ANNEXES

To the Devfinance quarterly Rewiew

January - March 2002

➢ Mail mentioned in the flash (1 mail)

From: Michael Skully [mailto:Michael.Skully@buseco.monash.edu.au]
Sent:Mittwoch, 6. Februar 2002 08:25
Subject: Rural Innovation

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

From: Michael Skully [mailto:Michael.Skully@buseco.monash.edu.au]
Sent: Mittwoch, 6. Februar 2002 08:25
To: devfinance@lists.acs.ohio-state.edu
Subject: Rural Innovation

Sydney Morning Herald

You can have your rat and eat it, too

Date: 02/02/2002

By Richard Macey

Hanoi rice farmers taking part in research involving Vietnam and Australia's CSIRO have won an unexpected bonus - a plentiful supply of rats for roasting.

Over the past 20 years Vietnam has enjoyed spectacular increases in rice production as growers change from being subsistence farmers to export producers. But the rice boom has also produced plagues of Rattus argentiventer,
The ricefield rat.

In 1999, in an attempt to find a solution to the growing rodent problem faced by rice farmers throughout South-East Asia, the CSIRO launched a four-year study with Vietnam's National Institute for Plant Protection and the Indonesian Research Institute for Rice. The CSIRO scientists, funded by the Australian Centre for International Agricultural Research, and Hanoi farmers are now claiming success – in More ways than one. Peter Brown, of the CSIRO's Sustainable Ecosystems rodent research group, said yesterday a simple and environmentally safe technique developed to catch the rats alive, avoiding the need for dangerous poisons, had lifted rice production by up to 20 per cent.

The delighted farmers have been turning the captured pests into profit, selling them for their meat.

"The rats are skinned, gutted and cooked," he said, adding that many farmers kept the catch for themselves. "They regard it as good beer-drinking food."

Another CSIRO officer, Monica van Wensveen, said the grain-fed rats, rich in protein and unlike city rats, "taste like chicken. I have had it marinated and roasted. That was nice.

"They use them in fairly simple dishes, but they are nicely spiced."

The farmers also sell the rats to snake farmers. "The rats are used to feed the snakes," Mr Brown said. "The snake meat is sold, mostly in China, and the snake leather is also sold.

"It is a very rewarding project. The feedback we get is that the farmers are very pleased."

Simplicity is the beauty of the trapping technique. One farmer is asked To plant a small rice field about 50 metres long by 50 metres wide, three weeks before fellow villagers sow their crops.

Plastic sheeting, with a number of holes, is erected as fencing around The small field. Rat traps are then placed inside holes.

Mr Brown said that as the plants sprout the rats flock in, looking for an early meal - only to find themselves stuck. “They traps catch them alive - the rats can get in but they can’t get back out.”

Villages involved in the project have been creating up to 10 such “crop traps”. With each trap snaring about 200 rats during each of the two or three annual rice seasons, farmers have found themselves with thousands of grain-fed Rodents to eat or sell.

General information

➢ Open letter from Alex Counts, President of Grameen Foundation USA (1mail)

From: Alex Counts [mailto:acounts@gfusa.org]
Sent:Mon 2/4/2002 10:14 AM
Subject: Open letter by Alex Counts of Grameen Foundation

Memo
To:The Microfinance Community
From:Alex Counts, President, Grameen Foundation USA

In recent months I have been wanting to share some thoughts with others in the community, and have finally been able to make the time to write them up. I kept putting it off because I knew it would take a lot of time to do it right. I decided to finally do something; please excuse any rough edges in what follows.

The topic I have wanted to address is that of transparency and industry standards.

Basically, I think that the trends towards greater transparency and the adoption of industry standards are good ones, but they are not without risks and paradoxes, particularly since they are, in my mind, being applied in a fairly narrow sense and being effectively enforced by a small group of institutions. It is about these issues that I would like to comment.

The first question that I have been pondering relates to how these so-called industry standards for financial performance (whatever their strengths and limitations may be) were arrived at. During the time when they were being debated, I was living in rural Bangladesh, and by the time I returned to the United States (where seemingly all decisions about such things as industry standards in our field - and other fields - are made) in 1997, the best I could tell was that a small number of donors and like-minded U.S.-based practitioners (and U.S.-based practitioner networks) had arrived at a consensus regarding what industry standards for financial performance should be. Since then, the job has been to gain widespread adoption of these standards among leading practitioners.

Presumably, those practitioners who were involved in this process (and/or those who later agreed to track and report on their performance in line with these standards) did so for one of several reasons:

(1) they believed the proposed standards would put them at a competitive advantage for accessing donor and/or investor funds;
(2) they believed that not using the proposed standards would put them at a competitive disadvantage in accessing donor and/or investor funds;
(3) they believed that tracking their portfolio in accordance with these standards was a more efficient means of managing their portfolio than what they were currently using;
(4) they believed that the adoption of standards was good for the industry, regardless of how impacted their institution; or
(5) a combination of the reasons listed above.

Those who did not buy into this process presumably did so for one of several reasons as well:

(1) they do not know enough about the standards to understand how to use them, or how using them will benefit their institution;
(2) they believe that reporting in this format will put them at a competitive disadvantage for donor and/or investor funds;
(3) they believe the costs involved in tracking and reporting in this format to be unacceptably high;
(4) they do not see any efficiency/management advantages from adopting this system;
(5) they are not seeking donor or investor funds, or their donors/investors are not bought into the "industry standards;"
(6) a combination of the above.

Without a true professional and international association of micro-finance programs, with elected representatives and a governing body with authority and legitimacy to agree on and enforce these (and other) standards, what we have now is a dynamic where donors (and the small number of private or quasi-private investors) in conjunction with like-minded practitioners are trying to coax as many programs as possible to opt into the system through carrots and sticks, where programs that buy in are considered "right/cutting edge" and those that do not are deemed "wrong/way behind the times." Perhaps this is not a bad thing. But among the risks inherent in this dynamic are (1) that the limitations of programs that buy into the system are routinely overlooked, and (2) that the strengths of those that do not are routinely ignored.

Another risk is that buying into the system is thought to be synonymous with being "sustainable." I really liked what Chris Dunford (the President of Freedom from Hunger Foundation) wrote in a recent open letter to our community where he suggested that "sustainable" be re-defined in terms of whether a program is able to sustain its services after the withdrawal of donor subsidy. He wrote, "`Sustainable' was not a prediction based on a particular business strategy; it was an objective, retrospective fact." In our community, instead of recognizing and appreciating that there are many ways to be `sustainable,' I see people spending tremendous amounts of time "de-bunking" the sustainability of institutions that do not follow a particular business strategy and/or who are not bought into the dominant model for "industry standards." (Where these people find all the time to do this de-bunking is something I have never figured out.) This effort to de-bunk, healthy in many respect!
s, has bordered on the ridiculous at times, in my view.

Unfortunately, Chris's thoughtful open letter was met largely by silence from the community to which it was addressed. We at Grameen Foundation USA liked it so much that we featured a shortened version of it in our newsletter, and reproduced the entire text on our website at
http://www.gfusa.org/monthly/january/news.shtml.

Towards A Broader Definition of Transparency

Overall, while I question some of the processes involved in the effort to adopt industry-wide standards for reporting on financial performance, and believe there are and will continue to be unintended problems it (like any supposed panacea for solving all that ails a field) will cause, I think it is healthy.

