

# DEVFINANCE

Discussion list on development finance of the Ohio State University

Quarterly Review<sup>1</sup>  
October to December 2001

## General Information

### **NEW:** CGAP'S client targeting center

CGAP has launched in November 2001 a Client Targeting Center, accessible either through the Micro finance Gateway under resource centers or directly at <http://nt1.ids.ac.uk/cgap/poverty/>. The Center is intended for MFIs and others interested in ensuring a greater depth of micro finance outreach to ever increasing numbers of poor people. It provides information on different targeting tools, on empirical evidence of actual depth of outreach of MFIs, and on experiences with targeting. There is a special section on CGAP's Poverty Assessment Tool (PAT). You are invited to send your feedback to: [CGAP@worldbank.org](mailto:CGAP@worldbank.org)

### **NEW:** Information Systems Services Discussion List

Xavier Reille and Alfonso Vega Acosta from CGAP invite you to participate in the new Information Systems Services Discussion List. The aim of this service is to share experiences and ask questions on the selection, implementation, and optimization of information technologies and information systems for MFIs. The new listserv offers the following services:

- Discussion on relevant issues;
- an opportunity to ask specific questions to CGAP's IS expert and
- a searchable archive of messages sent to the list.

You can join at:  
[http://www.ids.ac.uk/cgap/iss\\_site/discussions/](http://www.ids.ac.uk/cgap/iss_site/discussions/)  
This listserv is one of the services offered by the Information Systems Services Center, which includes, among others, a Helpdesk covering frequently asked questions and a collection of Documents and websites related to Information Systems and management for MFIs. The website can be found at:  
[http://www.cgap.org/iss\\_site/index.html](http://www.cgap.org/iss_site/index.html)

### **MicroSave's improved website**

Lillian Otieno from MicroSave-Africa invites everybody to visit the website that has become

much more user-friendly. The downloads are accessible to users of older versions of Netscape and Explorer. There is a range of publications available for fast, easy download on market research, impact assessment and financial services for remote areas and the informal sector. The "Toolkits" section that covers topics such as costing and pricing of financial services, institutional culture and change, and pilot testing of products, will be of particular interest to practitioners. <http://www.microsave-africa.com>.

### **Regulation of MFIs: News from Zambia and Mexico**

#### *Zambia at Forefront of Micro Finance Market Governance*

Betty Wilkinson from IRIS/Zambia informs that the Bank of Zambia communicated in a November 2001 press release that revisions to the Banking and Financial Services Act have paved the way for development of regulation and supervision by the central bank and/or its agents. The flexibility of the law allows the Bank of Zambia to consider and put in place the most appropriate forms of self, hybrid, and direct regulation and supervision, as well as to select whether - and when - to apply prudential or non-prudential regulations. The IRIS Center has been contracted under joint SIDA and USAID financing to provide advisory services to the Bank of Zambia for micro finance regulations and supervision development. The project will develop regulations, prudential returns and systems necessary for effective supervision of MFIs; develop the Bank of Zambia's capacity to implement the MFI supervisory system effectively and assist MFIs to understand and comply with MFI prudential regulation and supervision requirements.

For further information: Bank of Zambia, Assistant Director Public Relations, P O Box 30080 Lusaka 10101 Zambia, phone/fax 260-1-228893-8.

### **NEW:** COMACREP website for Spanish speakers

David Myhre from *The Ford Foundation - Office for Mexico and Central America* informs Spanish speakers on the new web site of the Consejo Mexicano de Ahorro y Credito Popular

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

(COMACREP), an umbrella organization that brings together seven networks of Mexican micro finance and popular finance institutions. The site includes the complete texts of the recently promulgated Ley de Ahorro y Credito Popular and the Ley del Banco Nacional de Ahorro y Servicios Financieros. Summaries are also available. Together, these two laws transform the regulatory environment in Mexico. In coming weeks, the corresponding regulations will be issued. Other aspects of the web site include electronic newspaper clippings. More at: <http://www.comacrep.org.mx/>

