaipur  
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➤ [The never-ending temptation to create agricultural banks \(5 mails\)](#)

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**From:** Dale W. Adams [dwadams@burgoyne.com]  
**Sent:** Do 22.11.2001 18:26  
**Subject:** Recidivism

It appears the Peruvians are on the verge of forming a new agricultural bank. Dios mio! I'm unsure about the details, but assume it will be largely owned by the government and "managed" by the ministry of agriculture. The ministry of finance, mfi, and donors should be objecting to this proposal with vigor. Don't Peruvians remember any history about government owned development banks in their fair country?

The last government owned agricultural development bank in Peru ended up being a horror story that was put out of its misery about ten years ago. For years this bank was the object of donors' affections. If I'm not mistaken, it was the first recipient of a World Bank ag. debt loan in 1954. Inept management, inability to collect loans, ridiculous interest rate policies, and constant political interference in its operations eventually led to the complete liquidation of the bank. Bolivia made the same decision about the same time and Ecuador and Colombia would have saved a lot of money if they had liquidated their ag. banks ten years ago.

About the only kind word I can say about the former ag. bank in Peru is that it provided deposit opportunities in remote areas, something that is sorely need now in the country.

Since the Peruvian ag. bank was terminated, informal finance, some semi-formal finance, and commercial banks have filled much of the breach in rural finance. Looking at aggregate production figures, I don't think anyone can make a strong argument that additional debt was a major constraint over the past ten years on ag. production.

What's wrong with these types of banks?

1. They will always be vulnerable to political intrusion regarding loan targeting, loan terms, and loan recovery. Congress will periodically destroy their banking features by using them as fiscal channels. Unless they mobilize most of the funds they lend, they are unable to maintain a firewall between banking operations and politics. Peruvian congresspersons, please, please, please use a helicopter to distribute grants to rural areas, rather than calling it lending.
2. These banks are typically managed by people who know little about banking and leadership often changes.
3. When the minister of agriculture is head of the board of directors he/she views the bank as a division of his/her ministry. Instead of trying to maintain financial intermediation and run an efficient bank, loans are viewed as just another input needed to stimulate agriculture. It is impossible to maintain financial infrastructure with these views in force.
4. Most of these banks become government employment agencies and its is extremely difficult to adjust staff sizes downward, especially when labor unions are involved. The last time I looked at these types of banks in Romania, Ecuador, and Egypt they each had two or three times the number of employees needed to run an efficient bank.
5. A badly behaving ag. bank in Peru will again poison the well for more serious lenders. Credit unions, mfis, and commercial banks will have more difficulties making and recovering loans when a bad ag. bank is again in the neighborhood. For those of you who have read Beth Rhyne's book on Bolivia, would it have been possible for mfis to seriously penetrate rural areas in Bolivia over the past ten years if the old ag. bank had been allowed to continue its flaccid lending practices?

I can see a role for government in Peru to promote more deposit facilities in rural areas, but I hope the country will avoid creating another traditional ag. bank. Politicians are to bad lending practices, what drunks are to drinking. There is much recidivism on the part of both groups.....jane.

<p><b>From:</b> E. Chabayanzara [chabaya@agric.uz.ac.zw] <b>Sent:</b> Fr 23.11.2001 09:36 <b>Subject:</b> Recidivism</p>
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Yes, in Zimbabwe we have a similar problem in which we have created an agricultural bank. Yes, I also agree with you that the vacuum is there and that the commercial banks and mfis seem to stand from a well placed chair waiting for someone else to first come in with finance to farmers. I think the solution is not to ultimately criticise but to raise questions as Dominique did. These questions should help us to think of reviewing the work of these agric banks and possibly come up with better ways of ensuring that there is no vacuum in the provision of adequate finance to the farming sector. How about a linkage of all stakeholders in the delivery of this finance?

Ephraim Chabayanzara, department of agricultural economics university of Zimbabwe

----- Original Message -----

From: [Dominique Lesaffre](mailto:Dominique.Lesaffre)  
To: [devfinance@lists.acs.ohio-state.edu](mailto:devfinance@lists.acs.ohio-state.edu)  
Sent: Friday, November 23, 2001 9:03 AM  
Subject: Re: Recidivism

(Very) interesting explanation from Jane about the pitfalls of agricultural banks (in Peru).

If such an institution is not relevant (I do not disagree with her), then who will be financing agriculture in this country ? Financing agriculture meaning obviously not only through working capital (that MFI's do not do badly but have a -very- low coverage in rural Peru), but mid term finance for equipment, as well. Are MFI's interested/ relevant/ competent for such products to help modernize and upgrade peruvian ag. competitiveness ? Are commercial banks really doing better in this field ? If so, then a new ag. bank is definitely useless; if not, then there remains a (highly risky) vacuum, ... to be covered by whom ?