But I would like to broaden the entire concept of transparency in our field. I hope that everyone for whom financial performance is a means to a greater end, rather than an end in itself, will agree. My idea of a broader definition would include the following:

(1) Target Group. Particularly if public and philanthropic funds continue to be provided to micro-finance programs, increased transparency with respect to the client(s) group being reached is, in my opinion, essential. The percentage of women being reached is now widely reported on. But this is less true with respect to the poverty level of clients, or whether clients are part of hard-to-reach groups such as tribal populations and people living in areas of low population density. The Microcredit Summit and CGAP have attempted to develop tools (however limited and imperfect they may be) to bring at least some transparency to this area. But the interest of key donors and practitioners in adopting them, and in addressing this entire matter in a rigorous way, has been limited. In other words, a new industry standard has been proposed, and it is being ignored. I am prompted to ask: How is an industry standard in this area (or any) developed? What is the trick? Who has the! authority to call on all in the industry to undergo the CGAP/IFPRI poverty assessment tool and publish the results, or to develop better alternatives and use those? Are the bodies that have the power to do so (whichever they are) going to be requiring that the programs that they support use these tools, and withdraw support from those that do not? Are they going to put programs that do not desire to receive support "on the spot" at the various conferences until they relent? Or will this issue continue to be dogged by a lack of transparency, and a lot of fudging on the parts of donors and practitioners.

[On a related issue, I always thought it curious that when CGAP piloted its tool on a number of practitioners, it took many months for the results of all but one of those studies to be released publicly. I have had it

explained to me many times why this was the case, and I have never received exactly the same explanation. I am told that they finally were released late last year. This notwithstanding, CGAP's recent involvement in this issue is to be applauded - though some, including me, had hoped that it would embrace this issue from the moment it was established "to assist the poorest."]

(2) Impact. In the emerging micro-finance "orthodoxy," passing on relatively high costs to clients/borrowers is allowed, even encouraged, and at least occasionally required by donors. (How this interacts with the issue of target groups above is an interesting one that I hope someone is studying seriously.) The question that always haunts me is whether this industry norm is limiting the ability of programs to have a positive impact on borrowers' lives. So I would think that deep study of this issue would be going on, and that the results would be published widely. What I hear most often, however, is that impact studies are "so 1970s," i.e., unnecessary, and that the only thing one needs to look at is whether people repay their loans (i.e., if they do, they must be benefiting, presumably no matter what the drop out rate of a program happens to be). [I congratulate Opportunity International and the Microcredit Summit Campaign for injecting some new thinking into this debat!
e in recent years.] Can we as an industry agree that programs should accept any reasonable request to do impact studies on their borrowers, with the only stipulation being that the program must have the option to respond to the findings in print in the published impact report, should they wish to do so? Can we agree that all previously conducted external impact studies be released immediately into the public domain? Or will we continue to accept a lack of transparency in this area as well?

(3) Cost. For an industry that claims to be moving to increased transparency on financial matters related to information made available to donors and investors, I am often dumbfounded by how practitioners present their fee/interest rate structure to potential borrowers (as well as to some donors who might balk at the poor being charged rates that in APR terms often approach 100%). The words "false advertising" sometimes come to mind. (I think everyone in the field knows what I am talking about, so I will not go into more depth, cite potentially embarrassing examples, etc.) When I was working on establishing a micro-finance apex fund in a Latin American country last year, I proposed that a condition for practitioners who wanted to access resources from the fund was that they disclosed their interest rates to borrowers, and on their website, in APR terms (so that apples could be compared to apples, not oranges, giving borrowers a chance to do more and better comparison shop!
ping among programs). I could not find anyone in the donor or practitioner community to support this idea. I still do not understand why. Can we as a community agree that when we (or, in this case of networks, our affiliates) offer loan products to the poor, we always state our interest rates in APR terms, and stop presenting artificially low rates with hidden fees and charges? Can we agree to put the interest rates we charge on our websites, for all (including our philanthropic supporters) to see? Will donor support be withdrawn from those who do not "buy in"? If not, why not?
Among the many objections people are sure to raise against these proposals is that implementing them will be costly. This is true, just as it will be costly for practitioners who have not already done so to integrate industry best-practices in financial tracking and reporting. But rarely is something that will advance an entire field cost-free. The question is simply, what is important for the field's members (practitioners) and its stakeholders? If something is important, standards and norms will be developed, costs will be paid to develop them, and sanctions of all types will be made to encourage widespread adoption. If something is not important, then it will not be integrated, but it will be marginalized, used only by those practitioners and stakeholders that believe in their importance so strongly that they are willing to "go it alone." These are the forks in the road that every field needs to make choices on. As I write this, the accounting field is facing its ow!
n existential questions along these lines in the wake of Enron's collapse. Our field could face this if and when an investigative reporter visits a "star" (currently favored) program and emphasizes in an oversimplified way the fact that it charges its not really so poor borrowers interest rates of 90%, reports on borrower protests (you all know what I am talking about), calls micro-finance "discount moneylending," and so on. Are we going to be pro-active and prepare ourselves for that, or are we going to wait until we have to play defense?

I hope that at least a few in the community will react to these ideas as part of a broader and more nuanced discussion of transparency and industry standards. Even harsh criticism will be preferred to being ignored, as that represents dialogue, which is what we need.

I also think that the best way to get those who are not yet bought into industry standards in financial reporting may actually be to broaden the definition as I have suggested above. I also predict that it will cause some who have opted into the current, narrow system to want to retain the system as it is today. This, of course, relates to how the narrow vs. broad use of the standards makes various practitioners look with respect to their competition - an obviously complex subject about which honest discussion is essential but often so hard to have in reality.

A Final Note

On behalf of my colleagues in Grameen Foundation USA, and the larger network to which we belong, we call on those who have kidnapped Danny Pearl, the South Asia correspondent for the Wall Street Journal, to release him immediately and unconditionally so that he can rejoin his family and continue his work as a journalist.

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Publications

➢ Book review by Richard Rosenberg (1 mail)

From: Rrosenberg@worldbank.org [mailto:Rrosenberg@worldbank.org]
Sent:Dienstag, 29. Januar 2002 17:32
Subject: Yet another Bolivia book?

A review of a book that might interest some DFNers:

Building Institutional Capacity: The Story of PRODEM, 1987--2000, by Cheryl Frankiewicz (Calmeadow; 170 pp.)

Bolivian microfinance has been much studied. Especially after Elizabeth Rhyne's Mainstreaming Microfinance came out earlier this year, I wondered whether there was much left to tell. Cheryl Frankiewicz's new book on PRODEM demonstrates that there is plenty more to say. This book is not only informative, but very useful as well. When one is intensely focused on an MFI's operational issues, there is a strong temptation to assume that five years from now the institution will look pretty much like it does today, only bigger. This recounting of a very eventful fourteen-year evolution is a good antidote to that dangerous assumption.

PRODEM is the NGO that pioneered sustainable urban microfinance in Bolivia, spun off BancoSol, then did the same pioneering in rural microfinance, and spun off a licensed finance company that is aggressively developing new services for its clients such as smart-card savings access and electronic funds transfers. The PRODEM story is a remarkable one. Other publications have told parts of that story, but none comes close to Frankiewicz's in presentation and analysis of the internal dynamics of the institution. This book told me a lot I didn't know, and framed issues I hadn't thought of, despite my four years in Bolivia as USAID's representative in the PRODEM relationship.

The author firmly disclaims any intention to present PRODEM as a model for replication elsewhere. But the issues and challenges PRODEM had to face and resolve are ones that face MFIs all around the world at various stages of their development. I should think the book would be particularly interesting to those associated with younger MFIs, because it will suggest interesting reflections on their own future evolution. Each institution will deal with these challenges in its own way, but it's instructive to see the options faced by PRODEM and the results of the decisions it made.