## Courses and seminars

### Summer Academy 2002

"LEADING CHANGE IN MICROFINANCE MARKETS"; 19 - 30 AUGUST 2002

The Summer Academy 2002, which will be held in English, plans to offer the following technical modules:

- Credit Risk Management
- Product Development
- Funding Strategies
- Liquidity Management
- Cost Accounting and Cost Management
- Management Information Systems

The deadline for the Summer Academy 2002 application is 5 July 2002. For more details and information on previous Summer Academies, please have a look at the webpage at [http://www.mbcc.bankakademie.de/baint\\_mbcc\\_index04.htm](http://www.mbcc.bankakademie.de/baint_mbcc_index04.htm); contact: Bankakademie International, Micro Banking Competence Center, Ms. Anja Stange, Sonnemannstr. 9-11, 60314 Frankfurt a.M., Germany; Phone ++49-69-15 40 08 612 Fax ++49-69-15 40 08 670; <mailto:Stange@bankakademie.de>

### Micro finance training in Boulder, Colorado, July 15-August 2, 2002

Courses offered during the 2002 session will include an emphasis on 'best practice' program design issues as well as specific tools to achieve long-term financial sustainability and growth. Attendance is required for the entire three weeks to ensure participants receive the depth and breadth of experience conveyed by the MFT diploma.

Email: [MFT@naropa.edu](mailto:MFT@naropa.edu)

Website: [www.naropa.edu/microfinance](http://www.naropa.edu/microfinance)

Tel: (303) 245-4805

Fax: (303) 245-4819

## Publications

### AIMS publication on impact studies

The following papers are the culmination of three longitudinal impact assessments undertaken by the AIMS project in order to measure and understand the impact of micro enterprise services. The core impact assessments consisted of a mix of quantitative and qualitative research and the surveys covered both client and non-client samples.

- The Impacts Of Micro credit: A Case Study From Peru by Elizabeth Dunn and J. Gordon Arbuckle Jr. (2001)
- Managing Resources, Activities, and Risk in Urban India: The Impact of SEWA Bank by Martha A. Chen and Donald Snodgrass (2001)
- Micro finance Program Clients and Impact: An Assessment of Zambuko Trust, Zimbabwe by Carolyn Barnes (2001)

These papers are available for free in electronic format from the AIMS Publication section of <http://www.mip.org/>

### New book by Schreiner and Yaron

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).

This book is strongly recommended to all MF practitioners by Dale Adams who admits in his critique "I must tone down my criticism of the micro debt industry. It is spawning a number of excellent recent publications; first Beth's [Elisabeth Rhyne, comment by the author] fine book and now this one." According to Adams, Jacob Yaron is one of several excellent rural finance experts he has known in the World Bank; on the background of the author's soon retirement he provides his personal opinion on Yaron's contributions and efforts concerning micro finance.

You can read Dale Adams' interesting thoughts in the enclosed mail.

### Article recommendations by Dale Adams: ADB Newsletter from September 2001, vol. 2, No 3

Dale Adams reviews for devfinance participants the following two articles:

1. Nimal Fernando: "Proliferation of Micro finance Institutions". According to Adams, Dr. Fernando

worries about the large number of micro finance organizations that are popping up in Asia. He notes that NGOs dispensing debt are a thriving cottage industry.

2. John Whittle: "Developing Credit Unions in The Kyrgyz Republic". Whittle reports on the preliminary results of a credit-union development project funded by GTZ in the Kyrgyz Republic.

For full information we have enclosed Dale Adams' mail.

The ADB Newsletter can be downloaded from <http://www.adb.org/documents/periodicals/microfinance>

### Upcoming publication on Apex Institutions in Micro finance

Richard Rosenberg, Senior Advisor at CGAP has sent to the list his summary of conclusions on a study called "APEX INSTITUTIONS IN MICROFINANCE" by Fred D. Levy (see enclosed mail). The study will soon be published by CGAP but its text is already available on CGAP's web site at <http://www.cgap.org/assets/images/ApexOP6 Word final.pdf>. The 44-page study reviews the experience of national micro finance Apexes - wholesale mechanisms that channel funds, with or without supporting technical services, to retail micro finance institutions in a single country or integrated market.