DL

<b>From:</b> javier@cepes.org.pe <b>Sent:</b> Fr 23.11.2001 17:55 <b>Subject:</b> Recidivism
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Efectivamente la historia del banco agrario en el Peru no fue diferente de muchos bancos de fomento. Directorios nombrados por el gobierno y sujetos a presiones por parte de los politicos, prestamos subsidiados que terminaron beneficiando a los agricultores mas grandes, continuos refinanciamiento y condonaciones, dependencia del tesoro publico, una frondosa burocracia (entre 1985 y 1987 en el periodo de uso mas populista del banco agrario el numero de empleados aumento en 50% de los cuales la mayoría estaba en las oficinas de la capital y de las capitales de departamento), descapitalizacion continua producto de las tasas de interes subsidiadas (en 1998 la tasa de interes nominal solo alcanzaba para recuperar el 10% de lo prestado), incumplimiento, reestructuraciones y condonaciones. La existencia del banco agrario no signifioco la solucion de los problemas de la agricultura y menos del sector rural, mas aun no se encontro relacion estadistica significativa entre los montos prestados por cultivo y sus rendimientos e incluso volumen producido.

La desaparicion del banco agrario no signifioco la debacle del sector agropecuario, incluso algunos cultivos de exportacion no tradicionales como los esparragos aparecieron y alcanzaron importantes volumenes de produccion sin banco agrario que los financie.

El volver a mirar al banco agrario como la formula magica que solucionara los problemas del agro en el Peru se origina en la recesion que agudiza los problemas de rentabilidad de la agricultura peruana y la politizacion del tema. La baja rentabilidad hizo que muchos agricultores tengan dificultades para pagar los prestamos de la banca comercial o de las cajas rurales o no pudieran acceder a los creditos, de aqui que en lugar de ver como incrementar la rentabilidad se busco que bajar los intereses y reaparecio la idea del banco agrario. La politizacion se manifesto desde la intervencion del ministerio de agricultura con decretos que interferian en los contratos privados entre agricultores e intermediarios financieros buscando que evitar los remates de tierras hasta la propuesta de creacio del banco agrario que hicieron suya los candidatos presidenciales en las pasadas elecciones. La desaparicion de la banca de fomento en el Peru permitio el surgimiento de una vigorosa industria de microfinanzas en los sectores urbanos, pero no en el sector rural en donde aparte de los elevados costos operativos que significaba prestar en el sector, persistio la presencia del Estado a traves de prestamos directos del ministerio de agricultura (fondeagro y fondos rotatorios) o de su ingerencia en la formacion de las cajas rurales. El gobierno esta prisionero de sus promesas electorales. El ministerio de economia es conciente del error que significaria volver al banco agrario, pero el presidente no parece seguro de esto y menos el ministerio de agricultura. En el legislativo el problema es peor pues los congresistas del partido de gobierno y de la oposicion no tienen muchos conocimientos y creen que la creacion del banco agrario solucionara los problemas del agro y ademas les traera reditos politicos.

Actualmente hay dos proyectos el ministerio de economia va a presentar un proyecto en el cual se crea un banco agrario de dos pisos. Un primer piso con asistencia tecnica y credito directo (esto no esta muy claro) para agricultores pequenos que no son sujetos de credito de los actuales intermediarios financieros (falta definir que se entiende por pequeno) y un segundo piso para los

agricultores comerciales sujetos de credito de los intermediarios financieros, para los cuales se darian fondos a traves de los intermediarios financieros (cabe indicar que Cofide ya realiza esta labor). De otra parte hay un proyecto del legislativo que apuesta a la creacion de un banco agrario de primer piso al estilo tradicional.

Javier

**From:** Gustavo Hung [mailto:ghung@ciplima.org.pe]  
**Sent:** Freitag, 23. November 2001 22:24  
**Subject:** Recidivism

(Very) interesting explanation from Jane about the pitfalls of agricultural banks (in Peru). If such an institution is not relevant (I do not disagree with her), then who will be financing agriculture in this country ?

Good projects can get loans from banks because they can prove to be profitable. Other smaller projects can get loans from Cajas Municipales. Other can go to loan sharks.

Financing agriculture meaning obviously not only through working capital (that MFI's do not do badly but have a -very- low coverage in rural Peru), but mid term finance for equipment, as well. Are MFI's interested/ relevant/ competent for such products to help modernize and upgrade peruvian ag. competitiveness ?

Yes

Are commercial banks really doing better in this field ?

Yes. They have started MFI like MiBanco and Solución.

If so, then a new ag. bank is definitely useless; if not, then there remains a (highly risky) vacuum, ... to be covered by whom ?

Cajas Municipales and likes.

Gustavo Hung

DL

**From:** Infrapell@aol.com  
**Sent:** Sa 24.11.2001 14:37  
**Subject:** Recidivism

In Peru, and probably elsewhere, there are, according to writings by H De Soto, some pretty powerful structural problems that, in any event, make it difficult for small landowners even to contemplate selling high value added product—administrative red tape, rules about selling products for X years before being granted export authorisations, etc.

So, even were there an agro bank that could function independently, providing, for example, loans at planting/seeding time and other agro-destined lending, reforms would need to be implemented to create channels for product marketing.

Further, BID a few years back was doing a study on Peru rural property formalisation—has that had anywhere the same effect that the WB program did? WB urban property rights creation resulted in 1.4 million titles granted, administrative process streamlined, costs minimized, etc etc.

If not, then the rural small landowners are doubly strapped—working on land that may not be their own or with title even to product produced; and the complicated process of bringing goods to market, viz De Soto.

Hence, even a well-conceived agro bank would, perhaps, try to be functioning in a market vacuum.

Tony Pell  
GHIF