The list of important issues illuminated in The PRODEM Story is a long one. Here are just a few: How do you recruit an exceptional staff? What are the practical elements that create an institutional culture of commitment, excitement, and trust? How does growth strain that culture? How much of the original culture can endure and how much has to be left behind? What practical problems have to be dealt with in using cash bonuses as performance incentives? What happens to staff, products, and clients when the institution finally has to compete with other providers? What happens to MFIs in economic crises and how do they handle it? Why do logically-perfect alliances fall apart?

Frankiewicz does more than just cram a lot of story into 170 pages. The prose is clear, the analysis is intelligent, and the conceptual framework is one that I would find useful in looking at any MFI as an institution. Readers who are tired of a focus that is too exclusively financial in evaluating MFIs will like this book. It never loses sight of bottom-line performance on key operational indicators, but it demonstrates that those indicators provide a very partial explanation of what makes good microfinance.

My only hesitation is that here and there the book seems a bit too faithful to the way PRODEM has always presented itself. Once in awhile I was tempted to wonder if anyone was really that good. On the other hand, some big problems and conflicts are presented squarely, without flinching. A couple of others are passed over with a discrete absence of lurid details. But in any event none of this detracts seriously from the usefulness of the book. I would recommend it to any MFI insider or outsider who wants to learn and think about how such institutions deal with growth and change.

The book is available for US$12.00 from

Pact Publications
1200 18th Street NW Suite 350
Washington DC 20036 USA
Tel. (202) 466-5666
Fax (202) 466-5669
E-mail books@pacthq.org

Further description of the book can be found on Pact's web site:

http://www.pactpub.com/item.asp?prod_cd=CAL014

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➢ MicroBanking Bulletin Issue No 7, November 2001 (1 mail)

From: MicroBanking Bulletin [mbb@microbanking-mbb.org]
Sent: Do 10.01.2002 17:22
Subject: MicroBanking Bulletin Tables

A clarification:

Some of you have indicated that the tables were not available when choosing the option to download the entire issue of the latest MicroBanking Bulletin.

Indeed, starting with this edition, we have moved the tables to Excel for ease of formatting, and better printing options. The tables are no longer part of the Word document and need to be downloaded separately, from the Section "Bulletin Tables".

Sorry for the inconvenience, and thanks for pointing it out!

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Subjects of Interest

➢ The cost of NGO transformation (6 mails)

From: Martina Wiedmaier-Pfister, Rural Finance Project, FONDESIF-GTZ, Bolivia [sfrgtzwp@ceibo.entelnet.bo]
Sent: Sa 02.02.2002 17:50
Subject: NGO-transformation

Beth, you are perfectly right, thanks for the clarification.

In fact, the late transfomers FIE (Febr. 98), ECOFUTURO (May 99) and PRODEM (12/99) got their licenses in the middle of the Bolivian recession and borrower uprising. Also, at that time, consumer finance companies disturbed the lending market considerably by their agressive sales, and later on, recovery practices. Therefore, ever since 1999, all MFIs, but especially the newly regulated MFIs were more reluctant to lend. They recognised that under these circumstances

they had to be much more prudent and focused on recovery rather than on disbursement. I think that, eventually, the shrinking credit sales numbers are a healthy sindrome: a reaction on the tough environment (economic and social crisis in the country, more competition in the finance sector, over-indebtedness of micro-borrowers), rather than a result of transformation.

However, there is also evidence of certain policy changes by the regulated MFIs towards larger loan amounts (to my consideration nothing is wrong with that in the bolivian case, because small borrowers were still served). The regulated MFIs had now easier access to refinancing and could respond to demand for larger loans of a market segment that was virtually unserved so far (larger micro and small enterprises). For some time, when a number of international banks entered the market, it was feared that competition might increase in this segment, because banks downgraded and MFIs upgraded. When the recession hit the country, foreign and local banks drew back and left this segment, and others, unattended as before.

Martina

----- Original Message -----
From: Beth Rhyne <erhyne@accion.org>
To: devfinance@lists.acs.ohio-state.edu>
Sent: Friday, January 25, 2002 11:24 AM
Subject: RE: NGO transformation / conformation of PFF

Regarding the growth of post-transformation MFIs in Bolivia:
The data that there has been no client growth since transformation is very misleading. In fact, there was substantial client growth during the years immediately after transformation for the early transformers, especially BancoSol and Caja Los Andes (see Mainstreaming, Chapters 5 and 6). More recently (starting in 1998), the whole microfinance sector has slowed and even gone to negative growth, caused by market saturation and a serious recession. The slowdown cannot be attributed to transformation per se.
In fact, the expansion faciliated by transformation is what saturated the market in the first place.

It is clear that transformation made possible greater access to funds that faciliated growth. The real question posed by the Bolivian situation is how large the microfinance market actually is, given prevailing lending techniques and market focus.

Beth Rhyne

From:	Didier Thys [dthys@freefromhunger.org]
Sent:	Di 29.01.2002 01:45
Subject:	RE: NGO transformation / conformation of PFF

Hi Beth,

I don't want to quibble, but from what Accion is advertising on its website, Banco Sol was reaching 61,255 clients in 1994 and was reaching 60,976 clients six years later in 2000. The outstanding portfolio more than doubled in that period for $33 million to $77 million. I agree that competition, market saturation, and recession have had an impact but the outstanding portfolio has grown by $2 million since 1998 while the number of clients has declined by 20,000. Is it the recession or competition that has driven Banco Sol upmarket? If so, why go upmarket where it seems to me that the competition will be even more intense with the entry of other banks, credit unions and consumer finance agencies? Does it offer better profit margins and the prospects of attracting more commercial capital or is the lower end of the market considered to be saturated and if so by whom? Also, I always thought recessionary cycles reduced the size of the formal sector and drove more people into the informal economy thus possibly expanding the possibilities for financing self-employment activities - as one renowned microenterprise guru (formerly of Accion!)guru once told me: "recessions are good for business". This was the theory in the 1980s when so many MFIs got started in Bolivia under the auspices of the Social Investment Funds promoted by the IDB and World Bank. What has changed? What now makes recessions "bad for business?"

In terms of transformational models, I have a curiosity about two issues which are actually poverty neutral - i.e. I'm interested in the breadth of outreach question in this case and not the depth of outreach issues. First, commercialization as a strategy, including and emphasizing the involvement of formally regulated private shareholding companies, is meant to attract more resources to the sector in order to reach more people. A lot of folks are willing to endorse the legitimacy of that ideal. Recognizing that we might be in a transitory phase within the industry, it still peaks my interest that one of the two vanguard countries might be developing institutions that can attract more capital, but not more clients (admittedly the ins and outs of these consumer finance companies befuddle me - I can't tell if they came in and left which is one story I hear; and I can't tell if they competed on the basis of similar products for new clients or simply broadened the scope of services being offered to the clients already receiving services from the microfinance sector). In other words, assuming the FFPs are attracting more "commercial capital", are they reaching more people or simply reaching the same people with more money? Is the "commercialization of microfinance" contributing to greater breadth of outreach (more people being served) or greater scope of outreach (more services for the same people)?

The second aspect of this that interests me is: are they really attracting more commercial capital? I think Banco Sol is because of the savings services it offers. I'm not sure the FFPs are when I look at the makeup of their shareholders and institutional depositors. In looking at ownership and deposits for FFPs, these basically show that publicly owned development finance institutions and privately owned social investment institutions are the primary, dominant and almost exclusive investors in these "commercial" entities. The balance sheets from these FFPs indicate that there might actually be a decline in the use of "commercial capital" as the FFPs substitute institutional deposits from social investors for the capital they borrowed from private commercial banks. If this is the case, what are the implications for the microfinance industry in terms of how it defines commercialization with reference to capital markets and institutional models? What is the right setup for achieving greater breadth of outreach?

didier

From:	Beth Rhyne [erhyne@accion.org]
Sent:	Di 29.01.2002 15:35
Subject:	RE: NGO transformation / conformation of PFF

In response to Didier—

As always, you raise important issues in a challenging way, and I only want to respond to a couple of your points. The complex array of forces intersecting in Bolivia are all reflected in the numbers, but sorting out which force causes which change in the numbers is difficult. The questions you raise are important for observers of the effects of commercialization— but I don't think that what we are seeing in Bolivia at the moment is a wholesale move to abandon the low end market by commercial microfinance.