## Subjects of Interest

### Article on Grameen Bank in Wall Street Journal

On November 27<sup>th</sup>, the Wall Street Journal published a front-page article on Grameen Bank, discussing its repayment problems as well as a lack of financial transparency (see attachment). This article has led to numerous mails as list participants felt the urgent need to exchange on such a major event. We have tried to summarize the most important lines of argumentation brought into the virtual conversation by highlighting first shortly the procedure of the discussion and then presenting the most important contributions in more detail.

#### Short summary

The exchange took place on two different levels of discussion: the first being reactions to the article itself and the mentioned facts as well as to a letter sent by Muhammad Yunus to WSJ in response. Mails on this level tended to be quite polarising, with on the one hand those focusing predominantly on the financial outcomes and

implications from GB's performance and on the other those in defence of GB mentioning its merits with regard to poverty reduction, requiring in their opinion a more balanced view of the situation. On a second, a "meta-" level, list participants turned in their contributions towards the question what can and has to be learned from this incident. Different aspects were mentioned: Don't we also have to start looking critically at the ways in which donors work with subsidies? What about the restructuring practices used by the global financial intermediaries in case of repayment problems? Is the existence of other than pure financial goals not only wishful but also critical when seeking poverty alleviation? Some writers raise interesting ideas as to "what comes now" – after this event.

#### Detailed review

J.D. Von Pischke recalls the "bittersweet day" by mentioning that GB had always been weak on presenting its financial results to the outside world - in contrast to the Grameen Foundation USA. When searching recently the web for financial data from other large MFIs, Von Pischke was not very successful either. As a positive example for an institution delivering appropriate shareholder information he names IMI (*Internationale Micro Investitionen*, Frankfurt). Von Pischke is concerned about whether something else is "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?" According to him, projects like the Micro Banking Bulletin or MicroRate make a key contribution to the industry's development by pioneering in promoting disclosure standards. C. Ross Croulet from African Development Bank supports the implicitly stated vote for complete transparency in financial reporting and disclosure. With regard to appropriate rigorous institutional performance and operations, Robin Ratcliffe from ACCION International mentions the following MFIs as institutions deserving trust: ASA, BRAC, Compartamos, MiBanco and others more.

Dave Richardson (WOCCU) picks up the term of *elastic loan recovery*, one of the major critics brought up by WSJ. He states that even if such recovery schemes work in some cases, *elastic loan provisions* should under no condition accompany them. Eugene Versluysen brings in the word of the "quite creative accounting practices" and provokes others comparing indirectly GB with Enron, the former US energy giant. Del Fitchett gives CGAP the Kudo for trying to introduce some generally accepted definitions and financial reporting standards.

Von Pischke also comments on Yunus' response letter to the WSJ. He is worried about the missed chance from Grameen's side ("an incredible lost

opportunity") to reach important audiences. According to him, Yunus should better have given a detailed explanation e.g. on arrear calculation thus bringing micro finance closer to the mainstream in many readers' minds thus leaving them better off. Dale Adams seconds Von Pischke; he addresses GB's "cavalier response to criticism" when the savings and deposits of millions of poor people are at risk. Adams suggests Yunus to preach rather about the rights and assets of his poor shareholders and depositors than about debt being a human entitlement. Last but not least he wonders which implications this situation would have in the future for a micro debt industry heavily involved in mobilizing deposits.

Navraj Simkhada from CMF Nepal goes into a different direction; he prefers to highly value GB's merits in bringing the issues of providing financial services to the poor to the forefront. His letter is a reaction to a mail posted by Sam Daley-Harris, the director of the Micro Summit Campaign, thus supporting Daley-Harris' argument in favour of balanced reporting with regard to Grameen. Ted Baumann from a South African consultancy involved in micro finance tries to analyse and interpret the ongoing debate – he considers it to be a clash between people seeing micro finance in different ways. According to him, "money people" and "social change people" give different assessments of the same thing by using the same language, but with diametrically opposed conclusions. Besides, he states that "social change people" often refuse to look for a common language with the "money people". Bauman suggests developing a framework allowing mutual effective communication as well as an assessment of the pros and cons of the different pursued approaches.