Regarding BancoSol, it is first important to note that BancoSol grew its client base throughout most of the 1990s, reaching the peak in terms of active clients in 1998/99 at about 80,000. So, if we are looking at post-transformation, the path was steadily up until the macro-shocks in the system.

On the going upmarket of BancoSol. One cannot interpret the fall in numbers of clients as simply equivalent to going upmarket. A major market correction has been underway as clients involved in overindebtedness and multiple borrowing are being wrung out of the system. BancoSol has not necessarily been pleased with the drop in its client numbers, nor can one assume that the drop is the result of deliberate policy. One possible reason why the drop at BancoSol was more precipitous than at FIE or Caja Los Andes is that clients were leaving solidarity group loan programs to move to individual lenders.

That said, BancoSol has indeed gone upmarket in the sense of adding higher end clients. It has expanded its small enterprise lending. The real question is whether BancoSol has changed its service at the low end, to entry level microentrepreneurs. One relevant piece of information on that score is that the median loan size at BancoSol remains fairly low, at just over $400. So, BancoSol has added some high end clients, but still serves a lot of low end clients. We'll see how this plays out over the next few years.

The question of why has the recession been particularly hard on microfinance? I don't know the whole answer, but one of the problems has been the drastic reduction in informal cross-border trade. Bolivian exporters (including a lot of microentrepreneurs) have seen the terms of trade go dramatically against them because of devaluations in neighboring countries, starting with Brazil and continuing around the continent. Bolivian importers (many microfinance clients rely on informally imported goods) have been greatly affected by customs reforms that have shut then down. I don't know if these features explain the hit to the informal sector fully, but that is the best explanation I have heard.

From: Martina Wiedmaier-Pfister, Rural Finance Project, FONDESIF-GTZ, Bolivia [sfrgtzwp@ceibo.entelnet.bo]
Sent: Di 22.01.2002 16:00
Subject: NGO transformation / conformation of PFF

Dear DFNer, Rich, Betty, Didier, Beth and Kagai (the ones enriching the discussion on this aspect),
I would like to respond to some of the questions which were rising:
Rich:

- you asked for the size of the four Private Financial Funds (in the Bulletin, we provided loan portfolio and clients)

Information by 30 November 2001			
	million US$	mio US$	mio US$
PFF*	Total Portfolio	Total Assets	Capital [1]
Caja Los Andes	46,86	54,15	6,05
FIE	24,63	27,61	4,24
Ecofuturo	10,43	12,88	1,98
PRODEM	30,14	38,35	4,43
1 Capital or Patrimony = Social Capital + Reserves + Acumulated Results			
Source: Superintendecy Bulletin			

- as you rightly point out, total cost of transformation might easily reach one million US-$. In any case, it was very difficult to get precise information from the PFFs on the amount and item spent. What we could get - please refer to the information below (see Kagai).
- the time managers spent during the transformation process is difficult to measure, yet, it is definitively an important item. In one case, the future CEO of the PFF was hired almost two years before the license was granted in order to manage the conformation process (four NGOs founding one PFF). This cost item increased the total cost of the PFF significantly (approximately 200.000 US$). In the other cases, provision of NGO-managers time for the regulation process has to be considered as an indirect subsidy to the new institution.

Betty:

- the Bolivian model is just one way to regulate microfinance, there are others and certainly less expensive ways, e.g. for MFIs which are not taking deposits. However, I think, the Bolivian regulatory authorities are aware of their tough requirements safeguarding investors money (particularly depositors funds). They recognize, that here is still room for improvement: For example, the superintendence's reporting requirements are the same for large commercial banks, small PFFs, and (also for the small) regulated Cooperatives. Obviously, more than 500 !!! reports per year are requested. Efforts to improve this are on the way. When creating the regulatory mechanism,

one major problem was, that there was hardly any model to learn from or copy, and much innovative work had to be done.

Didier:

at a rapid glance, growth in the number of clients was negative, however, this phenomenon must be analyzed more deeply.

- on page 24, we explain that the NGOs founding EcoFuturo did not yet transfer all their agencies and clients to the PFF which is disturbing the figures a lot. Many of their clients and agencies still stay with the NGOs (another problem to discuss). Therefore, EcoFuturo is a special case.
- only one PFF increased their number of clients (Caja Los Andes).
- total portfolio increased 65 %. All PFFs increased their loan portfolio - without increasing the number of clients - which reveals larger loan amounts and a diversification of borrowers towards the upper segment.
- whether or not PFFs are a vehicle for expanding financial services, I would say definitely, they are. However, they do not work with the poorest of the poor. In Bolivia, these ¨business¨ is with the NGOs. Average loan balances per client have increased significantly between 1997 and 2000, (50 - 70 %), being around 1000 US$ in 2000.

Also, it must be seen that today, the Bolivian microfinance sector is suffering stagnation in credit allocation due to many over-indebted micro enterprises and people, and a major economic crisis. Growth rates like the ones during the mid-nineties are unrealistic nowadays. Finally, we did not analyze their efforts to provide other financial services like savings and remittances, which are new business lines still to be developed, PFFs are working on it and still receive donor support for it.

Beth:

- your analysis is correct: the bulk of the transformation cost, as we could measure them despite the limitations on respective information, goes back to upgrading the operations of the MFI to the standards of regulators and investors (as you say, costs that anyway occur when a MFI is upgrading). Other costs (business planning, legal fees, opportunity costs for depositing capital interest free during the licensing period) are much less than half, maybe 20 or 30 percent.
- I agree, the cost aspect will - and should - not discourage MFIs to transform, respectively grow. Rather, more transparency should create awareness among regulators, MFIs and donors about the effort and cost involved. To my experience, in some countries, the interest in regulating MFIs might follow a fashion ("the rush") rather than be based on thorough knowledge of the subject and all its hindrances and obstacles in practice, be it on the institutional level or in the environment (see lessons learned, chapter 7 of the bulletin).

Kagai:

- our analysis of costs (3 PFFs, one could not provide records) revealed the following breakdown (in US$, major items, on average):

*administrative costs: 217.000, among those for personnel 169.000, journeys 27.000,

* legal costs: 7.000

- feasibility study: 50.000
- other consultancies: 12.000
- assistant personnel: 15.000
- financial costs: 56.000
- computer systems (hardware): 280.000
- software: 127.000
- varied items, each between 4.000 and 8.000 such as stationary, publicity, rents, and others

It must be mentioned that the collection of financial data was extremely difficult, since NGOs or PFFs hardly kept detailed and separate records on the expenses during the conformation of the PFF.

- whether or not 1 million US-$ is on the higher side is difficult to say. As Beth argues, and we confirm, about half of these cost goes back to upgrading operations (computers and software), and would have been invested anyway during the evolution process of a growing MFI. It is definitively a necessary and productive investment in the future of the MFI, enabling growth at all. Therefore, to attribute the whole cost only to formalization is wrong.

Our analysis reveals that transformation might be achieved at lower costs if computer systems are large and modern enough to provide for the new requirements and new business opportunities (especially savings services). Or, if costly items such as feasibility study can be bought at a lower price.

Looking forward to continue the discussion,
sincerely yours

Martina
Martina Wiedmaier-Pfister
Asesora Principal del Proyecto
Desarrollo del Sistema Financiero (DSF)
FONDESIF-GTZ, Bolivia
Tel/Fax 00591-211-7158

From: Anthony Scoggins [Anthony@coopcca.com]
Sent: Mi 16.01.2002 17:41
Subject: Transformation: the co-operative option

At CCA we are currently working with a number of partners who are engaged in converting NGO-style MF programs into member-owned co-operatives (or credit unions).

It appears that the main attraction of the co-op model (vs some form of bank) is a combination of two factors: the simpler registration process and looser regulatory framework that applies to co-operatives in most countries, as well as the natural inclination of many NGOs to favour an organizational model that is member-owned and can reasonably claim to contribute towards their community empowerment agenda.

From what we can see to date, there seem to be four main complications to this particular process of organizational conversion:

i) the transition from the (arguably more) “professional” management provided by NGO staff over to a more “amateur” member-based management model;
ii) the distortive effects of a member-managed organization “inheriting” a large pool of external funds (as opposed to the more conventional credit union model which is savings-driven from Day One) ;
iii) likewise, the co-op inheriting a social change agenda from the NGO that cannot be reasonably sustained by a simple credit union; and
iv) how best to foster a sense of member-ownership over the organization (perhaps not wholly unrelated to points ii and iii).

Overall, the process seems complicated but manageable, if the transition is systematically planned and implemented. The greatest danger seems to be with those NGOs that simply convert the legal identity of their MF program, hand over the co-op registration certificate to members, declare victory and walk away.

If other DFNers have experiences with similar conversions, we would be pleased to hear from them. Perhaps there is a useful technical paper/set of guidelines waiting to be documented here.

Anthony Scoggins

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-----Original Message-----
From: Muriithi Kagai [SMTP:mkagai@yahoo.com]
Sent: Thursday, January 10, 2002 3:15 AM
To: devfinance@lists.acs.ohio-state.edu
Subject: Re: Costs of Transformation

I wonder whether someone can provide some sketchybreakdown of the main costs towards transformationbased on real experiences.

I think costs of transformation will vary from one institution to another and will also be influenced bythe operating environment as well. But the figure ofUS 1 million is in my opinion on the higher side. Itis scaring considering that it is a

substantialopportunity cost for investments on loan capital. AnMFI that has been set well from the beginning, growingits systems and structures in tandem with the growthof the institution should not find it this expensiveto transform. But we might also need to define what istransformation. Does it always mean becoming a formalcommercial bank? There are all the advantages ofmoving towards commercial banking but this is not theonly viable alternative. There are thousands ofprograms, which cannot make it and should not pursuethis as the only alternative.

Regards,
Kagai

From:	Betty Wilkinson/IRIS Zambia [iris@zamtel.zm]
Sent:	Di 22.01.2002 12:14
Subject:	RE: Transformation: the co-operative option

for Tony, Mark, Stuart, and others:

An interesting idea, transformation to a financial cooperative to avoid regulation as a bank. One of many options to consider in the range of institutional forms.

There has been quite a bit of discussion recently in some circles about financial cooperatives/credit unions and the way they are regulated/supervised. In Zambia we have coined the notion of "arms-length" to define when an external supervisor should be involved. In other words, if you are further than arms-length from the persons who are making decisions about intermediating your savings, then you may need third party oversight for funds protection. The general failure of self-regulation in many credit union movements, particularly in Africa, is of concern. It is my understanding that these problems have been due to a combination of insufficient power to resist government pushing its own loan programs through cooperatives, and insufficient regulatory skills and savvy to resist problems with (particularly larger) credit unions.

So perhaps when looking at this process, it is almost as important to ask the question, "If we use (x, y, z) institutional form, then a) can this form legally take savings, b) how can a saver gauge the risk to his/her savings and tell whether they will be safe, c) ditto any regulator or potential investor?"

Betty Wilkinson

At 04:24 PM 01/21/2002 +0600, you wrote:

Dear Mr. Scoggins,

I am assisting Stuart Rutherford with a study for MicroSave Africa. The study will look at ways in which unregulated MFIs can (prudentially) expand their range of savings services without seeking formal bank status.

Our study will include the possibility of converting to a financial cooperative as an option. If it is not too much trouble, we would very much appreciate amplifying information regarding the projects you refer to in your email, as well as points of contact if you feel that it would be worthwhile to make direct contact.

Thanks very much,

Mark Staehle
Dhaka

➢ Smoke and mirrors of the micro debt industry (4 mails)

From:	Dale W. Adams [dwadams@burgoyne.com]
Sent:	Mi 20.02.2002 20:37
Subject:	Fw: Why impact studies?

A colleague recently asked me about the genesis of debt-impact studies. He wondered why indebting activities aimed at alleviating poverty attracted impact analysis when most other poverty programs did not. Neither of us had ever seen any studies of measles control or emergency food programs, for example, that attempted to measure the impact on beneficiaries' income, employment, fecundity, or female empowerment. In both of these examples simply documenting the number of people who received measles shots or food was sufficient to justify the programs.

In several earlier dfn messages I've expressed concerns about the costs of debt-impact studies and the vexing methodological problems that are involved in them. All of the studies that I've seen ignore many costs associated with these programs and ALL of the methodological problems result in a systematic overestimation of benefits. Given these difficulties, it continues to puzzle me why impact studies are so popular. Is there something in the history of indebting efforts that propels forward these tenuous impact studies.

For what's its worth I propose two explanations for the impact study mania. One is of recent vintage and the other has historical roots that run back many centuries.

Microfinance has been around forever, but the term was co-opted about 30 years ago by the Grameen Bank folks and further popularized by the microdebt industry. Most of the new microdebting was nurtured and expanded by donor funds that came into the industry in the form of poverty alleviation projects. Most of these projects, in turn, were justified on the basis of what they would do in resolving various manifestations of poverty: low income, lack of employment, ... It shouldn't be surprising that later the providers of funds would ask for proof that project objectives were met and impact studies were then used to dredge up some proof of good work so more funding would be forthcoming. The microdebt industry was trapped into doing impact studies because of the way most microdebt projects were initially justified. If you justify a project on the basis of what it will do to women's power then you later must try to measure changes in their power to justify further funding. If the microfinance gang had been as smart as those who give measles shots and pass out free food, they could have initially justified their projects on the basis of numbers of people having access to better microfinancial services. Compared to impact studies that would have been much cheaper and easier to do.

The other explanation for impact studies is intimately related to the first. In many cultures moneylending, either by the so called loan sharks or by bankers, has an unsavory reputation. Traditionally, religious leaders, writers, politicians, and popular culture almost always attached a stigma to being in debt or to lending. This was a major problem that the emerging microdebt industry faced, especially in Muslim countries: how can you do something good through an activity that has traditionally been seen as being unclean? It wasn't enough to show that you were lending to poor people—informal moneylenders had done that for centuries—you had to show that good intentions could be translated through lending into desirable results: increases in income, improvements in health, more employment, and, yes, even more power for women. I strongly suspect that the cultural heritage of thinking ill of moneylending is a major reason why simpler and more reliable measure of performance, such as outreach and loan repayment, have not replaced more costly, and less reliable, impact-measuring efforts.

As an aside, I still don't understand how a dollar lent by the microdebt industry can be any more effective in alleviating poverty than a dollar lent by a moneylender, a dollar mobilized through a rosca, or a dollar received through remittances. Apparently, dollars lent by microdebtors have been enhanced in some mysterious way, possibly through the good intentions involved in passing them through a grants processing machine.