Eugene Versluysen follows the issue of a balanced reporting in favour of Grameen; he considers the successes the MFI achieved with regard to e.g. emancipation of rural women in a strict Muslim society as extraordinary. And as to loan rescheduling practices he compares GB's situation after the typhoon in 1998 with that nowadays in many southern African countries, where MFIs deal with the huge AIDS related mortality rate and are still reporting high repayment rates.

It is Linda Mayoux who tries then to turn the discussion towards thinking on a thorough analysis of the exact problems highlighted by GB's situation and what to do about them. In support to her, Didier Thys suggests agreeing on a kind of conduct code for MF institutions, which would mean a self-commitment to certain standards. The requirement of transparency, he thinks, would then have to be applied also consequently to donors' own cost data regarding technical assistance for MFIs. Linda Mayoux identifies three further major areas of a potential

conduct code: social responsibility, gender equity and environmental responsibility.

Finally, J.D. Von Pischke makes an attempt to re-integrate again the two extreme points of views emerged during the debate by drawing some basic conclusions. He refers the obvious differences to the existing various levels of professionalism and suggests introducing a "micro finance curriculum" setting the following criteria (according to him, this core curriculum is celebrated in varying proportions at Boulder, in Frankfurt, at the Summits and elsewhere as posted on the devfinance list and the usual list of other sites):

"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 micro lenders, 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 micro finance 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.

Criterion 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 micro finance: e.g.,

social work, community development, advocacy or lobbying, financial management, accounting, IT, research, policy analysis, contract management, grant management, philanthropy. People in these occupations are clearly extremely useful in assisting micro finance practitioners. However, lacking sufficient familiarity with the curriculum they are unlikely to be able to contribute very much to sustainability.”

### **Are farms enterprises or not?**

This question bothers various list participants, while most of them tend to look at agricultural ventures as entrepreneurial activities, independently of their size or degree of sophistication. Other supportive criteria for classifying a farm as an enterprise are:

- The farm as a producing entity and part of the – rural - value chain;
- The aspect of selling/trading vs. self-consumption;
- The linkage of rural enterprises to markets.

A participant from India argues that in his country the role of currency or the concept of valuation in standard units applied to farm activities changed the notion towards farms as enterprises in the last 20 years. He suggests defining then rural enterprises in terms of scale, time span and motive. Olaf Kula from ACIDI/VOCA even thinks that the confusion derives from how donors and implementers divide their funding; but he also acknowledges that important issues like criteria for measuring profitability and sustainability have only partly be taken up by agricultural promoters – in comparison with the efforts made in these areas by the MF industry in the last two decades. (4 mails)

The overall prevailing lack of clarity or precise definitions regarding this topic might be a reason for a phenomenon discussed in our following paragraph.

### **The never-ending temptation to create agricultural banks**

In Peru, about ten years after the badly ending previous agricultural bank, the government is thinking of establishing a new one. Dale Adams shares his reaction (“Dios mio!”) to this project with the list participants and explains what is wrong with these types of banks:

1. Vulnerability to political intrusion regarding loan targeting, terms and recovery;
2. Usually poor professional competence at managers;

3. Conflict caused by contradictory missions of financial intermediation vs. agricultural stimulations;
4. Overstaffing;
5. Potential poisoning impact on the environment through bad performance (disbursement and recovery of loans by more serious lenders).
- 6.

Adams goes so far to compare such banks’ behavior with that of alcoholics: “Politicians are to bad lending practices, what drunks are to drinking.”

Though other writers mostly accept his reasoning, they think a country cannot be left with a vacuum on the place of agricultural banks. Gustavo Hung from Peru is convinced that the Peruvian Cajas Municipales and like can fill this gap, while Tony Pell thinks that structural problems are often powerful barriers concerning e.g. successful product marketing or rural property rights. Even ideally functioning agricultural banks could probably not overcompensate the negative effects from structural constraints.

You can get more interesting details on this exchange in the enclosed mails (5).