The mania for impact studies says much about the microdebt industry. I regularly hear the word microfinance among industry participants, but their primary evaluation technique purports to only measure the results of indebting efforts. Debt impact studies, even if they could be correctly done, reveal nothing about the importance and performance of deposit mobilization, remittances and other funds transfers, and insurance. I suspect that these ignored features of microfinance are far more effective ways of alleviating poverty than is more debt. The continued emphasis on badly flawed and terribly misleading debt impact studies obscures this important fact.........................jane.

From: Linda MAYOUX [rcy12@dial.pipex.com]
Sent: Fr 22.02.2002 12:02
Subject Re: Why impact studies?

Dear Jane,

I certainly do agree with you on a number of points:

1) That many of the large-scale so-called 'rigorous' impact studies are have many inevitable methodological shortcomings. The early ones were very useful in highlighting some issues and exploding some myths. But the methodologies used are not capable of yielding reliable recommendations for policy improvement - which is for me the main justification for diverting funds from programme implementation to impact assessment.
2) That serious questions need to be asked about the value-added of the staff bureaucracy of microfinance programmes compared to simply making more funds available through existing moneylenders. A number of programmes are providing funds for onlending through ROSCAs which does indeed do away with some of the bureaucracy (eg CARE programmes in Niger and Angola and Cameroon Gatsby Trust are ones I know). But this also

shifts additional burdens onto group leaders which creates potential problems of both accountability and trust. In CARE-Niger most of these leaders are now rightly paid by the group for their trouble. To me these systems are certainly a valuable part of the solution to fulfilling the savings and credit needs of the millions of poor women and men who have a right to them.

But:

1) It is simply not true that the impact of other poverty reduction programmes is not assessed. In other sectors also the limitations of pure quantification of vaccinations or school attendance are glaringly obvious and the search is on for more adequate means of assessing impact (see for example DFID's PARC website and the UK-NGO sponsored MandE website on monitoring and evaluation). Current debates draw on a long tradition of quantitative and qualitative programme evaluation going back to the 1970s and gathering momentum from the mid-1980s.
2) I do not agree that microfinance programmes which have evolved out of poverty reduction or women's empowerment programmes should abandon the need to evaluate their activities against their original mission. The donors in turn are funding these programmes in order to fulfil donor mission statements which justify their use of tax payers money for global poverty elimination. The donors are all signatories to UN Declarations on gender mainstreaming (ECOSOC declaration 1997 or some date around then) which states that gender equality should be a concern across all donor programmes and the underlying aim is women's empowerment. Then there are also declarations on environment and moves towards intersectoral holistic approaches to health, education etc. Micro-finance programmes (whether MFIs with associated independent NGOs or NGOs with savings and credit as part of their portfolio) DO have considerable POTENTIAL contribution to these development aims, both through their products and through the group structures they set up. I have included some examples/refs in my paper on micro-finance on the DFID EDIAIS website www.enterprise-impact.org.uk. It is very unlikely that British taxpayers would agree to DFID using their taxes to fund programmes which do not contribute to poverty reduction and/or which make gender inequalities worse and/or which undermine other development objectives eg through widespread use of loans for purchase of harmful pesticides or setting up of polluting industries or purchase of harmful drugs. This includes ways in which banks can also be made more socially accountable - a debate which is as relevant in the UK where rural areas and the poor are now underserved while banks make huge profits as it is in the South. There is now some very innovative thinking going on as to how NGO micro-finance could be better designed in order to better achieve their development goals. There are then remaining issues of how accounts etc should be kept to calculate financial sustainability to prevent the accounting convenience of separating MF from other activities from undermining the really valuable complementarities at the operational and implementation levels.
3) Given 2) it is important that methodologies are devised for integrating realiable and useful impact monitoring and evaluation into routine programme learning and development:

- **Many things can be easily done simply by making existing application forms, financial monitoring more useful eg by gender disaggregation not only of clients but also by loan size, being more specific in questions about asset ownership. Many programmes collect a lot of information which could be more useful and actually used if the questions were asked in the right way, or more carefully sampled.**
- **This would include participatory monitoring by clients and setting up networks for them to exchange and collect information on issues important to them which could be facilitated at group meetings and form the main content of group minutes which are currently a very tedious and often rather useless chore.**
- **Initial assessments by external consultants may be needed to set such systems up, but the emphasis of the consultancy would be not so much on 'rigorous assessment' but the setting up of sustainable and ongoing learning for programme improvement. The reliability of this staff and grassroots led monitoring could then be easily spot-checked by review missions etc. It could also be usefully supplemented by occasional special studies on particular policy-related issues.**

The SEEP Manual produced by AIMS is a very valuable step in this direction, as are participatory M and E systems in programmes like SEF and Internal Learning Systems developed by Helzi Noponen. These are summarised with references in my paper on the EDIAIS site. But further innovation is also needed to improve eg gender analysis, environmental monitoring and making the process more useful for clients themselves.The bottom-line of all this assessment needs to be its usefulness and relevance to increasing the programme-level understanding of the needs of their clients and the wider impact of their programmes on drop-outs, markets etc in order to improve products and build on the large organizational base of clients which MF programmes build up. In participatory M and E taking up the precious time of clients there needs to be much more thought given to making the exercise useful for client understanding of their own problems and setting up information exchange networks etc. Unless both these conditions are fulfilled then any data extracted through long quesionnaires and/or apparently meaningless PRA exercsises will be at best unreliable and at worst misleading as Jane says.

Surely what we are aiming for is a diversity of provision of financial services for poor and very poor women and men (including children and old people and the disabled etc). Many of us enjoy a whole array of different savings, credit and insurance products which we use and manipulate in different ways and for different purposes. Jane's private sector approach, if it can indeed be self-sustaining and profitable and not lay claim to development funds) is part of this for a certain profitable section of this target group. But even better-off poor women might wish to be part of a savings and credit programme which gives them an organizational structure in which to fulfill their social needs and a means to organize against injustice. Other very poor people need programmes which may be very valuable in helping them overcome different dimensions of poverty - paying for health care, for school fees, giving them access to information on legal aid services and/or markets at group meetings or even on counters in banks - but which may not be profitable. Programmes serving these target groups and claiming use of development funds do need to justify their claims on funds in terms of not ponly reaching but also benefiting their target group. This is particularly the case in view of the increasing competition between programmes. Otherwise they will continually be criticised for hiding inefficiency behind a smoke-screen of poverty reduction and empowerment aims and judged only on financial criteria. This inevitably forces them to cut costs and quality of services needed by the very poor and to move up-market. This has happened time and time again.

Anyway, may the debate continue! I would very much welcome comments on my paper on the DFID site as this is an ongoing draft. We are also hoping the site in general will stimulate much international and useful discussion of the issues - in MF and other areas of enterprise development.

Linda

From: Dale W. Adams [dwadams@burgoyne.com]
Sent: Di 26.02.2002 03:32
Subject: Shombi and Linda's comments

Shombi and Linda agree with me that debt-impact studies have major methodological flaws. They both optimistically hope these weaknesses can be reduced or eliminated. Being a skeptic, I feel these problems are intractable; these studies will always overestimate benefits regardless of how they are tweaked.

Lots of development activities have the potential to easy poverty:

- **access to education**
- **access to health services**
- **access to more and better food**
- **access to better potable water**
- **law and order**
- **enhanced transportation systems**
- **improved product and input markets**
- **more employment opportunities**
- **enhanced property systems, and**
- **better access to dependable financial services.**

Donors and governments regularly require assessments and evaluations of the results of these various poverty-alleviating alternatives, but I'm out of the loop if they are now requiring impact studies across the board on non-finance projects ala SEEP/AIMs. Does anyone know of 400+ page manuals that describe in detail, for example, how to do a drinking-water project impact study? By the way, to what extent are women "empowered" by a drinking-water project? Who cares. Isn't it enough to provide poor people, regardless of gender, dependable sources of clean water? Similarly, isn't it enough that projects offer large numbers of poor people, including women, dependable access to attractive financial services?

Thinking that someone can measure the impact of indebting programs on the environment shows impact folks have stepped off the deep end. We can't even realiably measure the impact of a loan on the stated, proported use of the loan.

Debt impact studies are seriously flawed, cost too much, require collection of information that is of little use to managers of mfis, increase transaction costs, say nothing about the "impact" of other important financial services, and divert those in mfis from doing what they ought to be doing: minding the store. ....Jane.

From: Linda MAYOUX [rcy12@dial.pipex.com]
Sent: Di 26.02.2002 11:43
Subject: Re: Shombi and Linda's comments

Dear Dale,

I think you are partly still missing the point.

1) I agree it is pretty useless to attempt to quantitatively measure impact and stop there. I also agree that large amounts of rather meaningless information is often collected and this is both expensive and unnecessary. I also agree that attempts to rigorously standardise such studies across the board does not yield very credible or useful results because of infinite, and often unpredictable, variations between contexts and also the need to make unwarranted assumptions about what the significant differences between programmes are both in analysis and drwaing practical recommendations. BUT it is possible to have tools which collect smaller and more focused types of information, with more focused samples which is very useful for improving policy both at the level of individual programmes and for replication. This requires a move away from mechanical and long survey questionnaires for random samples (which are still there in SEEP) to a much tighter approach which analyses existing financial data better (eg gender disaggregation by loan size) and improves the questions and data already collected in the various loan application forms together with a troubleshooting focus on specific issues arising using participatory and qualitative methods. This includes the sort of drop out surveys in the SEEP manual. But in order to make the whole exercise useful it is necessary to start out from an examination of what you want to know and why and how the information is to be used for programme improvement.

2) Re water and sanitation - the world is littered with bad water and sanitation projects which failed to take gender issues and empowerment into account. Wells were dug and latrines contrsucted all over the place and never maintained and/or never benefitted those for whom they were intended and/or made things even worse for the very poor eg those making a living from supply of water or waste disposal. Apart from obvious questions about location there are indeed very important questions about who is benefiting from these interventions. Small impact studies at the pilot stage together with gender needs assessment integrated into the design and ongoing learning of the organizations involved in such interventions is vital. Also how far the process of organizing around these interventions to construct and maintain them can in itself contribute to building skills and networks within communities which can then be transfered to broader building of democratic processes. This is crucial in contexts where political repression and/or gender violence make any overt attempt to increase people's political power impossible and where the only type of development overtly possible is that focusing on very practical considerations. But again this is not just a design issue at the beginning of a project, but a question of ongoing impact monitoring to continually refine and improve interventions. I think here you have just not read the literature.

3) Re other development activities for poverty. This is precisely the point. Why should we promote microfinance if we do not know the effects or are not able to deisgn programmes which continually increase their contribution to development? Micro finance programmes a la SEWA or Grameen do have considerable potential complementarities for integration with these other services to the improvement and greater cost-effectiveness of both - that is also why many health programmes for example are also looking at the potential of microfinance.

4) In relation to looking at impact on environment and health I think you are really getting too complicated. It does not take a statistical wizard to do a small sample or a small participatory assessment of use of credit for purachse of pesticides or illegal and expensive medication, why it is happening and possible ways in which the programme could support ways of avoiding this situation. Similarly with issues of women's control over loan use (defined as them taking the ultimate decision about use rather than necessarily only using it for their own economic activities). But these questions require much better use of qualitative and participatory techniques (which can also quantify as reliably as statistical surveys) and much more focused sampling.

As I said these are all issues with which we are trying to grapple on the EDIAIS site

Linda

➢ Remittances – one year later (3 mails)

From: George Petty [gmp@eclof.org]
Sent: Fr 01.02.2002 14:06
Subject: Re: Remittances c/ increase by US$3bn or so simply by cutting the cost of money

Dear MFP and DFN,

I thought this article in the 29 January issue of Latin American Weekly would be of interest given the various discussions on remittances and costs of those remittances.

Sincerely,

George Petty

Emigrants' remittances still going strong
LAST YEAR'S FEARS, THOUGH, WERE A WARNING TO HEED

It was with a sigh of relief that Ecuadoreans heard, a few days ago, that the 11 September attacks on the US had not, as feared, led to a fall in remittances from Ecuadorean expatriates in the US. The central bank reported that remittances last year reached US$1.4bn (only US$200m less than the country's earnings from its chief export, oil, in the first 11 months of the year).

Last year's remittances were up US$100m on 2000, and US$400m on 1999. In those two years about 1m Ecuadoreans (8% of the population) went abroad in search of better economic conditions. All told, there are about 2.5m Ecuadoreans living abroad.

Most are in the US: an estimated 600,000 in New York, 100,000 in Los Angeles, 100,000 in Chicago and 60,000 in Washington. There are also about 300,000 in Spain, and a fair number in Italy.

About 65% of the money they send back home goes to the southern Andean provinces of Azuay, Cañar and Loja, where it is reckoned that six out of every ten families have relatives abroad.

The impact of the remittances on the local economies is considerable. In Cuenca (Azuay) they were largely responsible for a 35% increase in overall sales last year. One domestic appliances firm reported a doubling of its sales in the three provinces. Most of the money is going into property, cars and domestic appliances, but there are already some signs of investment in small-scale productive activities.

Remittance boom. Last year the IDB estimated that remittances by all Latin American expatriates had exceeded US$23bn in 2000 -and calculated that the figure could increase by US$3bn or so simply by cutting the cost of money transfers (US$15 to US$30 a shot in the US). The bank is currently engaged in a pilot scheme to do just that in Spain.

To put these figures into perspective, the IDB noted that remittances in 2000 were equivalent to 17% of GDP in Haiti, 14.4% in Nicaragua, 12.6% in El Salvador, 11.7% in Jamaica and 10% in the Dominican Republic and Ecuador.

For the region as a whole, the inflow represents more than the total sum of foreign aid, and a third as much as all the foreign investment.

The IDB reckons that remittances are likely to grow by 7-10% a year, which means that in 10 years' time they will have grown to about US$70bn a year.

Mexico, of course, accounts for a huge portion of the total: an estimated US$6bn in 2001 -about the same as the country earns from tourism, or two-thirds of its oil export earnings, or one-and-a-half times as much as it gets from exporting agricultural products.

For El Salvador, the US$1.9bn remitted by expatriates last year have become the chief underpinning of the country's dollarisation policy (a role similar to that played in Ecuador).

For Cuba, the US$800m or so sent by its expatriates in the US has put remittances up with tourism and sugar as the leading sources of hard currency.

Vulnerability. The apprehension which followed the September attacks on the US was actually only an exacerbation of fears already stirred by the slowdown of the US economy. That the fears did not materialise this time does not mean that they were unreasonable: remittances by expatriates are as vulnerable to market conditions as any other source of hard currency.

An illustration of how things can turn around has just been provided by the crisis in Argentina. Over the past 45 days, more than 30,000 immigrants from neighbouring countries -most of whom had been sending regular remittances to their families back home- have left Argentina because the economic environment has become worse that in their homelands. The estimate includes 15,000 Bolivians, 9,000 Paraguayans, 4,000 Peruvians and 3,000 Chileans.

The IDB has been enthusing over remittances as 'the most effective weapon to combat poverty in Latin America', largely because the money goes directly to where it is needed.

The downside is that the emigration which generates the remittances represents a drain of talents which are sorely needed in the home countries: almost by definition it is the most enterprising who risk seeking a better life abroad.

A risky endeavour. That the risk is considerable -particularly for those who migrate illegally- was highlighted only last week by the news that six people had died and 11 were missing when a riverboat carrying 23 Central American emigrants sank as it crossed the Usumacinta river on the Guatemala-Mexico border. Their ultimate destination was the US; they had each paid US$300 to be carried across the river.

Last July, 22 Guatemalan emigrants died when their boat sank in the Pacific just off the Mexican coast. It is reckoned that more than 650 migrants have died along the Guatemala-Mexico border in the last three years. Each year, the Mexican government deports more than 150,000 people who try to enter the country illegally, on their way to the US.

Further along the chain, last year 78 Mexicans were killed and 400,000 detained attempting to cross the US border.

There are approximately 8.7m undocumented immigrants from all over the world living in the US. About 4m of these are Mexicans. Among the other Latin Americans, there are an estimated 336,000 Salvadoreans and 238,000 Guatemalans.

And there are also risks for those who attempt to migrate legally, and end up swindled by unscrupulous traffickers. A case in point is a phoney Swedish asylum programme promoted by travel agencies in El Salvador, which tricked some 617 people late last year out of their savings, only to end up in refugee camps awaiting repatriation.

Most of those taken in by the scan were people from middle and lower-middle income groups; a number were college graduates and professionals.

From: Ernelson@worldbank.org
Sent: Di 05.02.2002 17:05
Subject: Re: Remittances c/ increase by US$3bn or so simply by cutting the cost of money

This appears to be one of those issues on the frontier of microfinance which requires a lot more research. In the interviews with the poor done under a study sponsored by the USAID Eager project in the mid-nineties, transfers appeared with the same importance as deposit holding/mobilization (more important in some groups, less so in others) and way ahead of credit. Yet we appear to know a little about how they work—besides trust/family ties and a fax machine—and less about the quantitative importance.

Most of the international transfer operations are conducted by import-export operations, particularly to/from countries with foreign exchange controls which impede potential importers (e.g. the famous "Banque de Sandaga" in Dakar and its ability to transfer funds to and from New York or even Bangkok), and are very important for migrant transfers. Besides West Africa, consider the "hawalas" made notorious recently because one, Al-Barakaat, has been accused by the US Administration of being a funding conduit for terrorists. Here in Washington we regularly read how authorities have closed down an operation doing transfers to Central America because the places lack banking licenses and their clients' money is therefore at risk (gee, it wasn't until you closed the place down before my sister got the money!).

A colleague reports he can send money to his family in Burkina Faso for $50 or
more by Western Union or for $3-4 by an "informal" operation. Yet, we know
little about this important source of support (and important safety net, the
interviews with the poor in Subsaharan Africa have shown). Given the number of such firms in most cities of the U.S. and Europe it appears to be an obvious candidate for a thesis.

Has anyone out there done any significant research on this?

Eric Nelson

Sent by: Infrapell@aol.com
To:Devfinance@Lists.Acs.Ohio-State.Eduowner-devfinance@lists.acs.ohio
cc:Ghif@Moveworld.Comstate.edu
Subject:Re: Remittances c/ increase by US$3bn or so simply by cutting the cost of money

Just a thought: IDB estimates that remittances could increase by $3bn by creating more reasonable transfer costs.

1 Who does most of the transmittals now? Western Union? Others? 2 Would there be a way to negotiate an agreement with it/them for bone fide remittances, an agreement that would cut the transfer cost very substantially.
3 While this would represent a significant reduction in revenue for WU and/or others, it would be better for them than losing the business altogether.
4 Since WU and/or others already have a worldwide network for fund transfers, it could be a cost and time effective manner to manage this issue.

Someone has probably thought of this and has the answer—but in case not...has it been looked into?

Tony Pell
GHIF

From: David Grace [dgrace@woccu.org]
Sent: Do 07.02.2002 19:10
Subject: RE: Remittances c/ increase by US$3bn or so simply by cutting the cost of money

Eric,

Over the last two years there has been some good research on the topic, mostly focusing on remittances to Latin America. The research has come out of some take forces we've been involved in with the Inter-American Dialog and The Tomas Rivera Policy Institute. These studies can be found at: http://www.iadialog.org (see new publications). The Inter-American Development bank is in the process of building upon this previous research http://www.iadb.org/mif/website/static/en/remit.asp. This is not only a hot topic in development circles but in popular media (in the last week I'm aware of Telemundo's Sin Fronteras news program and Dow Jones Latin America doing stories on remittances) and in political circles as well (California Legislature is holding a hearing Feb. 20 on remittances and remittances were mentioned in testimony on the Hill yesterday).

The characteristics of how a remittance market functions is often country dependent. The primary remittance channels to El Salvador (which is lead by a courier company) operates very differently from Jamaica (Western Union has 65% market share) which is different from Dominican Republic (if money can be delivered within 3 hours forget about it), which is different from the Philippines (receiving US$8 billion a year from citizens at sea, in the US and the middle east) which is different from Nigeria (hawalas - hot spot), etc.

The developmental potential for remittances is at least three-fold:

- **Encourage more competition in the market so that prices drop. This allow the sender to save more or decide to send more to his/her family. Either way it benefits the consumers directly.**
- **Encourage financial institutions participation in the market on the sending and receiving end of the transaction. On the sending end, if a competitive service is offered by financial institutions it may entice individuals to enter into the formal financial system (60% of Latino immigrants in the US are unbanked). Use of a financial institution will enable senders to cash their pay checks for free (instead of paying 3-5%) and then send money home at more reasonable rates or via ATMs. On the receiving end, having a financial institution distribute the money and encourage the receivers to open accounts and save part of the funds, will help bring more low-income individuals into banking relationships in developing countries which leads to financial deepening. Today there are some banks distributing remittances (e.g., Mexico) but they generally don't want the kind of folks that receive remittances to become clients—credit unions and NGOs serve exactly this clientele.**
- **The multiplier effect of remittances on receiving economies can be significant in local communities and is a source dollars. In the case of El Salvador assisted in the move to dollarization.**

Little Dave of WOCCU

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

From: Ernelson@worldbank.org [mailto:Ernelson@worldbank.org]
Sent: Tuesday, February 05, 2002 10:05 AM
To: devfinance@lists.acs.ohio-state.edu
Subject: Re: Remittances c/ increase by US$3bn or so simply by cutting the cost of money

This appears to be one of those issues on the frontier of microfinance which requires a lot more research. In the interviews with the poor done under a study sponsored by the USAID Eager project in the mid-nineties, transfers appeared with the same importance as deposit holding/mobilization (more important in some groups, less so in others) and way ahead of credit. Yet we appear to know a little about how they work—besides trust/family ties and a fax machine—and less about the quantitative importance.

Most of the international transfer operations are conducted by import-export operations, particularly to/from countries with foreign exchange controls which impede potential importers (e.g. the famous "Banque de Sandaga" in Dakar and its ability to transfer funds to and from New York or even Bangkok), and are very important for migrant transfers. Besides West Africa, consider the "hawalas" made notorious recently because one, Al-Barakaat, has been accused by the US Administration of being a funding conduit for terrorists. Here in Washington we regularly read how authorities have closed down an operation doing transfers to Central America because the places lack banking licenses and their clients' money is therefore at risk (gee, it wasn't until you closed the place down before my sister got the money!).

A colleague reports he can send money to his family in Burkina Faso for $50 or more by Western Union or for $3-4 by an "informal" operation. Yet, we know little about this important source of support (and important safety net, the interviews with the poor in Subsaharan Africa have shown). Given the number of such firms in most cities of the U.S. and Europe it appears to be an obvious candidate for a thesis.

Has anyone out there done any significant research on this?

Eric Nelson